

Q4-2018 Commentary

Sentry Conservative Balanced Income Fund

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PERFORMANCE SUMMARY

- In the fourth quarter of 2018, the fund returned -5.5% compared to the return for the blended benchmark of -4.3%, which is comprised of 50% S&P/TSX Composite Index and 50% FTSE TMX Universe Bond Index.
- The fund underperformed the benchmark largely as a result of security selection within equities, particularly in the energy and materials sectors. The fund's fixed income component contributed positively to results through yield curve management and security selection within credit.

CONTRIBUTORS TO PERFORMANCE

- **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 at Wal-Mart, its largest mass retailer, in the second half of 2019. This positions the company well for achieving of its mid-term sales target.
- A floating rate perpetual bond issued by global financial firm **JPMorgan Chase & Co.** contributed to the fund's performance. This U.S. dollar subordinated bond performed very well in volatile markets.

DETRACTORS FROM PERFORMANCE

- **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 because 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 it.
- A holding in Brazilian construction company **Odebrecht Finance Ltd. 4.375% Apr. 25/2025** detracted from performance after it announced a debt restructuring during the quarter and bond prices declined.

PORTFOLIO ACTIVITY

- We added a new equity holding in **Royal Bank of Canada**, which operates as a diversified financial service company worldwide. Royal Bank is first or second across virtually all product lines in term of market share on the retail front. Its management has built a sizable global wholesale operation and as a result, is deriving a larger proportion of its earnings from wholesale businesses than has been typical. We believe that the company offers a combination of high-quality execution and a diversified franchise.
- We added a new position in energy transportation company **Enbridge Inc. 6.25% 03/01/2078**. The subordinated bond issue's price dropped significantly during the period.

- We eliminated an equity position in **George Weston Ltd.**, which operates in the food retailing industry through its approximately 50% ownership of Loblaw Companies Ltd., and in food processing, through North American bakery operations. Over the last several years, the company has struggled to reposition its business to add exposure to high-growth categories while stabilizing its core fresh and frozen businesses. Ultimately, we believe that the company is taking the necessary steps to stabilize the business and eventually return to growth. We found better investing opportunities in the meantime.
- 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	3 YEAR	5 YEAR	S.I.*
Sentry Conservative Balanced Income Fund, Series F	-5.0%	1.4%	2.5%	6.0%
Benchmark (50% S&P/TSX Composite Index and 50% FTSE TMX Universe Bond Index)	-3.7%	4.2%	4.0%	4.6%

* Inception date of Sentry Conservative Balanced Income Fund: March 17, 2010. 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.

IMPORTANT INFORMATION

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Series F securities are generally only available to investors who have a fee-based account with their dealer.

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