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EDITED TRANSCRIPT

IAG.TO - Industrial Alliance Insurance and Financial Services Inc Investor Day

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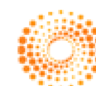

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PRESENTATION

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Good morning, everybody, and welcome to iA Financial Group Investor Day. My name is Grace Pollock, and I'm Head of Investor Relations. This conference is taking place at the King Edward Hotel in Toronto. It is accessible to the public to conference call and webcast. Our speaker slides are available on our website at ia.ca in the Investor Relations section under events and presentations. This event will last until 11:30 and will be followed by a lunch. We will have 7 presentations today, followed by question-and-answer periods. I draw your attention to the forward-looking statement on the screen and in the slide package. A more detailed discussion of the company's risks and uncertainties is provided in our 2017 annual report available on our website. Before we begin, I would ask the audience to switch off your cellphones and other electronic devices. I will now turn the event over to Yvon Charest, President and Chief Executive Officer of iA Financial Group for the next 3 months.

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - President, CEO & Director*

So good morning, everyone, and welcome to this conference. I hope that you will find that conference useful, I hope that you will find it informative, but more importantly, I hope that you will be reassured by our capacity to continue to outperform. So you know that last week, the Board of Director has appointed the new CEO to lead the organization, with an effective date of September 1. So that person is Denis Ricard, who I recruited 33 years ago. So Denis, would you mind coming on the podium? So many of you have known Denis when he was our Chief Actuary between 2004 and 2010. And then he disappeared somewhat from your radar just because we used the opportunity for Denis to develop his business development skills. Denis has always been a guy who like to embrace feedback and new idea, and I think that's the best way to develop a sound judgment. Denis is a skilled team builder. Denis is always anxious to take up new challenges, and more importantly, Denis has always worked for the well-being of the organization above anything else. So in September 1, the way I look at it is that up until January 1, I will continue to ensure a smooth transition,

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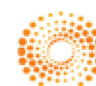

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as I have done since Denis has been appointed COO last fall. It's clear that I will miss a lot of things, including all the great candid and transparent discussion that I have had with many of you over the years. So Denis, the podium is now yours.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Thanks. Thank you, Yvon . Can you hear me well?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - President, CEO & Director*

Yes.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Good. Thank you, Yvon. I am truly honored to be the next President and CEO of iA Financial Group, and Yvon, I wish that I will bring to this role the same passion, the same dedication, the same engagement that you've demonstrated over the last 18 years. And you've been a model of competence, you've been model of integrity and a model of transparency also. I'm sure that everybody here has appreciated dealing with you the over the years. Thank you, Yvon, thanks a lot.

Okay. So we have a full agenda today, and I will introduce you to the executive team in a moment, but before I do that, I would like to make some initial remarks. In fact, we are going to go back 2 years ago when we did our Investor Day. And I would like to take several minutes or a few minutes here to go over the results since that time. You will remember that 2 years ago, we have given you some indication as to the profit growth going forward. And at that time, we tried to break it down into various components, and here they are. And you remember that at that time, we committed to an annual average EPS growth of a minimum of 10%, and those are the components. So let's review them after 2 years.

Organic growth, this is the profit from the in-force. And we've done it so well over the last 2 years that we can see today that we're able to move it up to 6%. That is a demonstration that we've been able to grow the business long-term and at the same time, deliver on the short-term results. In other words, yes, we had very good results over the last 2 years, but we have not delivered them at the detriment of the long-term performance. And Jacques Potvin will give you -- our Chief Actuary, will give you more details when he presents. So that's number one.

Number two, profit improvement. So those are specific initiatives that lines of businesses have taken to improve their profitability. So I've got 3 comments, the first one is regarding Group Insurance. So a very, very significant turnaround in the group sector. Profitability is now at a much higher level, and I will leave it to Renée Laflamme, who had that line of business, to explain it more in depth later on. Dealer Services, thanks to the increased profitability of the car loan business, we are glad to see that it has contributed even more to the Dealer Services line of business.

And finally, on the iA Auto and Home, the results have been below our expectation. But it's been an industry issue, claims have been up lately, and you know the reason, frequency, severity. But we have not waited to take action. We took serious action. And over the last 12 months, we've increased premiums in phases by an average of about 15%, out of a $300 million portfolio. So we are confident that this is behind us. Operational efficiencies, mainly the strain here is now very close to 0, both in Canada and in the U.S. So we've done everything we needed to do on the strain. And it has not been done on the detriment of our profitability, and Jacques will talk a bit more about that later on. Acquisition, great, great success there, especially on the distribution side. And a lot of you know that distribution is a key component of our strategy. And by acquiring distribution, we're going a step further. And you'll know more when Renée Laflamme presents later on the life side and Carl on the wealth management side, what's behind the strategy. On the U.S. side, we are now entered a second line of business, a line of business that we know very well, because we are a leader in Canada in the extended warranty. So great success there, we'll talk more about that. Dealer Services, with the PPP acquisition, we have protected our market with that acquisition. So a great, great move that we made. And finally on the wealth management side, this is on a manufacturing side, obviously, we had ambition to buy a manufacturer in the mutual fund. It's been more difficult, prices are quite aggressive. We tried to stay disciplined in our pricing, and we'll have to see in the next bids in the future whether or not we need to be more aggressive in those. So in the meantime, we have our strategy to grow that line of business with affiliated distribution, and Carl will talk about that later on.

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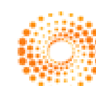

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Capital. I don't think we've ever been in such a good situation for capital. And I don't think that it has been well understood by the market. So Jacques Potvin will take the time to explain it very well why is it that with the new capital regime, iA is in such a good position.

So all in all, as an investor, you should take comfort that we have delivered on most of the initiatives we took over the last 2 years. And you should also take comfort from the fact that we are quite candid as to where is it that we have not performed as much as our expectations and that you know that we are working on that. We have delivered since the mutualization great performance, and we like the number 10, as you can see here. 10% EPS growth, 10% book value per share (growth). And it is my role as the new CEO to make sure that we remain committed to that sustained performance. And there's a lot of opportunities. We believe, there's a lot of opportunities in Canada and in the U.S.

And let's talk about Canada first, and this is a great slide, pay attention to that slide. If you look at the middle of the slide, what it says is that, basically, in 2012, if you look at the net income in Canada of iA, $248 million, and if you compare it with the average Big 3 in Canada in 2012, iA represented 25% of the average of the Big 3. And if I ask any of you here, in 2017, what is that percentage now? Obviously, you know it because you have the slides in front of you, but I don't think you would have guessed that it would have been 53%. What does that tell you? It tells you 2 things. The first one is that iA has outperformed the Big 3 in Canada over the last 5 years, it's very clear. CAGR of 15% versus minus 1%. So for iA, Canada is not a mature market. The second thing it should tell you is that performance is not a matter of size. Performance is a matter of choices, smart choices. And clearly, when you look at that, iA has made the right choices to outperform the industry. So that's the conclusion. This is a great slide, isn't it?

And talking about creating value, all the presentations today are about creating value, and this is what we call the iA way. And let's face it, there are a lot of changes going on, a new capital regime just came in, a lot of regulatory changes on the wealth management side, even this morning, for those of you who read The Globe, and on the insurance side as well, changes in the regulatory environment. Distribution is evolving, and let's not underestimate the impact of digital transformation on our business model. So when you look at those ingredients, along all the presentations today, you will find these themes. And at the end of the session this morning, I will come back to these ingredients of our recipe for sustained growth in the future.

So the first presenter today will be Jacques Potvin. Jacques Potvin, our new CFO and Chief Actuary that started last February. And Jacques will talk to us about very important issues like capital, he will talk about reserves and obviously, source of earnings. Our second presenter will be Michel Tremblay. Michel, our Chief Investment Officer, he will update us on the strategies to improve earnings and also to manage our risks in our balance sheet. Then Mike Stickney, our President of our U.S. operation. Mike will talk about how to transform the U.S. business into a meaningful operation in iA. Carl Mustos, our Executive VP on the wealth management side, will talk about initiatives to grow that business in a challenging regulatory and competitive environment. Renée Laflamme, our Executive Vice President Insurance Operations, effective last February, she'll talk about, obviously, the insurance business, but she will also talk about how becoming digital nowadays is a no-brainer, is a key criteria for success when you consider the changing client expectations. And I will come back at the end to wrap it up and emphasize the main messages of this morning. And in fact, this is our executive team. I would like to mention also the presence of Normand Pépin. Normand, Executive Vice President and also Assistant to the President. And Normand has celebrated his 45th anniversary of service at iA Financial Group. So this is our executive team that will present to you today.

So with that said, on that note, I will ask Jacques Potvin to come over and start his presentation. Thank you very much.

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Good morning, everyone. It's a real pleasure for me to be with you this morning. Being the new kid on the block, I wanted to make your life easy. So I put the same tie as on the pictures, so that you will recognize me easily. Okay, it works, good.

So what am I supposed to speak about? Do you remember what Denis mentioned? 3 very interesting topics, the reserves, capital and earnings. So right from the start, I will give you what are the main messages I would like you to remember from my presentation.

I inherited a clean house by taking that position of Chief Actuary. Our key assumptions are well positioned. On the capital side, Denis mentioned it, we have a strong capital position under the new regime. Our capital is less volatile and will generate more organic capital. In regards of earnings, we are committing today to continue -- even if we have a change of CEO, we didn't change the 10% number. So we will continue to deliver our

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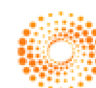

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EPS growth at 10%. So those are the main messages. So for reserve, I decided to start with mortality. After that, the key economic assumption, and I kept lapse for dessert. I'm sorry, but I have a sweet tooth.

So for mortality, what a tremendous decision it has been for our shareholders that the management decided to keep that risk on our balance sheet. It has provided a lot of value to our shareholders. Do we believe it will continue to do so in the future? Yes. There's medical improvement. There's continue to be development in health services and also it's important, the delivery of those services. So those mortality improvement will continue in the future. And by the way, I chat with some of our reinsurers. An actuary sometimes, he make up his mind, but sometimes, he like to have other opinion. So what I did, I chat with some of our reinsurers to see if ever I were to put our in-force block for reinsurance, if they will be interested. And what I heard is really good news, actually. They said, yes, we will provide you very good quote. However, we know and we all know that those guys, they want to make profit for their shareholders. So, here, we want to keep it for our own shareholders. So it is giving me comfort as a Chief Actuary that our assumption is very well positioned.

Macroeconomic environments, you know that we have a large block of individual life insurance. Here in that block of business, we've made very long-term commitments to our policyholders. To provide the better value to our shareholders, we need to manage that block of business with that long-term view. To be able to do that, iA has used a technique of putting extra cushion into its reserves. And you do that because we discuss it every quarter. So for market long-term, we put an extra cushion that sits at 26% at the end of March. For interest, we put a cushion at the beginning of year, we're starting with 43 bps. And this move during the years because there's minus if interests were decrease, there's pluses with good management actions, but it's another protection. And those protection allow us, allow Michel's team to concentrate when they manage the asset portfolio to have that long-term view and to provide the best value. So it's quite comfortable on that side as well.

Let's move to lapse now. We made 2 huge reserve increases in the past 3 years, one in 2015, one in 2017. It can give the impression that it's a rapidly deteriorating experience. That's not the story. Actually, it's really important to understand that the block of business here we're speaking about, our lapse-supported products, that's been in our book for many years, I will say for 15 years and over. If we look in 2005, that block of business was very small, and it keep increasing, increasing and increasing. And the actuary need to have credible data to change an assumption. So what happened is that in 2015, Canadian Institute of Actuaries published an experience study, that study was for the years 2005 to 2012. It was the first time that we had experience as an industry over those products at those duration. So the actuary recognized that into his reserve strengthening, but there were a 3-years delay. In 2017, what we did is we add enough data now that we can put credibility on our own study, and that's what we have recognized. So everything that we know about lapse is factored in into our reserves today. We don't know the future, but when we look at the experience of the first quarter, and some of you will say, it's only one quarter, and I agree with that, the assumption is in line with what we expect.

So for all those key assumptions, we are very well positioned. And I don't know if you recall the first thing that Renée mentioned 2 years ago, when he started his presentation, he said that he slept like a teddy bear. Do you recall that one? So with the reserve, I can tell you that, me too, I can sleep like a teddy bear.

