Market Commentary
Second Quarter 2018

Sentry Growth and Income Fund

There are many analogies that can be used to describe the dynamics of the stock market. For this note, let's use a scale with opportunity on one side and risk on the other. Certainly, one side or the other can dominate, to varying degrees, tipping the scale in the respective direction but a scale near balance can also have various compositions. The balanced scale may be vacant of any substance on both sides or could be composed of substantial, and equal, weight. In the latter case, there is opportunity for a reduction in content on one side, to create significant momentum in the other. This latter context is how we regard the current environment.

There are a number of positive, and constructive, elements filling the opportunity side in North America, such as: strong employment, construction activity in the energy, commodity and infrastructure markets, a tax cut and repatriation of capital in the U.S. as well as a solid U.S. housing market. Economic indicators, such as Purchasing Manager Indexes and consumer confidence are constructive and company earnings continue to be robust while the backlog of activity indicates strong business outcomes are likely to continue. However, countering the positive prospects are the escalating trade battle (we won't call it a "war" yet), political uncertainty in the U.S. and Europe, the notion we are late in the economic cycle, and rising interest rates which are creating a flattened yield curve. A flat, or inverted, yield curve is one of many poor predictors of an imminent recession. The immediate risk is that the tariffs imposed and the uncertainty regarding the future cost of moving goods is disrupting supply chains of everything from grains and meats to cars and electronics, which could put a halt to business investment. In our view, what's needed for continued growth is not more fuel to support opportunities but, rather, a removal of risks would be sufficient to continue positive economic and market momentum.

Given the bifurcation of factors, the recent volatility is no surprise. The S&P/TSX Composite Index is up 2.0% year to date but that includes a downdraft of over 8% and a recovery of greater than 9%. The second quarter was strong with total return of 6.8%, led by a 15.8% move in energy. As we've mentioned in prior updates, we focus on maximizing the rolling three-year return and structure the portfolio with this time frame in mind. To bring further clarity to how we view benchmarks: we believe our role is to be very active, in the sense of being differentiated from the benchmark. Therefore, the short-term movements of the benchmark and the weight of individual constituents does not directly influence our portfolio construction. However, there can be a common factor for liquidity. We do endeavor to provide liquidity, and liquid stocks tend to be large market capitalization stocks and therefore big index weights. Because we will typically own around 40 stocks, the specific names that overlap with large benchmark weights will vary over time. We do focus on higher quality names, as defined by balance sheet strength and return on equity, and work to

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manage price risk by buying and selling based on valuations driven by internal financial models. After a strong first quarter, the fund underperformed in the second quarter. The energy sector drove the return of the S&P/TSX Composite Index during the quarter, and interestingly, our energy names outperformed the energy sector of the S&P/TSX Composite Index, with Suncor Energy and Canadian Natural Resources being the largest contributors to fund performance in the quarter. However, our total energy exposure is significantly less than the benchmark and thus, the total contribution to return was less. Energy is almost 20% of the index and was roughly 7% of the fund during the second quarter. Given our focus on quality companies and capital preservation, we do expect our energy weight to be less than the index, on average, and we will continue to use risk mitigation tools with our energy exposure, such as buying call options on energy companies. During the second quarter we sold, previously purchased, call options on Anadarko Petroleum, which also contributed positively to fund returns.

Looking out on the three-year horizon, we want to highlight the positioning of the portfolio, particularly in the context of the bifurcated environment identified in the first paragraph. We considered many approaches to reconcile capital preservation with this investing climate. Higher cash or greater allocation to defensive stocks is an option, but this goes counter to our view that there remains constructive dynamics to underlying growth. If some of the fears are mitigated (trades deals are struck) the economy, and stock market, are likely to continue their positive trajectory. In fact, if a deal, or deals, are struck, the market would possibly move rapidly enough that once the news broke it would be too late to benefit from a significant portion of the return generated. Thus, we are maintaining a balanced portfolio that includes exposure to quality industrial companies. We have researched ways to add protection through the purchase of put options on equities or equity indexes, and can introduce protection rapidly if we see the need. We will also, always, be willing to take substantial single stock bets as we currently are doing with Gilead Sciences which is a health care company whose future prospects will be uncorrelated to interest rate movements or outcomes from trade negotiations. There is a substantial equity position in Gilead Sciences in the fund and we have also purchased call options to add to the upside potential while containing the total downside risk.

By way of further action and activity within the fund, CI Financial and Lundin Mining were the largest detractors from performance. We continue to hold both. Regarding CI Financial, we believe that active management could come back in vogue in more volatile markets. Lundin is a miner of copper, zinc, nickel as well as other minerals. The electrification of transportation, renewables, energy storage and smart grids are all supportive of demand for copper and select other metals. Lundin is a strong operator with a good balance sheet and mines in politically stable jurisdictions. We sold out of Loblaw Companies and Choice Properties Real Estate Investment Trust. We received Choice Properties shares when they acquired Canadian Real Estate Investment Trust. The valuations of Loblaws and Choice Properties, caused us to believe there are better prospects in other places. We also sold our position in Siemens Healthineers, a European health care services company we purchased when it was spun out of Siemens, and locked in a decent return. We purchased shares in Honeywell International consistent with maintaining some industrial exposure, we also initiated positions in Minto Apartment Real Estate Investment Trust, Tricon Capital Group Inc and US Foods. Minto has a strong collection of assets in urban centers, including scarce, high demand, multi-family

residential properties. Tricon's operation includes owning and managing a diversified group of single family homes in the U.S. US Foods is a food distributor that is bringing technology to a highly fragmented, old school business. All three new names should be fairly insulated from changes to international trade and have solid prospects for growth.

Overall, we see strong countervailing forces at work, we believe the economic fundamentals remain intact and we will continue to invest in a balanced manner. The headline risks can certainly swing sentiment and escalating trade disputes would likely slow business investment. We will always work to try and decipher noise from real economic impact and be willing to move against the market, if we have suitable evidence. We will also keep open the possibility of introducing protective puts which could help mitigate against a substantial correction.

Class F Returns (in %) as at June 30, 2018	**1 year**	**3 year**	**5 year**	**Since Inception 8/21/2008**
Sentry Growth and Income Fund	7.3	6.0	8.0	9.1

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Published July 2018.