iA Investment Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **July** / 2015

Economic and Market Overview

Clément Gignac

International

It seems that we come back to it every quarter: China's economy is slowing. Despite efforts to stimulate demand by households, which are being counted on as the future drivers of economic growth instead of businesses and foreign investors, demand for credit reached a historic low in the second quarter of 2015. Same story for companies, where investments have slowed to their slowest pace of growth in 15 years. And given the low rates of return being offered, international investors are pulling out of the country.

Europe

As the second quarter drew to a close, everyone was waiting for the results of the referendum, which will ultimately decide whether or not the Greek people wish to remain in the euro zone. Apart from the Greek political situation, the tone of economic data has been rather encouraging since the start of the year. Economic growth has spread to the peripheral countries, mainly Spain and Portugal where spending restraints appear to be bearing fruit.

United States

First-quarter weakness has been confirmed, with a 0.2% drop in U.S. gross domestic product (GDP) resulting from the weakness in energy sector investments and the decline in international trade, affected by port strikes on the west coast and the dollar's strength. However, this result masks the vigour of household consumption, a sign that the elements weighing on growth in the first quarter were of a temporary nature. Second-quarter growth is looking positive, buoyed by the rebound in exports, gains on the labour market, and the acceleration in the housing sector.

Canada

The Canadian economy being what it is, the impact of the collapse in oil prices does not affect all citizens and Canadian businesses in the same way. The oil-producing provinces (Alberta, Saskatchewan and Newfoundland) are suffering from a significant decrease in export revenues, while the other provinces are benefitting from discounts at the pump.

/ iA Strategy

For the first time since our arrival as managers of the diversified funds at the end of 2012, our strategy is to remain neutral in equities. The reason is simple: with no convincing evidence pointing to the future direction of the stock markets, which seem fully valued, we prefer to increase our holdings in cash and protect the portfolio while positioning it advantageously should a market opportunity present itself. Meanwhile, stock picking becomes even more important as a means of adding value to the fund.

Our strategy aims primarily to protect the portfolio; we believe that by limiting the potential for losses, while acting in an opportunist manner when occasions arise, we will be able to offer a better return than our peers. Therefore, in the absence of a strong conviction, prudence is the best avenue. We are still of the opinion that it is impossible to accurately predict the moment a market will decline, but our more defensive strategy is influenced by anticipations of a widespread return to volatility in the coming quarters.

iA Financial Group

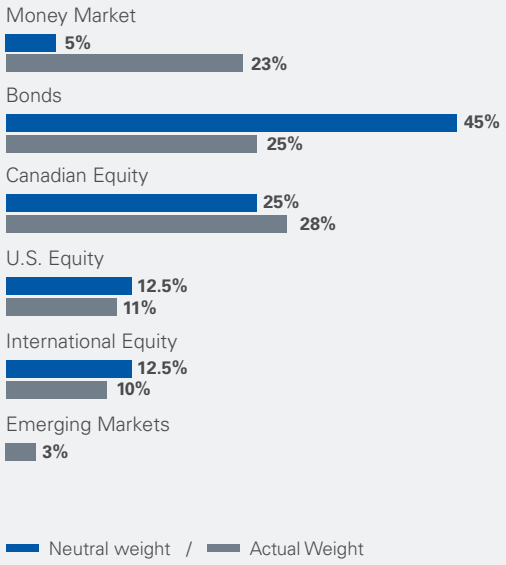
/ iA Managed Solutions

Diversified funds

The neutrality of our exposure to equities is maintained approximately according to geographic regions. Canadian equities now make up 28% of the Diversified Fund, slightly more than the 25% target, of which 10% are invested in small-cap stocks. International equities now represent less than 24% of the assets, including a 3% exposure to emerging markets by means of a position in an exchange-traded fund (ETF) reproducing the MSCI Mexico Index.

The weight of bonds remains well below the target, at 25% compared to a target of 45%, for the reasons explained in the last few quarters as well as those described above.