Capital now. We have a strong capital position under the new regime. 121% is way above our target range of 112% to 116%. On the next slide, I will explain why 112% to 116% should provide a lot of comfort to our shareholders and policyholders, but let's explain a little bit the 121%. It's important to understand that it covers 100% of our operation. It compares to the holdco of our competitor. It takes into account the fact that our leverage ratio is at 23.5%, which is low. If we were to increase it to 30%, our solvency ratio will increase to 129%, which is quite comfortable. And I repeat, if you want to compare it with our peers, compare with their holdco ratio. But the most important thing with the new regime is the fact that it recognizes the good and sound risk management. And for us, it recognise we will be less sensitive on the macroeconomic factors.

As we speak today, we are already less sensitive to interest rates. We disclosed in our Q1 package, our sensitivity and for a decrease of 50 bps of interest, there's almost no impact on our ratio. For an increase of 50 bps, we have a slight increase of the ratio. As for market downturn, presently, we're a little bit more sensitive than under the previous regime. However, we will get the recognition of our internal program for hedge fund, and we will become less sensitive -- materially less sensitive on market downturns long-term compared to the previous regime.

I want to digress a little bit from my core presentation only to speak about that internal model, because I want to make sure I'm not giving the impression that moving to the model give us that for nothing. The reason why we are getting less sensitivity is because we have a very efficient

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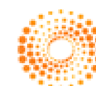

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hedging program on our seg funds. Michel's team and my team are working closely on a daily basis together to make sure that our hedging program is efficient.

So with that new formula, an internal model, all the calibration factors that the regulator wants our model to meet. For a company that doesn't have an efficient hedging program, they will keep the same volatility as the current regime, and they will have an increase in capital. That's not our case. Our case is we manage well our risk, and that's why our sensitivity will decrease. 112%—116%, why I'm telling you it should provide more comfort than the equivalent under the old regime? Actually 112%—116% is mathematically equivalent to the 185%—200% under the old regime. We did the exact calculation at the end of 2017. However, it provides more comfort, why? In fact, I just explained on the previous slides that we are no longer sensitive that much to the macroeconomic environment. So if there is less change, if the probability that our ratio decline to the regulatory level is much lower, why should we need a higher cushion? By keeping the same cushion that we had before, we are in a more comfortable position. By itself, that reason is enough to justify that comfort level. There are 2 other reasons, though. We have diversified our business, and Denis discussed about it in the beginning of the presentation, we've diversified our business. And today, individual life insurance, the capital impact of that line of business has decreased by 20% over the past 7 years. And it's not because we changed our capital regime, it's really because that we have diversified our operation. And you're all in finance, you all know that diversification is good for risk management, and we kept the same cushion.

The other as well is the fact that, that new regime is an improvement compared to the past regime. Technically, the calculation is more robust. In fact, the recognition of capital is more stringent. On day 1, when we made the calculation, for iA, $500 million of our intangible assets were no longer recognized in the capital, an impact of 7%. The calculation of risk now, we have to project the cash flows of all our assets and liabilities. We have to shock all assumptions underlying those cash flows and to present value, all those differences. So we're really doing an exact calculation about our portfolio of business. The previous regime, it was factor apply to some metrics. There was a lot of approximations. So a stronger capital calculation, we are more diversified and less volatile with macroeconomic, and we kept the same cushion. So we are more comfortable, and our policyholders should be more comfortable, and you should all be more comfortable with that.

Let's move now to the organic generation of capital. That has been difficult for us in the previous years, and it's not because we have not worked on that. Actually, the management team did a pretty good job of improving the profitability on our different line of business, reducing strain, diversifying the operations. And all that, it helps to create organic capital. Unfortunately, the fact that we were sensitive to interest rate and the fact that the interest rate has decreased a lot, it has cancel out all our capacity of generate organic capital. Now we have that same discipline in regards of what we're doing with our lines of business and our ratio is less sensitive to interest rate. So we are confident we will deliver $200 million a year of additional free capital after paying dividend. So it's 3 percentage points on the solvency ratio. So when Denis mentioned at the beginning that the change of capital regime is good for iA, it's really good for iA.

Let's now move to earnings. When you look at that slide, you can see that over the years, we have always committed to increase our earnings per share. But the best thing that we are very proud of is the fact that we have over delivered. We delivered on average more than 10%. Just look at the dark blue column that are higher than what we have committed to. Like I said at the beginning, today, we're committing to continue to increase our EPS grow at 10% until IFRS-17. Denis mentioned it, we have a strong foundation. Our organic growth has increased from 5% to 6%. Why? It's because of the good discipline that the management team has had. We have diversified, we made some acquisition, we have improved the profitability and all those good thing in those line of business that are more capital light, it helps. And we must never forget our big individual life insurance that provides a very strong foundation, with an organic growth at 4%. And here organic growth, it's really that we run business as we do today without any initiatives. So when we're missing 4%, what will we do to get that 4%?

I have good discussion with the management team, and we have identified a clear roadmap how to get to that 10%. They will discuss about different initiatives, but here I'm summarizing them in 3 different buckets. The first bucket, profit improvements, plus 3% the potential there, and it's coming from all lines of business, one cent here, one cent there, so it's coming from everywhere. We have identified many different small initiatives.

Denis mentioned it at the beginning, distribution is a business by itself. So there's a plus 1% that we will have there as well. It will be mainly for our Wealth and Individual Insurance sectors.

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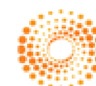

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As for acquisition, we will continue to have that same discipline in our preferred target markets. So to make acquisition in those markets, which are the U.S., the 2 niches, Denis spoke about them earlier, distribution and wealth. So all in all, if you add all those numbers, it's 6% plus a potential of 6%. So we are very confident to deliver that 10% even more, we have a clear roadmap for that.

To get there, what's our action plan? It's to maintain our discipline in regards of product profitability everywhere. We've shown that and you can see that in some line of business like iA Auto and Home, Denis mentioned it, it's an industry issue, but we were one of the first, if not the first, to move up our price there to fix the issue, that's our way of doing business. We will continue our diversification. It helps on the capital ratio, it helps as well on the organic growth. As for capital management, for sure, the first priority is to get our credit for our hedging program and as well to continue to manage well our risks. For the business plan, we will continue to work to prepare for IFRS 17, and IFRS-17 will be part of the next Investor Day. Although, there will be teaching sessions we will provide you, it's too early to discuss about that today. But the most important things will be to have a strong execution on our growth initiatives. So in conclusion, you know that we can execute, we have proven that, we will prove it again. Thank you very much.

QUESTIONS AND ANSWERS

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

So we're going to start the question period. Jacques, don't go away. There are 2 roving mics. We would ask that you ask your question into the mic. First question is from Gabriel Dechaine.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

No, actually, I was just stretching. Got a laugh. I just have a question on the makeup of this -- the growth. So 6% organic growth, does that include, and I think you alluded to that, some acquisitions that you made recently? So we can call that organic? Like is there a way to get a little bit more, what's the PPI, DAC, HollisWealth kind of impact on that? Is that really the delta between the 5% and the 6%?

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Okay. Actually, organic growth, we are considering everything that we have in our book right now. So all those past acquisitions are now part of our business plan, are part of our organic growth. However, you will see that there will be initiative to get more profit than running the business as they are today. So that's the split we are making.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Is there any way to quantify that?

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

I don't have those number, and I will let my colleague to discuss a little bit about that. But there are more capital-light business, and it helped to increase the 5% to the 6%, so it's providing value.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Got you. And then another one-- is it okay to ask?

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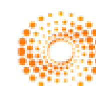

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Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

You can ask another question.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Denis, a question. Sure. You did mention on your acquisition, your scorecard here for what you've accomplished since the 2016 Investor Day. You didn't make a manufacturing acquisition wealth. You said the valuation was top-y, but then you also said maybe you might want to get a bit more aggressive. What was -- what did you mean by that?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Well, I mean, we've participated in acquisitions, and we were there. And in some of them, we put some price on the table. And after the fact, we knew what the prices were. And we realized that in some cases maybe we could have been a bit more aggressive, okay. And at the end of the day, we could have get the synergies and the benefit. So I mean, I don't like to say that, but I think in French, we say we're "cheap" when we try to buy companies, okay. You know what I mean, okay. But the point now is that maybe we should be, let's say, a bit more aggressive in identifying even more precisely some of the synergies and then be able to to dare more, that's the point here.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

The next question is from Tom MacKinnon.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Jacques, I think you mentioned, when you're referring to Slide 31 that the individual life block had organic growth of 4%. Was that -- did I hear that one correct?

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes. Actually, I didn't mention it because Renée will discuss about it. I mentioned that individual life is a strong basis on which we can build, and it's 4%. Yes, but I didn't mention the number because it's in Renée's slide.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Okay. So half -- this 6%, that's overall for the -- for everything, half the business would be individual life? So you got -- I got 8% on the other half, make it 6% overall, am I right?

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

You can look at it that way. But that's not exactly true, though, but you can look at it that way. For sure, the other businesses are contributing more the pace at which it grow, they are capital lighter, so it helps to grow.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Okay. Well, based on that, great...

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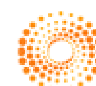

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Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes, yes, exactly. So it's not mathematically exactly what you're saying now.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

And then I think when you talked about your lapse-supported business, you said it was pretty small in -- like -- you've doing it for 15 years, and it was small, like in 2005...

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes. That's the thing that is a bit tricky here. Because the lapse that is affecting us today is what we call in the actuarial jargon, the ultimate lapse rate. So it's policies that been in our book for 15 years and over. So if you want to look at our sales growth, you have to look at the sales in the early '90s. And we started, actually, our first level cost of insurance, universal life, was introduced in 1993.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

I guess, the question is, what's per proportion of your reserves in Individual Insurance are lapse-supported now?

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

I don't have that number. I will take that off-line. I don't have that number now off my head.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

And maybe how much more are you selling of this lapse-supported type of business?

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Oh, I really like that question. Actually, it's really important here to understand that, and René Chabot did a great Teach-in in regards of lapse-supported product. The industry at the beginning, they were pricing lapse-supported product with lapse rate of 6%, ultimate lapse rate of 6%. And we can say it's crazy, but we have to put ourself in the shoes of those pricing actuary at the time because the lapse experience on other products were at 8%. Today, we're pricing the same kind of product with a lapse rate that is below 0.5%. So that's the difference. So the risk is there, but the pricing of the risk is down properly today.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Yes, but what proportion of the business that you're selling is lapse-supported?

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

The proportion of business, I don't have that number on the top of my head, Tom. I will take it off-line.

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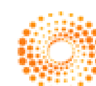

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Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

So we'll take the next question. It's from Sumit Malhotra.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Jacques, I want to ask about one of your growth drivers here, which is distribution. So as you mentioned, the recent acquisition activity of the company has largely been focused as -- or in the distribution space, but you told Gabe that the stuff that's already been enacted is included in the organic piece. So what exactly are you contemplating here in putting distribution as one of the growth drivers? Is there expansion that occurs from the pieces you've added? Or are there new areas that you think distribution is going to play a bigger role for iA?

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

That's a really great question. But to do a good services to my colleagues, I will let them make their presentation. They will touch base on that. And if ever it doesn't answer, just ask the same question at the end.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

All right. I'll wait for that. I'll try another one that is probably more capital-related, and this might be for Denis as well. When iA has undertaken acquisitions in recent years, including with Hollis and PPI, we've seen a larger proportion of equity issuance required to finance these deals, which obviously takes away some of the near-term accretion. The slide that you show that talks about organic capital growth being a more consistent component of Industrial going forward, should we as shareholders or quasi-shareholders think about less cap or less equity now backing your transactions going forward?

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

That's exactly the message we want to convey today. With that new regime, with the fact that we are less sensitive to macroeconomic environment, we are generating good organic capital, but interest rate has cost us a lot of that capital in the past. Now the fact that we are less sensitive, we will have that capital.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Yes. And let's go back a few months ago. Let's go back a few months ago when we came up with those acquisitions. And I think it would be fair to say that we took the market by surprise when we issued the common shares, and that's clear that today, okay? What happened at the time? And we had a big debate at the planning group. Should we raise capital with common shares at that time or not? And please keep in mind that our low leverage ratio at the time was -- we were in a great position, we were saying, okay, maybe we don't really need to go to the market. And the only reason, the only reason why we decided to go at that time is that we did not know in the market after the implementation of the new capital rules what would be, let's say, the new 200 or where would the other companies fit into the landscape. So it's only prudence that guided us doing it because we did not know that. And now that we have explained to you the sensitivity to our capital ratio, now we are very comfortable with our level. When we compare with our peers at the holding level, I mean, we feel pretty comfortable. The lower leverage ratio is still there. I mean, I think we are confident to say that if we were to have an acquisition, I mean, there is some room, there is some room now. So we are in a different position today than we were a few months ago.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Are there any further questions for Jacques? No? Then we'll move to our next presenter, who is Michel Tremblay, our Chief Investment Officer.

