Q1-2020 Commentary

# Sentry U.S. Growth and Income Fund

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| FUND | 1 YEAR | 3 YEAR | 5 YEAR | S.I.* |
|---|---|---|---|---|
| Sentry U.S. Growth and Income Fund, Series F | -6.3% | 3.3% | 5.7% | 12.8% |
| S&P 500 Total Return Index (C$) | -0.9% | 7.4% | 9.3% | 14.9% |

* Inception date of Sentry U.S. Growth and Income Fund, Series F: May 31, 2011.

Effective November 22, 2019, CI American Equity Fund has merged with Sentry U.S. Growth and Income Fund and this change may impact performance. Had these changes been in effect prior to this date, the performance of the fund could have been different.

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

## PERFORMANCE SUMMARY

- In the first quarter of 2020, Series F of Sentry U.S. Growth and Income Fund (the Fund) returned -17.5% compared with the S&P 500 Total Return Index, which returned -11.7%.
- The Fund underperformed its benchmark during the period largely as a result of security selection in the information technology sector and sector weighting to the financials sector.

## 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

- **Brookfield Infrastructure Partners L.P.** owns and operates infrastructure assets across the world in the areas of utilities, transportation and energy. Recently the business has struggled as a result of general economic conditions and the rapid contraction of the energy sector. That said, we have maintained our investment because we think the business as a strong enough balance sheet to make it through the current hardship.

- **Laboratory Corp. of America Holdings** is a leading provider of clinical laboratory testing and drug development services. The stock has taken a hit following the implementation of "social distancing" measures to slow the spread of COVID-19. These measures limit the company's ability to conduct scheduled patient testing. That said, there is hope that the company may benefit from the need for governments to test for the virus. We like the business over the long-term because we anticipate the ageing of the North American population will drive demand.

## PORTFOLIO ACTIVITY

- We added a position in **Amazon.com Inc.**, which operates across several business segments. The business is attractive because it stands to benefit from trends towards greater adoption of e-commerce. The company's investment in an in-house logistics infrastructure is also promising and suggests that Amazon will be well-prepared to handle the growing demand for its services. 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.

- A position in **Comcast Corp.** was eliminated from the Fund. It is a media and technology company that operates Comcast Cable (one of the largest cable operators in the United States) and NBCUniversal. The latter segment operates news, entertainment and sports networks in additional to television production operations, Universal Pictures and Universal Parks and Resorts. The business has become unattractive following the spread of COVID-19 that halted television production, sports leagues and theme park attendance.

## 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.

- For long-term investors, we believe that some securities are trading at an attractive discount to intrinsic value. We have made some investments focusing on high-quality companies least impacted by COVID-19, or those that may even benefit from changes to society. The second set of investments we have made is focused on companies that are severely impacted in the short term, and as a result, have seen significant reductions in share prices. The criteria for this group is that the company must have sufficient liquidity to survive until we see some level of normalization in society.

Source: 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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