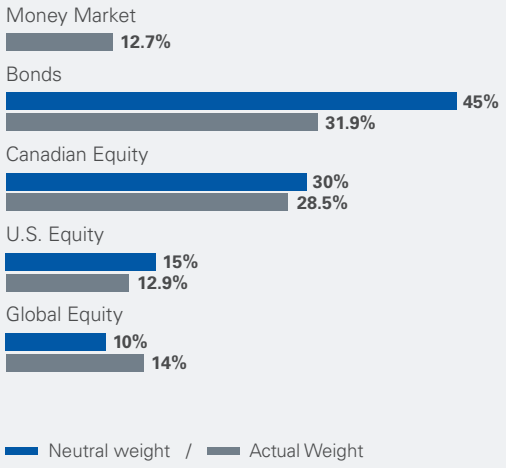
Finally, at its peak the cash balance represented more than 22% of the fund's assets during the quarter, with more than half exposed directly to the U.S. dollar. We have maintained our strategy of holding U.S. treasury bonds directly and made use of the strategy employed in 2014 consisting of holding a position in an ETF that replicates the performance of the U.S. dollar in relation to a basket of the world's major currencies, composed predominantly of the euro and the yen.



Selection funds

Neutrality towards stocks is also being implemented in the Selection funds, but we remain overweight about 5% for the time being in the Balanced Selection Fund. The reason is that we made some room for new international equity portfolio managers along with Brad Radin, namely Pierre Chapdelaine and Sevgi Ipek from iAIM, which were automatically given a neutral exposure. We are thus temporarily overweight 4% in global equities. U.S. equities are underweighted by 1%, targeted on the iA Clarington Sarbit U.S. Equity Fund, as this fund is currency hedged. Finally, Canadian equities are slightly underweight and we have a clear preference for the dividend mandate.

Here also we are careful towards bonds, which we underweight by 13%.



Focus funds

A family of five funds, made up of various sub-funds, with asset allocations and risk profiles that correspond to each investor profile. Focus funds are for investors who want their portfolio to reflect their risk tolerance at all times (with monthly rebalancing), regardless of the economic environment.

/ Featured Funds

Global True Conviction

Products offered: IAG SRP 75/75, 75/100, Hybrid

Portfolio Manager

Industrial Alliance Investment Management Inc.

CIFSC Fund Category
(Canadian Investment Funds Standards Committee)

Global Equity

Lead portfolio managers:

Marc Gagnon, CFA (Canadian Equities)
- MBA, Laval University
- Bachelor's degree in Business Administration, Laval University
- Joined iAIM in 1998

Pierre Trottier, CFA (U.S. Equities)
- MBA, Laval University / South Florida University
- Bachelor's degree in Actuarial Science and degree in Economics, Laval University
- Joined iAIM in 2006

Pierre Chapdelaine, CFA (International Equities)
- MBA in Finance and Accounting, Notre Dame University
- B.Sc. Engineering, McGill University
- Joined iAIM in 2008

Sevgi Ipek, CFA (International Equities)
- MA in Economics, Catholic University of Louvain, Belgium
- Joined iAIM in 2008

Why consider this fund:

— High-conviction portfolio

— Portfolio of around 45 securities invested equally in Canada, the United States and Europe/Asia:
  - Maximum of 15 securities in Canada
  - Maximum of 15 securities in the U.S.
  - Maximum of 15 securities in Europe/Asia

— The three sub-portfolios are managed by three different teams that aim to include their highest-conviction investment ideas

Investment style & other characteristics:

— Investment style: Blend (growth and value)

— Aims to achieve high total investment return

— Uses a pure stock-selection strategy

— Excellent complement to a core global equity portfolio

— May be slightly more volatile but has a greater potential return while investing in large market capitalization stocks

