

Market Commentary

Fourth Quarter 2018



Sentry Global Infrastructure Fund

Performance summary

- In the fourth quarter of 2018, the fund (Class F) returned -2.6%.
- A high exposure to industrials added to performance, while low exposure to utilities detracted from overall performance.
- Hedging detracted from performance given U.S. dollar strength over the quarter.

Contributors to performance

- Ferrovial gained as its key assets (Ontario 407 toll road, Heathrow Airport, Texas toll roads) continued to perform and news flow around a potential asset sale of its low margin services business picked up.
- Rumo has benefitted from the general recovery of the Brazilian market but also from positive operational performance. Agricultural exports and the Brazilian economy need infrastructure investments and the new government is expected to expedite the permitting of needed railway network expansion.
- Iberdrola is rerating back to premium valuation. The company has successfully reduced exposure to U.K. power markets and has benefitted from Brazil recovery and good performance of its U.S. operations.

Detractors to performance

- Brookfield Infrastructure fell as concerns about emerging markets weighed on the stock.
- Keyera fell due to weakness in the energy sector generally, but also from a weak third quarter for its marketing business.
- China Longyuan suffered from a scandal involving its chairman. The scandal has not involved the company and we believe the market reaction is overdone. The company's management does

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not appear to be under investigation and the stock appears to be recovering sharply in the first days of 2019.

Portfolio activity

- During the quarter we added Iberdrola to the portfolio. Iberdrola is a Spanish utility company with activities in four jurisdictions: Spain, the U.K., the U.S. and Latin America (Brazil, Mexico). Iberdrola has completed a transformational journey reducing exposure to commodities and becoming almost entirely regulated/contracted. In the recent months, Iberdrola continued reducing risk by selling its power generation assets in the United Kingdom. Management is very strong and experienced, and we generally meet with C-level Iberdrola officials one to two times per year. Finally, Iberdrola has a long experience in renewables and is one of the two major developers of offshore wind and is therefore able to exploit the growth opportunity in Europe, America and Asia.
- Polaris and Corporacion America Airport were reduced. While each of these companies have been delivering reasonable operational and financial performance, we wanted to reduce the fund's exposure to country-specific factors in their respective Latin American geographies, believing that these would remain challenging for the stocks to overcome.
- The fund positioning did not change radically during the quarter. In general, we have brought European exposure to neutral while the exposure to emerging markets has been reduced.
- The fund's U.S. dollar hedge remained approximately 25% for the quarter and we have moderately reduced hedging in 2019 due to our view of likely Canadian dollar weakness over 2019.

Market outlook

- Within the infrastructure space, we see single stock opportunities across all infrastructure subsectors (pipeline, utility, transport and telecommunications). The midstream energy companies in our portfolio have addressed their balance sheets and funding needs in recent years and seem poised to grow their contracted cash flows and dividends.
- Within utilities, the U.S. has held up well through market volatility and we see these as relatively expensive options. As a result, we've been adding to global names with better growth opportunities.

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- In telecommunications infrastructure (towers and data centres), we've seen a bit of a deceleration in growth due to the tech slowdown from geopolitical events. Transportation infrastructure companies should continue to see cash flow growth from operating leverage, while the moderation in global interest rate increase expectations provides some valuation lift on discounting of future cash flows.

Class F Returns (in %) as at December 31, 2018	Year-to-date	1 year	3 year	5 year	Since inception (6/22/2009)
Sentry Global Infrastructure Fund	-3.3	-3.3	6.3	6.8	11.5

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