Asset allocation and goals-oriented solutions

James Dutkiewicz, CFA
Chief Investment Strategist and Senior Portfolio Manager
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What investors expect

What are the most important trends influencing where you invest your assets today?

Source: EY 2014 Wealth Management Survey
What is a managed solution?

- Goals oriented, outcomes based – Products and services designed to solve for a specific problem or accomplish a goal
- Holistic offering
- Customization and choice for investors
- Efficiency and scale for advisors
Benefits

- Long term and goals oriented
- Life cycle focus
- Compliance risk management
- Efficiency
- Asset-class and asset-allocation expertise
Long term and goals oriented

<table>
<thead>
<tr>
<th>Traditional-planning approach</th>
<th>Goals-based approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on performance against a benchmark</td>
<td>Focus on progress towards a goal or outcome</td>
</tr>
<tr>
<td>Short-term thinking</td>
<td>Long-term planning</td>
</tr>
<tr>
<td>Clients have minimal involvement, wait for periodic results</td>
<td>Clients are actively engaged throughout the process</td>
</tr>
<tr>
<td>Success is measured by the growth of the initial investment</td>
<td>Success is measured by the ability to meet future liabilities</td>
</tr>
<tr>
<td>Focus on return while not considering risk</td>
<td>Focus on risk of not accomplishing a goal</td>
</tr>
<tr>
<td>Market timing</td>
<td>Stay the course</td>
</tr>
</tbody>
</table>
Life-cycle focus

- Minimize volatility
- Achieve retirement savings target
- Maintain purchasing power
- Maximize longevity of income
- Maximize wealth
- Achieve personal pension portfolios
- SENTRY real income
- Accumulation
- Decumulation
- Goals-oriented solutions
- INCOME STABILITY
- RETIREMENT AGE 65
- AGE 90
- ASSET ALLOCATION AND GOALS-ORIENTED SOLUTIONS FOR DEALER USE ONLY
Compliance risk management

2016 investment-related complaints

350 open cases

17% increase from 2015

Source: Ombudsman for Banking Services and Investments

TOP ISSUE

Suitability of the investment
Efficiency

Client process
- Identify goals and objectives
- Establish financial plan
- Asset allocation
- Security selection
- Ongoing rebalancing
- Monitor and review plan

Client process using a managed solution
- Identify goals and objectives
- Monitor and review plan
- Establish financial plan
Asset class and asset allocation expertise
Proprietary asset-allocation process

1. SELECT ASSET CLASSES
   Objective: choose asset classes with low correlation, which will minimize volatility and enhance risk-adjusted returns

2. DETERMINE ASSET MIX
   Purpose: to provide goals-oriented solutions with asset mixes that are optimized for ‘accumulation’ and ‘decumulation’

3. TACTICALLY ADJUST
   Leverage the capabilities of our ‘best in class’ portfolio managers to tactically adjust asset mixes within our solutions
1. Select asset classes with low correlation.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Canadian Equities</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>US Equities</td>
<td>0.6</td>
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<td></td>
<td></td>
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<tr>
<td>International Equities</td>
<td>0.7</td>
<td>0.8</td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td>Real Estate</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
<td>0.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>0.8</td>
<td>0.5</td>
<td>0.7</td>
<td>0.3</td>
<td>0.7</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Precious Metals</td>
<td>0.2</td>
<td>-0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.3</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Yield</td>
<td>0.4</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.3</td>
<td>0.0</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian Bonds</td>
<td>-0.2</td>
<td>-0.1</td>
<td>-0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>-0.2</td>
<td>0.3</td>
<td>0.2</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Global Bonds</td>
<td>-0.3</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>-0.2</td>
<td>0.1</td>
<td>0.4</td>
<td>0.5</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Bloomberg L.P.
Based upon total returns from December 2002 to November 2016
S&P TSX Index, S&P 500, MSCI EAFE Index, S&P Global Real Estate Index, S&P Global Infra. Index, MSCI ACWI Energy Index, MSCI ACWI Material Index, Bank of America Canada Broad Bond Index, Bank of America Global Investment Grade Bond Index, Bank of America Global High Yield Index

