SENTRY INVESTMENT MANAGEMENT

Q1-2020 Commentary

Sentry Balanced Yield Private Pool Class

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FUND	1 YEAR	3 YEAR	S.I.*
Sentry Balanced Yield Private Pool Class Series F	-6.9%	0.0%	1.7%
Benchmark: 35% S&P/TSX Composite TR Index, 15% S&P 500 TR Index and 50% FTSE Canada Universe Bond TR Index	-2.8%	2.5%	3.7%

* Inception date of Sentry Balanced Yield Private Pool Class Series F: July 4, 2016.

Source: Sentry Investment Management, as at March 31, 2020.

PERFORMANCE SUMMARY

- In the first quarter of 2020, Sentry Balanced Yield Private Pool Class Series F (the Pool) returned -13.3% compared with its blended benchmark (35% S&P/TSX Composite Total Return Index, 15% S&P 500 Total Return Index and 50% FTSE Canada Universe Bond Total Return Index), which returned -8.6%.

- The Pool underperformed its benchmark, largely as a result of security selection within the industrials sector, the U.S. information technology sector and the Canadian consumer discretionary sector.

CONTRIBUTORS TO PERFORMANCE

- **Microsoft Corp**. develops software products and services for its five business segments: Windows, server and tools, online services, Microsoft business division, and entertainment and devices division. Its stock outperformed because of strong growth in its Azure cloud platform, which is expected to be a driver of financial performance in years to come. The company also posted good margin expansion and commercial bookings. Although technology spend has been threatened by COVID-19, Microsoft has been insulated, seeing increased demand for software to enable working from homes. We like Microsoft over the long-term because of growing demand for its products and services, clean balance sheet, and strong management team. Overall, it is a very high-quality business.

- **Amazon.com Inc.** operates across several business segments, including the retail sale of consumer products, the sale of electronic devices (Kindle, Echo, etc.), Amazon Web Services (AWS) and streaming services through Amazon Prime. The stock performed well over the last quarter because of strong fourth-quarter results that featured promising adoption of one-day shipping and revenue from AWS that exceeded

expectations. The company has been well-insulated from the COVID-19 crisis because it is an essential service and has, in fact, seen increased demand in its e-commerce retail business. We remain shareholders because we have confidence in the company's long-term opportunities in e-commerce, cloud platforms and Amazon's investment in an in-house logistics network.

- **Canadian Pacific Railway Ltd.** Is a railroad operator with 12,500 miles of track across most of Canada, and in the Midwestern and Northeastern United States. The company performed well because of its management's margin expansion initiatives and outstanding operational excellence. The company also benefited from rail stable demand across its various end markets (grain, coal, plastics, fertilizer, automotive and more). We remain long-term shareholders because we like the company's wide economic moat and strong competitive positioning.

- **Kinaxis Inc.** is provider of cloud-based supply chain management software that gives its customers end-to-end visibility through its rapid response platform. The stock performed well in the first quarter because the COVID-19 crisis increased the complexity of supply chains, thereby increasing demand for supply chain management software. We became shareholders because we believe in the long-term tailwinds behind Kinaxis' supply chain management software, such as the adoption of e-commerce, and think the business has a compelling value proposition.

- A holding in a **Government of Canada 2.75% June 1/2048** bond greatly increased in value as a result of the collapse in the value of riskier assets.

- A bond holding in **Ford Credit Canada Co. 2.45% May 7/2020** was another contributor to performance. This very short-dated bond issued by the credit division of Ford Canada performed well as a result of its added yield carry and short maturity.

DETRACTORS FROM PERFORMANCE

- **Expedia Group Inc.** is the world's largest online travel agency by bookings, lodging options, air fares, rental cars and destinations. The stock is suffering from a collapse in travel globally as a result of COVID-19. The company has also had a recent change in management that has caused disruption within the organization. We have concerns around Expedia's ability to manage liquidity through this crisis and have elected to exit the position in favor of more attractive opportunities.

- **Booking Holdings Inc.** provides travel and restaurant online reservation and related services worldwide. The company operates Booking.com, which connects travellers with a selection of places to stay, vacation packages, rental car services and restaurant reservations. The company was negatively affected by the global COVID-19 shutdown, which has dramatically reduced demand for its services. We remain shareholders as we believe Booking's net cash position will provide them with the liquidity to weather this storm.