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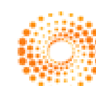

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PRESENTATION

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Thank you. Thank you, Grace. Good morning, everyone, and thanks for being here to listen to us this morning. Jacques said he's a new kid on the block, but we've known each other for many, many years. It dates back to the years as he was a student in the university, Jacques.

Jacques Potvin - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes.

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

And we get along very well together. He said he was wearing the same tie as in the picture. I do wear the same tie as I have in the picture. We fit very well together. And we respect each other very well. He sits on the -- in this room, he sits on the right side of the room, and he's looking after liabilities, the right side of the balance sheet. And I sit on the left side in the room, and I'm looking after assets, the left side of the balance sheet.

I've got a story to tell this morning, so I did prepare some notes, and I'll try to stay here to follow my notes. Where is the remote? It's there. Yes, right there. And the remote, and I need my glass of water. I'm not going to drink into Jacques's glass. We get along very well, but there's a limit.

No news is good news. This is the title of my presentation this morning. Because, yes, at times, it's right to say that no news is good news. Investments have not been the target of many questions for quite a while, and this is good news. I remember when I joined the company in 2008, 10 years ago, in the middle of the financial crisis, there were many questions about investments at that time. And don't worry, I'm not missing these times. But I do miss being 10 years younger, though.

Two years ago at our last Investor Day, I presented how investment strategy could act as a shield against headwinds. At that time, we discussed opportunities we were seeing with our credit risk position; our mismatch situation; and our deployment of non-fixed income securities, what we call the NFI portfolio. Today's presentation, there will be 4 sections. There is no major news, but all good news. First, I will present an update with our new mismatch strategy, where we want to reduce interest rate risk and eliminate the IRR risk. In the next 2 sections, I'll talk about the NFI and credit strategies, where we keep going on with the same strategy we had in 2016. And the final section, I will make short comments on the expected growth in the income on capital -- investment income on capital, where there is very good predictability until the end of 2020. Also in the various sections with the objectives of illustrating our investment philosophy, I will also provide specific details about some of the investment strategies we are using.

So let's first start with our mismatch strategy. One of the risks that animated many discussions within the company and with the analysts over the years has been the interest rate risk, our negative exposure to lower long-term interest rates. Negative exposure because if lower long-term interest rates were going lower, we were impacted negatively. This is because the duration of our assets is lower than the duration of our liabilities. But now there is a new message with our mismatch strategy, and the message is, the finish line is in sight with the IRR sensitivity, and the good news is that we can eliminate that sensitivity without limiting business growth.

Since the end of 2005, 30-year Canadian rates have declined from 4% to 2.25%, with a low of 1.55% in the middle of July of 2016. Yes, 1.55% at that time. With that kind of pressure on long-term interest rates, no wonder the focus of my presentation at that time was on how we were to cope with this pressure. Looking at our stock price compared to long-term interest rates, as you can see on this slide, we did withstand the pressure with success. And of course, since that time, long-term interest rates have recovered by 70 basis points, and our stock price has resumed its growth.

However, a major development over the last 2 years have been the introduction of a new capital regime. And under the new LICAT regime, the level of capital required is less sensitive to interest rate fluctuation. As Jacques explained earlier, even though there is variability, fluctuation interest

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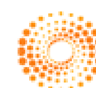

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rates, the level of capital required doesn't change much. That is very positive. But the new regime associates more capital to the actual level of interest rate risk on the balance sheet. So the higher the level of interest rate risk in the balance sheet, the higher the capital is required. So because of that change in the capital formula, we have decided to reduce the interest rates on the balance sheet by eliminating completely the IRR sensitivity by the end of 2020. In the next couple of slides, I will show how we can accomplish that goal without limiting the business growth or using -- or taking undue risk or other type of risk.

First, we forecasted the expected business growth until the end of 2020. And as you can see on this slide, we analyzed the impact on the IRR sensitivity, which would increase substantially. Actually, if you look at the slide, it would double. If we were to do nothing, it would double. Growing the business would double the IRR sensitivity over the next few years. But because we still have a lot of capacity to use different forms of interest rate derivatives, we concluded that it's possible to keep growing the business, and at the same time, gradually eliminate this sensitivity. For very obvious reasons, it is very good news.

Second, still using this forecast, we realized that reducing the IRR sensitivity to 0, bring it down to 0, would not require to use more interest rates derivatives than what we had done over the last 3 years. As you can see on this slide, we had to use a total actual amount of $2.6 billion of financial derivatives over the last 30 months. Based on our forecast, and this is at most, we will increase our level of interest rates derivatives by about the same amount over the next 30 months as well. Again, nothing to worry about. This is good news.

But I understand that the use of financial derivatives always begs the question, how do you control your risk? Well, the answer is very much textbook. Limiting the counterparty and the liquidity risk. As counterparties to this transactions, we do business only with Canadian banks. I guess, I'm looking at you guys, most of you, people in the room, would agree that Canadian banks are the less risky counterparties we can use. Anyone disagree? Don't think so. And as we show on this slide, we try to diversify as much the counterparties by using -- by doing business with the 6 major Canadian banks. The ones -- the banks with more volume are the ones coming with innovative solutions. Over time, with some of these solutions becoming more mainstream, we will leverage the competition within the banks, and we will diversify even better the use of counterparties. Moreover, as you can see on this slide, we use very little repos, around 10% of our interest rate derivatives book. But also the initial contract period of bond forwards and total return swaps, this is close to 90% of the books here, are for 3 years or more. And what we do when we manage this book, we push forward the contracts that come within 12 months of expiration, so that we make sure that the limited amount of interest rate derivatives is coming to maturity within 12 months. And of course, that contributes to limit liquidity risk.

And finally, some of the recent forward contracts that we have signed are of the cash settlement type as opposed to the physical settlement type. With the cash settlement type of contract, at maturity, we can settle the contract with a final market value adjustment. We do not have to buy the bonds if we don't want to do so. This option, obviously it reduces the liquidity risk embedded in these contracts. To this time, as I said at the bottom of the slide, only 10% of our book, our forward contracts are of this cash settlement type. But it is our plan that going forward, all these contracts will be of this type.

I expect you guys from the back in the room are taking a note here and will pass along the message to your colleagues on the fixed income derivative desk.

The second topic I want to talk about this morning is the non-fixed income strategy, the NFI strategy. I want to do so because the NFI strategy is a topic that's been the subject of discussion over the last year or so with the introduction of the new LICAT regime. As far as I know, 2 other major publicly traded life insurance companies said they don't expect to change their strategy, while the third one said they would slightly reduce their exposure to what they call alternative long-duration assets. Ourselves responding to questions at our last conference call with the analysts, we said we don't contemplate to change our strategy for the moment. So for ourselves, the message is the balance between the risks, the risks which are liquidity, volatility, capital requirement risk, the balance between these risks and the rewards, which are higher returns, tax advantages, is about right. And our strategy and exposure to NFI matches very well with our liabilities profile.

This overall strategy over the last 10 years has not changed much. You can see that in the bottom of this slide to be more or less 15% of the total invested assets for many, many years. A minor change you may note there is a slight reduction in real estate from 28% to 26%. It is not by design. As opportunities arise in the market, this is something we intend to rectify because, and we summarize that on this page, because we still believe that real estate is a desirable asset class to invest in, considering the relative high proportion of long-term life insurance on our balance sheet.

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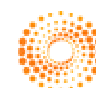

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Long-term life insurance liabilities represent more than 40% of our invested assets. And because real estate is only 10% of these liabilities, we believe we can easily afford the liquidity risk associated with real estate investments.

And second, the returns are appropriate, even though expected return on real estate has declined over time with declining long-term interest rates. Long-term interest rates, 30 years rates, 10 years rates have declined. Expected return on real estate has declined. The real estate returns still compensate for the extra capital required. I'll just give you an example. I listened to a question earlier on, and people like simple math, so it is going to be simple arithmetics here. But compared to bonds, if a real estate investment requires an extra capital of 30% of that amount invested and extra return from this investment compared to bonds is 3.5% per annum, it does correspond to a return on the extra capital invested of 10%, 3.5 divided by 0.3. This is a very effective return in our mind, considering it is tax deductible.

Our philosophy that real estate remains conservative, I'll use only 3 numbers. First, close to 40% of our office tenants are governments with long-term rents, really conservative. Second, we avoid retail as much as possible. It's always been the case. Only 13% is in retail, and we intend to bring this percentage down to 10% and even more. And third, all our investments are in major Canadian centers, Victoria, Vancouver, Calgary, Toronto, Montréal and the city of Québec.

And finally, another positive attribute of real estate investments is that their price, the price of real estate is negatively correspond -- correlated with movements in long-term interest rates, very much like our long-term life insurance liabilities. Just to show what happened, you see that on this slide between 2009 and 2015, our real estate investment portfolio increased in value, and rates declined. And since that time, it remained stable with rates that remained more or less stable.

Now with respect to the second portion of the NFI portfolio, the equity investments. As you can see on this slide, you look at the $4 billion, the 4.0 number at the bottom right of the table, $4 billion total. Only $1.3 billion go up there a little bit. $1.3 billion is invested in public equities for our own account, more or less the same amount as in 2015. For us, public equities have represented constantly a declining proportion of total assets from 6% to 3.9%. The purpose of this public equity portfolio is, of course, to enhance return but also to put up to provide very attractive after-tax current yield. Because as you know, dividends received from Canadian corporations are tax deductible. This is why the non-indexed portion of this portfolio, and you can see the number on this slide, which is now 46%, but it can change over time, is invested mostly in Canadian corporations paying higher dividends than the average. And with the indexed portion, which is 54% right now but can change over time as well, we are using more and more options to protect ourselves against potential major downside. For example, one strategy is to buy calls on the indexed as opposed to buying the indexed itself. In a way, keeping the delta more or less constant, but this way we modify the risk-return profile, and the portfolio is less vulnerable should the market decline substantially. As I said earlier, guys, you guys should talk to the fixed income derivatives people here. I expect you to send a message with your team on the equity derivatives desk.

And for the private equity portion of this strategy, as we said in 2016, our main goal is to keep the return coming from equity investments but reduce the volatility, and we reduced the volatility by investing in assets that produce stable long-term cash flows, like investment in infrastructure projects. Again, another attribute of this investment in infrastructure, the market value of these investments is inversely related to movement in interest rates, very much in parallel to the value of our long-term life insurance liabilities. So you can see that now, close to 60% of our private equity portfolio is invested in infrastructure projects, and it is our intention to keep increasing that proportion. So far, the strategy has been very successful. The returns on this portfolio has far exceeded the return from the Canadian stock market, and the volatility has been much more muted. Until then of 2020, based on the current forecast for the liabilities on our investment plan, the percentage invested in infrastructure of the private equity portfolio should increase from 60% to 75%. And moreover, what we want to do is to keep the public equity portion stable, more or less at the same amount. In order to do that, we'd have to increase the private equity portion by 50% over the next 2 or 3 years. So in summary, we are pleased with the results of our NFI strategy, and it is our plan to keep going on with the same strategy for the next future years.

The third section is about the credit strategy. Well, the message is the same as in 2016. There is still lots of opportunity by taking on more credit risk. And again, this is very good news, very good news. In 2016, we showed we were much less exposed to corporate bonds than our peers, 45% for us, 65% for them. Right now, we are very pleased with that situation. Where we are on the business cycles, where the spreads are, we're very pleased. And if we were to increase our proportion of corporate bonds to the same level as our peers, we'll have to increase the corporate bonds by $5 billion. It would reduce, obviously, the government bonds. This is a tremendous opportunity that could represent the value of anywhere

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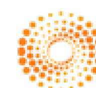

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between $125 million to $250 million for the company, assuming current credit spreads. This is by far the most important message with our credit strategy, a substantial amount of underused capacity, where we could create a lot of value whenever we believe it's right to do so.

Well, you may ask me, why don't you do it right now if it's that tremendous opportunity? Well, the reason is, if you max out on risk at every time, what's next, what's next if you need more room? If something bad happens, we prefer not to be at the maximum on the risk everywhere. It does make sense. I'll never forget about what happened in 2008, 2009. Times were tough. We had a lot of room to take credit risk. We lend money to banks at 10%. Tremendous opportunity.