GOALS-BASED ASSET ALLOCATION

- Asset class, geographic and sector diversification
- Low correlation between asset classes
- Asset mix varies depending on investor's lifecycle
- Optimized for accumulation and decumulation

REAL ASSETS, REAL BENEFITS

- Stable, contractual and inflation-adjusted cash flows
- High barriers to entry
- Supply essential products and services
2. Goals-oriented solutions

GOALS ORIENTED SOLUTIONS

- MINIMIZE VOLATILITY
- ACHIEVE RETIREMENT SAVINGS TARGET
- INCOME STABILITY

MAXIMIZE WEALTH

MAXIMIZE PURCHASING POWER

RETIREMENT AGE 65

ACCUMULATION

DECUMULATION

SENTRY PERSONAL PENSION PORTFOLIOS

SENTRY REAL INCOME

SENTRY GROWTH PORTFOLIO

SENTRY GROWTH AND INCOME PORTFOLIO

SENTRY BALANCED INCOME PORTFOLIO

SENTRY CONSERVATIVE INCOME PORTFOLIO

Chance of Running Out of Income Before Age 90

5% Sentry Real Income

23% Canadian Balanced Fund

- LDI based asset allocation
- Asset mix becomes more conservative as clients age
- 4x less likely to run out of income by age 90

1Based on 1,000 simulations using a range of returns and the Sentry Real Income 1946-1950 Class: Investor that is 70 years old, $1,000,000 investment, $51,500 income in year 1, and income increasing with annual inflation (based on Canadian CPI). 50% S&P/TSX Composite Index/50% FTSE TMX Universe Bond Index.
### 3. Tactically adjust.

#### ASSET ALLOCATION COMMITTEE

**Gaeelen Morphet, CFA**  
Executive Vice-President and  
Chief Investment Officer

**James Dutkiewicz, CFA**  
Chief Investment Strategist and  
Senior Portfolio Manager

**Andy Nasr, CFA**  
Vice-President, Capital Markets and  
Investment Strategist

- Specialist, award-winning, portfolio managers
- Concentrated and diversified portfolios
- Disciplined active management – “House Style”

#### SENTRY SPECIALIST

- Aubrey Hearn
- Gajan Kulasingam
- J. Dutkiewicz, B. Chim & C. Payne
- Michael Missaghie
- Michael Simpson & Lieh Wang
- Paul Johnson
- K. MacLean & J. Case
- M. Granger & S. Quarshie

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<table>
<thead>
<tr>
<th>Year</th>
<th>Canadian Bonds</th>
<th>Real Estate</th>
<th>US Equities</th>
<th>Global Bonds</th>
<th>International Equities</th>
<th>Energy</th>
<th>Materials</th>
<th>Infrastructure</th>
<th>Real Estate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>10%</td>
<td>24%</td>
<td>32%</td>
<td>5%</td>
<td>17%</td>
<td>-3%</td>
<td>-9%</td>
<td>24%</td>
<td>12%</td>
<td>100%</td>
</tr>
<tr>
<td>2012</td>
<td>16%</td>
<td>21%</td>
<td>14%</td>
<td>6%</td>
<td>23%</td>
<td>13%</td>
<td>1%</td>
<td>13%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>2013</td>
<td>9%</td>
<td>15%</td>
<td>11%</td>
<td>0%</td>
<td>12%</td>
<td>-1%</td>
<td>0%</td>
<td>12%</td>
<td>-3%</td>
<td>100%</td>
</tr>
<tr>
<td>2014</td>
<td>15%</td>
<td>11%</td>
<td>8%</td>
<td>5%</td>
<td>10%</td>
<td>-3%</td>
<td>2%</td>
<td>12%</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td>2015</td>
<td>14%</td>
<td>12%</td>
<td>11%</td>
<td>5%</td>
<td>10%</td>
<td>0%</td>
<td>5%</td>
<td>12%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>2016</td>
<td>13%</td>
<td>13%</td>
<td>6%</td>
<td>4%</td>
<td>10%</td>
<td>1%</td>
<td>2%</td>
<td>12%</td>
<td>1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**ASSET ALLOCATION AND GOALS-ORIENTED SOLUTIONS**  
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Source: Bloomberg L.P.

