SENTRY INVESTMENTS

PORTFOLIO REVIEW
Sentry Income Portfolio

Portfolio overview

The Portfolio aims to provide to provide current income with the potential for long-term capital appreciation by investing in an actively managed, diversified portfolio of global equity and fixed-income securities.

Portfolio asset allocation

CASH[1]	7.0%
EQUITY	58.9%
FIXED INCOME	33.7%
PREFERRED	0.3%
AUM (MILLION)	$178.3

Notable holdings[3]

	CANADIAN EQUITY	CORE FIXED INCOME	ENERGY EQUITY
COMPANY	Canadian National Railway Co.	Great-West Life (7.153%, May 16, 2046)	Valero Energy Corp.
COUNTRY	Canada	Canada	U.S.
INDUSTRY	Transportation	Insurance	Energy
HIGHLIGHTS	This former crown corporation has become one of North America's most efficient railroads, boasting a network that spans from the Atlantic to the Pacific to the Gulf coast. In spite of a slowdown in its coal shipments, we feel CN will benefit from improving economic growth in the U.S. and Canada.	Great-West Lifeco is one of Canada's largest insurance and asset management firms. This subordinated bond matures in 2046 but has a call option in May 2016. Because of the short term to its call date, the bond's price is stable, and investors enjoy a high yield-to-call of 5.10%.	Valero is a U.S.-based refining company. Because crude oil prices have fallen faster than the prices of finished refined products, Valero is benefiting from increased refining margins.

Portfolio sleeve allocation[2]

	TARGET	CURRENT
EQUITY SLEEVES	40.0%	40.7%
Canadian equities	10.0%	9.9%
U.S. equities	20.0%	20.4%
International equities	10.0%	10.4%
FIXED INCOME SLEEVES	35.0%	36.0%
Core fixed income	20.0%	20.5%
High-yield fixed income	15.0%	15.5%
REAL ASSETS SLEEVES	25.0%	23.3%
Energy equities	5.0%	3.8%
Infrastructure equities	7.5%	7.3%
Materials equities	5.0%	4.4%
Real estate equities	7.5%	7.8%
TOTAL	100.0%	100.0%

Portfolio sleeve top holdings

CANADIAN EQUITIES
Alimentation Couche-Tard Inc.
BCE Inc.
Thomson Reuters Corp.

U.S. EQUITIES
Wells Fargo & Company
JPMorgan Chase & Co.
U.S. Bancorp

INTERNATIONAL EQUITIES
NXP Semiconductors NV
WPP plc
Valeo SA

CORE FIXED INCOME
Canada Housing Trust (1.85% December 15, 2016)
Government of Canada (3.5% December 1, 2045)
Government of Canada (2.25% June 1, 2025)

HIGH-YIELD FIXED INCOME
Bank of America Corp. (5.125% December 29, 2049)
Tenet Healthcare (5.5% March 1, 2019)
River Cree Entertainment (11.0% January 20, 2021)

ENERGY EQUITIES
Whitecap Resources Inc.
Bankers Petroleum Ltd.
Prairiesky Royalty Ltd.

INFRASTRUCTURE EQUITIES
Macquarie Infrastructure Co.
Edison International
Societa Iniziative Autostradali e Servizi SpA

MATERIALS EQUITIES
Detour Gold Corp.
Primero Mining Corp.
SPDR Gold Shares

REAL ESTATE EQUITIES
Simon Property Group Inc.
Public Storage
Prologis Inc.

Market review

The third quarter saw a major shift in investor sentiment. Global equity markets that had been rising almost uninterruptedly since 2011 peaked in April, wobbled for a few months, and then fell sharply in August. Behind the market tumble was the question of Chinese economic growth. Much of the world has growth richer from selling resources and goods to China, and investors are asking whether this gravy train has come to an end. The Chinese know they are reaching the limits of a command economy, and the government can no longer fund an asset boom and absorb the massive losses of overbuilt infrastructure. As China moves from an economy driven by infrastructure investment to one driven by consumption, the government has accepted lower economic growth, and global growth overall is being questioned as a result.