— Risk management criteria nonetheless ensure proper sector diversification

— Currently no currency hedging, but the possibility does exist

Current Fund Strategy

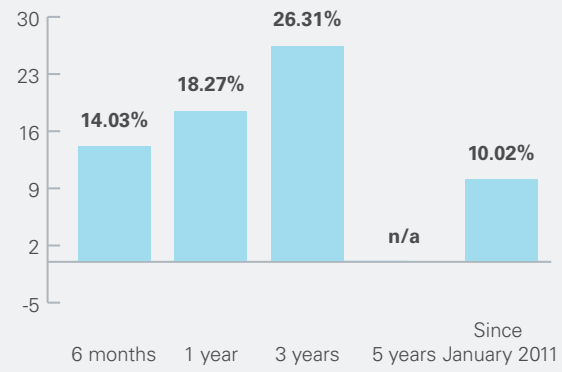
Canada: We will maintain a non-resource cyclical exposure for the fund during the coming months. We prefer securities with a North American domestic exposure to areas such as industrial products (CN Railway) and consumer discretionary (Magna International and Linamar). Thus, the weighting of the securities involved in the materials and energy sector will continue to be low relative to the index.

United States: We have increased our exposure to the banking sector (Suntrust Banks and JP Morgan) in the context where the Fed should eventually increase its interest rates. This should help bank profits by generating higher net interest margins. We remain cautious with respect to the sectors of energy and materials as we favour sectors more exposed to the domestic economy and that are less cyclical.

International: We have increased our allocation to more predictable developed markets by adding new holdings in the healthcare (Shire Plc) and financials (Virgin Money) segments. Our largest sector allocations are in the discretionary and staples consumer sectors, healthcare and information technology. In terms of countries, our most overweight and favoured region is Europe.

Global True Conviction

Net compound returns[1]
As at June 30, 2015



Growth of $10,000
Since inception

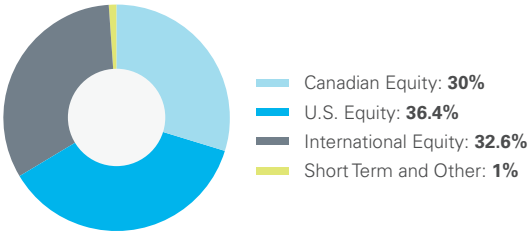
Classic Series 75/75

[1] These returns are on a net basis, for the Classic Series 75/75 of the IAG SRP

iAIM Snapshot

- Founded in 2004
- Assets under management: more than $75 billion
- More than 140 employees, including 73 investment professionals
- Firm emphasis on fundamental analysis and long-term investment

Asset Mix
As at June 30, 2015



Sector Allocation
As at June 30, 2015

Sector	Global True Conviction (%)	MSCI World (%)	Deviation (%)
Consumer Staples	11.5	9.7	1.8
Consumer Discretionary	22.6	13.2	9.4
Health Care	17.8	13.5	4.3
Utilities		3.0	(3.0)
Energy	2.0	7.2	(5.2)
Information Technology	14.4	13.3	1.1
Materials	3.6	5.1	(1.5)
Telecommunication Services		3.3	(3.3)
Industrials	5.5	10.7	(5.2)
Financials	21.6	21.1	0.5
Cash & Other	1.0	-	1.0

TOP 10 holdings of the fund
As at June 30, 2015

Royal Bank of Canada	3.7%
ING Groep NV	3.6%
Magna International Inc.	3.0%
Element Financial Corp.	2.9%
Virgin Money Holdings (UK) PLC	2.8%
Biogen Idec Inc.	2.8%
Home Depot Inc.	2.7%
CGI Group Inc., Class A, SV	2.7%
The Walt Disney Co.	2.7%
Valeant Pharmaceuticals International Inc.	2.7%
	29.6%

/ Featured Funds

Strategic Equity Income

Products offered: IAG SRP 75/75, 75/100, 100/100, Ecoflex, Ecofl*extra*, FORLIFE, Hybrid

Portfolio Manager

iA Clarington Investments Inc.

