iA Investment
Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **October** / 2015

Economic and Market Overview

Clément Gignac

International

All eyes were riveted on China in the third quarter, as it took centre stage to replace the political crisis in Greece, which has been resolved, at least for the time being. The Chinese economy is clearly in the middle of a slowdown, as has been repeated each quarter, and the signs of fragility are still clear. Official statistics are reporting annual growth of 7%, but some implicit indicators based on real economic activity (rail transport, electricity consumption, loans issued by banks) suggest a much lower growth rate.

Europe

The political crisis in Greece seems behind us for the moment, but now the reforms imposed on the Greek government by the European authorities will have to be implemented. Elsewhere in Europe, economic data continue to show modest improvement, although we are still far from enviable levels of growth. In fact, the ECB has suggested it may extend its quantitative easing (QE) program and even increase the sums injected into the markets each month.

United States

In the third quarter, we witnessed the magic of economic data revisions once again: U.S growth for the first quarter was revised into positive territory, to 0.6% (versus the previous estimate of -0.2%) and second-quarter growth was raised to 3.9%, placing the U.S. economy on excellent footing for the second half of the year. Indeed, there are positive signs wherever we look. Despite all this, the Fed opted on September 17 to maintain its ultra-accommodating monetary policy.

Canada

After two consecutive quarters of declining GDP, Canada is officially in a technical recession. However, we believe the word "contraction" would be more appropriate to describe the economy at the Canada-wide level, and that the word "recession" should be reserved for Alberta and other oil-producing provinces, where up to 25% of the economic activity depends directly on the oil and gas industry.

/ Strategy

As in the summer of 2014, when low volatility in the markets made us skeptical, we once again maintained our exposure to equities at a lower level than usual, to the point of being basically neutral in equities. Our strategy described in the previous quarter of increasing the cash position and protecting the portfolio while positioning it to take advantage of market opportunities paid off once again as we were well positioned to take advantage of the decline in the markets.

The correction that took place during the quarter therefore opened the door for us to increase our weighting in equities. While panic was taking hold and the stock market was offering very attractive prices, we took the opportunity to use a portion of the accumulated cash to make some choice purchases.

iA Financial Group

/ iA Managed Solutions

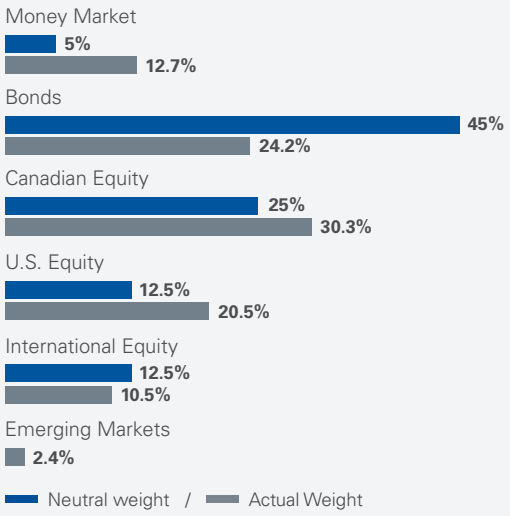
Diversified funds

Our strategy consisted primarily in increasing the weight of international equities and re-establishing a neutral weight in Canadian equities (which had been underweight until then). We also introduced targeted exposures to some sectors of the S&P 500, such as banks and real estate builders, which should both benefit from the momentum of the U.S. real estate sector.

Our wave of equity purchases at the end of the quarter brought the Diversified Fund's exposure to equities above the neutral targets dictated by the investment policy. Canadian equities now represent more than 30% of the Diversified Fund, of which 9% are in small-cap stocks. U.S. and International equities once again account for nearly 30% of the assets, including a 2.4% exposure to the emerging markets by means of a position in an exchange-traded fund (ETF) replicating the MSCI Mexico index.

The weight of bonds remains below the target, at 24% against a target of 45%, due to our lack of conviction with respect to this asset class, and the caution warranted by an imminent increase in the Fed's key policy rate.