I will go very quickly through these next 2 slides because no major change. I just want to illustrate we'll not increase the total corporate exposure, we'll not increase the risk of the corporate bond either. The percentage invested in long-term corporate bonds is the same as it was 2 years ago. The percentage invested in long-term BBB bonds is the same as it was 2 years ago. And it is not on the slide, but this BBB long-term corporate bonds is invested very much the same way as in 2016, very conservatively. 70% of our holdings in this portfolio are coming from issuers that are subject to some form of regulation. In summary, credit is still an opportunity for a value creation or a protection against further headwinds.

In the final section, I would like to make some comments on what we call our surplus strategy. As I said at the beginning of this presentation, our past investment decisions with this portfolio will support a growth rate on the investment income on capital, in line with the company's targeted growth rate in total earnings, even though interest rates have been very low for the last several years.

Well, the investment in common capital is a significant proportion of after-tax core earnings. On this slide, we show it's about 20%. So how we can grow this source of earnings without taking undue risk is meaningful. Because for a given target growth of total earnings, the slower the investment income on capital is going, well, the faster the earnings coming from operations must grow. Or turn it around. The faster we can grow this income on capital, the slower the earnings from operations have to grow, which is very positive. You are very astute analysts, and I'm sure you have already figured that out in your model. That's why I wanted to show the visibility we have with the investment income on capital over the next couple of years.

At the bottom of the page, I indicated that over the last 3 years, investment income on capital has grown by slightly more than 6% a year. This is not surprising at all. The capital is invested mainly in fixed income securities, and 5-year Canada rates have averaged 1.14% during that period of time, 1.1% during that period of time, much lower than previous years, though investment income on capital has not grown as fast. 5-year Canada rates are now 100 basis points higher than it has been in that period, providing a nice tailwind for growing the investment income on capital over the next 3 years. And we intend to grow this capital, this income on capital, without taking more risk.

When you look at the portfolio distribution here, you can see that the percentage invested in fixed income securities issued by corporations, bonds and preferred shares has declined from 58% to 48%. This is an obvious reduction in risk, considering that the percentage invested in government bonds has increased from 25% to 41%. We are following this strategy to increase overall liquidity of our portfolio, which is very much supportive of our mismatch and NFI strategies, and we can do that without reducing too much the reported income because the current loose spreads on corporate bonds.

But now you can ask, how can we be confident to keep growing the investment income in line with the targeted growth in total earnings? Well, because of the investment strategy we followed over the last few years, when risks were very low. Bear in mind, during that period of time, 5-year Canada rates touch a low of 0.5%, 1/2 of 1% at that time. What we did, we swapped the bonds from fixed rate into floating rate. We're paying fixed, receiving floating. Of course, for some time, it did reduce the income on capital. We have already paid the price to be protected. Well, with the increase in short-term rates, these swaps are now deep in the money. And at that time, we decided to use such accounting. So we have the possibility to recognize these gains at our will. We just have to unwind these swaps.

We show that the total of these unrealized gains is $26 million pretax, $20 million after tax. It is approximately 20% of the annual income on capital. And very likely, they will be realized before the introduction of IFRS-17 at the end of 2020. Well, $26 million pretax doesn't seem like a big number for the company. But when you compare it to investment income on capital, adding that to the regular income and the regular growth, we are very confident we can grow the earnings on the income on capital at a good rate. These gains -- be careful, though. These gains will be classified

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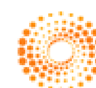

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as AFS gains just because of the designation of the underlying assets, but they are very much part of the regular management of the investment income.

So in conclusion, with 5-year rates being 100 basis points as higher than they were in the past and with $26 million pretax of hedged unrealized gains in the bank, it's in the bank, we are very confident to grow the core investment income on capital between 6% and 10% per annum until the end of 2020, and that is excellent news. That concludes my remarks today.

QUESTIONS AND ANSWERS

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Do we have any questions for Michel? Yes, Tom.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Yes. Michel, you said you wanted to reduce the interest rate risk and eliminate the IRR risk, right? I'm looking at the first quarter, every 10 bps change in interest rates, and the IRR is $13 million. So IRR goes up 10 points, you pick up $13 million. IRR goes down 10 points, you lose $13 million. So you want that to be 0 now?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Our forecast is to take that to 0 by the end of 2020. That's what we said. If you look at the slide there, it shows that without doing anything, it would have gone from $19 million at the end of 2017 to $40 million with the growth in the business. Our plan was to gradually reduce that to 0 by the end of 2020, and we are a little bit ahead of plan, adding it at $13 million at that period of time.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Yes. I mean, it has come down over the last several years.

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Yes, yes, yes. The pace of reduction in this sensitivity will depend on how the market would fluctuate, but we are committed at reducing it at 0 by the end of 2020.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

And that's through your hedging strategy?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Yes.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

So aren't you taking away any of the upside here if we move into a higher rate environment?

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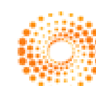

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Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Well, we calculated that because of the extra capital required, it was much better to reduce the downside, to reduce the upside. It was more, I would say, better management for the overall management of the risk of the company, considering the extra capital required with the new LICAT regime.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Because you showed in the sensitivity, the swings in capital under LICAT for interest rates, they have to go up 30% before it's only 1 point -- or no go up a 50 basis points before it's only 1 point on your LICAT. So that doesn't seem to be much of an impact there.

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

I said, and I'll repeat what I said during my -- when I spoke. Capital requirements are much less sensitive to fluctuation interest rates. You're looking at the fluctuation interest rates, okay? But capital required is much higher if the interest rate risk on the balance sheet is higher. That's a different notion. Totally different notion. So the higher the interest rate risk is in the balance sheet, the higher the capital is required. So by reducing the interest rate risk on the balance sheet, we will help the capital management of the company.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

So you got a different outlook than this slide that you guys put on, on the changes in the LICAT formula? Is that what you're trying to tell me? Because the LICAT formula -- the change -- you mentioned the change in LICAT is only 1 point...

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

What you have said about the change is the change in interest rates. Here, I'm talking about the level of interest rate risk, which is not the change in interest rates, okay? That's the difference.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

So are we to think that Industrial Alliance is probably the -- would gain the most as the rates rise? And is that coming off the table now as a result of you...

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

You're talking about the other counterparties. We'll see what happen with the URR. But with respect to the IRR by the end of 2020, the sensitivity should be close to 0.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Are there any more questions for Michel? If not, we're going to get a quick break right now. We'll come back at 10. Or was there another question? Sorry. All right, yes. Is that Natalie?

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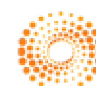

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Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Too late, too late.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Yes, from Natalie Taylor.

Natalie Taylor - *UBS - Analyst*

So based on what you just explained, how much capital release would you expect having 0 IRR risk exposure?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Yes, we talked about that, Jacques and I, and it's a tough question to answer precisely with a number. What we can say is the capital requirement will be lower reducing the IRR sensitivity as opposed to we're not reducing. What the exact number will depend, it will depend on what will happen to the market and many other assumptions. But end of the day, if we were not to do it, the capital required would be much higher, a few basis points on the LICAT ratio.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Are there any more questions for Michel? In that case, we will break for 10 minutes. We'll come back at 10.

(Break)

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

So could we ask everybody to take their seats? We're going to resume. We're going to start the second part of the presentations. We'd just let them get in, please. They should come up.

Our next presenter is Mike Stickney who is Executive Vice President of our U.S. operations.

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

Well, good morning. Can you hear me? It sounds like I'm on. I'm not sure if I have the same tie as the picture. I didn't -- I don't pay attention to details as well as these other guys, I guess. At any rate, we're going to move forward. I got about 10 to 15 minutes on the -- on our U.S. operations. And I'll just start off with talking about what has happened since the last Investor Day, and that's primarily -- I'll talk for the first part here, talk about our life insurance business, and at a high level what has happened is profits improved quite a bit in the last 2 years on that business and sales have gone flat. And as a very good reason for that, and so I'll tell you what it is. And it's all because of one product, which is called ROP term in our world. ROP stands for return of premium. And what it is, just -- it's a term policy, obviously, what it is, just imagine a 20-year term policy, the premium's $1,000 a year, and the way the ROP benefit works is if you pay your $1,000 a year for 20 years, you get all your money back. So you should ask yourself how is the insurance company going to make money at this, and the short answer is we don't. I mean, basically, you need a -- you need a significant percentage of these people to lapse, is what -- it is a lapse-supported product. And so I was looking at it a few years ago, and we -- every fall, we get a report from the actuarials, the pricing report analyzing all our products, and the strain on that product was 0%. And I thought you know what, it's time, it's time to do something with this. So we reorganized it, repriced it, cut back the 100% benefits to 75%, and needless to say, our sales slowed down. We were at -- before the changes, we were doing about $10 million a year in U.S. dollars, $10 million a year of ROP term, today we're doing about $3.5 million. So that's -- from a sales standpoint, our job has been to fill up the hole created by that. We've done a reasonably

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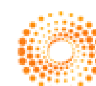

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good job on that but it's -- overall, it's been flat. But it's helped a lot on the financial side, as I said. Strain has gone from -- overall, just because of that product change, 15% back to 2016 to 9% today. Operating income has increased from CAD 16 million to CAD 24 million. Then, obviously, the ROE has increased quite a bit as well. So that's the main change on the Life Insurance side. The main change, I guess, on the rest of the business side is we did an acquisition, as many of you know, on January 23rd this year and we've entered a second market in the U.S., the vehicle warranty market or auto warranties. We paid $135 million for a company called DAC, and obviously, we're now in the U.S. extended warranty market, which is quite a big market. It's 10x as big as the Canadian market, and we're pretty excited about it. It's going to give us the opportunity to -- we expect that our operating profit by 2020 is going to reach CAD 50 million. Our ROE will be at the higher end of our guidance on our U.S. business, and we continue to have appetite for acquisitions. There's many opportunities in the warranty market in the U.S. So it's something that I'm getting calls about every week, every second week right now. So going into more detail, on the life insurance business, we've gone back right to 2013 on this slide. So the strain back to '13 was 35%, and I talked about a change 2 years ago that we implemented in '15, which was to tighten up our underwriting of these -- of our life insurance business basically, and that drove the strain down from 35% to 20% in 2015 and then this -- and actually went down to 15% by '16 because it was introduced mid-year in 2015. Then the ROP change obviously drove it the rest of the way. There'll be some effect from growth in business as well, when we get some strain improvement but certainly those 2 issues were the big drivers. And the operating profit, you can see the steady progression with the changes and the improvement in profitability we made and we get corresponding adjustments or increases on ROE as well.

I'll spend a bit of -- a minute here on the warranty business. As I said, we bought DAC in January and an administrator called SouthwestRe also came along with the acquisition. Basically, we're in the administration of these warranty contracts, that's sort of the core business. The business is mostly reinsured back to -- the typical case is the dealer owns the reinsurance and the business is reinsured back, and it really aligns the interest between us and the dealer in terms of, you know, they're going to write good quality business. And when you think about it that way, it's really a fee-for-service business. We charge about $100 to $120 per contract, and we have to make our margin out of that, but it's relatively low risk. There's not a lot of underwriting risk that comes along with that model. In 2017, we did CAD 450 million in direct written premium measured by dealer cost, and that compares to our Canadian operations at $230 million. To be fair, in Canada, we also do about $350 million, I think, it is of creditor insurance. So it is -- the Canadian operation is quite a bit bigger actually. The rationale for the acquisition, obviously, we wanted to get into a new line of business in the U.S., diversify away from long-term guarantee products. It certainly enhances our ability to grow on the U.S. and gives us some diversification -- further diversification from Canada. The U.S. market is -- in the warranty market, it's huge. It's $15 billion overall, and it's quite fragmented. There is a lot of small players, administrators, agencies and so on. And so we think there's lots of opportunity down the road. And it also leverages -- Denis mentioned this earlier, leverages our expertise of this business in Canada. I use myself as an example. I've been connected to this business since 1987, I hate to say. I joined a company in Vancouver called Seaboard Life in 1987. I bought Seaboard in 1999, and I am still here, I guess, so at any rate, I have been around this business since a long time. It's a good business, I like it. It tends to make money, and I think we've got a good business in the U.S.

So the growth plan, looking forward to 2020 here. Total sales of $650 million, our strain we're targeting to be 8% or less, as I said, operating profit of CAD 50 million and ROE up near the top of our guidance. Going into a bit more detail on these numbers, 2017 -- always have trouble in getting these numbers because they're in Canadian, I think in U.S., but at any rate -- we did CAD 95 million in 2017 in terms of individual sales. We're projecting that to CAD 115 million in 2020. And the projection on the warranty business is $535 million obviously. So that gives a total $650.