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

Canadian Dividend & Income Equity

Lead portfolio manager

Dan Bastasic

- Manages over $4 billion in assets
- Master of Business Administration (MBA)
- Bachelor of Commerce degree (finance)
- Holds the Chartered Financial Analyst (CFA) designation
- Joined iA Clarington in 2011 (over 15 years of investment experience)
- Expertise in the equity and equity income categories along with the high yield and corporate bond sectors

Why consider this fund:

- Dividend growth-focused mandate emphasizes capital appreciation and income
- Award-winning manager
- Investment approach that endeavours to strategically position the fund through all market conditions
- Investing in a dividend fund offers stable, predictable returns, and while they may lag the performance of the broader market during economic expansion, they offer much greater downside protection during recessions and financial crises
- If you are seeking higher long-term returns and lower portfolio volatility, you may consider adding exposure to core dividend-paying stocks to improve your prospects for better performance
- Can hold up to 30% in foreign dividend-paying stocks

Investment style & other characteristics:

- Value-oriented bottom-up approach
- Aims to invest in high quality dividend-paying companies to pursue absolute return, monthly income and a smoother ride during uncertain times
- Focused portfolio of 45 securities
- Less volatile than the S&P/TSX Composite Index
- Partial currency hedging (typically 60–90%) to protect the Canadian-dollar value of the portfolio

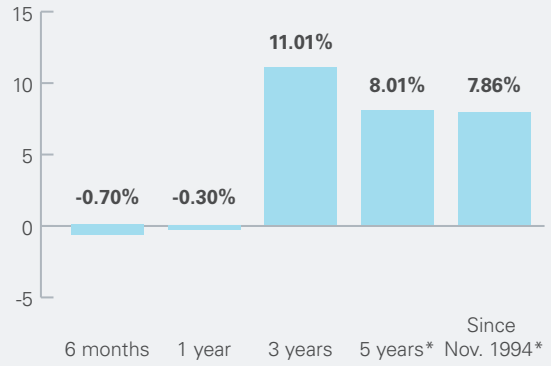
Current Fund Strategy

The fund has been positioned as if the portfolio manager had accumulated more than normal cash positions, providing unitholders with a defensive stance during this period of volatility while at the same time giving them exposure to financial companies whose prospects are sure to improve as the year unfolds. Looking forward from an economic perspective, the portfolio manager expects the U.S. economy to moderately accelerate over the next twelve months while the impacts of higher rates will be priced into the market giving way to attractive valuations in the most cash flow stable parts of the market. The portfolio manager believes that the U.S. dollar is likely to remain well bid during the year, however expects the outsized currency gains that Canadian investors have enjoyed in their U.S. holdings to be limited in 2016.

The fund's two largest contributors to performance during the past quarter included positions in Williams Companies and Manulife Financial. Williams Companies, a large U.S. energy infrastructure company performed well during the quarter primarily due to an offer of purchase for the company by Energy Transfer Partners. Manulife Financial provides insurance and investment products across North America and Asia. Manulife outperformed during the quarter as increases in current interest rates and expectations for higher interest rates improved the company's earnings outlook and valuation expectations.

Strategic Equity Income

Net compound returns[1]
As at June 30, 2015



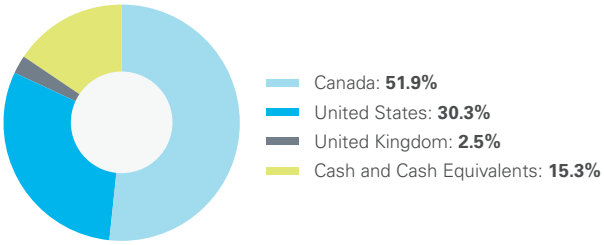
* Simulation of past returns as if the fund had been in effect for these periods

Growth of $10,000
Since inception

Classic Series 75/75
Simulation of past returns as if the fund had been in effect for these periods

