Oil and gas commentary

December 2011 (Data as at November 30, 2011)

Sentry Energy Growth and Income Fund
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BNN TOP PICKS

OCTOBER 13, 2011
LONGVIEW OIL CORP
WILD STREAM EXPLORATION
TRILOGY ENERGY CORP

Source: Sentry Investments

REASONS TO OWN THE FUND

1. Regular monthly income
2. Lower beta commodity exposure
3. Focus on sustainability

SUMMARY OF HOLDINGS

SECURITY	WEIGHTING
STOCKS	79.0%
DIVIDEND PAYING	58.4%
NON-DIVIDEND PAYING	20.6%
BONDS	1.6%
CASH & EQUIVALENTS	19.4%
TOTAL ASSETS	$210,842,177

Source: Sentry Investments

SUMMARY OF HOLDINGS

SUB-SECTOR	WEIGHTING
INTERMEDIATE OIL & GAS	23.9%
SMALL OIL & GAS PRODUCERS	20.7%
UTILITIES & INFRASTRUCTURE	18.1%
INTERNATIONAL OIL & GAS	9.1%
PIPELINES	4.3%
LARGE OIL & GAS PRODUCERS	2.9%
BONDS	1.6%
CASH & CASH EQUIVALENTS	19.4%

Source: Sentry Investments

RELATIVE RETURNS

	YEAR-TO-DATE	3-MONTH	6-MONTH	1-YEAR	2-YEAR
SENTRY ENERGY GROWTH AND INCOME FUND	2.9%	2.9%	-5.7%	8.2%	18.0%
S&P/TSX CAPPED ENERGY INDEX	-13.6%	-3.2%	-17.4%	-6.1%	0.4%
PETERS & CO. JUNIOR PRODUCERS INDEX	-29.0%	-9.1%	-25.0%	-23.7%	15.1%
WTI CRUDE OIL (US$/BBL)	9.8%	13.0%	-2.3%	19.3%	14.0%
NYMEX NATURAL GAS (US$/MMBTU)	-19.4%	-12.4%	-23.9%	-15.1%	-14.4%
AECO NATURAL GAS (C$/GJ)	-19.0%	-15.4%	-22.7%	-16.5%	-16.9%
CANADIAN DOLLAR (US$/C$)	-3.5%	-3.9%	-4.8%	0.9%	1.3%

Source: Bloomberg LP, Peters & Co., Sentry Investments

FORWARD CURVE

	JAN-12	FEB-12	MAR-12	AUG-12	2011 AVG.	2012 AVG.
WEST TEXAS INTERMEDIATE CRUDE OIL (US$/BBL)	$100.36	$100.46	$100.55	$99.49	$95.71	$99.69
NYMEX NATURAL GAS (US$/MMBTU)	$3.55	$3.58	$3.58	$3.78	$4.03	$3.75
AECO NATURAL GAS (C$/GJ)	$3.16	$3.17	$3.17	$3.21	$3.45	$3.26

Source: Bloomberg LP, TMX Group

Market environment

October and November were interesting times for the global financial markets. The bears were out in full force at the beginning of October, taking the S&P/TSX Composite Index to levels we haven't seen since October 2009. As the debt crisis in Europe continued to rage, there were concerns about the toll a European recession would have on the balance sheets of the already highly indebted European nations. Market participants were sent to the sidelines and towards the relative safety of US treasuries and cash. Serious cracks in confidence in the European banking system continued when, in early October, Moody's placed Franco-Belgian bank Dexia on review for a downgrade because of mounting liquidity concerns. The news underscored market concerns that European banks with exposure to high-risk sovereign debt would eventually be crippled by such exposure. Market fears were compounded when Moody's also placed Belgium's Aa-1 rating on review for a downgrade, given that the likely rescue of Dexia could weigh heavily on the nation's balance sheet. The ratings agency then turned its attention to Italy, downgrading that country's credit rating from Aa2 to A2. Once the news of downgrades and possible bankruptcies was absorbed by the markets, the focus shifted to the G-20 summit in Brussels and hopes that a resolution to the debt crisis would be found. This optimism and better than expected Q3 GDP numbers coming out of the US sent the bears in hiding for a few weeks, until the increase in Italian credit spreads reminded the markets that there'd be no quick fix to Europe's woes.

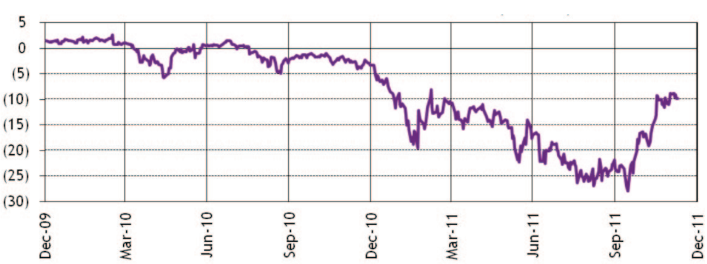
During the two-month period, evidence continued to mount that Europe's problems were starting to impact the BRIC countries. In an effort to spur economic activity, Brazil cut its benchmark interest rates 50 basis points to 11.50%. This came as economists' estimates suggested that the country's economic growth rate will slow significantly this year from 7.5% last year. The rate cut was the second in as many months and came in the face of accelerating inflationary pressures. In China, Q3 GDP figures showed a slowdown in growth to 9.1% year over year. This was down from 9.5% the previous quarter. On the positive side, inflation nudged down, giving the Chinese some breathing room for additional stimulus, and the markets some hope that China could help to overcome some of the issues in Europe.

In the backdrop of broader macro issues, crude oil hit one-year lows of $74.95 in early October and rallied off these levels to the $100 mark towards the end of November. This was the first move to these levels since July of this year.

