

Q1-2019 Commentary

Sentry Balanced Yield Private Pool Class

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PERFORMANCE SUMMARY

- In the first quarter of 2019, Series F of Sentry Balanced Yield Private Pool Class (the “Fund”) returned 7.7% compared with its blended benchmark (35% S&P/TSX Composite Index, 15% S&P 500 Index and 50% FTSE Canada Universe Bond Index), which was up 8.3%.
- The Fund underperformed its benchmark. Security selection within the equity component detracted from performance.
- Within the Fund’s equity holdings, stock selection in the health care and information technology sectors detracted from performance, as did an overweight exposure to the financials sector.

CONTRIBUTORS TO PERFORMANCE

- **Brookfield Asset Management Inc.** is an asset manager focused on infrastructure, real estate, private equity and renewable power. The company’s leading position allowed it to benefit from institutional investors allocating an increasing amount of capital to alternative asset classes. We expect its management team to continue to capitalize on this trend.
- **Live Nation Entertainment Inc.** is a global provider of live entertainment, offering live music events, music venue operations, sponsorship and advertising sales, and ticketing services. The company continued to benefit from its leadership position in an industry backed by a trend toward increasing allocation of consumer dollars toward experiences.
- **Keyera Corp.** is one of the largest midstream companies in Canada with assets in the natural gas gathering and processing, and midstream businesses and operations in Alberta, British Columbia and the United States. Keyera delivered fourth-quarter 2018 results that were well above expectations. The company had particularly strong results in its marketing segment after deploying a successful risk management strategy, securing attractive margins despite weakening prices for liquified natural gas.
- **Industrial Alliance Insurance and Financial Services Inc.** is the fourth-largest Canadian life insurance company, manufacturing and distributing life insurance and wealth management products. Despite severe macroeconomic volatility during the fourth quarter of 2018, the company delivered on par results and, later in period, received a favourable court ruling that dismissed claims by plaintiffs seeking compensation that was inconsistent with the intention of a particular insurance policy.

- A British bank bond with legacy call features, **HSBC Holdings plc's 5.844% bond**, was viewed more favourably by investors as the regulatory environment was clarified.

DETRACTORS FROM PERFORMANCE

- Health services organization **Cigna Corp.** provides insurance and related products and services in the United States and internationally. Despite strong operational performance, the company's shares detracted from the Fund's performance as a result of negativity surrounding Democratic Party presidential candidates proposing a "Medicare for All" program.
- **International Game Technology PLC** operates and provides technology products and services across lotteries, electronic gaming machines, sports betting and interactive gaming markets worldwide. Its shares came under pressure because of weak fourth-quarter 2018 results and disappointing forecasts for 2019.
- A holding in **Chemtrade Logistics Income Fund**, one of North America's largest suppliers of sulphuric acid and provides other industrial chemicals and services to customers, was another detractor from the Fund's performance. The company's results have been under pressure as a result of plant turnarounds, rising raw material costs and declining caustic soda prices, which weighed on its fourth-quarter 2018 results.
- **Onex Corp.** is a private equity investor and alternative asset manager with approximately US\$30 billion in assets under administration. Both the private equity and credit portfolios were negatively impacted by market volatility during the quarter, which lowered the net asset value of the company.
- A bond holding in **Marks and Spencer Group PLC (7.125% bond due December 1, 2037)**, the iconic U.K. retail chain, was negatively impacted by uncertainty surrounding the United Kingdom's exit from the European Union, and e-commerce concerns.

PORTFOLIO ACTIVITY

- **The Boeing Co.** produces aircraft for the commercial and military end markets, and it was added to the Fund after the company came under heavy scrutiny following technical issues with its 737-MAX plane that led to two crashes less than six months apart. We believe the market is over-discounting the long-term implications this scandal will have on the company's earnings power. This has created an attractive margin of safety from current prices compared to our assessment of the company's intrinsic value.
- We added a new Fund position in **Accenture PLC**, the largest information technology services firm in the world, which provides management and consulting services and solutions. The company has successfully pivoted its strategy to high-growth markets (digital, cloud and security), which now account for more than 60% of its total revenue.
- A new position in a subordinated bond issue by aircraft leasing agency **AerCap Holdings N.V. (0%, due December 21, 2065)** was opportunistically added to the Fund.
- **Alliance Data Systems Corp.** is a provider of data-driven targeted marketing and loyalty solutions, along with credit card programs. The company has been working to reduce its mall-based retail customer exposure, which has slowed

its growth. Also, the pending sale of its digital marketing business will remove a profit growth driver. As such, we exited the position.

- **Wells Fargo & Co.**, a diversified financial services company operating primarily in the United States, was eliminated from the Fund. The company continued to operate under regulatory restrictions imposed by the U.S. Federal Reserve, which, among other things, restricts the company's ability to grow. We had expected this regulatory burden to be removed sooner, but the company has struggled to address numerous compliance issues.
- A holding in **Community Health Systems, Inc. (6.25% bond due March 31, 2023)** was partially sold on a relative-value basis as prices rose.

MARKET OUTLOOK

- We have an optimistic outlook for North American equities. We expect the North American economy to show positive growth, and we also expect an easing of trade hostility between the United States and China.
- While our outlook is positive, we will take a relatively defensive approach to stock selection and believe the companies held in the Fund will generate rising free cash flows and deliver growing dividends.
- We will continue to look for investment opportunities in companies that have low debt levels and the ability to deliver steadily growing cash flows. We also favour companies that have exposure to the faster-growing U.S. economy.
- The U.S. economy is forecasted to grow at trend or slightly better than trend in the coming year. The risk of a significant slowdown is low and most economic risks are external to the United States.
- The U.S. Federal Reserve is unlikely to lower interest rates, and it should maintain current interest rates until late 2019. There is the possibility of an increase of 25 basis points late in 2019, but it would most likely require a reduction in trade tensions and a recovery in the global economy.
- The Fund will continue to have a moderately short duration (interest rate sensitivity) with an overweight allocation to credit.

FUND	1 YEAR	S.I.*
Sentry Balanced Yield Private Pool Class, Series F	4.5%	5.0%
Benchmark: 35% S&P/TSX Composite Index, 15% S&P 500 Index and 50% FTSE Canada Universe Bond Index	7.7%	6.2%

* Inception date of Sentry Balanced Yield Private Pool Class, Series F: July 4, 2016.

Sources: Sentry Investment Management and Bloomberg L.P. Data as at March 31, 2019.

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.

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