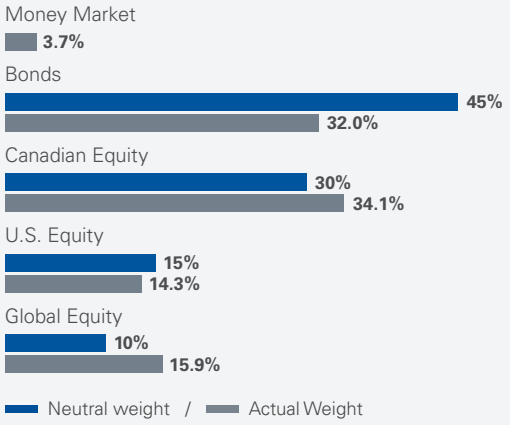
Finally, the cash balance now represents about 13% of the fund's assets, and we no longer hold any direct exposure to the U.S. dollar. At the loonie's current level (below 75 cents U.S. at the end of the quarter), we are no longer as convinced about the future movements of our currency.



Selection funds

As in the Diversified funds, we used the correction to significantly raise our equities exposure. The Selection Balanced fund is now 9% overweight in equities including a 4% overweight to Canadian stocks.

We remain careful towards bonds, which we underweight by 13%. Cash has been shaved during the recent buying spree, but still holds a 4% weight so as to remain flexible if another market pullback came our way.



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

Diversified Security

Offered in all our products

Portfolio Manager

iA Investment Management Inc. (iAIM)

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

Canadian Fixed Income Balanced

Lead portfolio manager:

Clément Gignac

- Senior Vice-President and Chief Economist
- Former Vice-President and Chief Economist at National Bank Financial
- In 2009, took up public office as Quebec Minister of Economic Development and Minister of Natural Resources
- Manages over $4 billion in assets

Why consider this fund:

— Simplicity of managed solutions

— Investment solution requiring few advisor interventions and offering an optimal diversification

— The allocation of assets is tactically managed and determined by our strategist, looking to benefit from economic and financial events

— The investments are selected by experts specialized in their particular asset class

— Over the past three years, this Fund has had a lower volatility than the bond market, with higher returns than the S&P/TSX and the bond market (see the graph on next page)

Investment style & other characteristics:

— Balanced fund providing diversification across all major asset classes, combining top-down and bottom-up research, with a strong focus on downside protection

— Target allocation: 70% in fixed income securities, 15% in Canadian equities and 15% in foreign equities

— Significant degree of leeway to move within investment limits (± 20% from target allocation)

— Combines capital growth with current income

Current Fund strategy

The exposure to stocks and bonds was below neutral during the third quarter as stock market volatility was deemed too low (a sign of complacency) during the summer months and the historically low levels of interest rates made expected returns on bonds unattractive.

The correction that took place during the quarter therefore opened the door for us to increase our weighting in equities. While panic was taking hold and the stock market was offering very attractive prices, we took the opportunity to use a portion of the accumulated cash to make some choice purchases.

Our strategy consisted primarily in increasing the weight of foreign equities and re-establishing a neutral weight in Canadian equities (which had been underweight until then). We also introduced targeted exposures to some sectors of the S&P 500, such as banks and real estate builders, which should both benefit from the momentum of the U.S. real estate sector.

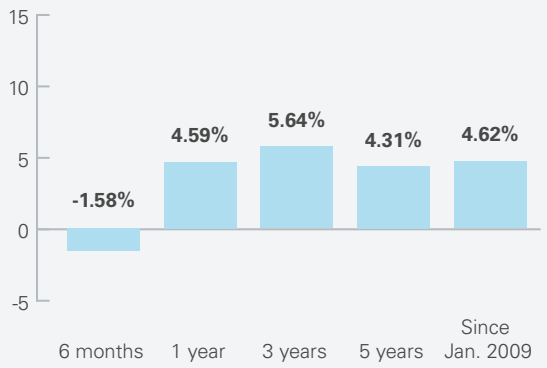
The fund currently overweighs equities by 5%, at 35% exposure. Canadian equities are neutrally weighted while foreign markets are overweight.

In an environment where many expect the Federal Reserve to hike its leading rate for the first time in almost ten years, the managers prefer to hold cash rather than bonds, leading to a 45% exposure to bonds, close to the minimum, and a 20% exposure to cash, close to the maximum.

The depreciation of the Canadian dollar continued throughout the quarter. The loonie dropped from US$0.80 to US$0.75 since the end of July, once again favouring the return of our foreign investments. At the current level, it is difficult to formulate specific expectations for the loonie for the rest of the year; therefore, at the end of the third quarter, we were no longer holding positions on the U.S. monetary market.

Diversified Security

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



* 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.