So in terms of the -- moving across to the right hand of the slide -- the warranty business, we're basically targeting a growth of 7.5% per annum. And that's what we had in our pricing model when we did the deals, so nothing has changed there. Our main opportunity for growth in terms of organic growth, which is what we're talking about here, is agent recruiting. There's a -- most -- a lot of this business comes from independent agents. We've just got a small sales team. I want to beef that up, internal sales team. And I think we've got lots of opportunity there to grow the business. On the life side, we're targeting growth of 7% on our sales, and this is just more recruiting, which we've been working hard at for the last couple of years, and continuing to do that work. On the profit side, we reported, as I said, CAD 24 million in 2017, and as you know, we've now reporting a separate U.S. line consolidated segment and so this is the Life, 2020 is life and the warranty business combined, CAD 50 million. We're projecting 10% growth on the warranty business from the time of acquisition, and basically, this comes with a 7.5% growth in the sales and an underlying assumption that was in our model that expenses would grow at a slower rate. So overall, the margins would improve over time. And then on the Insurance side, basically, we were projecting 8% growth on profits, and that's just kind of continued management or to continue management actually what we've been doing, managing the strain in the products and trying to improve our margins.

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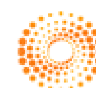

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And a minute here on acquisitions. If you go back to Investor Day 2 years ago, we basically said we were prepared to deploy up to USD 300 million for acquisitions at that time. We ended up spending $135 million, as I just mentioned, so notwithstanding the DAC acquisitions, looking forward, we're prepared to commit up to another $300 million over the next few years. I'd anticipate it could either be in the Life Insurance or in the warranty business. More likely, the warranty business, there's just more opportunity out there. Obviously, the whole point is to accelerate our growth in the -- from the U.S. business, and over time, make it a bigger part of the overall operation.

So that concludes my presentation. And here comes Grace.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Do we have questions for Mike? Do we have any questions? Yes, Paul. Paul Holden.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Thanks. So I'm kind of surprised that you're reinsuring all of the warranty business. My impression was that it's a relatively high-margin business from a insurance standpoint. So maybe you can address that rationale for reinsuring it all. And as well, do you use the same strategy in the Canadian warranty business, reinsuring...?

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

Okay. First, I'll deal with the second part of it, which I don't know. Do we -- we -- I think we reinsure some part of it but not all of it. Yes, the Canadian market is taking a different tack. They do retain the risk. And you're right, in general, warranties is extremely profitable business, like if you go to Best Buy or whatever, they offer you a warranty. Loss ratios on that stuff are really, really low. Car dealer business is a science of itself, and you know we -- when I worked in Canada on this business, we tended to lose money, not that we underwrote a lot, we started as agency. There's a lot of potential for anti-selection. The car dealers basically control the management of the claims and the cost the -- because of the parts of the car and all of that. And so what's developed in the U.S, which I think is brilliant, is that they basically put the car dealer on risk. If you tried to fully insure that business in the automotive market in the U.S., I think you would have a hard time making money. And so the bulk, I'd say, over 90% of it is reinsured.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Yes, Meny Grauman.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Just a question on the acquisition strategy. You talked about continuing to focus on vehicle warranties. I'm wondering is it -- is the intention to increase the geographic spread of the business or what are you looking for? Is it just that there's small players and opportunity to consolidate that you're...

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

Yes, I would say it's more acquiring other smaller players and bolt-on and build a bigger business. In my mind, there's a couple of large players in the U.S. market in the warranty space, a number of medium, and we're in that smaller category, 2% to 3%, let's say, market share. A couple -- 1 or 2 more acquisitions we could get up with the group in the medium size, and we'd be in a much stronger position. So it may turn out to be geographic but for the most part, it'd be smaller ones that we can -- that would be -- that would fit well with what we've got.

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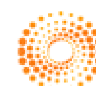

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Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Do you view your business as already a national business or how is that?

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

No, we're not big enough to be a national business. Most of our business is in the South. So Texas, Southeast and a bit in the Southwest.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And then just in terms of -- you talk about moving into that warranty business partly because of the expertise in Canada. I'm wondering -- it seems like you've decided to -- that there are no other business -- no other Canadian businesses that you can kind of transfer the expertise to the U.S. I'm wondering if you could just talk about that. Is that the correct assumption if you're talking about just continuing to focus on insurance and warranties?

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

For the time being, yes. I mean, I think we've got lots of expertise in life insurance that we could use in other life businesses in the U.S. There's just less targets, or if targets come up, they're -- bigger than $300 million, much bigger in some cases. So we just haven't seen the opportunity. But I think both are viable markets for us. And it's not to say that there aren't other markets out there, I mean, that's something that -- these, we decided these 2 were the first 2 we would want to look at in our moving into the U.S. and that's basically where we're at.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

There is a question from Bryan Pilsworth. Yes, the microphone is coming.

Bryan Wilfrid Pilsworth - *Foyston, Gordon & Payne Inc. - President, CEO, Portfolio Manager of Canadian Equities, and Director*

Sorry, this is a dumb question, but what type of warranties are you offering?

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

Extended warranties. So it's warranty on top of what the manufacturer provides, that's the typical product. There's other warranties on smaller stuff, like you can get a warranty on what's called a tire and wheel coverage. So if your tire gets down, that's another coverage we would sell. You can get insurance on your key fob. That's very profitable if -- there's -- but the main one is warranty on the car.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

There is a question from Gabriel Dechaine.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

A couple actually. First, are there any consumer, I mean, sales practices concerns when you offer this type of business? You hear about that frequently when it comes to auto sales in the U.S. and -- well, I'll wait for that answer and then ask the second one.

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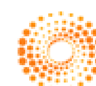

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Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

It's a good question. There is, there is an organization that the Obama administration put into effect called the Consumer Financial Protection Board, I think it is, CFPB. And they mostly have concentrated on lending practices, and have stayed out of the insurance space up until now. So it hasn't been a big problem but there was always concern. However, with the change in the administration and the -- President Trump now, he has basically slowed down the CFPB. The guy who was in charge got fired, and there is a lot less concern today. Now that could change, obviously, with a change in administration down the road, but for now it's not a big concern.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And then the other one, more of a broad strategic question. Why does it make sense for Industrial Alliance to own this business? Is it, hey, we've got primarily a Canadian focus, we want to get a bigger proportion of U.S. earnings for geographic diversification? I'm just wondering how -- you're a financial services company, you offer individual group insurance and wealth management, and then you've got this oddly-fitting warranty business attached to it in the U.S. Why does it make sense for Industrial to have that business?

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

Well, I would -- I guess, in my mind there's 2 issues. One is we have the expertise. We want to expand in areas that we think we can create some synergy with the knowledge we have in our management in Canada, and obviously, in me, I guess. And secondly, obviously, it's going to improve our earnings over time.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

There's a question from Tom MacKinnon.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Mike, I guess, succession planning is a bit of a theme here at Industrial Alliance and you're a seasoned veteran like Yvon. And so -- and maybe you can talk a little bit about that aspect and maybe like the bench strength that you have in U.S., this is a growing operation, we've only really just seen you with respect to...

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

Yes, that's a good question. And you're not alone actually, the board asked me that question when they wanted to -- or when we wanted them to approve the DAC acquisition last year now. And so basically, I committed to continue on with this for another 4 years or so to sort of deal with that, the high level. At -- down line, we have already gone through one change in senior management in Waco. We had a -- when we bought the company in2010, we had a 72-year-old president who had been the president for 30 years. He retired in 2014, and we brought in a -- didn't bring in a new guy, but promoted somebody internally, a guy named Joe Dunlap who has been doing a great job for us since 2014, and I'm pretty happy with Joe. I've got a similar situation now with the DAC business where we -- down line the owner, and his sort of right-hand person are going to retire. One is retiring, one will retire in the next year. And we're looking at our options in that business. I think we have one strong candidate that we hope to be able to promote internally but time will tell. In terms of replacing me, I'm going to let one of these other guys answer that question.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Yes, Sumit. There is a question from Sumit. Oh, sorry, did you have another question, Tom? No, okay.

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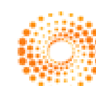

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Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Thanks. Mike, your chart here on screen, it looks very similar to what we've seen from the company in Canada. That one, closer to home has been easier to understand just given the market share, pricing increases and maybe the smaller number of competitors moving together. What's been the key driver for the significant strain improvement? And I'll say, similar to Canada, do you think this has now reached a point where further improvement is more difficult?

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

Yes. It's different in Canada. And you're right. I think the reason is that in Canada price increases were warranted given the products we were selling. We're selling different products. So the solution, I guess, is somewhat different. The big issue was the tightening up of the underwriting. And it wasn't just us. We realized the market was moving on tightening up the underwriting at the same time. And so we just kind of moved with them. And that worked really well. Our sales, we hardly saw a blip at sales. Our sales through that period continued to grow double-digit rates. And then the ROP one is just, that was just a call, a management call. And part of it, I just don't like lapse-supported products. And my view, I mean, I know we've sold a fair amount of it in Canada. And the market, we're a big player in the market. You couldn't not be in that product and be a big player. And the U.S. is so much bigger. We've got options. We chose, okay, we're not going to be in the lapse-supported market. And we'll just go sell more other products. And so we've done it basically without a lot of price increases. We've just made kind of product changes in a few different places. Is there room going forward? I would say, yes, but less room. We've got a couple of situations that we're looking at where the profitability is a bit marginal. And we haven't moved yet, but we're looking at it, thinking about it, but I don't expect to see another 10% adjustment.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

If we stay with the comparison between the 2 countries. You go back 15 years, Industrial has had a lot of success in marrying the individual insurance and the individual wealth operations in Canada. I know you've put the focus on these 2 businesses you're in, in the U.S. at this point. But as far as your insurance business is concerned, would a wealth offering provide a further boost or are the markets just too different?

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

It's possible, but I don't see it over, say, the next 5 years. As you may know, we sold a U.S. annuity operation in 2012. We didn't have the scale and we had a lot of legacy problems. And my own view is, if you're going to compete in wealth, you have to be huge in the U.S. And for us to get there, it would be tough. I mean, you know the story of Great-West and Putnam. I'm sure it's tough.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

I've heard a little bit about it.

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

Yes.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Are there any further questions for Mike? In that case, we'll move on to our next presenter who is Carl Mustos, Executive Vice President of our Wealth operations in Canada.

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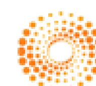

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PRESENTATION

Carl Mustos - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

Thank you. Morning and thank you for the opportunity to speak with you today. My name is Carl Mustos. I run the wealth operations as Grace mentioned. And a lot has happened since 2016, both in the Wealth business, but with iA as well. And I'm excited to dive into that in more detail.

But before doing that, I think I better cover off a couple of key messages before I get carried away. And firstly is that the momentum in our fund company is good. We think we have the foundation for a good, long-term growth trajectory. Secondly, distribution is a cornerstone to our operation. It always has been and always will be. And we've had some success there, but we think that we have tremendous untapped potential. I'll speak to that in a few minutes. And these 2 things combined make us quite confident that for iA, wealth is a big opportunity. And we've had success, but sometimes it feels like we're just getting started.

So since 2016, when we last met, we've had a return to net positive sales. We're quite pleased with that. We think we're setting up for that longer-term growth trajectory on the sales front. There's always going to be short-term market turbulence. There's going to be shifting investor preferences, but longer-term we're setting up quite well. We've had an improvement in our sales, both on a gross and net basis. We've had an improvement across channels and across breadth of products. And all this against a headwind of over $800 million from Laurentian Bank in net redemptions over that same time period. So we're quite pleased with these results.

What I'd like to do is go back to 2016, the Investor Day there, and when we were in the depths of our dark period. We talked about a two-track plan and how we'd identified what we wanted to do to come out. And at that point, we talked about, one was our affiliates. At the time was about $38 billion of MFDA assets. And we knew we had to have good funds and good returns and good marketing and good customer service, but we weren't leveraging our access. And at that time, our affiliates had very low use of solutions, wrap products. So we thought that if we identified the right solutions, perhaps we could change the trajectory, so we launched a few things.

On the third-party track, which at the time, in 2016, was very, very important for us, we recognized the need -- and by the way, we're small in the third-party space -- that we needed to capture the theme. And at that time, we were mostly a domestic equity or domestic balanced fund company. And so we knew we had to capture the theme. So I want to review what we did with those 2 tracks since and what has led to our results.

