Market Commentary
Third Quarter 2018

HARBOUR ADVISORS

Sentry Growth and Income Fund

In our previous quarterly update, we used the analogy of a weigh scale to describe the opportunities and risks driving sentiment in the stock market. The central point being that there is ample material on both sides of the scale thus, a reduction in either risk, or opportunity, can significantly tip the scale in the opposite direction. It appears we received some risk relief as, late on September 30th, negotiators of the deal formally known as NAFTA came to a trilateral agreement. The new deal, called USMCA (United States-Mexico-Canada Agreement) will be submitted to the respective bureaucratic entities for approval and is expected to be law by the end of November 2018. The mere fact that there is a deal brings risk relief and the early consensus is that it’s a constructive deal for Canada.

Continuing to look through the other opportunities and risks, the trade dispute between the U.S. and China continues. We do not see an end in sight for this quarrel. It’s not clear whether the U.S. actually wants a deal or rather intends to make things difficult to slow Chinese development – particularly in technology. Growth in China has slowed recently, as measured by PMIs. Growth in Europe has also slowed. PMIs in both regions remain above 50, indicating that expansion continues but this measure has declined from earlier in the year. As expected, the U.S. Federal Reserve raised interest rates near the end of the third quarter. It’s interesting to observe the bifurcation in the approach between the Bank of Canada and the U.S. Federal Reserve. Canada initially raised rates prior to the U.S. but has stalled at a much lower level than where U.S. rates are today. This may relate to the fact that during the Great Financial Crisis in 2008-09, much of the U.S. mortgage debt was moved to the government, as mortgage holders were able to walk away from their debt and the banks had to be bailed out.

In Canada, the debt remained with the consumers and banks held up much better. As a result, consumer debt levels remain at historic highs in Canada, making debt servicing costs a critical concern in economic activity. The Bank of Canada is sensitive to this fact and appears reluctant to raise rates further until credit levels, in proportion to income, are reduced. The U.S. economy is in a better position to absorb higher rates, despite President Donald Trump’s protests. With regard to the impact of higher rates, we believe the outcome is non-linear, meaning incremental increases do not incrementally reduce economic activity. We think there is a band of rates where changes have virtually no impact but beyond a certain point, interest rate levels will rapidly dominate sentiment. We view current levels to be within the band of minimal impact.

There is also bifurcation in the performance of the Canadian and U.S. stock markets. The S&P/TSX Composite Index was down 0.57% and the S&P 500 Index was up 5.86% during the third quarter

(both in Canadian dollars). The same sectors of energy and materials that generated strong positive returns during the second quarter led the decline in the third quarter. The S&P/TSX Composite Index remains positive for the year. The S&P 500 Index continues to be led by the technology sector, both during the quarter and year-to-date. Health care has also been a strong contributor. The Sentry Growth & Income Fund has performed well compared to the S&P/TSX Composite Index, during the quarter and year-to-date, due to our underweight in energy and materials as well as the fact we've used our foreign content to focus on U.S. technology and health care.

Apple was the top contributor to performance for the fund during the quarter, and Apple and Microsoft are the number one and two contributors year-to-date respectively. Service station and convenience store operator Alimentation Couche-Tard was the second largest contributor to the fund during the quarter and U.S. health care company Pfizer ranked third. Year-to-date, Canadian Pacific Railway has also been a strong Canadian performer.

The biggest detractors from performance during the third quarter were Maxar Technologies and US Foods. A short report was issued on Maxar, a Canadian provider of satellites and satellite-based services, driving the stock lower. We've spoken to the CEO twice as well as industry participants and confirmed our original thesis thus, continue to hold the position. US Foods is a U.S.-based food distribution company we initially purchased during the second quarter of this year. The company reported slightly lower performance than the market had expected and made a substantial acquisition during the quarter. The price paid for the acquisition and debt expansion concerns investors, including us. Generally, US Foods is expected to be a stable cash generator, given the nature of the business. We are monitoring this position closely but will give management time to validate the value paid for the acquisition.

Regarding changes to the fund, we continue to view the broader stock market as fully valued and we will rely on concentration to capitalize on compelling opportunities. In this context we decided to reduce exposure to the broader market, by selling our position in CI Financial and trimming our weight in Sun Life Financial. We also sold our position in Telus as shares in the Canadian telecommunications company moved up significantly during the quarter. We initiated positions in Dollarama, Brookfield Property Partners and U.S. home improvement firm Lowe's. Dollarama reported results that missed expectations, a rare occurrence, and the share price fell significantly. We were buyers both before and after the report. We continue to believe Dollarama is a high-quality retailer with a clear vision and ample runway for growth. Brookfield Property Partners and Lowe's both provide exposure to the U.S. consumer – Brookfield through mall ownership, and Lowe's through home improvement spending. While we believe in the growth of e-commerce, retail data demonstrates that bricks and mortar stores are not dead. Brookfield recently acquired a series of mall properties at prices we believe provide opportunity for significant returns.

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Looking forward, we remain constructive on economic activity. The framework of a trilateral trade deal between the U.S., Canada and Mexico is positive. While global growth has slowed, it remains positive and we expect modest growth to continue. China is ramping up domestic spending which would likely be positive for the global industrial complex. Broader markets appear fully valued and we will continue to hunt for pockets of opportunity leaning on concentration to add value. We are becoming increasingly concerned about corporate credit risk and will keep the portfolio heavily tilted toward companies that are in a strong financial position.

Class F Returns (in %) as at September 30, 2018	1 year	3 year	5 year	10 year
Sentry Growth and Income Fund	7.9	7.9	7.6	10.0

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