Elsewhere, economic indicators from many of the world's largest economies are positive and trending better. In the U.S., GDP growth remains steady at 2.7%, corporate profits have rebounded because of increased consumption, and the unemployment rate has hit a recent low of 5.1%. Similarly, in the euro zone, GDP grew by 1.5% in the last quarter, driven by increased household consumption and a trade surplus that reached record levels. After the August sell-off, markets remained volatile for the rest of the quarter, and the MSCI EAFE Index finished down -3.6% in Canadian dollar terms. The S&P 500 was down 6.4% in U.S. dollars, (up 0.4% in Canadian dollars), and the S&T/TSX Composite Index was down -7.9%.

Market performance[4]

	6 MONTH	1 YEAR	3 YEAR	5 YEAR
CANADIAN EQUITY	-9.4%	-8.4%	5.7%	4.5%
U.S. EQUITY	-0.7%	19.2%	24.6%	19.6%
INTERNATIONAL EQUITY	-10.6%	0.8%	12.7%	7.7%
CANADIAN BONDS	-1.6%	5.3%	3.4%	4.5%
GLOBAL HIGH YIELD BONDS	2.4%	13.7%	14.3%	11.3%
ENERGY EQUITY	-22.1%	-40.9%	-10.9%	-7.5%
INFRASTRACTURE EQUITY	-3.4%	9.9%	18.0%	12.5%
MATERIALS EQUITY	-13.1%	-1.5%	16.1%	12.8%
REAL ESTATE EQUITY	-2.5%	26.2%	19.6%	16.3%

As at September 30, 2015

Asset allocation outlook

In spite of current market sentiment, we feel the combination of a resilient U.S. economy and cyclical growth in Europe will outweigh the impact of a slowing China. We expect emerging markets will continue to face problems as many of these nations have a significant amount of debt denominated in U.S. dollars, which continue to appreciate. All in all, we still believe risk assets remain attractive given persistently low government bond yields and relatively higher earnings yields. Our portfolios continue to be overweight both equities and credit. Within equities, North America remains our preferred region, and we are optimistic about Europe. While the duration of our bond portfolios has increased, it still remains lower than that of the benchmark in order to reduce interest-rate risk. We intend to increase our exposure to bonds with longer maturities opportunistically if U.S. Treasury yields increase.

We remain confident that our approach of buying quality securities and monitoring market events to manage risk in our portfolios will continue to serve our unitholders well.

Asset class review

CANADIAN EQUITIES	U.S. EQUITIES	INTERNATIONAL EQUITIES		
		EUROPE	JAPAN	EMERGING MARKETS
NEUTRAL TO POSITIVE	POSITIVE	CAUTIOUSLY OPTIMISTIC	NEGATIVE	NEGATIVE
The recent market pullback has made valuations more attractive. While oil prices have remained low for some time, which will continue to impact the western Canadian provinces, we believe that this will not derail the Canadian economy, and we will manage to avoid a national recession. We had been anticipating a correction in the Canadian market for some time and had raised cash levels as a result; we have since taken advantage of price weakness to initiate and add to positions in quality companies.	We consider the U.S. economy quite healthy as growth has persisted at a modest pace and inflation remains negligible. We would not be surprised to see the Fed raise rates later this year as economic indicators have been trending positively for some time now. While the domestic picture is fairly positive, we are aware of the uncertainty surrounding the state of the global economy. We anticipate moderate headwinds for U.S. companies with foreign exposure and expect some impact on earnings. Despite this, we remain constructive on the U.S. market.	A number of tailwinds, including low interest rates, improving loan conditions and low energy prices support the broader euro zone economy. Economic conditions are gradually improving and should continue doing so even against the backdrop of uncertainty surrounding the refugee crisis and the Volkswagen's emission scandal. Overall, we view any weakness in European equities as an opportunity to increase our European exposure.	Private consumption, which accounts for approximately 60% of the Japanese economy, fell 0.7% this summer – a key reason a sustainable economic recovery has yet to take hold. Although the Bank of Japan continues to loosen monetary policy, the structural reforms necessary for sustained economic growth have yet to be fully implemented.	In emerging markets, the main risk resides in China's need to create credit to generate growth. Elsewhere, fundamentals in Brazil are suboptimal: the economy is in recession, inflation is surging, the real is weakening, the fiscal situation is deteriorating and Brazilians have lost faith in their institutions. In emerging markets overall, company-specific risk remains high. We believe accessing these markets, on risk-adjusted basis, is best achieved by investing in companies with exposure to emerging markets growth but domiciled in more stable, developed markets.

