Q4-2018 Commentary

Sentry Balanced Yield Private Pool Class

Portfolio Managers
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PERFORMANCE SUMMARY

- In the fourth quarter of 2018, the fund returned -6.5% compared to the return for the blended benchmark of -4.0% which is comprised of 35% S&P/TSX Composite Index, 15% S&P 500 Index and 50% FTSE/TMX Canada Universe Bond Index.
- The fund underperformed its benchmark, largely as a result of its asset allocation, with an overweight exposure to equities. Exposure to Canadian equities and the fund's fixed income holdings contributed to performance.
- Within the fund's Canadian equity holdings, selection within the materials and industrials sectors detracted from performance. With respect to U.S. equity holdings, security selection in the health care sector detracted from performance, as did an underweight exposure to the consumer staples sector.

CONTRIBUTORS TO PERFORMANCE

- **Fortis Inc.** owns natural gas and electric utilities in six Canadian provinces, two U.S. states, as well as Central America and the Caribbean. The company is in a period of solid organic investment and growth as it delivers on its 2019-2023 $17.3 billion capital program.
- **Gildan Activewear Inc.** is a manufacturer and marketer of premium-quality basic apparel. Along with its latest results, Gildan announced that it will launch private label men's underwear in stores of Walmart Inc., its largest mass retailer, in the second half of 2019. This positions the company well in achievement of its mid-term sales target.
- **Cinemark Holdings Inc.** engages in the motion picture exhibition business and has locations in the United States and South America. Its shares performed well during the quarter as box-office results came in ahead of expectations.
- **Liberty Media Corp.** owns the Atlanta Braves major league baseball team, the team's 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.
- A perpetual bond issued by **HSBC Holdings plc 6.875%** contributed to the fund's performance. The bond is a subordinated offering from the United Kingdom's biggest bank. It performed well as the company showed resiliency during the United Kingdom's negotiations to exit the European Union.

DETRACTORS FROM PERFORMANCE

- **Maxar Technologies Ltd.** is a global communications and information company providing operational solutions to commercial and government organizations. Its third-quarter results were weak, highlighted by continued deterioration in the geostationary satellite business and rising debt levels that are approaching debt covenants.

- **Chemtrade Logistics Income Fund** is one of North America's largest suppliers of sulphuric acid and provides other industrial chemicals and services to customers. Its financial results have been under pressure as a result of plant turnarounds, rising raw material costs and declining caustic soda prices. In the third quarter of 2018, the company also recorded a larger-than-expected legal settlement for anti-competitive conduct of General Chemical Holding Company, which occurred prior to Chemtrade's acquisition of the company.
- **Liberty Global plc** provides video, broadband internet, fixed-line telephony, mobile and other communication services to residential customers in Europe. The company's shares declined amid uncertainty around the United Kingdom's exit from the European Union and various risks surrounding the regulatory approval of the sale of its 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.
- A perpetual floating rate bond holding in North American pipeline company **TransCanada PipeLines Ltd.** detracted from the fund's performance as expectations for interest rate increases lowered and credit spreads widened.

PORTFOLIO ACTIVITY

- We added a new holding in **Canadian National Railway Co.**, North America's only transcontinental railroad and Canada's largest railroad. The company is nearing the completion of a significant capacity expansion program, which should put it in a position to take on the significant demand in its markets at much improved margins, resulting in accelerating earnings growth from sales growth and margin expansion.
- **Becton, Dickinson & Co.** is a global medical technology company engaged in the development and sale of a broad range of medical products. We added a new holding to the fund for its leading market share across a variety of its products, which are interconnected, strengthening its relationship with hospitals. Additionally, its 2017 acquisition of C.R. Bard Inc. enters the company into the higher-growth, therapy-oriented device segments.
- We added a new position in energy transportation company **Enbridge Inc. 6.25% Mar. 01/2078**. The subordinated bond issue's price dropped significantly during the period.
- **Saputo Inc.** is a leading North American dairy processor with international operations in Argentina and Australia. The holding was eliminated from the fund during the period. Competitive pressures in the United States and Canada are taking a toll on its margins and a recovery does not appear imminent. While Saputo's recent acquisitions and future merger and acquisition prospects are positive, it is not clear if this will drive sufficient near-term upside.
- **AerCap Holdings NV** is an aircraft leasing company that engages in the leasing, financing, sale and management of commercial aircraft and engines globally. We exited the position amid concerns regarding higher funding costs and increased counterparty risks predominately in emerging markets economies.
- 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.

OUR 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	S.I*
Sentry Balanced Yield Private Pool Class, Series F	-4.3%	2.4%
35% S&P/TSX Composite Index, 15% S&P 500 Index and 50% FTSE/TMX Canada Universe Bond Index	-1.7%	3.3%

* Inception date of Sentry Balanced Yield Private Pool Class Series F: July 4, 2016. Data as at December 31, 2018.

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

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.

IMPORTANT INFORMATION

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