

Q4-2018 Commentary

Sentry U.S. Growth and Income Fund

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PERFORMANCE SUMMARY

- In the fourth quarter of 2018, Sentry U.S. Growth and Income Fund, Series F returned -9.2% compared with the S&P 500 Index, which returned -8.6%
- The fund underperformed its benchmark during the period largely as a result of an underweight allocation to the consumer staples sector and stock selection in the utilities sector.

CONTRIBUTORS TO PERFORMANCE

- **Comcast Corp.** operates as a media and technology company worldwide. Its shares performed well following the company's decision to drop its bid for 21st Century Fox America Inc. Investors had been concerned that the company would overpay for these assets.
- **Liberty Media Corp.-Liberty Braves** owns the Atlanta Braves major league baseball team, stadium and a mixed-use development project. The company held a well-received investor day where its management outlined plans to monetize and develop the company's real estate assets. Its stock rose as a result.

DETRACTORS FROM PERFORMANCE

- **Liberty Global plc** provides video, broadband internet, fixed-line telephony, mobile and other communications services to residential customers and businesses in Europe. Its shares declined as a result of uncertainty around the U.K.'s exit from the European Union and risks surrounding the regulatory approval of the sale of the company's business in Germany.
- **Laboratory Corp. of America Holdings** operates an independent clinical laboratory company worldwide. Its shares were negatively impacted by an announcement that the company would reduce its 2019 forecast.

PORTFOLIO ACTIVITY

- We added a new position in **Bank of America Corp.**, one of the largest financial institutions in the U.S. with more than \$2 trillion in assets. It is organized into four major segments: consumer banking, global wealth and investment management, global banking and global markets. The bank sits in an advantageous position given its expansive low-cost deposit network, which would allow its net interest margins to outperform in a period of rising interest rates. The company generates 11% return on equity and its stock trades at a discount valuation.
- The fund's holding in **Wells Fargo & Co.**, a diversified financial services company operating primarily in the U.S., was trimmed. The company continues to operate under regulatory restrictions imposed by the U.S. Federal Reserve, which restricts the company's ability to grow. We had expected this regulatory burden to be removed sooner but the company continues to struggle to address numerous compliance issues.

MARKET OUTLOOK

- We continue to see strong but slowing growth in the U.S., particularly compared to the rest of the world. Unemployment remains low and tax reform continues to allow companies to invest and return more cash to shareholders. Trade disputes have begun to impact consumer confidence and company margins as this inflationary cost is passed through the system. Overall, we believe these inflationary costs will be offset to some extent by higher domestic investment within the U.S. as importing some goods becomes less attractive. We continue to look for investment in companies with pricing power.
- We are conscious of rising interest rates, which could result in a higher cost of capital, we will try to avoid investment in highly indebted companies and those that we believe will be most negatively impacted by higher interest rates.

| FUND | 1 YEAR | 3 YEAR | 5 YEAR | S.I.* |
|--|--------|--------|--------|-------|
| Sentry U.S. Growth and Income Fund, Series F | 0.8% | 5.5% | 10.8% | 14.6% |
| S&P 500 Index (CAD) | 4.2% | 8.6% | 14.1% | 16.0% |

*Inception date of Sentry U.S. Growth and Income Fund: May 31, 2011. Data as at December 31, 2018

Source: Morningstar, Bloomberg L.P., Sentry Investment Management

All returns are total returns, stated in Canadian dollars. Fund returns are for Series F, net of fees, all distributions reinvested.

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