iA Investment
Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **July** / 2016

Economic and Market Overview

Clément Gignac

International

For the umpteenth time, the International Monetary Fund (IMF) has issued a warning to China concerning its high level of corporate debt. According to the IMF, rising corporate debt constitutes "a key fault line in the Chinese economy." The IMF believes that corporate debt problems today could become systemic debt problems tomorrow.

Europe

It was the British vote on June 23 that garnered the most attention worldwide: the government of the United Kingdom now holds the results of a referendum in which the people rallied behind the refusal to ratify an improved agreement on conditions for belonging to the European Union. The new government, to be led by whoever succeeds David Cameron, will therefore have to launch a process for the country to exit the European Union, commonly referred to as "Brexit."

United States

Despite a rather slow start to the year, the economic data generally improved in the second quarter. Consumers continued to do well, bolstered by a substantial increase in earnings in the last few years from the job market, the financial markets, and a rise in real estate prices.

Canada

The second quarter of the year was a difficult one for the Canadian economy, with major forest fires in Fort McMurray, the heartland of the Canadian oil industry. At one point, 1.2 million barrels of daily production were offline, out of a total capacity of about 4 million barrels per day. The country's GDP growth will necessarily be negatively affected in the second quarter, but the effects should reverse themselves in the second half of the year as oil producers make up for the lost time.

/ Strategy

The stock markets continue to offer some interesting prospects, especially after the decline observed at the end of the quarter. The European market is trading at highly attractive multiples, but the uncertainty we are very likely to face on the political scene this summer and fall causes us to exercise caution before forging ahead for the long term, although the tactical opportunities the situation presents may be interesting.

iA Financial Group

/ iA Managed Solutions

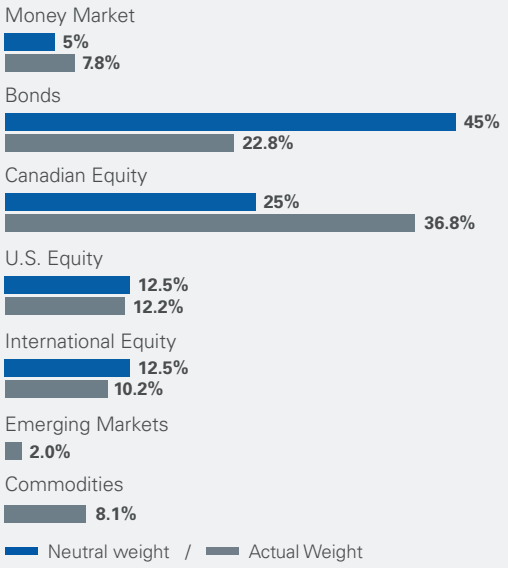
Diversified Funds

We have again maintained a strategy of staying overweight in equities in the second quarter, and seized several opportunities provided by the markets' volatility. Canadian equities now make up 36.8% of the **Diversified Fund**, including 7.5% in small-cap stocks. Foreign equities now represent 24.5% of the assets.

The weight of bonds remains below the target, at 22.8% versus a target of 45%, a level slightly below that of the previous quarter.

The cash balance now accounts for nearly 8.0% of the fund's assets, and we no longer hold any direct exposure to the U.S. dollar.

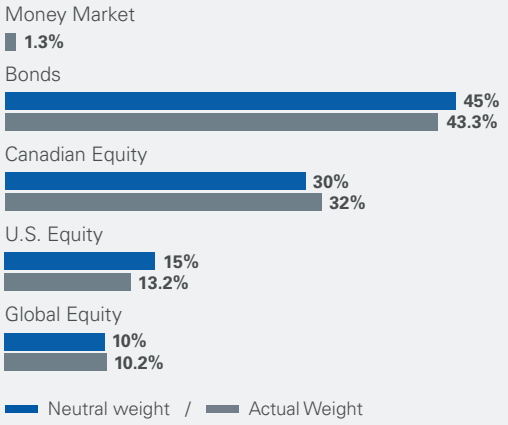
During the quarter, we maintained almost constant direct exposure to the price of gold, through forwards and futures contracts on the price of gold bullion and exchange-traded funds (ETFs) containing gold stocks. We also added a broader exposure to natural resources, through ETFs holding resource futures or stocks of companies operating in various resource sectors.



Selection Funds

Exposure to equities within the Selection funds is essentially back on target, at 55.4% for the **Selection Balanced Fund**. We decided to take profits and adopt a more cautious approach ahead of this summer's main events, namely on the Federal Reserve side and the Brexit vote.