Growth of $10,000
Since inception

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

iAIM Snapshot

- Founded in 2004
- Assets under management: more than $75 billion
- More than 130 employees, including 75 investment professionals
- Firm emphasis on fundamental analysis and long-term investment

Asset Mix
As at September 30, 2015

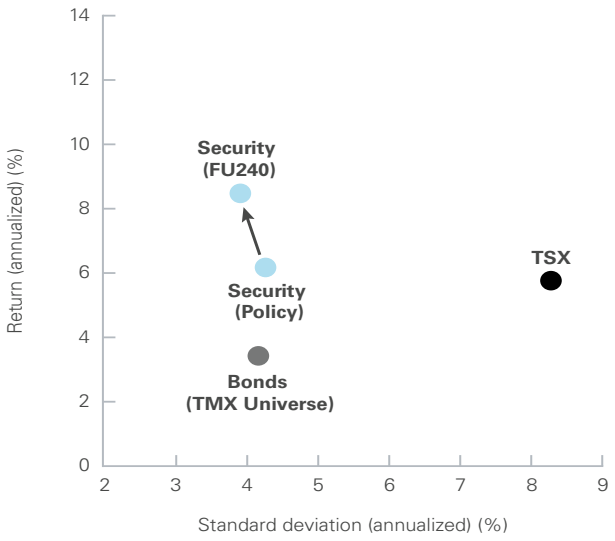
	Minimum (%)	Neutral Weight (%)	Maximum (%)	Actual Weight (%)
Money Market	-	5.0	25.0	20.0
Bonds	40.0	65.0	90.0	44.8
Total - Fixed Income	40.0	70.0	90.0	64.8
Canadian Equity	-	15.0	35.0	14.6
U.S. Equities	-	-	-	15.7
International Equities	-	-	-	4.8
Total - Foreign Equities	-	15.0	35.0	20.6
Total - Portfolio	**-**	**100.0**	**-**	**100.0**

How we added value while protecting the portfolio

	Capture ratios*			
	Upside		Downside	
	1 year	3 years	1 year	3 years
Diversified Security	126.1	118.1	98.9	107.9
Peers	*105.2*	*101.3*	*133.0*	*132.0*

* Source: Morningstar, data as of September 30, 2015

Value added from our active management relative to neutral positionning: less risky than bonds with higher returns
Risk – return relationship
3-year period ending September 2015



/ Featured Funds

Global Opportunities (Radin)

Offered in: IAG SRP (Classic Series 75/75 and Series 75/100), Ecoflex, My Education

Portfolio Manager

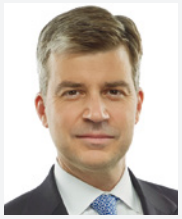
Radin Capital Partners Inc.

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

Global Small/Mid Cap Equity

Lead portfolio manager:



Brad Radin, CFA

- HBA, a BSc in Biophysics, and an MBA with a concentration in Finance from the University of Western Ontario
- Joined iA Clarington in 2011 (over 20 years of investment experience)
- Expertise in the global equity category with a strong track record managing global small- and mid-cap equity funds

Why consider this fund:

— Provides diversification by investing in equity securities around the world

— Award-winning manager

— No benchmark considerations or constraints, freely deviates from the index in terms of sector or geographic allocation

— High conviction and actively managed portfolio (30 to 40 holdings)

— May invest in securities of smaller, lesser-known companies as well as those of large, well-known companies for additional growth potential

Investment style & other characteristics:

— Value-oriented bottom-up approach

— Invests in high-quality dividend-paying companies to pursue absolute return, monthly income and a smoother ride during uncertain times

— Rather than follow the latest trends, Brad and his team scour the world for out-of-favour companies with strong potential

— While performance may fluctuate in the short-term, Brad's long-term goal is to provide strong stable returns while also minimizing risk

— Low turnover (typical holding period: 3–5 years)

— Currently no currency hedging, but the possibility does exist

Current Fund strategy

We view the recent volatility in equity markets as an opportunity to add good companies at attractive prices to the Fund. With our bottom-up long-term value approach, we continue to actively search the globe for the best investment opportunities for our investors. Currently, we see more value in Europe and China relative to other parts of the world. In the near term, we believe the market will remain concerned with China's economic slowdown and its impact on the global economy, Europe's economic recovery, and the potential rate hike in the U.S.

