SENTRY
INVESTMENT MANAGEMENT

Q4-2019 Commentary

Sentry Balanced Yield Private Pool Class

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FUND	1 YEAR	3 YEAR	S.I.*
Sentry Balanced Yield Private Pool Class Series F	15.7%	5.7%	6.0%
Benchmark: 35% S&P/TSX Composite TR Index, 15% S&P 500 TR Index and 50% FTSE Canada Universe Bond TR Index	15.1%	6.4%	6.7%

* Inception date of Sentry Balanced Yield Private Pool Class Series F: July 4, 2016.

PERFORMANCE SUMMARY

- In the fourth quarter of 2019, Sentry Balanced Yield Private Pool Class Series F (the “Pool”) returned 3.0% compared with its blended benchmark (35% S&P/TSX Composite Total Return Index, 15% S&P 500 Total Return Index and 50% FTSE Canada Universe Bond Total Return Index), which was up 1.7 %.
- The Pool outperformed its benchmark, largely as a result of security selection within the health care and financials sectors.

CONTRIBUTORS TO PERFORMANCE

- **Cigna Corp.** is a health service organization that provides insurance and related products and services. The stock performed well as the risks associated with Elizabeth Warren becoming President of the United States and implementing “Medicare for All” policies declined as her polling numbers dropped.
- **JPMorgan Chase & Co.** operates as a financial services company that offers various consumer banking, investment banking, commercial banking and wealth management services. The stock performed well following strong loan demand, the opening of new branches and strength in the company’s credit card business.
- **Industrial Alliance Insurance and Financial Services Inc.** is a life insurance and wealth management company in Canada and the United States. The company benefited from its management’s focus on lowering the interest sensitivity of the business and a strategic build-out of the U.S. platform through targeted mergers and acquisitions.

- **UnitedHealth Group Inc.** is a private health insurer, top pharmacy benefit manager, service provider and health analytics business. The company benefited from its vertically integrated system, which has allowed it to be a cost leader in the industry. It has also found a way to succeed despite changes to the regulator environment.

- A hybrid bond issued by the large U.K. bank, **HSBC Bank PLC 5.844%** (perpetual), performed well as risks associated with the United Kingdom's exit from the European Union receded. Also, risk sentiment was positive and this bond enjoyed an increase in relative value.

- A hybrid issue from North American pipeline **TransCanada PipeLines Ltd.** (floating rate note) performed well due to expectations of a rise in the London interbank offered rate (LIBOR).

DETRACTORS FROM PERFORMANCE

- **Expedia Group Inc.** is the world's largest online travel agency by bookings, lodging options, air fares, rental cars and destinations. The stock was impacted by slow growth in its Trivago business and unfavourable foreign exchange fluctuations. Moreover, a possible shift to pursuing higher-cost marketing methods could hurt the company's profitability.

- **The Boeing Co.** designs and manufactures commercial jetliners and military aircraft. The company benefits from its competitive position, shared with Airbus Group, that allows both companies to maintain attractive utilization rates and pricing power. While we remain positive on Boeing's long-term earnings power, we have concerns that the issues with the 737MAX program run deeper than believed when we underwrote the investment. Halting production of the 737MAX, even temporarily, is an indication of bigger problems at the company and its decision will impact free cash flow through 2021.

- A holding in **Gildan Activewear Inc.** detracted from the Pool's performance. The company manufactures and sells a range of apparel products, including t-shirts, tops, bottoms and sportswear. Despite its recent initiatives, the company's share price has been negatively impacted by a discouraging macroeconomic environment.

- A holding in **Enerplus Corp.** also detracted from performance. It engages in the exploration and development of crude oil and natural gas in the United States and Canada, and performed poorly because of production issues and an uncertain commodity market.

- Bonds issued by an Ontario-based toll road, **407 International Inc. 3.60% May 21/2047**, performed poorly because of the long duration (interest rate sensitivity) nature of the bond. The underlying fundamentals of the company's operations are fine.

- A long-dated provincial bond, **Province of Ontario 2.9% December 2/2046**, declined in value as interest rates rose. This offset a moderate decrease in spreads to federal government bonds.

PORTFOLIO ACTIVITY

- We added a new equity position in **Manchester United PLC** during the period, which owns and operates a professional sports team in the United Kingdom. The company develops marketing and sponsorship relationships with international and regional companies to leverage its brand, in addition to selling sporting apparel and other team-related products.

- An equity holding in **Andlauer Healthcare Group Inc. was added**, a supply chain management company that provides transport solutions for the health care and cosmetics sector. The shares were recently offered in an initial public offering (IPO). The company is well positioned as the dominant player in Canada and has good potential should it be acquired by a large shipping company, such as United Parcel Service Inc.

- We added a new perpetual bond position issued by Canadian pipeline company, **Inter Pipeline Inc. 6.625%**. The hybrid security was priced attractively and purchased as a new issue**.**

- **Penske Automotive Group Inc.**, which owns and operates light vehicle franchises and is the second-largest U.S.-based dealer, was sold during the quarter. Its shares were impacted by pressure on the company's U.K. business, resulting from a weak demand environment and vehicle oversupply.

- We eliminated a position in **Mullen Group Ltd.**, which provides transportation and oilfield services in Canada and the United States. While its first-quarter results were in line with expectations, negative macro trends affecting oilfield services were highlighted by the company's management, indicating the sector would remain depressed.

- A bond issued by Canadian convenience store operator, **Alimentation Couche-Tard Inc. 3.056% July 26/2024**, was eliminated because of a potential debt-funded takeover bid by the company that was not priced into the bonds.

MARKET OUTLOOK

- The U.S. economy continues to remain on firm footing as the household sector's financial picture appears solid. Good job growth and wage gains, coupled with decreased debt burdens and financing costs, could leave ample cushion.

- A multi-month U.S.-China trade truce could spark a moderate revival in corporate spending, which would bolster the economic backdrop. The U.S. Federal Reserve is unlikely to adjust interest rates over the next few months.

- Global Purchasing Managers Indexes appear to be stabilizing after a volatile end to 2019.

- The North American labour market continues to be tight and consumer confidence is high, with the exception of Western Canada, which is still beleaguered by a lack of access to global energy markets.
- Central banks globally are in an accommodative monetary stance. The U.S. Federal Reserve appears to be willing to let inflation run above target before tightening policy, while the Bank of Canada is maintaining current interest rates until economic data warrants a change.
- Geopolitical uncertainty caused by trade and foreign policy tensions remains rampant, and equity markets appear to be discounting a favourable outcome already.
- We do not believe that a global recession is imminent. However, recognizing that we are 11 years into the economic cycle, we are paying close attention to the balance sheets and capital allocation decisions of the management teams of our holdings.
- We remain biased toward businesses that benefit from growth trends that will allow them to grow at rates faster than the average North American company.
- Our preference continues to be to own businesses that possess a competitive advantage that will allow them to maintain pricing power. These businesses have the ability to pass through price increases in the event of a return to an inflationary environment.
- We endeavour to purchase these businesses at prices well below our conservative estimate of intrinsic business value in order to maximize our return while minimizing our risk of permanent loss of capital.

Sources: Sentry Investment Management and Bloomberg Finance L.P. Data as at December 31, 2019.

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

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