So first of all, talking about our capturing the theme in the third-party sense. We talked about, we had to launch some new funds. We had to repurpose some funds. We made a whole, massive expansion to our lineup, not knowing exactly what we'd catch. And we had a series of successes, but in particular, our floating rate fund, we hit the spot. We were the #1 net sellers in that category. Our assets more than doubled over that time frame. We've launched funds since then. We've had traction with our global bond fund, our strategic income fund and the list continues. But I just want to show that when the theme presents itself, we're able to attract the talent to capture the theme.

I think what we're really excited about though is our affiliate sales. And you can see here, we got serious post 2015. We got serious about the need to work in a more collaborative -- I would argue on a more wealth basis with manufacturing and distribution. And we coordinated products together. I mentioned in 2016 that we built our managed portfolios. Well, fast-forward, those assets are about $350 million, co-designed with our distributors. And about $1 in $6 that our affiliates send to Clarington is in that solution. So we're really proud of that. And they've been helping us design our global lineup as well.

We work with education. We spent a lot of time getting our advisers to a nominee platform, which is very client-centric, a big movement towards fee-based on the MFDA side. We are above the average MFDA firm in terms of use of fee-based. We're trying to be forward thinking. We expanded our research to help our advisers with market events. And culminating in a greater adaption of the Clarington funds in our lineup and we're very proud of that.

So what does that mean for our strategy going forward? Well, essentially, it's an evolution of that theme. I think the difference though is, we now believe we have the largest network of independent advisers in Canada. If you look at our $80 billion assets across the country -- and this now rather to an equally balanced two-track plan, we have a much stronger foundation for our growth going forward.

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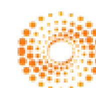

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Now we still have to capture the theme. We still have to be relevant. Again, we're relatively small. But we think that the consistent growth profile will allow us again to finance, if you will, the opportunity for us to be nimble, to capture the themes as they evolve.

Now I'm going to not drink Mike's water. And before I go into our -- a little more forward into our strategy and what that means on the two-track, I want to step out and talk about 2 topics that -- you can't talk about Wealth without talking about fees and regulation, 2 of my favorite topics.

First of all, with respect to fees, they've been coming down. It's well documented. And we've been participating. We did our high-net-worth series. We were, I think, quite innovative there. We took our rebates back to dollar one. We did the auto-conversion, ensuring that investors actually got the rebates that they qualified for. I think we were actually on the front end of the fee-based transition in terms of pricing our F series lower than our A to reflect the savings there. And we did an analysis at the end of last year, and on our fee-based funds against our peer group, 75% of them were at or better than the price in the marketplace. And we did all of this, by the way, by offsetting the fee compression with growth. Now we can't say that's going to happen going forward because it appears there's another wave of fee cuts going on in the industry. And so we'll have to respond in kind. And we will be doing so. And we will remain relevant. But we have a couple of tools in our toolbox.

Scale is very meaningful for our business. Increasing in scale can have a significant impact on our unit costs. We have untapped synergies beyond just the fund company if you look from a broader wealth perspective. We brought together several dealers. And there's synergies to be achieved there. And lastly on the subadvisory side within Clarington, within the Wealth organization and across broader iA, there are subadvisory relationships that could be optimized. And so we think -- who knows where the fee compression ends -- but we think we have tools in our toolbox to help offset that.

Okay. Regulations. How do you prepare a slide knowing that 24 hours before, the regulators are going to put up a 256-page paper on the change in regulations? So I took the easy way out, I put a picture, not knowing exactly what they were going to say. Because it would have been too bold to sort of say, they're going to do this, that or the other. But in reality, notwithstanding we have a lot more analysis to do on the paper that came out yesterday, which is the guidelines, we knew what was going to be in there, for the most part. We knew there was going to be some topic around best interest. We knew there was going to be something around conflict. We knew there was something going to be around compensation that we subsequently learned more details around. We knew there was going to be something around the targeted reforms around KYC, know your client; and KYP, know your product. We knew that was coming and we've been managing our business towards that for a long time. I think, net-net, in response to the regulatory environment is, you have to have 2 things. You have to embrace transparency and you got to be close to the client. Close to the client where you can deliver that value.

I will say an unintended consequence, what I feel is going to happen is shelves. I think shelves are going to be tighter. The KYP requirements, the obligations for the work done in advance and the maintenance and the training required for the advisory network, I don't know how shelves don't shrink. And I guess in that environment, our breadth of our distribution network, it's good to be part of that conversation as opposed to receiving that conversation.

So back to our plan, the two-track 2.0. I just made that up. Capturing the theme is, we still think active investing is the future. PwC study here said passives are going to grow, they say globally from 17% to 25% penetration, but the overall asset and wealth management business has got a big growth profile. And the active space has big opportunity. And that's the space where we think we can deliver value for clients ultimately. And I would add 2 things. Maybe the passives have had a tailwind of liquidity-driven market. And we'll see how that plays out. And we have not seen the adoption of passive strategies in Canada anywhere near what's been experienced globally. And maybe that's because of our home bias and the narrower nature of our marketplace. Our point is, we're committed to the active management space and think we can deliver value to clients in that respect.

So in the current themes, if the themes from 2016 were around income, the current themes in our mind are around global investing and ETFs. First on the global investing, we've got a robust lineup. Our global tactical fund is top decile, 1, 2 and 3 years. We've launched a new global multi-asset fund. This is some feedback from our network. They're saying, there's more of an appetite for outcome-based solutions, particularly in response to a CRM2 world. And this is an absolute return fund that targets CPI plus 5% over the long term. A multi-managed, multi-asset class income fund, a global yield opportunities. The point is, we have a very robust lineup and we're poised to capture that theme.

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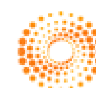

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Regarding ETFs, I'll say 2 things. One, we have no intention of launching passive strategies. We don't plan -- we'll leave that to the large global players. On the active space, we're investigating the active structures for ETFs. Ultimately, I think we want to be structure-agnostic, whether it's a mutual fund or an ETF. There's pros and cons to both. We have to assess whether the benefits of our strategies work in that structure, acknowledging the frictional cost. So it's something that we're actually looking at. But in the meantime, we have something called Forstrong, which is a global macro manager. They have the longest-standing track record in managing globally balanced ETF portfolios in the world. They've been doing this since 2003. They have over $1 billion in assets and most recently had 40% growth in assets and they're on virtually all the dealer platforms. So we won't be doing passive ETFs, but we'll be managing them on behalf of investors.

But like we're happy about on our results to date, what we're really excited about is our network going forward. We believe, and there's no published data to support this, but we believe we're the largest distributor of third-party mutual funds in Canada. We have $80 billion in AUA across the country in virtually every town. We have MFDA. We have IIROC. And what's amazing is the nature of the clients that we serve. The average client in our network has $275,000 in assets. These are the people that, we think, are potentially underserved and are best served by the independent network. These are the people that may not qualify for the high net worth personal services that a lot of the financial institutions are running at. But guess what, their retirement is a very important issue for them as well.

The OSC did a study in 2016, and they said that 56% of people over 50, my people, don't have a plan. 38% have no idea how much to save. And this is the group that we are in the local community serving. And they're looking for that local, trusted practitioner to help them. And these people, they buy mutual funds. So we call it the sweet spot. We're really proud -- this is showing our AUM penetration within our AUA. We've gone from just under $2 billion to over $3 billion in that time frame. And we're pleased with that. But we say we're in the sweet spot because we've got this opportunity and we've had some success, but the opportunity set is huge. Our penetration on a relative basis is actually quite low. From 5%, we've gone down to 4% because of the addition of Hollis. And I'd say 2 things about that. One, that speaks to how much opportunity we have going forward. And secondly, our penetration reflects that we have been regulatory ready, have been earning the access with our affiliates and will continue to do so.

So in 2020, I hope to stand up -- I actually hope to be here in 2020, Denis, the new CEO. I really hope to be here. I hope to stand up here in 2020 and say that we've leveraged the access to our network across Canada and taken the penetration from 4% to 7%, run rate gross sales at the fund company of $3 billion, net positive sales in both channels on a consistent basis, growing both AUA and AUM over that time frame.

My colleagues will speak to this in a bit, but distribution is a business in itself. These can be profitable businesses. But as it relates specifically to Wealth, we have the scale now to deliver the systems, the solutions for the clients. And those are expensive, but we have the scale to do that. We've got the breadth of geography. And really, this is the opportunity to bring value to clients. We've got to leverage that access, co-develop solutions as a Wealth entity, and additionally surround them with other services that we have across our organization. And I don't know if there's any investment bankers in the room, but we are looking for acquisitions on the Wealth side. If there are no questions?

QUESTIONS AND ANSWERS

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

So are there any questions for Carl? Yes, Paul Holden.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

So Carl, 100% agree with your theme of being in the sweet spot. You're the very rare company that's underweight manufacturing and overweight distribution. Most other firms have the opposite problem. But I don't understand why you want to buy more manufacturing. Like what problem are you trying to solve for by buying more? Like if there's some product holes, why not hire talent, bring them in and fill it organically, particularly when you look at the type of ROI you will earn on an organic basis versus acquired.

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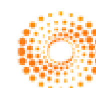

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Carl Mustos - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

Yes. That's a good point. But I think in anticipation of continued fee pressure, scale does make a difference on the manufacturing side. And we can try and grow our way out of that, but AUM would be so beneficial out of the gate. So we can try and grow our way out of it, but we're looking to manage the cost side.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

And then a second question. With the proposed regs announced yesterday, is there anything out of those new KYC, KYP requirements that impacts the way you manage the Wealth side, the distribution business and your ability to maximize penetration with your own product?

Carl Mustos - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

It's fresh, right? This is yesterday's report. I don't see anything that wasn't anticipated. I mean, there was talked about mixed or proprietary shelves, that disclosure. There's already disclosures around that so I don't see any issue there. I think the KYP is going to be a lot harder to execute on at an adviser level. I think we can do it at the dealer level. I think at the end of the day, I think it's actually going to support, because you're going to have more solutions that are created. Because the requirements and the training and the obligations at the adviser front, it's going to be very, very, very hard to execute on. So I think you're going to see -- and like you've seen in the States, more solutions created, which, of course, with the right objectively-assessed criteria, we would hope to be part of.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Are there any more questions for Carl? In that case, we'll move on to our next presenter who is Renée Laflamme. She is the Executive Vice President responsible for Individual Insurance and Wealth.

PRESENTATION

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

Good morning, and I'm very pleased to be with you this morning. What I would like you to remember from my presentations are 3 things: first, retail and group businesses are delivering on objectives and we are growing steadily; the second thing I'd like you to remember is that distribution is a business, and we've talked plenty about it, but we're going to talk again about it; and also, we are reshaping the experience of the adviser and the client. And this is a must. And we're going to discuss on how we do this at iA.

But first, life insurance. Why first? Because life insurance is the locomotive of this company. Jacques mentioned it before, organic growth expected at 4%, with growth of 6% including some growth initiatives that we're going to talk about. And while we do that, we will pursue our strategy towards the lighter capital product. Right now about 65% of our sales are done in lighter capital product. And we are aiming at 70%. As you know, of course, the life insurance business is a mature business, but we believe that iA still have place to grow. We are #4 in sales and premium, and we are #1 in number of policies sold. And really, we are determined to stay #1 in number of policies sold, and we also would like to have one iA product in every household.

Our growth objective is 5% in sales and 4% in premium. Now in order to achieve this, we need to do several things, some of which are, making sure that we have a digital end-to-end experience for our client and adviser. We want to provide them with the best experience. Also, as I said before, we are #1 in number of policies sold, which makes us dominant in the family market, which is also a great competitive advantage. But while we want to keep on doing this, we would also like to increase our market share in the mid- to high net worth.

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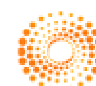

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We are also looking at our sales strategy. The MGA landscape is changing. We're going to talk later about distribution. But of course, that has an impact on our sales and strategy in sales, and we're working at it. The 2 other items that I really would like to insist on, and those are 2 trends in the marketplace that are very important, is the advancement in technology and also the predictive analysis capabilities. And this is key to our business. iA is investing a lot of money, a lot of resources so that we can be the leader in the point of instant approval in the point of sales.

