Market Commentary
Second Quarter 2018

Sentry Global Infrastructure Fund

Performance summary

The fund underperformed during the quarter, returning 3.4%. The underperformance was largely due to a late quarter rally in utilities names and the fund's underweight allocation to this sector, principally in favour of energy and industrial names. Although industrials and utilities selections generated positive returns, our selections in these sectors underperformed. The fund's overweight allocation to energy was a primary relative contributor to performance during the quarter.

Contributors to performance

- A notable contributor to fund performance was Canadian midstream company Enbridge. During the quarter, Enbridge recorded solid Q1 results, progressed its asset sale program with a sale in its renewables division, and received a key approval from its Minnesota regulator for its Line 3 replacement project.
- Another notable contributor to performance over the period was Atlas Arteria, the Australian-based toll road company (formerly known as Macquarie Atlas Roads). The company completed its plan to internalize its management (including hiring a well-regarded CEO), removing an overhang of performance fees and an impediment to corporate activity. As well, the market grew more comfortable with cash flow and dividend growth, as performance at the company's key asset – the French APRR toll road – continued to exhibit good traffic growth and lowered its interest costs.
- Other notable contributors: Cheniere Energy, Macquarie Infrastructure Corporation, Sempra Energy, Union Pacific.

Detractors from performance

- Corporacion America Airports detracted from fund performance on macroeconomic fears around the company's home country of Argentina. Operationally, the company has done well and has traded at an immense discount. Subsequent to quarter-end, it has rallied 34% on the alleviation of selling pressure, a recognition of the valuation discount as being too large, and an agreement to jointly pursue international expansions with a fund affiliated with the Dubai government.
- Kinder Morgan Canada detracted from fund performance during the second quarter following the sale of its Transmountain assets to the government of Canada for $4.5 billion.

While this sale alleviated an expenditure burden and removed the risk of a heavy debt load, it also took away the company's key growth project. We expect to see a large dividend from the company later this year, and potential strategic activities to release value.

- Other notable detractors: Aena, Snam, Polaris Infrastructure.

Portfolio activity

- The fund's U.S. dollar hedge was between 10% and 15% for the quarter.
- The Canadian weight of the fund rose from 26.4% to 29.5%, given the addition of CN Rail and price appreciation in midstream energy stocks. U.S. exposure increased from 29.5% to 34.8% with the addition of FirstEnergy and price appreciation across a variety of names. Exposure to China and Italy were reduced.
- Consistent with the intention to focus as a "pure play" infrastructure fund, two customer-facing telecommunications companies (Liberty Global and Liberty Latin America) were reduced. After quarter-end, these companies have been sold out of the portfolio.
- Notable additions include Engie and FirstEnergy.
- Names that exited the portfolio include Perusahaan Gas, RWE, Snam.
- Intra-quarter changes in exposure included Pattern Energy (increased exposure on weakness), Atlas Arteria (increased our stake, and trimmed as price rallied), China Longyuan Power (sold out of the position in April, bought back in late June after a substantial price fall).

Outlook

- Within the infrastructure space, we believe the biggest challenge for 2018 continues to be how to best take advantage of economic growth conditions that have an offsetting valuation impact through interest rate increases.
- Consistent with our Q1 commentary, we have been selectively increasing our exposure to utilities. While this will likely remain an underweight, valuation has improved and the "baby out with the bathwater" selling of utilities has allowed us to purchase FirstEnergy and (after quarter-end) Avangrid at attractive levels.
- The moderation of the springtime rate fears has helped telecommunications infrastructure companies to recover substantially. While these securities are not cheap on a multiple basis (P/E, EV/EBITDA), they do continue to have attractive investment opportunities and growth.

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- We are comfortable with the fund's overweight to energy, given growing North American energy production and commodity price strength that provides strong counterparties to our midstream companies and growing opportunity to make accretive investments. While we see these tailwinds continuing, at the end of the quarter we reduced a number of these positions given a rebound in many of the midstream stocks.
- We expect our allocation to industrial assets to remain overweight, though this sector (particularly airports) is attracting additional regulatory scrutiny. Economic growth is providing increased profits on operational leverage. While these securities have greater sensitivity to equity markets, we are generally constructive on the ability of these companies to use their pricing power to take advantage of economic growth.
- Subsequent to quarter-end, the hedge on the U.S. dollar has been increased, in reflection of greater economic strength in Canada, a change in interest rate expectations, and an expectation of correlated strength in the Canadian dollar.

Class F Returns (in %) as at June 30, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**Since inception (6/22/2009)**
Sentry Global Infrastructure Fund	-0.2	2.4	4.5	9.9	12.6

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