Asset Allocation based upon a 20% allocation to Canadian Equities, 20% U.S. Equities, 15% International Equities, 15% Infrastructure and Real Estate, 5% Energy, 5% Materials, 5% High Yield and 15% Global Bonds
Global growth remains constrained

- Long-term global growth remains constrained by debt, demographics and diplomacy.

- Global debt to GDP >300%

Source: World Bank, BIS
Overweight equities vs. fixed income

- Equities are a better hedge against inflation.
- GDP growth, fiscal stimulus and relatively low interest rates should support corporate profits.

Source: Bloomberg L.P., as of Dec. 31, 2016
Equity positioning

- Earnings growth should be supported by less regulation, expense reduction and low-mid single-digit loan growth.

- Despite sales, margin and EPS growth in 2016, health care was one of the worst-performing sectors in 2016.

- Health-care utilization will increase due to subsidies, economic growth, innovation and demographics.

- Cash accounts for 85% of global consumer transactions.

- Visa and Mastercard process 60% of global payments.

Source: Mastercard, Bloomberg L.P. as of February 28, 2017 (Financials)
The bond market is pricing in several Fed rate hikes.

Market has fully priced in **five to six rate hikes** over the next two years.

**Current and 1-year and 2-year forward U.S. Treasury curves**

- The Fed forward curve may be a reasonable estimate of Fed’s actions in the near term.
- There is high uncertainty related to fiscal policy.
- Inflation expectations have risen off abnormally low levels.

Prefer corporate credit over sovereign

HY and IG outperformed treasuries during periods of rising rates.

Source: Morningstar Direct, Bloomberg L.P. Global high yield corporates as represented by BofAML Global High Yield TR Index, Investment Grade Corporates as represented by BofA ML Global Broad Market Corporate TR Index, and 5-year Treasury as represented by BofAML U.S. Treasury Current 5 yr TR Index (all returns are period total returns as opposed to annualized in local currency terms).
Global IG spreads have been below current level 60% of the time

Selectively focused on quality BB high-yield issuers

Source: JPMorgan, Bank of America Merrill Lynch, Bloomberg L.P. as of February 28, 2017
Committee meets formally on a monthly basis; Gaelen Morphet, Andy Nasr and James Dutkiewicz are responsible for all asset-allocation decisions.
- Ongoing informal discussions as market developments warrant.
- Portfolio managers meet on an ongoing basis to share new insights.

**Asset Allocation Committee**

<table>
<thead>
<tr>
<th>Investment-grade bonds</th>
<th>High-yield bonds</th>
<th>Global equities</th>
<th>U.S. equities</th>
<th>Canadian equities</th>
<th>Infrastructure equities</th>
<th>Real estate equities</th>
<th>Precious metals equities</th>
<th>Energy equities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catherine Payne, CFA, Portfolio Manager</td>
<td>Ben Chim, CFA, MA, Senior Portfolio Manager</td>
<td>Paul Johnson, Vice-President and Senior Portfolio Manager</td>
<td>Aubrey Hearn, CFA, Vice-President and Senior Portfolio Manager</td>
<td>Michael Simpson, CFA, Senior Vice-President and Senior Portfolio Manager</td>
<td>Gajan Kulasingam, CPA, CA, CFA, Vice-President and Senior Portfolio Manager</td>
<td>Michael Missaghi, MBA, CFA, Vice-President and Senior Portfolio Manager</td>
<td>Kevin MacLean, CFA, P.Eng.</td>
<td>Mason Granger, MBA, CFA, Portfolio Manager</td>
</tr>
</tbody>
</table>

**Sentry’s asset class and asset allocation expertise**
Enhance returns with real assets

Securities invested in real assets can reduce volatility and increase returns.