- **Pembina Pipeline Corp.** is a midstream energy company operating pipelines across Canada. The stock struggled following the fall the oil prices because it decreases exploration and production activity in the Canadian oilfields. Moreover, the company has high degree of operating leverage, which magnifies the company's downside during tough times. Despite these challenges we remain shareholders because we think the business has enough short-term liquidity make it through the next several months. Moreover, we think the business can pivot towards increased gas exposure.

- **Manulife Financial Corp.** is a provider of financial advising services, insurance and wealth management solutions. The stock underperformed in the first quarter as a result of poor equity and debt market conditions, which reduced the profitability of its asset management business. Declining interest rates are also likely to weigh on the company's ability to meet return on equity targets. Despite these headwinds, we like Manulife's outlook because of the defensive nature of the insurance industry and the high switching costs for customers.

- A bond issued by junior oil producer, **Athabasca Oil Corp. 9.875% February 24/2022**, that despite being a very small percentage holding within the Pool, suffered large losses as the price of oil dropped to generational lows. Demand was also curtailed because of COVID-19.

- A hybrid security issued by Canadian energy infrastructure company, **Inter Pipeline Ltd. 6.625%**, was another detractor from performance. The security performed poorly as a result of its failure to complete previously announced asset sales while continuing large expansion.

PORTFOLIO ACTIVITY

- We added a position in **Amazon.com Inc.**, which operates across several business segments. The business is attractive because it stands to benefit from trends towards greater adoption of e-commerce. The company's investment in an in-house logistics infrastructure is also promising and suggests that Amazon will be well-prepared to handle the growing demand for its services. We remain shareholders because we have confidence in the company's long-term opportunities in e-commerce, cloud platforms and Amazon's investment in an in-house logistics network.

- We added an equity position in **GFL Environmental Inc.**, a diversified environmental services company that offers non-hazardous solid waste management, infrastructure, soil remediation and liquid waste management services. Although the business' commercial and industrial segments have taken a hit during the economic slowdown related to COVID-19, its long-term outlook remains intact. Going forward, the company is expected to post stronger organic growth than its peers in the defensive waste management industry. We like the business because it has a good runway to grow free cash flow and engage in accretive mergers and acquisitions activity.

- We added a new senior bond position in **Bank of Nova Scotia 2.38% May 1/2023**, issued by one of the large Canadian banks. The holding was added as spreads began to widen on corporate debt.

- A position in **Expedia Group Inc.**, the world's largest online travel agency was eliminated as it has been significantly impacted by the collapse in travel globally as a result of COVID-19. The company's recent change in management, which caused disruption within the organization, was another factor in its sale. We have concerns around Expedia's ability to manage liquidity through this crisis and have elected to exit the position in favor of more attractive opportunities.

- **Gildan Activewear Inc.** manufactures and sells a range of apparel products including T-shirts, tops, bottoms and sportswear. Despite its recent initiatives, the company has suffered from a discouraging macroeconomic background and closures at its manufacturing facilities in Central America. As such, the equity position was eliminated. We exited the position over concerns regarding the company's high degree of operating leverage, customer concentration and exposure to political instability given its operations in Central America.

- We reduced exposure to a perpetual bond issued by Canadian energy company **Emera Inc. 6.75%** in order to take partial profits before the COVID-19 crisis hit.

MARKET OUTLOOK

- Government bonds being bought aggressively by both the Bank of Canada and the U.S. Federal Reserve (Fed) should keep yields capped. Investment-grade credit should benefit from Fed purchases, but we expect continued strong new issuance volumes as corporations ensure funding certainty.

- We will continue to look for opportunities in corporate debt while maintaining sizable duration (sensitivity to interest rates). We expect to reverse the current bias when the yield curve begins to flatten later in second quarter.

- We expect volatility to remain elevated as financial markets grapple with the impacts of COVID-19 and the economic ramifications that will unfold over the coming months.

- We remain focused on owning a portfolio of high-quality businesses that have the ability to generate revenue and free cash flow, while maintaining a well-capitalized balance sheet and ample liquidity that will help them manage through this highly uncertain period.

- We believe that the current environment has created opportunities to purchase these high-quality companies at significant discounts to their intrinsic value. While volatility will remain elevated, we believe that this increased margin of safety reduces the risk of permanent loss of capital.

Sources: Sentry Investment Management and Bloomberg Finance L.P. Data as at March 31, 2020.

Note: All returns are total returns, stated in Canadian dollars unless otherwise noted. Fund returns are for Series F, net of fees, all distributions reinvested.

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Published April 24, 2020.