

## Update on Sentry Investment Management Summary of a conference call on March 24, 2020

### Speakers:

James Dutkiewicz, Chief Investment Officer

Aubrey Hearn, Head of Equities, Vice-President and Senior Portfolio Manager

Bryan Brown, Portfolio Manager

### Sentry Overview:

- This is a very unique crisis; markets were making new highs just a month or two ago, and credit was very well bid.
- It's too late to be positioning portfolios defensively, to be adding government duration, or picking up consumer staples stocks. That's closing the barn door after the horse has bolted.
- Monetary response from central banks has continued to grow. Since March 16, we've seen tremendous efforts made by the European Central Bank, the Federal Reserve, the Bank of England and others.
- One of the more important and least-discussed components of what the Fed is doing is increasing their swap lines to make U.S. dollars available. The U.S. dollar is still disproportionately important to the global economy as a reserve currency, and it is also the transactional currency for supply chains.
- We see some positive signs from the central banks, but their moves are not yet sufficient for us to begin to sell core fixed income and move into the equity markets. In Canada, accommodation has come quickly via the Bank of Canada, the federal government, and the Office of the Superintendent of Financial Institutions. They're focused on making sure businesses can grow and borrow, and on doing whatever is necessary to put money in the pockets of consumers.
- Canadian banks have been allowed to hold less capital, increasing lending capacity to the tune of about \$300 billion for the economy, and they are providing flexible solutions to consumers, which includes mortgage payment deferrals.
- There is a \$27 billion direct support program for people affected by the outbreak via employment insurance, one of the measures we believe will help the financial system run well during this difficult time. The government has not ruled out more aggressive actions in the future.

### **Asset Allocation/Fixed Income (James):**

- We have yet to make any significant asset allocation changes with the massive repricing in equities and in certain parts of the corporate bond market, but we are looking at it.
- Our core fixed-income and government bond holdings across the board have seen an uptick in their weightings, and the fixed income pieces across our portfolios have been de-risking for the better part of a year.
- In fixed income, we've been quietly lightening up on duration, but if we need to raise cash to buy something that's fallen in price in the corporate bond market, we do that through the government bond market. We came into this with a significant amount of liquidity, so it's been easy to add credit here and there.
- We're not making one decision today that we're going to cut a duration by half, only trimming to buy a few things. We are not going all in because the signals are not yet in place for us indicating that we're going to get the right measures on the fiscal side.
- We have taken up our hedges against the U.S. dollar, and are well past neutral now.

### **U.S. (Aubrey):**

- We are approaching this period as a time when investors are able to buy quality companies much cheaper than they would have been in December 2019. We want to invest in companies that can get to the other side of this. We're trying to find names that sold off disproportionately.
- Recently we've added Apple Inc. (NASDAQ: APPL) and McDonald's Restaurants Ltd (NYSE: MCD) due to their very strong balance sheets, and have probably added the most to Fiserv, Inc. (NASDAQ: FISV), a fintech company that provides technology solutions to banks around the world. We have large weights in Brookfield Asset Management Inc. (NYSE: BAM) and Brookfield Infrastructure Partners L.P. (NYSE: BIP), both with very little debt, and also own Live Nation Worldwide, Inc. (NYSE: LYV), Booking Holdings Inc. (NASDAQ: BKNG), Broadridge Financial Solutions Inc. (NYSE: BR), Real Matters Inc. (TSX: REAL) and the Atlanta Braves (Braves [Series A]) (NASDAQ: BATRA), all companies we expect will come out on the other side.
- We've sold AerCap Holdings N.V. (NYSE: AER), an aircraft leasing company, due to the seriousness of this situation for the airline industry. However, we added to CargoJet Inc (USOTC: CGJTF), which is considered crucial infrastructure in terms of delivering medical and health care supplies during this outbreak.
- Our view in general is energy and oil may come back, but as it's currently difficult to see terminal value, we don't have any energy weighting in the U.S. Equity Portfolio.

### Canada (Bryan):

- With so many using entertainment and communication services, we have been adding to BCE Inc. (TSX:BCE), and doing the same with Intact Insurance Company Ltd. (TSE: IFC), as we don't expect people to cancel their insurance during these difficult times. We're also adding to value names like Keyera Corp. (TSX: KEY) in the energy space, who are underleveraged with a very strong balance sheet.
- Our U.S. exposure has increased. We have been focusing on companies that offer tailwind for growth, such as those in health care and technology. In health care we own Becton Dickinson (Proprietary) Ltd. (NYSE: BDX), and in technology Microsoft Corp. (NASDAQ: MSFT)
- With the increased market volatility, we have taken the opportunity to write derivative calls across the portfolio. They offer some premium and very attractive yield and allow us to obtain a bit of cash.
- To manage risk in our portfolio we have been stress testing balance sheets, being aware of any debt covenants and of how much flexibility companies have so there won't be breaches of these covenants.

### GLOSSARY OF ITEMS

**Derivative:** A derivative is a financial security with a value that is reliant upon, or derived from, an underlying asset or group of assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its price is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Derivatives can be used to achieve many different outcomes like hedging against downside risk, earning additional income within a portfolio, or expressing a bullish view without the need for a sizable capital outlay.

**Duration:** A measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as number of years. The price of a bond with a longer duration would be expected to rise (fall) more than the price of a bond with lower duration when interest rates fall (rise).

**Liquidity:** The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. Cash is considered to be the most liquid asset, while things like fine art or rare books would be relatively illiquid.

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