Energy commodities market

On the crude oil front, pipelines were front and centre during the period. The bottleneck of crude at Cushing, Oklahoma, the pricing point for West Texas Intermediate (WTI) crude, has kept the price of WTI artificially low relative to global prices like Brent since the beginning of the year (see chart below). A critical part of the solution to help alleviate the bottleneck at Cushing is TransCanada's Keystone XL Pipeline project. The XL Pipeline is designed to take 500,000 barrels per day of crude from Hardisty, Alberta to Port Arthur, Texas, through Cushing. The project would give growing Canadian heavy oil production access to pricing points beyond Cushing, and in particular, Gulf Coast refineries, slowing down the growth of supply to Cushing. On November 10th, the US State Department decided that it would study alternate routes for the pipeline to avoid the politically and environmentally sensitive Ogallala aquifer in Nebraska. This effectively meant delaying the final approval for the pipeline until 2013, and after the US Presidential elections.

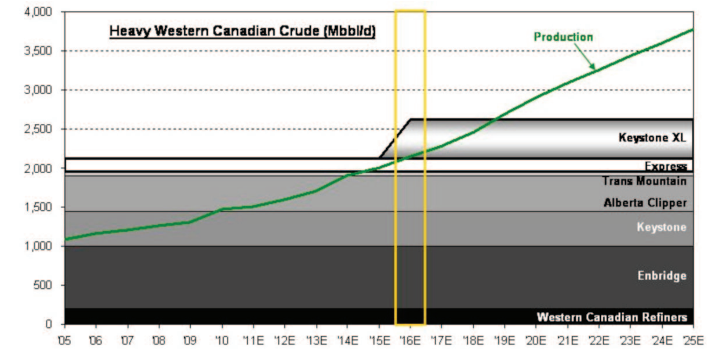
US$ WTI Crude versus Brent Crude Premium / (Discount)



Source: Sentry Investments, Bloomberg LP, as at December 8, 2011

In a surprise move, Enbridge announced on November 16th that it had acquired ConocoPhillips' interest in the Seaway pipeline system that carries crude from the Gulf Coast to Cushing. Enbridge also announced that they had reached an agreement with Enterprise Products Partners, the owners of the balance of the Seaway pipeline, to reverse the direction of crude flows from Cushing to the Gulf Coast. Although this proposal doesn't entirely solve the problem of pipeline access issues for Canadian crude post 2015 (see chart), it does help to alleviate the bottleneck at Cushing. The news was enough to narrow the gap between WTI and Brent by $3.59 per barrel on the day it was announced.

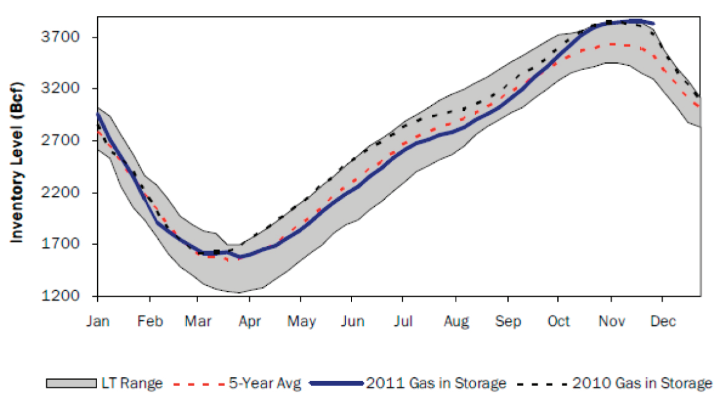
Pipeline capacity versus heavy western Canadian crude production growth



Source: Canadian Association of Petroleum Producers, Scotia Capital, as at June 2011

We continue to see little downside for natural gas prices; however, upside momentum has been fleeting at best. Although we saw encouraging signs on storage levels through the summer months, they quickly went from below the 5-year average to above 5-year highs because of a warmer than normal fall, coupled with record production levels (see chart below). We expect the record inventory and production levels to provide little more that 'light' pricing relief for producers this winter. On the positive side, the weakness in North American natural gas pricing relative to European and Asian pricing has kept shippers of liquefied natural gas (LNG) away from North American shores.

Natural gas inventories



Source: Canaccord Genuity, US Department of Energy, as at December 9, 2011

Portfolio update

Our concerns over the situation in Europe and the weakness in global growth have kept us defensive for the last few months. We've taken advantage of market rallies in this environment to increase our cash positions and continue to high-grade the portfolio to more defensive names. At the end of November, our cash position was greater than 19%. The high cash levels were further enhanced by our 22% allocation to the pipelines and utilities and infrastructure subsectors at month end. These subsectors are characterized by relatively stable business models and lower correlations to crude and natural gas prices. During the period, we continued to broaden our lead over the S&P/TSX Capped Energy Index with the Fund at a 2.9% year-to-date return versus a -13.6% year-to-date return for the index. In November, we eliminated our position in Transglobe Energy Corp. Although we like the assets of the company, we believe that in this market environment, it's prudent to minimize our exposure to politically volatile environments like Egypt and Yemen.

Portfolio outlook

Until there are clear signs that the Europeans can resolve their growing debt problems, we expect market volatility to continue. In this environment, we have been selling into rallies and buying the dips. Given the risks to global growth with a European recession, we remain steadfast in investing in companies with strong balance sheets that can withstand temporary weaknesses in the prices of crude and natural gas. Due to continued weakness in the price of natural gas, we look for companies that can offset weak gas prices with low-cost, liquid-rich plays. Our investment process and methodology has been very important in this environment, and has helped to drive us towards companies that focus on high 'return on capital' projects versus 'growth at any cost' companies. We believe that companies that focus on return on capital will win in this environment and in the long term.