During the last quarter, the Fund added to existing positions, such as Shanghai Pharma & Xtep, that had become attractively valued given the recent sell-off in global equity markets.

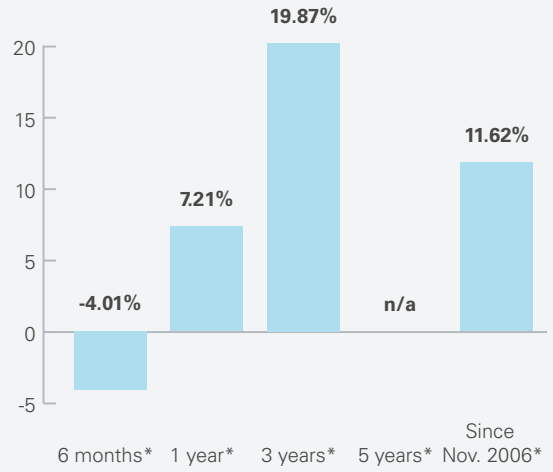
Despite the recent volatility in China, our fundamental view of the region hasn't changed. We continue to believe that our China positions remain cheap, offer good growth, and have strong balance sheets. In the near-term, we believe the market will remain concerned with China's economic slowdown and its impact on the global economy, Europe's economic recovery, and the potential rate hike in the US.

We are still underweight in the United States relative to the benchmark, and we don't anticipate increasing the Fund's exposure.

The financial sector remains the highest sector allocation. Despite another strong year, many of our financial holdings are still trading well below long-term average valuations (price-to-book ratios) with current earnings at half of previous peak levels.

Global Opportunities (Radin)

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



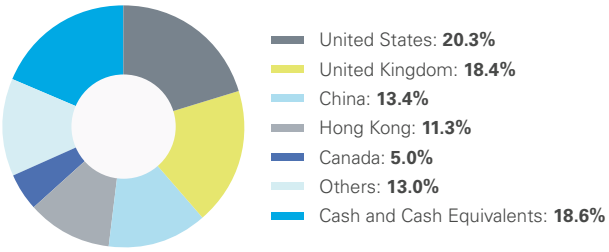
* Simulation of past returns as if the fund had been in effect for these periods

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

Growth of $10,000
Since inception

Classic Series 75/75 of the IAG SRP

Country Allocation
As at September 30, 2015



Sector Allocation
As at September 30, 2015

Sector	Global Opportunities (%)	MSCI World (%)	Deviation (%)
Energy	-	6.5	(6.5)
Materials	2.0	4.5	(2.5)
Industrials	10.8	10.6	0.2
Consumer Discretionary	18.2	13.4	4.8
Consumer Staples	-	10.4	(10.4)
Health Care	12.9	13.3	(0.4)
Financials	34.6	20.8	13.8
Information Technology	-	13.8	(13.8)
Telecommunication Services	-	3.4	(3.4)
Utilities	2.9	3.3	(0.4)
Cash & Other	18.6	-	18.6

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

Jupiter Fund Management PLC	4.0%
Anta Sports Products Ltd.	3.9%
Rentokil Initial PLC	3.9%
Yue Yuen Industrial (Holdings) Ltd.	3.8%
Citigroup Inc.	3.7%
Shanghai Pharmaceuticals Holding Co. Ltd., H Shares	3.6%
Medtronic PLC	3.5%
Teva Pharmaceutical Industries Ltd., Sponsored ADR	3.5%
Bank of America Corp.	3.5%
Dah Sing Financial Holdings Ltd.	3.4%
	36.8%

/ Featured Funds

Canadian Equity Growth (iAIM)

Offered in: IAG SRP (Classic Series 75/75 and Series 75/100), Ecoflex, Ecofl*extra*, My Education

Portfolio Manager

iA Investment Management Inc. (iAIM)

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

Canadian Equity

Lead portfolio manager:

Marc Gagnon, CFA

- MSc in Finance – Laval University
- Bachelor degree in Business Administration, Laval University
- Joined iAIM in 1998 (23 years of experience)
- Manages over $1.2 billion in assets

Why consider this fund:

— Management strategy performing well in both up and down markets, the growth bias tends to help generate strong returns especially during up markets

— Same manager since inception of the Fund

— Important diversification in terms of both sectors and sub-sectors. Deviations generally limited to +/- 3%, except for smaller sectors

— The objective of the fund is to outperform its benchmark with a lower volatility (lower risk)