CORE FIXED-INCOME	HIGH-YIELD FIXED INCOME	REAL ESTATE EQUITIES	INFRASTRUCTURE EQUITIES	MATERIALS EQUITIES	ENERGY EQUITIES
NEUTRAL	NEUTRAL	NEUTRAL TO POSITIVE	NEUTRAL	NEUTRAL	NEUTRAL
The yield on the 10-year U.S. Treasuries ended the quarter at 2.04% – the low end of this quarter's range – and we are not adding duration at these levels. We did, however, add duration in July as yields hovered around 2.3% to 2.4%. We believe yields are likely to rise in the medium term; however, in the short term, volatility may present some tactical opportunities for us to increase duration in order to generate higher total returns.	We prefer credit to government bonds within the fixed-income category; however, our short-term outlook for credit has shifted from positive to neutral. There are many mispriced securities, but we do not see a clear or immediate catalyst that would turn market sentiment positive. Credit should provide extra yield over government bonds on intermediate basis, but, in any given week or month, credit spreads can widen and offset some of the yield pick-up. We continue to expect short-term volatility in this market segment.	We expect volatility in the financial markets to continue as interest rate uncertainty in the U.S. puts pressure on yields. With slower economic growth out of major economies aside from the United States, global rate normalization will likely take longer than previous anticipated and continue to be a positive for the REIT sector. We continue to see global REITs (excluding those in Continental Europe) trade at an attractive discount to net asset value and see this as a good buying opportunity as we head into 2016.	Of the three main infrastructure subsectors – energy, industrials and utilities – we believe the energy infrastructure sector remains the most attractive. While volatility remains elevated, we believe there is significant value in this area as our dividend and cash flow growth expectations are not adequately priced into current valuations. We believe industrials are fairly valued overall, and we see selective opportunities in European transportation companies. With respect to utilities, we believe the market is now pricing in a longer-term, lower interest rate environment, and we remain cautious.	Industrial production continues to be weak in major developed economies, and, as a result, we see continued softness in metals linked to heavy industry and infrastructure. We view the recent slowdown in China as a negative, but recent levels of economic indicators show some signs of stabilization. In this context, we see the most favourable risk-reward opportunities in consumption-related metals and materials (e.g., gold, palladium, and diamonds) as opposed to infrastructure-related metals and materials (e.g., iron ore, steel, aluminum, and coal).	Despite the weaknesses we have seen in crude pricing this year, there are a number of signposts on both the demand and supply side that support our view of continued market improvement, and we believe this will ultimately translate to higher crude pricing. Our outlook for natural gas remains poor, however. Natural gas demand has not been strong enough to maintain the storage deficits created by the extremely cold 2013/14 winter. With record production levels and expectations for a mild winter, we see little reason for natural gas prices to strengthen significantly this winter.

[1]Sentry Income Portfolio was launched on September 16, 2014. Elevated cash levels are temporary as portfolio managers invest in appropriate opportunities.

[2]The Portfolio sleeve top holdings do not necessarily represent the portfolio's top holdings. The Portfolio sleeve top holdings include those securities with the highest weight as a percentage of total net assets in each sleeve in the Portfolio. The Portfolio's top holdings include the securities with the highest weight as a percentage of total net assets in the overall Portfolio. For a list of the Portfolio's top 25 holdings, please refer to www.sentry.ca.

[3]The notable holdings shown do not necessarily represent the Portfolio's top holdings but rather securities that Sentry considers merit discussion in the context of this Portfolio review.

[4]The Canadian equity market is represented by S&P/TSX Composite Index; the U.S. equity market is represented by S&P 500 Index; the international equity market is represented by MSCI EAFE Index; Canadian bond index is represented by FTSE TMX Universe Bond Index; the global high yield market is represented by Bank of America Merrill Lynch BB-B Global High Yield Index; the real estate equity market is represented by S&P/TSX Capped REIT Index; the infrastructure equity market is represented by S&P Global Infrastructure Index; the energy sector is represented by the S&P/TSX Capped Energy Index; the materials sectors is represented by the S&P/TSX Global Gold Index. All returns are total returns and are stated in Canadian dollars.

Source: Bank of America Merrill Lynch, FTSE TMX, MSCI, S&P Dow Jones Indices, Bloomberg L.P., Sentry Investments

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