[1] These returns are on a net basis, for the Classic Series 75/75 of the IAG SRP

Asset Mix
As at June 30, 2015



Sector Allocation
As at June 30, 2015

Sector	Strategic Equity Income (%)	S&P/TSX Index (%)	Deviation (%)
Consumer Staples	8.2	3.8	4.4
Consumer Discretionary	9.3	6.8	2.5
Health Care	6.0	6.0	-
Utilities	8.4	2.1	6.3
Energy	10.1	20.4	(10.3)
Information Technology	2.0	2.5	(0.5)
Materials	5.7	10.8	(5.1)
Telecommunication Services	7.8	4.9	2.9
Industrials	6.8	7.8	(1.0)
Financials	20.4	35.0	(14.6)
Cash & Other	15.3	-	15.3

TOP 10 holdings of the fund
As at June 30, 2015

Manulife Financial Corp.	3.5%
Pfizer Inc.	3.4%
CCL Industries Inc., Class B, NV	3.3%
Loblaw Companies Ltd.	3.1%
The Toronto-Dominion Bank	2.9%
Wells Fargo & Co.	2.9%
Progressive Waste Solutions Ltd.	2.7%
Brookfield Infrastructure Partners LP	2.7%
Johnson & Johnson	2.7%
Royal Bank of Canada	2.6%
	29.8%

/ Featured Funds

Fidelity American High Yield Currency Neutral Fund

Fund offered: IAG SRP (Classic Series 75/75 and Series 75/100), Ecofl*extra* (Classic Series 75/75)

Portfolio Manager

Fidelity Investments Canada ULC

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

High Yield Fixed Income

Lead portfolio manager

Harley Lank

- MBA, Wharton School of Business, University of Pennsylvania
- BSc in Business, Syracuse University
- Joined Fidelity in 1990
- Also manages: CLO Money Pools and Preferred Stocks, FF US High Yield Fund and Puritan High Income Sub

Why consider this fund:

— Complement to traditional bond funds within a long-term investment strategy

— Reduced potential impact of interest rate hikes thanks to superior coupons and the presence of bonds with interest rate adjusted variable coupons

— Potentially higher returns from investments in hand-picked securities of lower quality, but with higher levels of credit risk

— Portfolio term typically shorter than traditional bond funds

— Exposure to the potential of the U.S. high yield investment market, but with minimal exposure to currency risk (fund fully hedged in Canadian dollars)

Investment style & other characteristics:

— Investment in lower quality fixed income securities offering higher returns, preferred shares and convertibles

— Focus on performance and on companies with a solid cash flow production capacity and capital structure

— Possibility of up to 20% non-U.S. securities

— Limit of 25% of assets invested in any one industry

— Diversified portfolio holding 200 to 300 securities

— Morningstar five-star rating in the high yield fixed income category

Current Fund Strategy

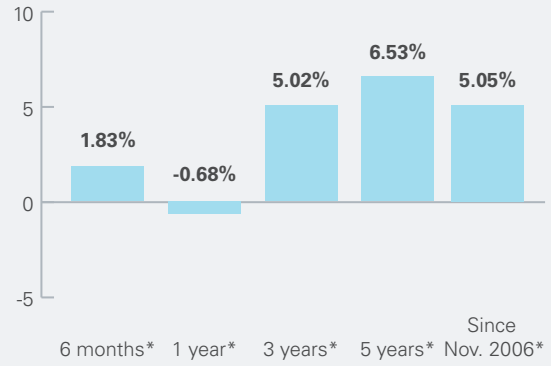
The fund continued to invest across all sectors of the high yield market to provide investors with broad market exposure and industry diversification. Portfolio manager Harley Lank believes it makes sense to maintain a neutral credit risk profile in line with the benchmark. At the end of the period, the fund diverged most from the benchmark's weightings by having a larger-than-benchmark allocation to the Banks & Thrifts industry and a smaller-than-benchmark allocation to the Mining/Metals and Energy industries.