Investment style & other characteristics:

— Stock selection is driven by a growth bias approach, with an absolute return bias and strong focus on mitigating downside risk during periods of market weakness

— Looks for companies that are undervalued for their cash flow growth, with prudent cost management, growing top line revenue and an underutilized balance sheet

— 80-100 securities (rarely exceeds index weight by more than 0.75%, the portfolio construction is done with recognition of the reference index)

— Typically, 5%–15% in small and mid-cap stocks (8.5% as at September 2015)

— The portfolio may invest in U.S. securities. These investments are limited to 30% of the portfolio (11.4% as at September 2015) and the manager has the option of hedging the currency

Current Fund strategy

We are of the opinion that the price of oil won't stay where it is over the medium term, for supply reasons, and even more so, for geopolitical reasons. Therefore, we will remain slightly underweighted in the sector and will tend to become less underweighted with the passage of time.

Regarding cyclical sectors that are not commodities related, we are looking for companies with organic growth prospects that also provide a favourable risk-return relationship. This type of situation is a little easier to find in the midst of the significant market correction we are currently experiencing, especially in the U.S. technology sector and the Canadian industrials and consumer discretionary.

The health care sector is in the midst of a controversy regarding the pricing scheme for medications. We are adjusting our approach in that sector, leaning more toward value opportunities instead of growth opportunities.

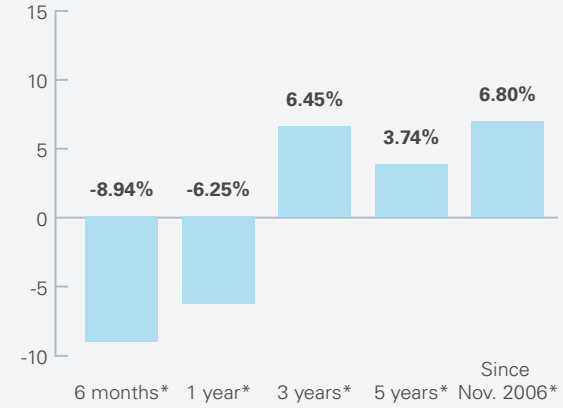
We have a very favourable view of the U.S. financial sectors, where either valuations are lower or growth prospects higher than in Canada.

Overall, our objective is to benefit from the depth of the U.S. stock market and from the fact that their economy is growing faster than ours. The challenge, however, is to find situations with an attractive valuation. We are now neutral on the USD/CAD exchange rate, and are therefore hedging our U.S. dollar exposure.

As regards our exposure to defensive sectors (utilities, telecommunication, consumer staples), we expect to more or less maintain the status quo and remain close to neutral compared to the index, after increasing the exposure last quarter.

Canadian Equity Growth (iAIM)

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



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Growth of $10,000
Since inception

Classic Series 75/75 of the IAG SRP

iAIM Snapshot

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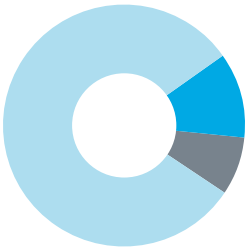
Asset Mix
As at September 30, 2015



Canadian Equity: **80.88%**
U.S. Equity: **11.39%**
Short term and other: **7.73%**

Sector Allocation
As at September 30, 2015

Secteur	Canadian Equity Growth (%)	S&P/TSX (%)	Deviation (%)
Energy	15.2	18.5	(3.3)
Materials	6.5	9.0	(2.5)
Industrials	9.9	8.3	1.6
Consumer Discretionary	7.5	7.2	0.3
Consumer Staples	4.3	4.4	(0.1)
Health Care	3.3	4.9	(1.6)
Financials	33.4	37.2	(3.8)
Information Technology	5.3	2.8	2.5
Telecommunication Services	5.1	5.4	(0.3)
Utilities	1.8	2.3	(0.5)
Cash & Other	7.7	-	7.7

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

Royal Bank of Canada	5.73%
The Toronto-Dominion Bank	5.31%
Canadian National Railway Co.	3.90%
Bank of Nova Scotia	3.68%
Suncor Energy Inc.	2.91%
Valeant Pharmaceuticals International Inc.	2.76%
Manulife Financial Corp.	2.52%
BCE Inc.	2.47%
Enbridge Inc.	2.29%
Bank of Montreal	2.23%
	33.80%

F95-50A(15-10)