

Q4-2018 Commentary

Sentry U.S. Monthly Income Fund

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PERFORMANCE SUMMARY

- In the fourth quarter of 2018, the fund returned -4.4% compared to the return for the blended benchmark of -0.8%, which is comprised of 50% S&P 500 Index and 50% Bank of America Merrill Lynch U.S. Government and Corporate Master Index.
- The fund underperformed its benchmark over the period largely as a result of its overweight allocation in equities over fixed income. Equity selection within the health care sector and an overweight exposure to credit also detracted from performance.

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.
- **U.S. Treasury 3.0%, Aug. 15/2048** was another contributor to performance. This long-duration (interest rate sensitivity) U.S. government bond was a large weighting within the fund and its price rose significantly amid volatility in equity markets.

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.
- A perpetual bond holding in **TransCanada PipeLines Ltd.** detracted from the fund's performance. This subordinated bond has a coupon rate that floats with U.S. dollar London Interbank Offered Rate (LIBOR). The bond was priced lower as future expected LIBOR was lower and credit spreads widened.

PORTFOLIO ACTIVITY

- We added a new equity 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 equity 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.

- We added a new position in energy transportation company **Enbridge Inc.** The subordinated bond issue's price dropped significantly during the period.
- A position in **Ballsbridge Repackaging Ltd. 5.24% Mar. 01/2020** was eliminated on a relative value basis after good performance. These securities are an indirect obligation of the Irish government.

MARKET OUTLOOK

- We believe that the U.S. and Canadian economies have little risk of a significant slowdown over the next few quarters. U.S. household incomes are growing and unemployment is low. In Canada, the economic strength of the U.S. has helped to close the output gap, but energy prices, pipeline investment and rising government debt are all risks to positive growth for Canada in the next year or two. With 2019 interest rate increases likely to be more modest than envisioned six months ago, longer-term bond yields have probably peaked unless there is a meaningful thawing in trade relations between China and the U.S. We maintain an overweight allocation to credit, but it has been significantly reduced from the fund's levels in early autumn.
- Our outlook for 2019 is optimistic. We expect the North American economy to show positive growth, and believe that the companies we hold in the fund will generate rising free cash flows and deliver growing dividends. We also expect an easing of trade hostility between the U.S. and China as both economies realize that a resolution is mutually beneficial.
- While our outlook is positive, we will take a relatively defensive approach to stock selection. Areas where we see opportunities focus on companies that have low debt levels and the ability to deliver steadily growing cash flows. We also favour companies that have exposure to a faster-growing U.S. economy.

FUND	1 YEAR	3 YEAR	5 YEAR	S.I.*
Sentry U.S. Monthly Income Fund, Series F	3.8%	5.5%	10.3%	11.60%
Benchmark (50% S&P 500 Index and 50% Bank of America Merrill Lynch U.S. Government and Corporate Index)	6.9%	5.3%	11.3%	11.98%

* Inception date of Sentry U.S. Monthly Income Fund: March 4, 2013. Data as at December 31, 2018.

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

Source: Sentry Investment Management, Bloomberg.

The comparison presented is intended to illustrate the Mutual Fund's historical performance as compared with the historical performance of widely quoted market indices or a weighted blend of widely quoted market indices. There are various important differences that may exist between the Mutual Fund and the stated indices that may affect the performance of each. The objectives and strategies of the Mutual Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices. Indices are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices.

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