And I would like to take a few minutes to talk about that and introduce you to EVO. EVO is our platform for automated underwriting, instant approval at the point of sales. What EVO does, it makes life easier for adviser, easier for clients, faster turnaround time and more efficiencies for iA. And we talked about the initiatives to improve profit. This is certainly one of them. Right now we have 55% of our policies that are under $500,000 and for insured under 50 years of age that are approved at the point of sales. EVO was introduced in 2016. And right now, 100% of our carrier network is using EVO and 65% of the MGAs are using EVO. And this is a great penetration rate because not so long ago with our old electronic application, only 36% of the MGAs were using it. Again, we're gaining cost efficiencies while using automated underwriting. And we want to maximize the approval at the point of sales. Of course, in doing that, we need to keep the disciplined approach, have a strong predictive analysis and use the technology, thus preserving profitably and not increasing the mortality risk.

The other business that I'd like to talk to you about is the segregated fund business. Why is it so important? Because it's about 15% of the operating profit of the company. We are #1 in net sales since 2016. Now how is it that we are going to keep that pole position? We're aiming at taking our sales from $2 billion to $2.5 billion in 2020. In order to do this, our strategy needs to be tightly linked to technology. We want to have an end-to-end experience for clients and adviser that is digital. We also want to leverage our #1 position in number of policies sold so that we can propose segregated funds in many households in Canada. And finally, we want to increase the penetration with our affiliated networks. So, so far, we've talked about Life Insurance, segregated fund business, and we've covered 2/3 of the profit of the company. So it's time to talk about distribution.

Now it's the time for you to ask, "why did you buy PPI?" So the answer is pretty simple. We bought PPI because distribution is a business, because consolidation is happening right now, and we are a buyer and we bought top-of-class consolidator in PPI. We are building a significant business. And we know the business of distribution because it fits first our activity, and we have a long knowledge and long experience in distribution. So as you know, we have our Career network in the Province of Quebec. We have long-term experience, long-term agents, long-term leaders, good discipline at recruiting, good discipline at training and coaching. We are also distributing through our affiliated MGAs, so those MGAs that are selling pretty much only iA product. And we are also distributing through the regular MGAs, those MGAs that have contracts with other carrier and of course, the consolidator that I just talked about.

In building a meaningful distribution business, we are attracting MGAs that are looking for stability and that are looking for depth of resources. And thus, we create efficiencies because size brings some efficiencies. We know the distribution business. We know, as Carl mentioned in his own business, there are regulation, fair treatment of customer, we find it as an opportunity to build relationship and strong relationship with the clients and the advisers. As Carl mentioned as well, we don't know what the regulators are going to do. And we're all trying to predict, but let's take a scenario where as the regulator would like to put more discipline into the MGA landscape and requires that adviser have a contract with only one MGA, like in the MFDA world. If that was to happen, consolidation will accelerate and the bigger will win. So we think and we are convinced that our position in the distribution business is a key differentiator and a true strategic competitive advantage.

I would like to talk a little bit about group business. It's only good news in group business. So I remind you, what is group business? Group business is group insurance, employer-employee plan, Group Savings and Retirement and special risks. And I have had the responsibility of the group business since 2015. The turnaround is done. We are expecting to exceed our target of $67 million worth of profit in 2019. And we are now aiming at $80 million in 2020 while keeping our growth at 7%. We are delivering on profit. We have a great momentum in terms of top line. And we stand out for our agility. And I will say a word on that because technology is key in the group business. And we are, iA, competing head-to-head with the other carriers. So web portal, smartphone, claims on your smartphones, locating a provider, self-serve information, we have it all. We can answer all the needs of the clients, employers and employees. We offer the flexibility. We offer voluntary product at the workplace using technology. We offer what the employers are looking for beyond the benefit: prevention, wellness program and all those requirements that the employers are now looking for.

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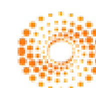

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We are also agile in putting the tools and the products to the marketplace. Right now, 80% of all claims in Group Insurance, health and dental are done electronically. 50% of our members are using the web portal. And we have doubled the usage of the iA app in the last 6 months. So those are other indicators that we can keep on improving profit through those initiatives.

We're very proud of what we've done in the group sector in terms of digital tool and digital initiatives. And we are certainly, and I am certainly determined to pursue this in the Individual division that I'm now responsible for. Using digital to offer the best value proposition to the adviser, use digital to also continue to simplify the process, use the technology to do so, provide best service, best self-serve capability. And I am convinced that the value of advice will stand out as we are minimizing the administrative work that our adviser currently have to do. So we're aiming on technology and investing in technology.

I'm sure that you have felt the passion of all of us with our business and our conviction in growing the business. I'd say that the most important thing is that our management and our teams have the same passion. And they have the same conviction that we can continue on to grow the Individual business and the group business. That distribution is a business that we can grow and leverage. And also that reshaping the client experience and the adviser experience through technology is something that we do well at iA.

So that concludes my presentation. And I'm happy to take any questions.

QUESTIONS AND ANSWERS

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Questions for Renée? Yes, Meny Grauman.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Renée, the one MGA scenario that you talk about, is that your best guess? Is there something that you're seeing that's leading you to that conclusion? I mean, you talk about just the overall transparency, but is there anything specific that tells you this is coming?

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

Nothing specific, lots of discussions. When we look at what's happening on the mutual fund side, we can conclude and we can come to some conclusion. But of course, it's always difficult to predict. Any scenarios that we are looking for, we're trying to be ready for it. And we find that we're very well positioned if that was to happen.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And then if I could just ask on the technology side. I mean, I think you've kind of addressed. Whenever sort of the smaller player talks about technology, the question is about scale and can you compete. I guess to flip it around, when you look across your competitors, is there any technological capability that you have that they don't? Are you looking at technology differently than your peers, would you say?

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

So technology is the same for everybody. We have all the same capabilities that the others have. I think we have a few competitive advantage, one of which is the agility to bring those tools to the market. And the way that we are working and making things happen, to me, is a competitive advantage in terms of delivering it to the marketplace.

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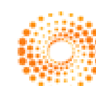

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Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

There's a question from Gabriel Dechaine.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Yes, just got a question on PPI and the trend in commissions to insurance agents over the past few years. I remember the days of 200% first year commission and bonus of that type of payout. What's that -- and that was UL-type product, but how has that evolved over the years? And do you think the consolidation that you're seeing in that distribution network or industry is going to lead to further cost savings on the commission side for your manufacturing side of the business?

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

On the commission side, it's to be seen. The biggest efficiency is being able to leverage the efficiencies of the operation of the MGAs. But for now, we don't have signs of changes in commissions or trends so far.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And then this profit improvement in group. I remember the last Investor Day, I think it was -- anyway, there was a bit more detail on how you're improving your claims adjudication and whatever else, I forget what it was 2 years ago. Could you elaborate a bit more on what's...

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

Yes. So there is not only one factor, there is many factors. Operational efficiency is one for sure. The use of the digital and technology. The management of claims in twofolds, so you have the drug claims, those claims that are high expensive drugs and the management also of disability claims that are key to that business. So many initiatives in and around claims and efficiencies have contributed to the profit of the line of business. And also, as I said, we have a great top line momentum. So in bringing volume that also helps us to strengthen the efficiency of our operations.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Are you seeing any changes in fraud patterns in that business? Cause I hear about frauds in Ontario Auto, some of that being shifted into the Group Insurance business. And what are you doing to stay ahead of...

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

Well, the -- I don't know if the pattern of the fraud has changed. What I know is that we are using algorithms, artificial intelligence to look at those patterns and flag out the odd transaction. So for example, if you have a dentist that receives too many clients in one day or someone that has an awkward pattern of claims, that will come out. With the number of claims that we process obviously all of this needs to be automated, and we have implemented a software and an algorithm and we're currently continuing on improving it.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

There's a question from Sumit Malhotra.

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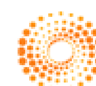

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Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

A lot of times at these investor days, you're just, sort of, listening to the life insurance and the banks talk about technology. The first point that often gets brought up along with increased technology usage is savings and expenses. You made a couple of references to efficiency. I would say in Canada, 2 of your larger competitors over the past year or so have outright announced restructuring programs to try to get their cost base more in line and make further investments in the business. How -- -- and this might be for Denis as well on the company as a whole -- how is iA thinking about their efficiency progress? And where do we, on the outside, see that in your financial results?

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

So I'll answer from the life insurance side. The efficiency sometimes is difficult to demonstrate, because we get more efficient but we also get more volume. So in the end, it may be difficult to measure. There are lots of initiatives. Investment in technology and modernization of our system are current and we do have those measures to come up. In terms of legacy system, because that's probably one of the aspect that you've heard from the competitors, we do are entering into a program to improve and we believe that there is going to be lot of efficiencies right there. And I don't know, Denis, if you have more to say on that?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Yes, maybe I can add on this. One of the themes today is smart choices. And as an organization of our size, we cannot invest $3 billion a year in technology, so we have to make smart choices. And the example that Renée gave on EVO is a great example of that. So the way I look at is, we have what we have, let's say, in our development of IT, the run the business versus the develop the business. How much money do we spend in running the business, like on the IT side, running it like you have to run it and then developing it? And when you look at the -- over the last 3 years, we've grown and developed the business by 57%. So we are investing. Now on the other hand, obviously, it makes good news to be on the newspaper and see you got blah, blah, blah, that kind of number of jobs. But in our thinking, in our philosophy, continuous improvement is key. We've been doing that, not cutting jobs meaning, but creating capacity. Our key in our business, in our company, by implementing the lean process, we have not talked about that, because those are operational efficiencies process, but in our philosophy, we are using the lean philosophy every day on a continuous improvement. And every day, if there is a, let's say, manager that's asking I need more people for this, and more people for that, we just laugh, okay? And the question comes back, how do you create capacity? Create capacity is the way to manage our unit cost. And when we look at our unit cost compared to the competition, particularly on the retail side, we know that we are in a very sweet spot, where we've seen that in the past, there are surveys that show us that. So for us, when you look forward, is to manage it in a smart way, investing where we think it makes more sense. And you've seen through the discussion, we are investing to increase even more our competitive advantage on the distribution side, that's a smart way. We have a competitive advantage on the distribution. Let's make sure that we provide the tools to our distributors so that they are even better. We are buying distribution. And I think all the processes they'll be the best, let's say, MGA in Canada so that we can leverage the technology within those MGA as well, okay? So that we can attract the MGA. So at the end of the day, it's a question of smart choices.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

So I hear you loud and clear. I don't think we are going to be hearing any kind of restructuring charges coming out of iA. But let's ask it this way. Well you've made some references to how much the spend has increased, what do you -- just for our ballparking purposes, how much do you estimate iA is investing or spending in terms of technology in an annual basis, number one. And number two, more to the growth of the company, as you push more of your sales, your distribution through alternative technology, do we see that benefit in higher expected profit in Individual Insurance? Is that the best way we measure your success in this regard?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

I think, to your second question, technology fuels the growth. Technology fuels the growth and it helps on the unit cost at the end of the day.

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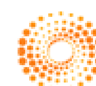

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Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

Yes.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

That would be the answer that I would give. Your first question, sorry I missed. Could you go -- just go back?

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Spend.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Oh, okay. I think rough figure last year, we have invested in the develop the business something like $80 million, 8-0. Just for you to know. And it's about, let's say, if you compare, like I said before, a few years ago, it's a significant increase.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Are there any further questions? Yes, Scott Chan?

Unidentified Participant

Renée, just on the seg funds. Obviously, it's a very important business, 15% of your operating profit, the #1 in net sales since 2016, what's the biggest driver of that? Is it distribution or is it product design? And how do we think about that going forward over the next few years if you can maintain that market share?

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

I think that the main reason for it is distribution. We have a dedicated team that is working only on the seg fund business. How are we going to maintain that? As I mentioned, there is further value that needs to be brought to the marketplace in terms of end-to-end experience in technology, but also increase our presence within the MGA, those that are affiliated, the independent and the consolidators. So really the combination of both.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Yes, there is another question in the back. Could you identify yourself?

Rob Poole - *Picton Mahoney Asset Management - Analyst*

Yes. It's Rob Poole from Picton Mahoney. We haven't heard much mention today of CTL. So just curious if -- there seems to be a bit of consolidation going on in that space too? And would you guys be an active consolidator?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Which is now called iA Auto Finance, for your information. So we rebranded it. So we are very pleased, I must say, to the progress that we've done on the iA Auto Finance side. It's really complementary to what we are offering to the dealers. The growth has been 40% plus. And the credit -- most

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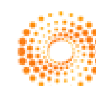

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importantly, the credit experience has been pretty much in line with our expectation. And now this year, it's even better. So we are quite pleased with where we are.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Any further questions? So thank you, Renée.