In terms of credit quality, the fund ended the period with less exposure than the benchmark to BB-rated issues given their higher sensitivity to interest rate risk and less attractive risk/reward profile. The portfolio manager held less than the benchmark in lower-quality tiers, with the aim of reducing credit risk in the portfolio. The fund's allocation to floating-rate debt slightly decreased as valuations became less attractive, ending the quarter at 7.9%. As credit conditions started to improve, the manager preferred high-yield bonds because these assets are expected to outperform floating-rate bonds in total returns.

Portfolio manager Harley Lank believes that the U.S. economy should see modest acceleration and treasury yields are expected to rise higher. He expects the near-term default rate to remain below the long-term average given that issuers have been able to reduce interest costs. The portfolio manager believes that current valuations are reasonable, given that prices are trading below par and corporate fundamentals remain strong. He expects that credit spreads may tighten but gains in prices would be partially offset by rising interest rates. He continues to take a longer-term investment approach and remains invested in companies he believes have good upside potential.

Fidelity American High Yield Currency Neutral Fund

Net compound returns[1]
As at June 30, 2015



* Simulation of past returns as if the fund had been in effect for these periods

Growth of $10,000
Since inception

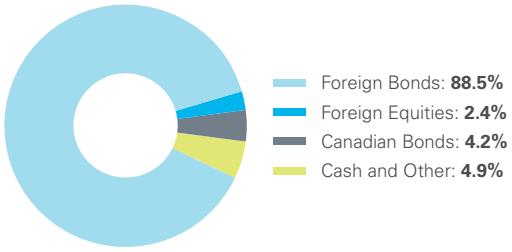
Simulation of past returns as if the fund had been in effect for these periods

[1] These returns are on a net basis, for the Classic Series 75/75 of the IAG SRP

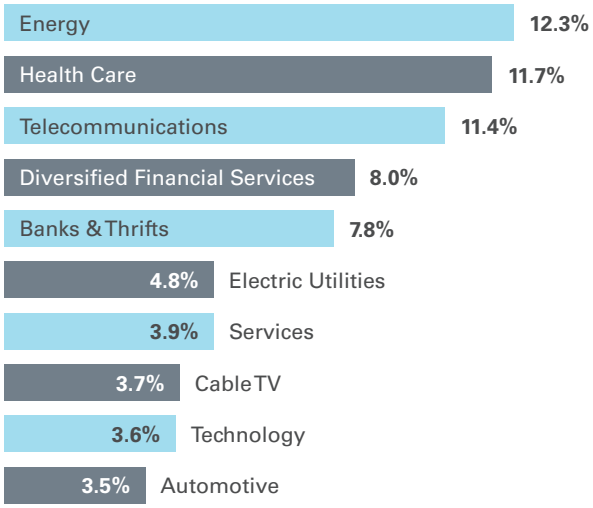
Fidelity Snapshot

- Founded in 1946
- Assets under management: $2.0 trillion
- More than 800 investment professionals
- Global presence

Asset Mix
As at June 30, 2015



Sector Mix
As at June 30, 2015



Quarterly Top Five Issuers
As at June 30, 2015

Ally Financial
GMAC
HCA
International Lease Finance Corp.
SLM CORP

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/ Useful links

Morningstar

http://www2.morningstar.ca/covers/fund_ca.aspx?culture=en-CA

Fidelity

http://www.fidelity.ca/cs/Satellite/en/public/home

Economic and Financial Publications (ia.ca)

http://ia.ca/individuals/epargeindividuelle/publications-savings

Economic News with Clément Gignac and His Team (ia.ca)

http://ia.ca/economic-publications/posts

IAG Savings and Retirement Plan (ia.ca)

http://ia.ca/iag-savings-and-retirement-plan

FORLIFE Series

http://forlifeseries.ca/docs/

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