**Enhanced asset allocation (allocate 25% of equity weighting to securities invested in real assets)**

15-year period

<table>
<thead>
<tr>
<th>Risk (standard deviation)</th>
<th>Fixed income</th>
<th>Equity</th>
<th>Real assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>80</td>
<td>%</td>
<td>20</td>
</tr>
<tr>
<td>35</td>
<td>65</td>
<td>%</td>
<td>50</td>
</tr>
<tr>
<td>50</td>
<td>35</td>
<td>%</td>
<td>65</td>
</tr>
<tr>
<td>5.5</td>
<td>6.0</td>
<td>6.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Morningstar, data as at December 31, 2016, total return in CAD. Past performance is no guarantee of future results. Standard deviation is a measurement of risk depicting the dispersion of returns from the average return. The higher the degree of dispersion, the higher the standard deviation. The information provided is for illustrative purposes only and is not meant to represent the performance of any particular investment. The data assume reinvestment of all income and do not account for taxes or transaction costs. It is not possible to invest directly in an index. Fixed income is represented by the Canadian bonds (FTSE TMX Canada Broad Universe Index), and equity is represented global equities (1/3 S&P 500 Index, 1/3 S&P/TSX Composite Index, 1/3 MSCI EAFE Index). Real assets include: equal allocation to infrastructure equities (S&P Global Infrastructure Index), real estate equities (S&P Global REIT Index), energy equities (S&P/TSX Capped Energy) and precious metals (S&P/TSX Gold Index), and represents 25% of the traditional equity component.
**Managed solutions: goal oriented, objective based**

<table>
<thead>
<tr>
<th>MANAGED SOLUTION</th>
<th>BALANCED FUND</th>
<th>EQUITY FUND</th>
<th>STOCK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term and goals oriented</td>
<td>✓</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Life-cycle focus</td>
<td>✓</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Compliance risk management</td>
<td>✓</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Efficiency</td>
<td>✓</td>
<td>✓</td>
<td>X/✓</td>
</tr>
<tr>
<td>Asset-class and asset-allocation expertise</td>
<td>✓</td>
<td>✓</td>
<td>X/✓</td>
</tr>
</tbody>
</table>

**Features**

- Asset class and asset-allocation expertise
- Compliance risk management
- Life-cycle focus
- Long-term and goals oriented
- Efficiency

**Noise**

- "valuations"
- "Trump"
- "Brexit"
- "negative rates"
- "deflation"
Appendix
# Sentry Personal Pension Portfolios

Four portfolios of global assets, built for long-term investing

![Asset Allocation Diagram](image)

### Sentry Personal Pension Portfolios

<table>
<thead>
<tr>
<th>Core bonds</th>
<th>High-yield bonds</th>
<th>Real estate</th>
<th>Infrastructure</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Precious metals</td>
<td>Canadian equities</td>
<td>U.S. equities</td>
<td>International equities</td>
<td></td>
</tr>
</tbody>
</table>

**Sentry Conservative Income Portfolio**
- Objective: Income, capital preservation
- Inception date: September 16, 2014
- As at April 30, 2017:
  - Annual Distribution yield: 5.0%
  - MER (Series F): 111 bps
- Performance:
  - 1 year: 9.4%
  - 2 year: 4.5%
  - SI: 5.7%

**Sentry Balanced Income Portfolio**
- Objective: Income
- As at April 30, 2017:
  - Annual Distribution yield: 4.9%
  - MER (Series F): 114 bps
- Performance:
  - 1 year: 11.3%
  - 2 year: 5.5%
  - SI: 6.2%

**Sentry Growth and Income Portfolio**
- Objective: Modest income, capital growth
- As at April 30, 2017:
  - Annual Distribution yield: 3.8%
  - MER (Series F): 121 bps
- Performance:
  - 1 year: 12.5%
  - 2 year: 5.9%
  - SI: 6.8%