We increased the weighting of fixed-income securities in recent months, taking advantage of the downward movement in interest rates. The weighting of fixed-income securities remains slightly under its neutral allocation. At the time of writing, we took advantage of the market rebound to increase cash levels to around 3% within the Selection funds.



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

Selection Prudent Fund

Offered in all products

Portfolio manager

Industrial Alliance 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 $5 billion in assets

Why consider this fund?

— Simplicity of managed solutions

— Investment solution requiring little advisor intervention and offering an optimal diversification

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

— Investments selected by experts specialized in their particular asset class

— Family of five portfolios that respect investor profile and risk tolerance at all times

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: 75% in fixed income securities, 15% in Canadian equities and 10% in foreign equities

— Degree of leeway to move within investment limits (±10% from target allocation)

— Seeks a balance between current income and long-term capital appreciation

— Committee, led by Clément Gignac, constantly monitors underlying funds and managers

Current Fund strategy

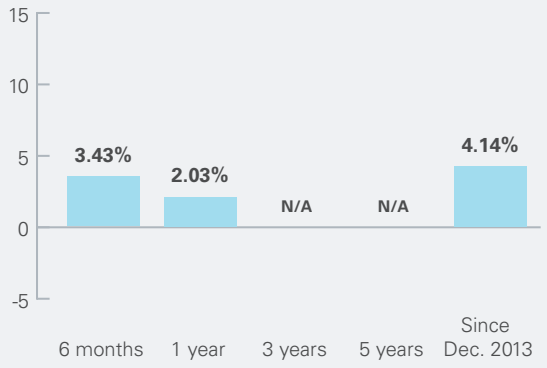
As at June 30, the Selection Prudent fund had a relatively neutral position in equities. The weighting of Canadian equities slightly exceeded the target (17.1% compared to 15%), and that of foreign equities was neutral at 10%. The management team continues to expect positive returns for equities by year end, despite the UK's decision to exit the European Union. We see among other things that the Canadian market remains popular because of its valuations and positive outlook for the banking and natural resource sectors.

The weighting for bonds is under target (56% versus 60%) given the low interest rates worldwide, such that expected yields from this asset class are lower than in the past and that there could be heavy losses for funds with a high bond content in the event of an interest rate hike.

The weighting of Strategic Corporate Bond is also under target (10% versus 15%), given our cautious approach to interest rates and because of the correlation between this asset class and equities. Finally, in order to maintain some flexibility to take advantage of tactical opportunities that may arise in the second half of the year, the weighting of cash is now almost 7%, compared to a target of 0%.

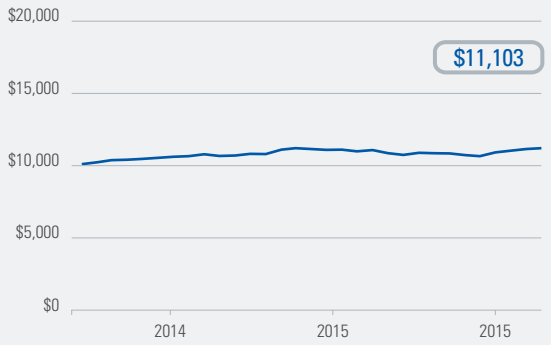
Selection Prudent Fund

Net compound returns[1]
As at June 30, 2016



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

Growth of $10,000
Since inception

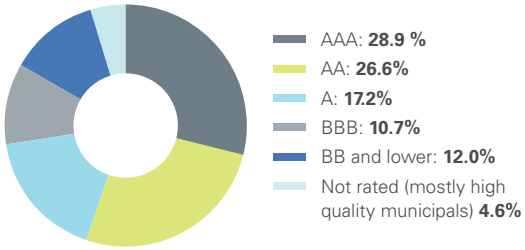


Classic Series 75/75 of the IAG SRP

iAIM snapshot

- Founded in 2004
- Assets under management: over $80 billion
- More than 130 employees, including 75 investment professionals
- Firm emphasis on fundamental analysis and long-term investment

A high-quality fixed income portfolio
Credit quality breakdown
as at June 30, 2016



