

# SENTRY GLOBAL INVESTMENT GRADE PRIVATE POOL CLASS

## Q1-2021 Commentary



FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.*
Sentry Global Investment Grade Private Pool Class, Series F*	10.8%	6.5%	N/A	N/A	4.7%
Benchmark: ICE BofAML Global Corporate Total Return Index (85% CAD Hedged)	7.3%	4.8%	N/A	N/A	3.7%

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

Source: CI Global Asset Management, as at March 31, 2021.

### PERFORMANCE SUMMARY

- In the first quarter of 2021, Sentry Investment Grade Private Pool Class Series F (the Pool) returned -1.7% compared with the ICE BofAML Global Corporate Total Return Index (85% CAD Hedged), which returned -3.6%.
- The Pool outperformed its benchmark, largely as a result of its exposure to high-yield bonds and preferred shares.

### CONTRIBUTORS TO PERFORMANCE

The main contributor to the Pool's performance was its positioning in high-yield bonds and preferred shares. High-yield bonds and preferred shares total returns were more attractive than investment-grade bonds as interest rates rose sharply during the quarter. A shorter duration (sensitivity to interest rates) in the Pool's investment-grade corporate bond holdings also contributed to performance. Other notable contributors to the Pool's performance were lower capital structure securities, such as bank additional tier 1 (AT1) notes or preferred shares. Lower-rated securities performed best as investors sought higher-yielding assets.

The largest individual contributor to performance was BCE Inc., 4.38% Series AC rate reset preferred shares. The holding started the year with an attractive current yield of 6.9% and as such, these preferred shares outperformed. Limited recourse capital notes (LRCN) issued by Canadian banks also contributed to the Pool's performance. LRCNs issued by Canadian Western Bank, 6.0% Apr. 30, 2081 and Canadian Imperial Bank of Commerce, 4.375% Oct. 28, 2080 both produced positive returns. These securities come with higher yields and a lower duration, which were beneficial characteristics during the quarter. 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, declining supply of Canadian preferred shares and higher five-year interest rates.

### DETRACTORS FROM PERFORMANCE

The main detractor from the Pool's performance was its allocation to longer-dated, higher-quality bonds as interest rates rose. The largest individual detractors from performance included U.S. Treasury, 1.625% Nov. 15, 2050, Apple Inc., 1.20% Feb. 08, 2028 and Kinder Morgan Inc., 3.25% Aug. 1, 2050, all of which were negatively affected by the rise in longer-term U.S. interest rates.

### PORTFOLIO ACTIVITY

The Pool's asset mix was relatively stable following the large shifts in the previous quarter to prepare for the improving economic outlook. During this quarter, we reduced the Pool's duration from 5.5 years to 4.8 years to reduce the effects of higher interest rates. The majority of the duration reduction occurred in January through the sale of longer-dated investment-grade and government bonds while increasing the Pool's cash and preferred share allocations. The Pool's high-yield bond weight was fairly stable.

## **MARKET OVERVIEW**

Riskier global assets, including investment-grade bonds, had a good start to the year. Interest rates rose, which had a moderating effect on equity markets at times. The COVID-19 vaccine rollout brought the opening of the economy closer even as the pandemic continues in much of the world. Additionally, the passing of the US\$1.9 trillion stimulus package in the United States should provide a large boost to the global economy, especially coming so quickly on the back of the US\$900 billion package passed in December.

Unemployment remained high but continued to improve to 6.2% in the United States and 8.2% in Canada. Central banks reiterated their accommodative stance and commitment to keeping short-term interest rates low until the economy is on sound footing and inflation picks up. U.S. investment-grade bond spreads tightened to 97 basis points (bps), U.S. high-yield spreads tightened to 366 bps, and U.S. equities, as measured by the S&P 500 Index, rose 5.77%. West Texas Intermediate oil prices rose 21.9% to close at US\$59.16 per barrel over the quarter.

We have a positive outlook for investment-grade credit on a strategic basis, as corporate bonds are expected to outperform government bonds. However, that outperformance is expected to moderate. The vaccine rollout is helping to restart the U.S. economy and Canada is only a few months behind. We have a positive outlook for lower-rated investment-grade bonds, high-yield bonds and Canadian preferred shares as the improving economy should support corporate fundamentals. Additionally, central banks remain accommodative. However, active security selection will be important to take advantage of the re-opening economy and to avoid companies that are confident enough to undertake mergers and acquisitions. With that in mind, we have begun to trim the Pool's significantly overweight corporate position.

Source: CI Global Asset Management

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