Q3-2019 Commentary

# Sentry Conservative Balanced Income Fund

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| FUND | 1 YEAR | 3 YEAR | 5 YEAR | S.I.* |
|---|---|---|---|---|
| Sentry Conservative Balanced Income Fund Series F | 2.2% | 1.7% | 2.4% | 6.4% |
| Benchmark: 50% S&P/TSX Composite TR Index and 50% FTSE Canada Universe Bond TR Index | 8.6% | 5.1% | 4.7% | 5.6% |

* Inception date of Sentry Conservative Balanced Income Fund Series F: March 17, 2010.

## PERFORMANCE SUMMARY

- In the third quarter of 2019, Sentry Conservative Balanced Income Fund Series F (the "Fund") returned 0.2% compared with the 1.9% return for its blended benchmark (50% S&P/TSX Composite Total Return Index and 50% FTSE Canada Universe Bond Total Return Index).
- The Fund underperformed the benchmark largely as a result of an underweight allocation to equities relative to fixed income.
- Within equities, stock selection within the energy and materials sectors detracted from performance, as did an underweight exposure to financials.

## CONTRIBUTORS TO PERFORMANCE

- **BCE Inc.** provides a full range of communication services to residential and business customers in Canada. The company benefited from its continued rollout of fibre to residential customers and strong performance of its Bell Media division, which was driven by the Toronto Raptors playoff run and *Game of Thrones*. The outlook for lower interest rates also provided a boost to performance.
- **Province of Ontario 2.9% December 2/2046** bond benefited from declining interest rates and steady yield spreads relative to federal bonds.
- A perpetual floating rate bond issued by **JPMorgan Chase & Co.** performed well as a result of a significant pick up in the yield spread relative to the London Interbank Offered Rate (LIBOR). New York-based JPMorgan Chase & Co. is a multinational investment bank and financial services company. Ranked by total assets, it is

the largest bank in the U.S. and the sixth-largest bank in the world.

## DETRACTORS FROM PERFORMANCE

- An equity holding in **ShawCor Inc.** detracted from the Fund's performance. ShawCor provides high engineered pipe coating and other services to oil producers globally. The company's shares came under pressure as delays in offshore drilling projects weighed on the company's revenue growth and margins.
- **Government of Canada 2.25% March 1/2024** bond performed poorly as a result of market fluctuations during the period.
- A subordinated bond issued by **Royal Bank of Canada 2.74% July 25/2029** was negatively impacted by declining risk tolerance. Royal Bank of Canada is a multinational financial services company, Canada's largest bank in terms of market capitalization.

## PORTFOLIO ACTIVITY

- We added a new position in **Inter Pipeline Inc.**, which provides petroleum and natural gas transportation in Canada and bulk liquid storage in Europe. We believe that the market has been overly negative on the company's funding profile and we used the opportunity to purchase its shares at a lower price.
- We added a new perpetual bond position issued by **American Express Co. 5.20%.** The addition contributed to the Fund's running yield and is issued by a high-quality company. The bonds can be called by year end in 2019. American Express Co., which was founded in 1850, is a U.S.-based multinational financial services corporation best known for its credit card and traveller's cheque businesses.
- **CVS Health Corp. 4.30% March 25/2028** bond was eliminated in order to take profits. CVS Health Corp. is an American health care company that owns retail pharmacy chain CVS Pharmacy, pharmacy benefits manager CVS Caremark Corp. and health insurance provider Aetna Inc.
- **Secure Energy Services Inc.** was eliminated from the Fund. This energy services company provides crude oil treatment to producers in Western Canada. Its low activity levels have weighed on corporate performance, which looks likely to persist in the current environment, leading us to look for more attractive opportunities elsewhere.

## MARKET OUTLOOK

- We expect to see continued economic challenges led by the manufacturing and energy sectors.
- Consumer spending and job growth is likely to slow but should remain buoyant enough to minimize the risk of a recession. Business spending is expected to remain weak.

- The Fund's duration (sensitivity to interest rates) has been extended through the purchase of government bonds after the recent rise in bond yields. The Fund's credit exposure has been slightly reduced.
- We have a cautiously optimistic outlook for North American economies. While global growth has slowed, we are not forecasting a recession in North America, but Western Canada would be most at risk if no new energy infrastructure projects are approved.
- Industrial production has turned negative, with most gross domestic product growth now coming from the consumer. We expect that some of this industrial slowdown will negatively impact consumer sentiment over time.
- Further interest rate cuts by the U.S. Federal Reserve are likely and we believe that Canada will follow suit, but that is not a consensus view held by the market. Lower interest rates should provide a stimulative effect to some areas of the economy, such as housing.
- We have reduced the Fund's cyclical exposure and have added to existing holdings that are less exposed to the economy (particularly the industrial economy). Our view that the U.S. will continue to grow faster relative to Canada has led us to maintain the Fund's overweight allocation to U.S. equities.

Sources: Sentry Investment Management and Bloomberg L.P. Data as at September 30, 2019.

All returns are total returns, stated in Canadian dollars. Fund returns are for Series F, net of fees, all distributions reinvested.

The comparison presented is intended to illustrate the Mutual Fund's historical performance as compared with the historical performance of widely quoted market indexes or a weighted blend of widely quoted market indexes. There are various important differences that may exist between the Mutual Fund and the stated indexes that may affect the performance of each. The objectives and strategies of the Mutual Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indexes. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indexes.

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