Asset mix
As at June 30, 2016

	Minimum (%)	Neutral Weight (%)	Maximum (%)	Actual Weight (%)
Money Market (iA)	-	0.0	-	6.9
Bonds (iA)	-	60.0	-	56.0
Strategic Corporate Bond (iA Clarington)	-	15.0	-	10.1
Fixed Income	65.0	75.0	85.0	73.0
Canadian conservative Equity (Leon Frazer)	-	6.25	-	7.0
Dividend Growth (iA)	-	6.25	-	6.9
Canadian Equity Small Cap (QV)	-	2.5	-	3.2
Canadian Equity	5.0	15.0	25.0	17.1
U.S. Equity – Currency neutral (Sarbit)	-	2.5	-	2.5
U.S. Equity (iA)	-	2.5	-	2.5
U.S. Equity	0.0	5.0	10.0	5.0
International Equity (iA)	-	2.5	-	3.5
Global Opportunities (Radin)	-	2.5	-	1.4
Global Equity	0.0	5.0	10.0	4.9
Total - Portfolio	**-**	**100.0**	**-**	**100.0**

/ Featured Funds

Fidelity Canadian Opportunities Fund

Offered in: IAG SRP (Classic Series 75/75 & Prestige, Series 75/100 & Prestige), My Education+ & Prestige preferential pricing, and Ecofl*extra* Classic Series 75/75

Portfolio manager

Fidelity Investments

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

Canadian Small/Mid Cap Equity

Lead portfolio manager

Hugo Lavallée, CFA

- Has managed the Fidelity Canadian Opportunities Fund since 2006
- Joined Fidelity in 2002
- Bachelors of Commerce, First Class in economics and finance (McGill University)
- Also manages the Fidelity Greater Canada Fund

Why consider this fund?

- Aims to generate long-term capital appreciation by focusing on the dynamic growth potential of the small- and mid-capitalization market
- Aims to mitigate downside risk and manage fund volatility
- Tends to outperform during down markets (lower beta)
- Excellent performance over the long term: 1st quartile ranking over 10-year period
- Exhibits a lower risk than similar large-cap funds
- Not subject to benchmark constraints and will not hesitate to deviate from the index in terms of sector allocation

Investment style & other characteristics

- Fundamental, bottom-up stock selection is the primary driver of portfolio construction and performance
- Contrarian style, seeking value in out-of-favour stocks
- Typical number of holdings: 75–100 stocks
- Foreign exposure will typically be 10% or less
- Type of stocks targeted: operating margins reaching their trough with a potential to rebound and drive earnings higher

Current Fund strategy

Overview of the market

Canadian equities continued to advance during the quarter, supported by a rise in commodity prices. Small- and mid-cap stocks, as measured by the S&P/TSX Completion Index, rose 7.7% last quarter.

The Bank of Canada kept its overnight rate target at 0.50%, citing that inflation was roughly in line with expectations. However, the Bank also noted that economic growth in the second quarter may be weaker than forecast due to the Alberta wildfires. It also remained concerned about the high levels of household debt, as well as imbalances in some regional housing markets.

Near the end of the period, global stock markets saw heightened volatility in the immediate aftermath of the U.K.'s Brexit vote outcome.

Current position of the Fund

At the end of the quarter, the Fund's largest overweight exposures were to consumer staples, information technology and telecommunication services. Financials, industrials and materials accounted for the Fund's largest underweight exposures.

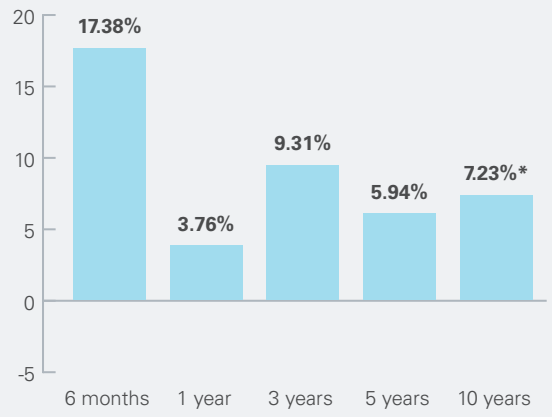
Portfolio manager Hugo Lavallée remains selective when investing in the Canadian small- to mid-cap market. He seeks investment opportunities among securities that have been, in his view, significantly undervalued by the market but that have the potential to outperform as their outlooks improve, such as companies from the energy sector. These investments are offset by higher allocations to cash, less economically sensitive companies in areas such as consumer staples, and higher-quality names in the information technology sector.

