SIGNATURE
GLOBAL ASSET MANAGEMENT™

Sentry Global Investment Grade Private Pool Class
First-quarter 2020 Commentary

Series F returns (in %) as at March 31, 2020	Year-to-date	1 year	3 year	5 year	Since inception (2016-07-04)
Sentry Global Investment Grade Private Pool Class	-0.9	4.7	3.7	N/A	3.2

Source: Signature Global Asset Management, as at March 31, 2020.

Market Overview

- Investment-grade corporate bonds had a disastrous first quarter of 2020 as credit spreads blew out and interest rates plunged as the COVID-19 pandemic spread around the world. The S&P 500 Index reached a peak in mid-February, up 5.1% year to date, just before the realization that the COVID-19 disease was not just an Asian problem. The markets unravelled over the next four weeks before finding a bottom on March 23, 2020. Risky assets globally were crushed as U.S. investment-grade bond spreads widened 201 basis points (bps), U.S. high-yield bonds widened 517 bps, the S&P 500 Index fell 19.6% and the price of West Texas Intermediate crude oil plunged 67% to close at US$20.48 per barrel at quarter-end.

- Governments' use of containment, social distancing and working from home to combat the COVID-19 pandemic was a major shock to the global economy. Monetary policies of cutting interest rates and quantitative easing will be helpful, but they can't counter the effects of shutting down a major portion of the global economy. U.S. 10-year government bonds fell 125 bps to 0.67% during the quarter, given the coming recession.

- U.S. investment-grade corporate spreads had a more dramatic widening of 204 bps to 305 bps, reaching a peak of 401 bps on March 23, 2020. Since then, the U.S. Federal Reserve has introduced a number of supportive programs, causing liquidity to improve and investor sentiment to do a U-turn. U.S. spreads tightened 96 bps from the wides to quarter-end.

- Credit fundamentals weakened materially during the quarter as all but a few companies will have much lower earnings. And at the same time, companies have rushed to shore up their liquidity by drawing on lines of credit and/or issuing bonds. There will be a large amount of

investment-grade bonds downgraded to high yield over the next few months. But at current prices, a lot of the 'fallen angel' risk of these bonds is already priced in.

Performance Summary

- Over the quarter ended March 31, 2020, Series F of Sentry Global Investment Grade Private Pool Class (the Fund) declined 0.9%, outperforming its benchmark, the ICE BofAML Global Corporate Total Return Index, which was down 2.8% (85% currency hedged to the Canadian dollar) over the same period.

- The Fund's negative return during the quarter was due to a significant widening of corporate bond spreads, tempered by falling interest rates.

Contributors to Performance

- The main contributor to Fund performance during the quarter was the Fund's changing asset allocation, which included a large exposure to government bonds and cash at the beginning of March 2020. As markets stabilized in mid-March after the shock brought on by the COVID-19 pandemic, corporate bonds were added to the Fund's portfolio in the second half of March. Long-dated bonds did the best as interest rates fell significantly during the quarter.

- Another contributor to performance was the Fund's holding of U.S. Treasury bonds, again because of the fall in interest rates during the period.

Detractors from Performance

- The main detractor from Fund performance was the Fund's allocation to lower-rated bank additional-tier-1 bonds and corporate hybrid securities as risky assets plunged in value during the quarter.

- Other large detractors were corporate hybrid securities of Enbridge Inc. (6.25%, due in 2078), TransCanada Trust (5.5%, due in 2079) and Inter Pipeline Ltd. (6.625%). They were hit doubly hard as the market for risky assets sold off during the quarter and weaker oil prices due to both demand destruction resulting from the global economic shutdown in response to the COVID-19 pandemic and increased supply from both Russian and Saudi Arabian oil wells meant the energy sector and energy infrastructure subsector faced additional selling pressures.

Portfolio Activity

- Over the quarter, we were active in adjusting the Fund's asset mix. The Fund's corporate bond weight was decreased in steps, starting with a 13% drop in January, followed by 6% drop in February and to a low of just under 60% of Fund assets by mid-March, as the spread of the COVID-19 disease spooked the markets. As support from central banks increased, the Fund's corporate bond weight was increased from 60% to 70% at quarter-end.

- The Fund portfolio's duration was increased during the quarter, first with government bonds and then with corporate bonds at quarter-end. The Fund's currency hedge was lowered to 65% at the end of January and raised in steps as the Canadian dollar weakened against the U.S. dollar. The Fund's hedge was at 80% at quarter-end. This was done to help protect the Fund as the U.S. dollar usually strengthens during risk-off periods.

Outlook

- We are positive on corporate bonds on a strategic basis, as spread levels represent an excellent entry point to be long on corporate bonds. We have added to the Fund's corporate bond weights since the middle of March and lengthened duration to deliver the best returns.

- Credit quality will have weakened significantly as the economy enters a recession, and spreads need to account for that. Active credit selection will be very important as not all industries and companies are going to bounce back at the same pace. Nor will the market for risky assets move in only one direction, so we expect setbacks along the way. But, central banks are extremely accommodating and supportive toward companies with investment-grade bonds, so we are confident that now is the time to be adding corporate bonds.

Source: Bloomberg Finance L.P., Morningstar Research Inc. and Signature Global Asset Management.

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