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

Class F returns (in %) as at June 30, 2020	Year-to-date	1 year	3 year	5 year	Since inception (2016-07-04)
Sentry Global Investment Grade Private Pool Class	6.9%	10.2%	5.5%	N/A	4.9%

Source: Signature Global Asset Management, as at June 30, 2020.

Market Overview

- Investment grade corporate bonds had a strong quarter as credit spreads tightened and interest rates remained stable as the COVID-19 pandemic continued to spread around the world. This, of course after the disastrous first quarter of 2020. Global risky assets did very well on the back of huge monetary easing from central banks as well as fiscal spending programs to support consumers and businesses throughout the lockdowns. U.S. investment grade spreads tightened 145 basis points (bps), U.S. high yield tightened 233 bps, the S&P 500 Index jumped 17.2%, and oil (West Texas Intermediate) rebounded 92% to close at $39.27 per barrel, over the quarter.

- U.S. investment grade corporate spreads had a substantial tightening of 145 bps to 160 bps in the second quarter as a result of the positive slowing of COVID-19 cases and subsequent steps to open the European and North American economies. Investors have embraced the idea that the worst of the COVID-19 lockdown is behind the Asian and Western economies. All risky assets have benefited while the U.S. dollar has suffered as the bullish tone has swept the markets. The U.S. Federal Reserve's and Bank of Canada's corporate bond buying programs have begun, which helps provide a liquidity back stop for the market.

- Credit fundamentals will have weakened materially during the second quarter as all but a few companies will have much lower earnings. At the same time, companies have rushed to shore up their liquidity by drawing on lines of credit and/or issuing bonds. There has been a large amount of investment grade bonds downgraded to high yield in Q2 but it appears the rating agencies are going to be patient with a number of issuers if they have flexibility to monetize assets and paydown debt in the future.

Performance Summary

- During the second quarter, Sentry Global Investment Grade Private Pool Class F (the Fund) returned 7.9% due to a significant tightening of corporate bond spreads and steady interest rates. The Fund's benchmark, the ICE BofAML Global Corporate Market Index (85% Hedged) returned 7.3% for the same period.

Contributors to Performance

- The main contributor to performance for the quarter was the Fund's asset allocation move at the beginning of April to increase the weight of investment grade corporate bonds from 70% to as high as 85% during the quarter before ending at 80%. As well, the maturity of the additional corporate bonds were added at the long end of the curve which provided for the highest total return.

- The largest contributing bonds for the Fund were all in the energy sector (Enbridge Inc. 6.25% and TransCanada Trust 5.5% hybrids and Energy Transfer Operating L.P. 5.0% 2050) as the market for risk assets bounced back. The energy sector rebounded on the OPEC+ group agreement to curtail production and end their price war.

Detractors from Performance

- The main detractor to performance was the Fund's allocation to government bonds as interest rates rose slightly during the quarter.

Portfolio Activity

- Over the quarter, the asset mix was very active. The corporate bond weight was increased from 70% to 80%. As well, the preferred share weight was increased to 3.3% from 1.9%. These moves were due to expected strong returns in the U.S. corporate bond market. As the quarter progressed, the credit duration was lowered as best returns were behind us and invested in the front end of the curve and in high yield bonds and preferred shares for their yield.

- The Fund's currency hedge on U.S. assets was dropped to 70% from 80% at the beginning of the month as we felt the Canadian economy would take longer to rebound than the U.S. economy.

Outlook

- We are positive on corporate bonds on a strategic basis but are more tempered in our outlook as spreads are expected to grind tighter into year-end. Interest rates are going to be low for a long time at the front end of the curve so corporate bonds represent a very good way to add incremental yield. Credit quality will have weakened significantly as the economy enters this recession. Nor will the market for risky assets move in only one direction, so we expect setbacks along the way. However, central banks are extremely accommodative and supportive toward investment grade companies, so we are confident with our high weight of corporate bonds in the Fund and the overall outlook for corporate bonds.

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

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