The manager maintains an almost 15% cash position in the Fund, which may be redeployed if attractive investment opportunities become available and/or segments of the market pull back.

*Morningstar ratings reflect performance as at June 30, 2016.
For greater detail see morningstar.ca.

Fidelity Canadian Opportunities Fund

Net compound returns[1]
As at June 30, 2016



* 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.

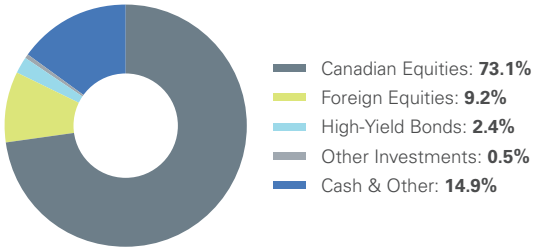
Growth of $10,000
Since inception

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

Fidelity snapshot

- Founded in 1946
- Assets under management: $2.0 trillion
- More than 800 investment professionals
- Global presence
- The head office is located in Boston with offices in every major city around the world

Asset allocation
As at June 30, 2016



Sector allocation
As at June 30, 2016

Sector	Fidelity Canadian Opportunities Fund (%)	S&P/TSX Index (%)	Deviation (%)
Energy	18.5	17.8	0.7
Materials	7.3	18.2	(10.8)
Industrials	1.6	12.5	(10.9)
Consumer Discretionary	10.5	5.3	5.2
Consumer Staples	9.8	2.7	7.2
Health Care	0.3	1.3	(1.0)
Financials	17.6	30.5	(12.9)
Information Technology	10.1	4.6	5.5
Telecommunication Services	6.0	0.6	5.4
Utilities	1.0	6.6	(5.6)
Cash & Other	17.2	-	17.2

Top 10 holdings
As at June 30, 2016

Security	Sector
Metro	Food & Staples Retailing
Constellation Software	Software
Prairiesky Royalty Ltd	Oil, Gas & Consumable Fuels
Gmp Capital	Capital Markets
Rogers Communication, Cl. B, Non Vtg	Wireless Telecommunication Services
Fairfax Financial Holdings, Sub Vtg	Insurance
Calfrac Well Services	Energy Equipment & Services
Canaccord Genuity Group Inc	Capital Markets
Loblaw	Food & Staples Retailing
Rona Inc Var Cl A Sr-7 Pfd Prp	Specialty Retail
Total number of holdings	**97**

Morningstar 4 Star Fund*

/ Featured Funds

Global Dividend Fund (Dynamic)

Offered in: IAG SRP (Classic Series 75/75 & Prestige, Series 75/100 & Prestige), My Education+ & Prestige preferential pricing, and Ecofl*extra* Classic Series 75/75

Portfolio manager

Dynamic Investment Funds

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

Global Equity

Lead portfolio manager

David Fingold, B.Sc. Management
Along with 3 investment professionals

- Vice-President and Portfolio Manager
- Expertise: Global (including U.S.)
- Joined Dynamic's investment team in 2002
- Over 25 years of experience
- Bachelor of Science with High Distinction in management (Babson College)

Why consider this fund?

— Invests almost exclusively in dividend-paying companies (also invests in companies that are expected to start paying a dividend)

— Historically, dividend payers and growers have provided a higher return over the long term along with lower volatility

— Conservative approach to global equity markets, and often overweights the U.S. in order to decrease volatility

— Focus on downside protection

Investment style & other characteristics

— Value approach

— The portfolio manager searches the globe for well-managed companies capable of initiating or growing their dividends, and that are trading below their intrinsic value

— Invests primarily in companies with growing dividends

— Large-cap emphasis

— High-conviction portfolio (between 25 and 30 holdings)

— Favors companies that have a good management team, are industry leaders, have a sustainable competitive advantage, and generate high returns on invested capital

Current Fund strategy

During the second quarter of 2016, the Dynamic Global Dividend Fund outpaced the Fund's benchmark MSCI World Index (C$). The primary driver of relative outperformance for the Fund was stock selection in the financials, information technology and industrials sectors. The key detractor from performance was security selection in the materials sector, where Frutarom Industries was the Fund's largest overall detractor.

