Market Commentary
Second Quarter 2018

SIGNATURE
GLOBAL ASSET MANAGEMENT™

Sentry Alternative Asset Income Fund

The second quarter of 2018 was dominated by rhetoric from the Trump administration on tariffs and trade wars. It began as a trade dispute but deteriorated into a trade war by the end of the quarter. The tariffs continue to be part of a tactic to drive concessions from U.S. trading partners, including China, Europe, Canada and Mexico.

Canada generally fared well amid the growing uncertainty, on account of the energy sector in particular and materials, both late cycle sectors. Strong first-quarter earnings and relief from elevated volatility levels allowed equities to trend higher in the second quarter but the story in fixed income was more complex. Global synchronized growth persists although European growth momentum seemed to slow but was less relevant than political developments. Italy was topical in the second quarter as government bond yields sold off more than 200 basis points at one point on the prospect of a potential anti-European Union coalition government. U.S. economic indicators were strong and Canadian indicators were mixed. Investors continue to weigh the significance of the flattening yield curves in both markets, typically indicative of higher recession risk. However, inter-rating spread compression was the theme of second quarter trading behavior as investment-grade bonds widened 13 basis points (ICE BofAML U.S. Corporate Index) and emerging market bonds gapped out 62 basis points (JP Morgan Emerging Market Bond Index) but high-yield bond spreads were unchanged (although yields were 18 basis points higher at 6.53% to end the quarter). For example, spreads on the high-yield countries like Turkey, Argentina, and South Africa were at their widest levels since Q4 2016, while CCC spreads – the lowest rung of performing high-yield corporate bonds – were at their lowest levels since Q3 2014. Typically, these asset classes move together but the breakdown in correlation can be attributed to dramatic flows, supply and quality differences. There is a note of caution warranted here about drawing conclusions from markets and indexes dominated by both large issuers and idiosyncratic risk.

In contrast to the first quarter, high yield was the laggard although its contribution was still positive. We took the opportunity early in the quarter to increase our real estate holdings and were rewarded as real estate generated high single-digit returns. Energy infrastructure generally recovered from a Q1 trough related to regulatory concerns.

The financial preferred shares we own in lieu of a higher weight in fixed-rate high-yield bonds were a drag on performance, caught up in the same rise in short-term U.S. dollar funding that has caused European and Asian-based investors to sell higher-rated bonds as after-hedged yields are now less attractive.

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Sentry Alternative Asset Income Fund is managed with the same strategy as the Signature diversified income funds, but with an added allocation to the options-writing strategy. This strategy earns premiums by writing (i.e. selling) cash-secured puts and stock-covered calls on a diversified basket of fundamentally attractive stocks that are screened in coordination with the Signature equity sector specialists. The margin of safety on the puts we write is typically at least 5% below the current price of the stock. Occasionally, the price of the underlying stock falls below the value of the put, and we become owners of the underlying stock at fundamentally attractive valuations, and in turn we will then use these stocks to make up the bulk of our covered call portfolio. The value proposition of the strategy is to generate all-in returns comparable to high-yield bonds, but with increased liquidity, diversification, margin of safety, and minimal interest rate sensitivity.

The allocation to the strategy was the strongest contributor to the overall performance of Sentry Alternative Asset Income Fund. Within the strategy, the best contributing sectors were information technology, consumer discretionary and health care, while our worst sector performance was from industrials, where trade concerns dampened sentiment across the sector.

Our outlook is consistent with last quarter. The high-yield bond, real estate and infrastructure markets lack both positive and negative catalysts and are subject to broader risk sentiment. International trade costs are escalating, pushed higher by tariffs, fuel costs, and logistics bottlenecks. These factors will bite into growth just as the European Central Bank is set to end its quantitative program later this year. It is an open question whether the projected impact is sufficient for the Fed to pause on its hiking path. The Fed did express such a concern, as well as an indication that they are watching the slope of the yield curve in their June meeting minutes, released in early July. U.S. mid-term elections are around the corner, so we do not expect trade rhetoric to abate until the new year. Our intermediate-term strategy involves increasing the real estate weight with some profit-taking in high yield and trimming some energy infrastructure. We likely will eventually layer in some government bonds as duration risk to hedge the credit risk.

Class F Returns (in %) as at June 30, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**Since inception**	**Inception date**
Sentry Alternative Asset Income Fund	1.7	4.2	4.7	N/A	4.3	6/10/2015

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Published July 2018.