SENTRY INVESTMENT MANAGEMENT

Q1-2020 Commentary

Sentry Canadian Income Fund

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FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.*
Sentry Canadian Income Fund Series F	-12.5%	-3.3%	-0.3%	7.3%	7.2%
Benchmark: 70% S&P/TSX Composite TR Index and 30% S&P 500 TR Index	-10.3%	0.9%	3.5%	7.2%	5.9%

* Inception date of Sentry Canadian Income Fund Series F: July 28, 2005.

Source: Sentry Investment Management, as at March 31, 2020.

PERFORMANCE SUMMARY

- In the first quarter of 2020, Sentry Canadian Income Fund Series F (the Fund) returned -19.6% compared with its blended benchmark (70% S&P/TSX Composite Total Return Index and 30% S&P 500 Total Return Index), which returned -18.1%.
- The Fund underperformed its benchmark largely as a result of security selection within the information technology and industrial sectors.

CONTRIBUTORS TO PERFORMANCE

- **Microsoft Corp**. develops software products and services for its five business segments: Windows, server and tools, online services, Microsoft business division, and entertainment and devices division. Its stock outperformed because of strong growth in its Azure cloud platform, which is expected to be a driver of financial performance in years to come. The company also posted good margin expansion and commercial bookings. Although technology spend has been threatened by COVID-19, Microsoft has been insulated, seeing increased demand for software to enable working from homes. We like Microsoft over the long-term because of growing demand for its products and services, clean balance sheet, and strong management team. Overall, it is a very high-quality business.
- **Amazon.com Inc.** operates across several business segments, including the retail sale of consumer products, the sale of electronic devices (Kindle, Echo, etc.), Amazon Web Services (AWS) and streaming services through Amazon Prime. The stock performed well over the last quarter because of strong fourth-quarter results that featured promising adoption of one-day shipping and revenue from AWS that exceeded expectations. The company has been well-insulated from the COVID-19 crisis because it is an essential service and has, in fact, seen increased demand in its e-commerce retail business. We remain shareholders

because we have confidence in the company's long-term opportunities in e-commerce, cloud platforms and Amazon's investment in an in-house logistics network.

DETRACTORS FROM PERFORMANCE

- **CGI Group Inc.** is an information technology (IT) services company that provides IT outsourcing, systems integration, application management and consultation services globally. The stock underperformed as a result of disappointing fourth-quarter organic growth results (related to a shift in consumer spending trends) and a softer book-to-bill ratio. We remain shareholders because we like the return profile of the business and its long-term growth opportunities.

- **JPMorgan Chase & Co.** operates as a financial services company that offers various consumer banking, investment banking, commercial banking and wealth management services. The stock struggled during the period because the fall in interest rates decreased the bank's yield on cash. We think the business has become less attractive in the current environment because of increased volatility in credit costs associated with the deterioration in macroeconomic conditions.

PORTFOLIO ACTIVITY

- We added a position in **GFL Environmental Inc.**, a diversified environmental services company that offers non-hazardous solid waste management, infrastructure, soil remediation and liquid waste management services. Although the business' commercial and industrial segments have taken a hit during the economic slowdown related to COVID-19, its long-term outlook remains intact. Going forward, the company is expected to post stronger organic growth than its peers in the defensive waste management industry. The business also has a good runway to grow free cash flow and engage in merger and acquisition activity.

- We eliminated a holding in **The Boeing Co.**, which designs and manufactures commercial jetliners and military aircraft. The company benefits from its competitive position, which allows it to maintain attractive utilization rates and pricing power. While we remain positive on its long-term earnings power, we have concerns that the issues with the 737MAX program run deeper than we believed when we underwrote the investment. Halting production of the 737MAX, even temporarily, is an indication of bigger problems at the company and this decision will impact free cash flow through 2021. Moreover, the rapid decline in air traffic as a result of COVID-19 has had a negative impact on demand for new aircraft from commercial airline companies.

MARKET OUTLOOK

- We expect volatility to remain elevated as financial markets grapple with the impacts of COVID-19 and the economic ramifications that will unfold over the coming months.

- We remain focused on owning a portfolio of high-quality businesses that have the ability to generate revenue and free cash flow, while maintaining a well-capitalized balance sheet and ample liquidity that will help them manage through this highly uncertain period.

- We believe that the current environment has created opportunities to purchase these high-quality companies at significant discounts to their intrinsic value. While volatility will remain elevated, we believe that this increased margin of safety reduces the risk of permanent loss of capital.

Source: Sentry Investment Management. Data as at March 31, 2020.

Note: 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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