

Equity commentary

November 2011 (Data as at October 31, 2011)

Sentry Diversified Total Return Fund Sentry Market Neutral L.P.

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	SEPTEMBER	OCTOBER	SEPTEMBER - OCTOBER
TSX	-8.7%	+5.6%	-3.5%
S&P 500 US\$	-7.0%	+10.9%	+3.1%
Oil (WTI) US\$	-10.8%	+17.7%	+4.9%
Gold US\$	-11.1%	+5.6%	-6.1%

Market environment

We have just witnessed one of the most volatile two-month periods in a very, very long time. After the events of July and August, investors were already in a cautious mood. Then in September, sentiment became very negative, volatility spiked up again and stock correlation rose to recent highs. Markets around the world sold off, as mounting concern over the European sovereign debt crisis continued. Investors started to worry that Greece would not get its funding and would potentially default on its debts, so they sought the safety of the US dollar and the “risk off” trade was in full force.

Commodities sold off hard, as investors headed for the exits amid fears the European debt crisis would spread and slow global growth, and that China might be headed for a hard landing. Economic data out in the first few days of September set the tone. China’s Purchasing Managers’ Index (PMI) came in slightly below expectations and US economic data was mixed. The Institute for Supply Management (ISM) numbers – both manufacturing and services – were better than expected. But payroll numbers were a major disappointment, as were retail sales numbers. The weekly jobless claims continued to stay above the 400,000 level.

The Federal Reserve then announced Operation Twist at its meeting in September. The Fed’s objective is to keep long-term interest rates low by selling shorter-maturity debt and buying bonds with maturities longer than six years. They’re hoping lower interest rates will encourage consumers and businesses to spend more, helping the economy.

As October began, hints of optimism came back into the markets. Political leaders in Europe started to at least say the right things, and set a deadline to come up with a unified plan by the time of the European Union (EU) summit at the end of the month. The result was a “risk on” rally, with the S&P 500 Index exhibiting one the best October gains in recent memory.

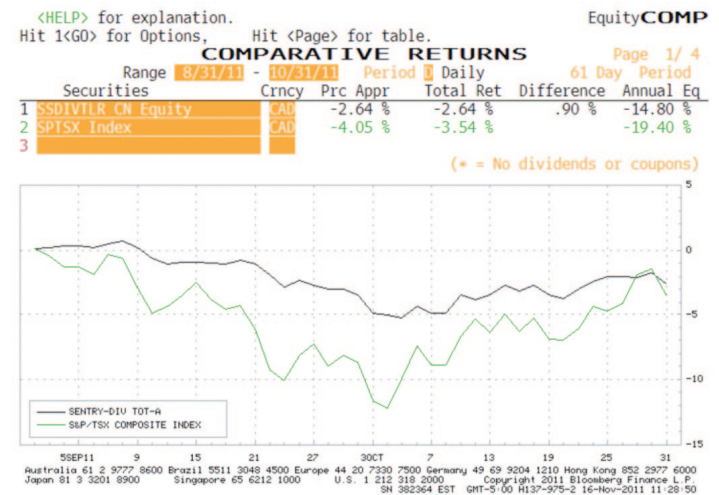
Market outlook

With the markets trading near the top of their recent trading range, we are cautious near term. Economic data is mixed at best. Bulls can argue the news is no longer bad, but the European debt crisis continues to be a major overhang for the market. Without a clear resolution to the debt crisis, we don’t feel the markets can make a sustained move higher, as the risk of contagion into the global banking system and the negative impact to global economic growth is very high.

Portfolio review

For the past two months we have been restructuring both Sentry Diversified Total Return Fund and Sentry Market Neutral L.P. With the volatility in the market, and especially the sell-off in September, the restructuring was more difficult than we originally thought. But we were able to do it and we are happy to report that both funds are now essentially where we would like them to be in terms of their make-up.

Sentry Diversified Total Return Fund held up reasonably well during September and October, as it outperformed the S&P/TSX Composite Index with much less volatility.



Source: Bloomberg LP

AVERAGE ANNUAL COMPOUND RETURNS (SERIES A)

	1 YR	3 YR	5 YR	S.I.*
SENTRY DIVERSIFIED TOTAL RETURN FUND	-8.8%	9.6%	2.6%	4.6%
S&P/TSX COMPOSITE INDEX	-0.8%	11.1%	2.7%	n/a

*July 28, 2005

Sentry Market Neutral L.P. was hit harder in September, but managed to perform the way it should in October, regaining some ground. This performance has continued into the first week of November, and we are confident investors should see what they expected when they invested in the Fund – namely a Fund with very low volatility, very low correlation to the market and steady returns.

Portfolio outlook

We are taking a cautious stance as we go into the final two months of the year. The global macro backdrop is not encouraging, and we feel the markets are near the top end of their near-term trading range. There is some speculation that we will get a Santa Claus rally into year end, as investors chase performance. If this does happen, we will take the opportunity to lighten up on some positions and put hedges in place for downside protection. We are mindful of our mandate to protect the downside.

Sentry Market Neutral L.P. and Sentry Select Market Neutral RRSP Fund are available only to accredited investors or those who meet a minimum investment threshold.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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