

Q1-2020 Commentary

Sentry Small/Mid Cap Income Fund

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FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.*
Sentry Small/Mid Cap Income Fund, Series F	-20.8%	-6.0%	-1.1%	9.3%	9.8%
Benchmark: 70% S&P/TSX Completion TR Index and 30% S&P MidCap 400 TR Index	-21.5%	-5.3%	-0.9%	5.3%	4.7%

* Inception date of Sentry Small/Mid Cap Income Fund, Series F: July 28, 2005.

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

PERFORMANCE SUMMARY

- In the first quarter of 2020, Series F of Sentry Small/Mid Cap Income Fund (the Fund) returned -26.9% compared with its blended benchmark (70% S&P/TSX Completion Total Return Index and 30% S&P MidCap 400 Total Return Index), which returned -27.6%.
- The Fund outperformed its benchmark as a result of security selection in the industrials and financials sectors.

CONTRIBUTORS TO PERFORMANCE

- **Cargojet Inc.** provides time-sensitive overnight air cargo and charter services to domestic destinations and internationally. The business has been relatively insulated from the COVID-19 pandemic because it is an essential service and has seen a surge in business following a significant rise in e-commerce activity. We remain long-term investors because of industry tailwinds related to e-commerce, Cargojet's competitive positioning as a monopoly and the company's strong management team.
- **Real Matters Inc.** is a provider of network management services to the mortgage lending and insurance industries. The business has benefited from increased numbers of people who want to refinance their mortgage or to get a mortgage following the recent decline in interest rates. We like the business in light of these aforementioned near-term tailwinds.

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 is suffering from a collapse in travel globally as a result of COVID-19. The company has also had a recent change in management that has caused disruption within the organization.

We have concerns around Expedia's ability to manage liquidity through this crisis and have elected to exit the position in favor of more attractive opportunities.

- **Mullen Group Ltd.** provides transportation and oilfield services in Canada and the United States. The business has experienced a slowdown as the fall in oil prices has decreased exploration and production activity across the industry. Prolonged low oil prices also threaten the viability of its business. That said, we think the business has the balance sheet strength to pull through and, as such, viewed the recent drop as a buying opportunity.

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.
- A position in **Expedia Group Inc.**, the world's largest online travel agency was eliminated as it has been significantly impacted by the collapse in travel globally as a result of COVID-19. The company's recent change in management, which caused disruption within the organization, was another factor in its sale. We have concerns around Expedia's ability to manage liquidity through this crisis and have elected to exit the position in favor of more attractive opportunities.

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.
- Earnings for most companies in 2020 will be severely impacted.
- Our focus for the companies held in the Fund is balance sheet resilience and liquidity available to the company to survive until society is able to return to normal (which could be weeks or months in our view). We exited some holdings as a result.
- Canadian companies not only face risks from COVID-19, but also could be disadvantaged because of the impact of lower oil prices and lower government stimulus (as a percentage of gross domestic product, relative to U.S. programs). As such, we have been adding more U.S. exposure to the Fund.

Sources: Morningstar Research Inc., Bloomberg Finance L.P. and Sentry Investment Management. Data as at March 31, 2020.

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

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