**Sentry Growth Portfolio**
- Objective: Capital growth
- As at April 30, 2017:
  - Annual Distribution yield: -%
  - MER (Series F): 131 bps
- Performance:
  - 1 year: 12.7%
  - 2 year: 5.9%
  - SI: 6.6%

Inception date: September 16, 2014

1 As at April 30, 2017, Sr F
## Sentry Real Income Managed Portfolios

<table>
<thead>
<tr>
<th>Portfolios</th>
<th>Current client age (in 2017)</th>
<th>Neutral mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sentry Real Income 1951-55 Class</td>
<td>62 – 66</td>
<td>[Neutral mix diagram]</td>
</tr>
<tr>
<td>Sentry Real Income 1946-50 Class</td>
<td>67 – 71</td>
<td>[Neutral mix diagram]</td>
</tr>
<tr>
<td>Sentry Real Income 1941-45 Class</td>
<td>72 – 76</td>
<td>[Neutral mix diagram]</td>
</tr>
</tbody>
</table>

- Three portfolios, each actively managed
- Each portfolio based on investor’s year of birth and designed to provide income through age 90
- Includes exposure to real assets as well as real-return bonds
- Portfolios become more conservative over time

---

1Neutral mixes have been rounded. As at January 1, 2017. Portfolio neutral asset mix will change over time. Sentry’s Asset Allocation Committee will review and adjust the neutral asset mix annually.

2Global real assets include global infrastructure, real estate, energy and precious metals equities.
Sentry Real Income Managed Portfolios (cont’d)

Select a portfolio based on your year of birth and it will be actively managed for you.

<table>
<thead>
<tr>
<th>Portfolios</th>
<th>Purchase option by birth year (age in 2017)</th>
<th>Initial annual income in 1st year*</th>
<th>Example: annual income increases with inflation so purchasing power remains stable1,2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sentry Real Income 1951-55 Class</td>
<td>1955 (62)</td>
<td>$39,000</td>
<td>$73,434</td>
</tr>
<tr>
<td></td>
<td>1954 (63)</td>
<td>$40,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1953 (64)</td>
<td>$41,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1952 (65)</td>
<td>$42,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1951 (66)</td>
<td>$43,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1951-55</td>
<td>No income</td>
<td></td>
</tr>
<tr>
<td>Sentry Real Income 1946-50 Class</td>
<td>1950 (67)</td>
<td>$45,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1949 (68)</td>
<td>$47,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1948 (69)</td>
<td>$49,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1947 (70)</td>
<td>$51,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1946 (71)</td>
<td>$54,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1946-50</td>
<td>No income</td>
<td></td>
</tr>
<tr>
<td>Sentry Real Income 1941-45 Class</td>
<td>1945 (72)</td>
<td>$57,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1944 (73)</td>
<td>$60,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1943 (74)</td>
<td>$63,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1942 (75)</td>
<td>$66,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1941 (76)</td>
<td>$70,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1941–45</td>
<td>No income</td>
<td></td>
</tr>
</tbody>
</table>

* Income is received in the form of a Real Income Withdrawal. Based on an investment of $1,000,000 in January of 2017.
1. The assets and redemption amounts are not guaranteed to last to, or through, the age of 90. The graph above is provided for illustrative purposes only and should not be construed as a forecast, projection or estimate of possible results. If redemptions exceed what the portfolio is earning, the investor will eventually deplete the original investment and will no longer receive income. For Sentry Real Income Managed Portfolios, the forecasted returns and volatility, along with an initial Real Income Withdrawal amount for each purchase option birth year, were used to generate 1,000 simulations of potential outcomes over time. The initial Real Income Withdrawal amount for each purchase option birth year was chosen in order to provide a 95% probability (95% of the 1,000 simulations) that the inflation-adjusted income, would last to, and through, 90 years old. The probability of income payments lasting decreases with each subsequent year beyond age 90.
2. Assumes 2% annual inflation.