The Fund's top contributors during the quarter included Keyence (a Japan-based company that produces sensors that are used in manufacturing, distribution and also machine vision systems), and industrials companies Raytheon and Belimo Holding AG (a Swiss company that is a producer of intelligent building controls). Top detractors from performance included the aforementioned Frutarom Industries, as well as Microsoft and Alphabet, the latter two having been removed from the portfolio during the period at an overall profit. Several other investments in very defensive businesses (consumer staples) that had performed well during the time they were in the portfolio though had more recently lagged were also sold during the quarter, two examples of those being Coca-Cola and Costco Wholesale.

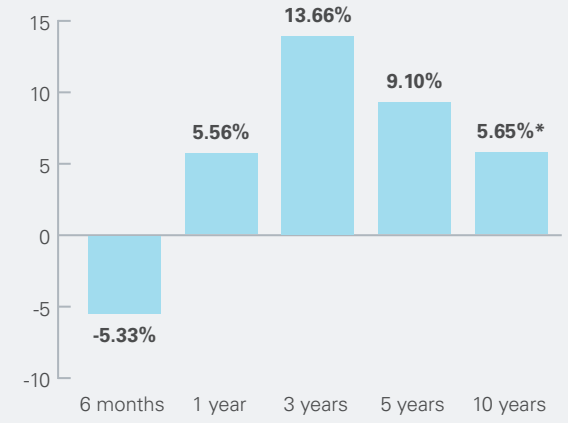
The Fund has recently added to its allocation in health care names, including Thermo Fisher Scientific, Medtronic, United Health Group and Bristol-Myers Squibb – four best-in-class U.S. companies within an out-of-favour sector. The portfolio maintains a significant underweight allocation to financials, while holding overweight allocations in industrials, materials and consumer staples, though the weight in consumer staples was reduced during the quarter in favour of high-quality cyclicals.

The Fund has slightly increased its allocation in the United States, and continued to have a high conviction portfolio with 28 holdings.

*Morningstar ratings reflect performance as at June 30, 2016.
For greater detail see morningstar.ca.

Global Dividend Fund (Dynamic)

Net compound returns[1]
As at June 30, 2016



* 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.

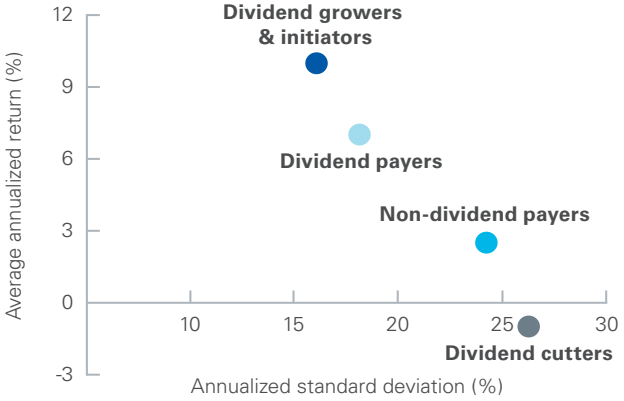
Growth of $10,000
Since inception

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

Dynamic Funds snapshot

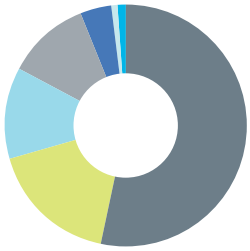
- Founded in 1957
- Assets under management: over $40 billion
- Investment team is currently at 74 employees
- Firm emphasis on fundamental analysis and long-term investment
- One of the country's largest and most recognized wealth management brands

Dividend stocks lead to stronger long-term results with a lower volatility
As at June 30, 2016



Source: Ned Davis Research, Inc from 1/31/72 – 12/31/15 (companies in the S&P 500 Index)

Country allocation
As at June 30, 2016



- United States: **53.4%**
- Switzerland: **17.2%**
- Israel: **12.3%**
- Japan: **11.2%**
- United Kingdom: **4.0%**
- Canada: **0.9%**
- Cash and Cash Equivalents: **1.0%**

Sector allocation
As at June 30, 2016

Sector	Global Dividend (Dynamic) (%)	MSCI World Index (%)	Deviation (%)
Energy	-	7.0	(7.0)
Materials	8.6	4.7	3.9
Industrials	27.1	10.9	16.2
Consumer Discretionary	8.0	12.5	(4.5)
Consumer Staples	17.9	11.3	6.6
Health Care	13.6	13.3	0.3
Financials	8.9	18.9	(10.0)
Information Technology	14.9	14.0	0.9
Telecommunication Services	-	3.7	(3.7)
Utilities	-	3.7	(3.7)
Cash & Other	1.0	-	1.0

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