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance, Savings and Retirement*

Thank you.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Denis, you stay on the stage.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

I know, I know. I know. Just wanted to get my water.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Yes. So we'll just move in to the concluding remarks now, and they will be done by Denis.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Yes. There's a lot of glass of water here, so I just want to make sure that I use the right one. Thank you. And I have my pad here, I took some notes because of some of the questions, so... So as the incoming president of the -- and CEO of the company, with the executive team, and I'm sure you've noticed, that we are really committed on continuing to outperform our industry. And I'd like to go back to my initial comments about the ingredients of our recipe, those are the areas of focus that serves as the basis for sustained performance. So that's the -- and I'll just describe them and then I'll go into some details in the next slide. So our business growth and our commitment to the 10% growth annual EPS, that we have done in the past. The strong foundation in terms of the financial strength, and you've seen it through the conversation with Jacques Potvin. Distribution as a business, we've talked a lot about that. We believe it's a business in itself and it's a core function at iA. And also the focus on making it very easy for the advisers and the clients to do business with iA, leveraging technology. And finally, the obsession, let's call it the obsession that we have for people development that is visible through mobility within the organization, and I invite you to look at the last section, or the previous last section of your book, if you look at the executive team of this company, and if you look at the experience of all the members, you will see that, I mean, people are quite well rounded in the sense that they have been mobile and they went from sector to sectors across their career. So that's an example. This is key to our culture. And it's also quite visible through the competence of our organization and we intend to continue on that for sure.

Now just going back one by one, I'd like to summarize with that. The 10% growth. Now we've heard that we are now prepared to say that the organic growth is 6% a year, thanks to all the initiatives that we did to improve our portfolio of product and all the other initiatives, and Jacques has covered that. We've heard also that the 6% there's -- I mean 6% is being bonified by additional initiatives. So it's not a number that we threw in the air. There has been a systematic analysis as to where is it that we can improve our earnings over the next -- I mean up to IFRS. I mean, we've done the projection. We've talked to the leaders of the various lines of businesses. Even on the investment side, you've seen it through Michel today, he's going to participate in the improvement in the increase of EPS. So you've seen the example on the iA Auto and Home. We are going to solve the issue of the higher claims. Through all the lines of businesses, it's a systematic approach that we are taking, and we see -- we believe that

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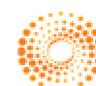

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we can deliver on that minimum 10%. And so we have the 6%, the 3% improvement in the profitability, we've got the 1% on the distribution, and we talked about AUA to AUM, that's one of the tools that's being used. And finally on the acquisition side, we want to continue on that path.

The U.S., because we believe we can grow in Canada, you remember my slide that I showed before. In Canada, we believe it's not a mature market for iA. Even in the U.S., you heard Mike. Mike talking about the U.S. We are very pleased with our business in the U.S. right now. We started that years ago. But especially in 2010, when we bought the American-Amicable, and lately we just entered this market. And there's a lot of synergy between what we did in Canada versus in the U.S. in that market. We knew that market. We knew that market. And it's a market where we knew that we can do tuck-in acquisition. And we are prepared to do that. And we are prepared to invest over the next few years. But even without those acquisitions, that business -- that U.S. business is going to become a meaningful operation within iA.

Distribution. We talked about distribution. If there is one competencies in this organization that stands out, it's our ability to build relationship with distributors. And now we own distribution, we are in an even better spot. And we have a strategy in terms of our affiliated distribution. How can we leverage that more? We have a strategy on that. We have invested a lot. And now it's becoming in itself a business you can see representing more than 10% of our operating profit. But distribution is evolving. Distribution is evolving. And as there's more transparency needed, fair treatment of customer, client expectations are changing, so the relationship between iA distribution and the client needs to evolve using technology, making it very easy. And making sure also -- ensuring that there is added value for the adviser.

Yes, technology at the service of our strategy. And they are smart choices, and Renée spoke about EVO. EVO is the best example of the success that we did using the fact that we have a competitive advantage with distribution and using technology to increase that competitive advantage. So those -- that's another very important ingredient in our recipe. Another ingredient is acquisition. U.S., we talked about it. In the U.S., listen, we are not going to go against Prudential. We are not going to go in the main highway, we are going into small roads. When there's a sizable market in the U.S., it can become a meaningful business for iA, and with some businesses where we have some knowledge like the -- in the extended warranty business with the car dealers. Well that's our strategy in the U.S. And we are prepared to grow by acquisition in the 2 businesses we are in. In terms of distribution, we spoke about that. Now tuck-in acquisitions in Canada, we're prepared to do that as well.

And on the wealth side, obviously, we have not bought manufacturing and there were good questions on that. And yes, we always have in mind what happened in other organizations that bought manufacturing at high scale. And there's been some issues because of net outflows or decreasing -- I mean, the fee compression, for example. We are very knowledgeable of that. So that's why when we go into to a bidding process, we tend to be prudent. We tend to be prudent. And that's why we have not been able to get any. Are we going to change that and be more aggressive? I don't know. I mean, jury is still out, obviously, we'll be -- but in our DNA, we try to be conservative, so we'll see. But obviously, there is a strategy right now to grow with the affiliated network, that's the key point to remember.

Very important: organic generation of capital. The new regime is very, very favorable for iA. The level of our capital has never been so great considering the fact that it's much less sensitive to the macroeconomic environment. It recognizes our good risk management practices more than ever. So we can say that we can improve the capital generation of capital to fund some of our acquisitions, because the best source of capital is profit at the end of the day.

And in conclusion, what I would say when you look at all the ingredients, when you looked at all the presentations that you've heard today, what really makes the difference here is the, what I call the right choices, the smart choices, strategy to me equals choices, what is that we've chosen? How is it that iA has been able to outgrow, outperform the industry over the last 5 years in Canada? Because we made smart choices. We have to, we are smaller than the Big 3. We are still smaller in Canada. Now you saw the trend, right? 25% of the Big 3 in 2012, 53% in 2017. Obviously, our purpose is to move up. So we've been able to outgrow because of right strategy, right choices and the right people, and the right people. The combination of the 2 has been the success of this organization for a long time. And we'll certainly continue to be -- I mean, we certainly want to continue with that path that's been a success, it's going to be our success going forward.

So with that said, I would be prepared to take some final questions.

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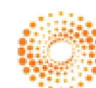

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Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Questions? Yes, Meny Grauman.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

I just had a question about, going back to Michel's slides, 4 and 5. Looking at them a little bit longer, it seems like there's maybe a little bit of a contradiction that I wanted to get your insight into. If I'm looking at the trend for interest rates, obviously, reasonable to assume that there is only room to go up from here, and so the decision to basically take down the IRR sensitivity to 0,can you give a little more insight into why that makes sense from your perspective right now? Why not be more opportunistic and take advantage of a trend that seems to be going in the right direction?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Well, two things I'm going to say here. The first one is that we manage the company for, let's say, low long-term interest rates. That's first. Second, IFRS is coming. Without knowing all the details about IFRS, it may be that the IFRS environment would be more volatile. So we didn't want to have the risk being increased because we never know, it could go up or go down. So basically we did, we said, let's be prudent and diminish that risk over the period up to IFRS. That was the thinking here, those 2 reasons.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Okay. And then if I could just back to your favorite slide that you highlighted and just ask, showing the improvement relative to peers over the last 5 years. And so the question is just, if you look forward at the next 5 years, obviously, you want to keep gaining ground, but I assume it's not realistic to think at the same pace, and so I'm wondering your perspective on how you view that?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

So I'll talk about what we control. So what do we control? Well, we control the 10%. I mean, we say minimum 10%. I mean, based on what we have, all the initiatives that are on the drawing board right now, we believe that we can go that high. Will the industry grow at 10% in Canada over the next few years, that I don't control, okay? What are the strategies they're going to use? So to me, I'm quite confident that growing at 10% plus is quite a challenge. It's huge. So I'm quite confident that it's going to go up. But to what extent? I don't know.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Any further question -- Yes, Tom MacKinnon.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Denis, it's pretty clear to see the organic growth here. But some of the stuff that you talk about, 3% from profit improvement and even in the organic growth in the Individual Insurance I think there was growth initiatives. If you had to say, what are the 4 or -- 3 or 4 most important profit improvement things we should be looking for? And what's going to drive that or the growth initiatives that we see in the Individual Insurance that are going -- that we can use to gauge the success towards this 10% over the next couple of years?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

It's -- I would say that the sources come from everywhere, Tom. Everywhere. All the lines of businesses are contributing, and it's hard to pinpoint only one. It's very hard to pinpoint only one. Certainly, on the iA Auto and Home, it's been difficult lately and because of the harsh action that we are taking, it's certainly one that will help. But when I look at it, and I've got the list of all these improvements, it's pretty much all across the board.

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Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

I mean, the -- one of the big drivers that was an improvement before was bringing the strain and you said now the strain is virtually 0. So is -- if you're getting profitability in initiatives in Individual Insurance, you can't start moving into positive strain, can you here? I mean, aren't we kind of through what we see and do in profitability initiatives in Individual Insurance if we're at 0 strain?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

So again, strain is not going to improve, okay? We've hit the button. So it's not one of the levers that we use for us to say that it's going to go up to 10% plus. And again, it's the sum of all the initiatives and all the various lines of businesses that -- go back 2 years ago, the strain was at a, I would say, reasonably high level, I would say that. It's been even more in the past before. And there was, I would say, a leverage that has a lot of work to do. I mean, it was not easy for this organization to bring the strain down. There's been a lot of work behind that. Now it's over. Now we are facing different challenges. So now we are working on other initiatives, like -- we mentioned today, like AUA to AUM. We talked about iA Auto and Home, we talk about investment income, we talk about operational efficiencies, we talk about using digital to simplify. There is a lot of things.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Okay. And then on -- with respect to distribution, I think you had just mentioned that distribution is now like 11% of your operating income in 2018, what do you mean by -- is that just the commissions you collect? What are those, the earnings or what is that?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

That's the profit. It's profit. So if you take the profit out of all the HollisWealth and PPI and altogether, you put that together, versus all the operating profits of the company, it's 11%.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

So if you bought distribution and they brought in an insurance policy to you, is that part of the -- is that part of the 11%?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

No, no, no. No, that's manufacturing.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

So this would strictly just be any revenue you collect but then you have to pay them commissions outside of that...

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Revenue less their expenses.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

But you embed that all stuff in as expected profits, it's not -- I'm just wondering if that stuff should be separately disclosed.

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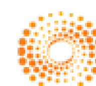

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Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Right now it is not. I mean, maybe in the future. If it's become 50% of the company, I'm just kidding, but if it was to be something sizable, maybe we would say, okay, we'll put it separately. But for the time being, it's being part of the...

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Intact Financial, it may not be much more than 10 or 12 -- 10% to 15% of their earnings and they disclose it so...

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

There's a question here from Bryan Pilsworth...

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Thanks for your comment, Tom.

Bryan Wilfrid Pilsworth - *Foyston, Gordon & Payne Inc. - President, CEO, Portfolio Manager of Canadian Equities, and Director*

We should commend the company for the earnings growth. I mean, obviously, you've done a great track record and done it ahead of some of your peers. My question though is really just on that trajectory and return on equity, do you see the same return on equity profile? And also just in terms of when you start allocating capital, how are you thinking about that?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

So lately, we are saying we are improving our profitability and you see it through the growth of EPS, but you have not seen it with the ROE. So basically, the answer is quite simple. Short term, the acquisition we made is ROE dilutive, but the trajectory should be on the high side as we get to the profitability of those acquisitions. That's a simple answer.

Bryan Wilfrid Pilsworth - *Foyston, Gordon & Payne Inc. - President, CEO, Portfolio Manager of Canadian Equities, and Director*

Right. So would you assume that the range -- I'm just talking for iA in total. Would you assume that the range should stay the same consistently over the next few years? Or do you see possibility that with all of your initiatives they could go higher?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

So our guidance is just going to be the same because we still continue to have this acquisition strategy so -- I mean, that would be my simple answer.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Are there any further questions for any of the speakers? Well, that will conclude our Investor Day for 2018.

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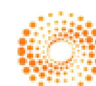

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Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Incoming President and Chief Executive Officer*

Thank you.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Please join us for lunch across the hall. We're going to be providing a webcast file and an audio recording on the website this afternoon. And if you have any further questions, we'd be happy to discuss them over lunch. Thank you.

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