

Q4-2018 Commentary

## Sentry Conservative Monthly Income Fund

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### PERFORMANCE SUMMARY

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- In the fourth quarter of 2018, the fund returned -2.0% compared to the return for the blended benchmark of -1.3%, which is comprised of 25% S&P/TSX Composite Index and 75% FTSE TMX Universe Bond Index.
- While the fund outperformed the benchmark before fees, it underperformed after taking fees into account. Stock selection within the financials sector and an overweight allocation to the financials sector also detracted from performance.

### CONTRIBUTORS TO PERFORMANCE

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- **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.
- 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

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- **Westshore Terminals Investment Corp.** operates the largest coal-loading facility on the west coast of North and South America, generating unregulated revenues based on long-term contracts. During the quarter, one of its key customers announced a strategic review, leading to concerns regarding counterparty risk.
- 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

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- We added a new position in energy transportation company **Enbridge Inc.** The subordinated bond issue's price dropped significantly during the period.
- We increased and existing equity 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.
- **Saputo Inc.** is a leading North American dairy processor with international operations in Argentina and Australia. The fund's equity holding was eliminated during the period. Competitive pressures in the U.S. and

Canada are taking a toll on its margins and a recovery is not 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.

- 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	S.I.*
Sentry Conservative Monthly Income Fund, Series F	-0.5%	2.9%	2.7%
Benchmark (25% S&P/TSX Composite Index and 75% FTSE TMX Universe Bond Index)	-1.2%	3.0%	1.9%

\* Inception date of Sentry Conservative Monthly Income Fund: June 10, 2015. 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.

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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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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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