SENTRY GLOBAL INVESTMENT GRADE PRIVATE POOL CLASS

Q4-2020 Commentary

CI GLOBAL ASSET MANAGEMENT

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I*
Sentry Global Investment Grade Private Pool Class, Series F*	11.7%	6.9%	N/A	N/A	5.4%
Benchmark: ICE BofAML Global Corporate Total Return Index (85% CAD Hedged)	7.5%	5.8%	N/A	N/A	4.8%

* Inception date of Sentry Global Investment Grade Private Pool Class, Series F: July 4, 2016.

Source: Sentry Global Investment Grade Private Pool Class, as at December 31, 2020.

PERFORMANCE SUMMARY

- In the fourth quarter of 2020, Sentry Investment Grade Private Pool Class Series F (the Pool) returned 2.5% compared with the ICE BofAML Global Corporate Total Return Index (85% CAD Hedged), which returned 2.1%.
- The Pool outperformed its benchmark, largely as a result of tightening corporate bond spreads when interest rates rose slightly higher.

CONTRUBUTORS TO PERFORMANCE

The main contributor to the Pool's performance was its positioning in high-yield bonds and preferred shares. High-yield bonds' total return was more attractive than investment-grade bonds as spreads moved tighter, but interest rates rose during the quarter. Security selection within the investment-grade bond segment also added value. Other contributors to the Pool's performance were lower capital structure securities, such as bank additional tier 1 (AT1) notes or preferred shares. Pipeline hybrid bonds and lower-rated securities performed the best, as investors saw an end to the pandemic in sight and began to seek higher-yielding assets. Exposure to the energy sector also contributed to performance as oil prices rose 20% during the quarter.

The largest individual contributor to performance was Marathon Oil Corp. 5.2% June 1, 2045 because of the boost in oil prices and the wider spread on the bond to begin the quarter. Another energy sector holding, pipeline operator Energy Transfer 5.0% May 15, 2050 contributed to performance as it benefited from the increase in oil prices. Lastly, a position in Canadian Imperial Bank of Commerce 4.4%, Series 45 preferred shares, contributed to the Pool's performance as a result of its attractive yield, falling supply of Canadian preferred shares and higher five-year interest rates.

DETRACTORS FROM PERFORMANCE

The main detractor from the Pool's performance was its allocations to government bonds and cash as interest rates rose slightly during the quarter and riskier asset classes outperformed.

PORTFOLIO ACTIVITY

We made a large asset mix shift during the quarter by adding to the Pool's high-yield bond allocation. To make the shift, we reduced investment-grade and government bond holdings. These changes were made in order to take advantage of better opportunities in high-yield bonds with the expected economic recovery. While investment-grade bond spreads were tightening, with economic recovery, higher interest rates would likely negatively impact their total return. The Pool's duration (sensitivity to interest rates) was lowered 0.5 to 5.5 years as high-yield bonds were added and slightly more cash was held.

The Pool's currency hedge on U.S. assets was increased 5% in mid-November following positive COVID-19 vaccine trial announcements. As the outlook for the global economy improved, the price of oil rose, making the outlook for non-U.S. currencies more attractive, including the Canadian dollar.

MARKET OVERVIEW

Investment-grade corporate bonds and other global assets perceived to have more risk steadily improved from the beginning of the quarter until a brief sell-off before the U.S. presidential election in early November. The main catalyst that lifted asset prices was the announcement on November 9 of the high efficacy in the Pfizer/BioNTech COVID-19 vaccine trial results. This was followed the next week by the positive results from Moderna Inc. The vaccines provided a much-needed boost of confidence, signalling that there was an end in sight to the global pandemic. Another wave of COVID-19 infections swept across Europe, North America and many parts of the world during the third quarter. Restrictions and lockdowns were re-introduced to slow the spread of the virus and manage the caseload on health systems. Investors looked past the near-term economic slowdown to the recovery six to nine months in the future.

Unemployment remained high but did improve slightly to 6.7% in the United States and 8.6% in Canada. Central banks reiterated their accommodative stance and commitment to keep short-term interest rates low until the economy is on sound footing and inflation picks up. Many countries extended fiscal support as the pandemic continued. Over the quarter, U.S. investment-grade and high-yield bond spreads tightened and U.S. equities, as measured by the S&P 500 Index, rose 12.1%. The West Texas Intermediate oil price rose 20.6% to close at US$48.52 per barrel.

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