iA Investment Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **September** / 2016

Economic and Market Overview

Clément Gignac

International

The largest world economies seem to have reached an agreement: it's high time for governments to take advantage of the current low-interest-rate environment to adopt more expansionary fiscal policies. This was the conclusion reached by the G20 at its summit ending August 31, although no concrete measures were put forward.

Europe

If Brexit had a very short-term effect on the world markets, its impact on the economy seems for now to be... beneficial! In fact, the principal financial fallout of the June 23 vote was strong downward pressure on the pound sterling, and this has already helped stimulate the British economy, making it more competitive internationally. Of course, we shouldn't overlook the Bank of England's reaction to quickly cut its key interest rate and announce that other stimulatory measures could be implemented by year end.

United States

On the economic front, more and more signals indicate an approach to full employment (which for the U.S. economy is estimated equivalent to a 4.8% cyclical unemployment rate). Nevertheless, the U.S. Federal Reserve decided at its September meeting that it wouldn't increase its key interest rate immediately, watching and waiting instead for additional signs of continued growth in the labour market.

Canada

The Canadian economy once again faltered in the third quarter, indicating that the positive effects of the loonie's devaluation have yet to be felt, and consequently pushing the Bank of Canada to adopt a more cautious tone. The Canadian real estate market is back at the forefront of inherent risks since the new 15% tax imposed on foreign buyers in British Columbia, where the red-hot Vancouver market has seen year-over-year price increases in excess of 25% over the past 12 months.

/ Strategy

The third quarter proved much calmer than expected following U.K.'s Brexit vote. Not only did market volatility reach its lowest level in two years, but the majority of market stress indicators also signal a nearly total absence of fear.

iA Financial Group

/ iA Managed Solutions

Diversified Funds

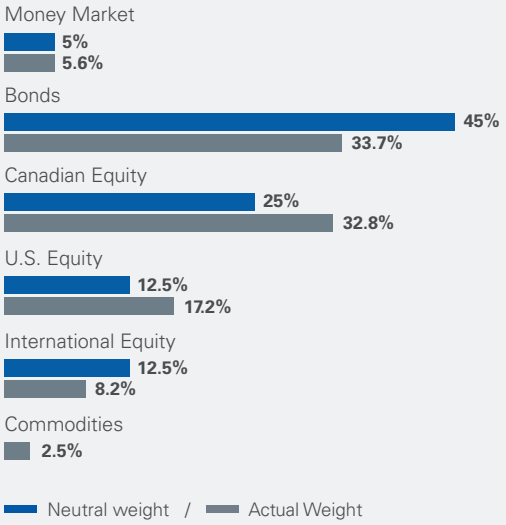
We purchased put options on the S&P 500 and S&P/TSX as protection against a market downturn between now and year end. This strategy lets us stay as invested in stocks as our peers (thereby participating in the markets if available returns remain positive in the fourth quarter), while protecting ourselves against downward movement, which gives us in fact an asymmetric risk profile.

We also took a position in Canadian preferred shares in some of our diversified funds (specifically the Diversified Security and Diversified Income funds), simply to benefit from the attractive yields offered by this asset class.

The weighting of bonds, though higher than the previous quarter, remains under target at 33.7% versus a target of 45%.

Cash still accounts for nearly 6.0% of Fund assets.

We maintain direct exposure to gold through futures contracts, as we believe that gold could appreciate if geopolitical risks resurface.

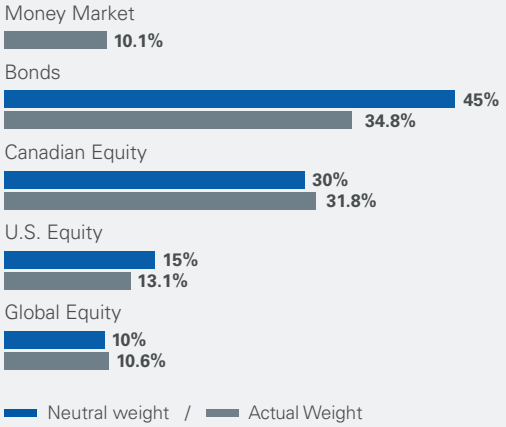


Selection Funds

Exposure to equities within the Selection funds remains essentially at around 55% for the Selection Balanced fund, compared to a target of 65%. This underweighting of equities protects the portfolio in the event of renewed volatility in the fourth quarter.

We also capitalized on rising interest rates to increase the weighting of fixed-income securities to the target of 35% in the Selection Balanced fund.

Cash is now 10% of the Selection Balanced fund, a high level that reflects our defensive stance and that gives us the flexibility to be opportunistic in the event of a market downturn.



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

Offered in all products

Portfolio manager

Industrial Alliance Investment Management Inc. (iAIM)

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

Canadian Equity 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

— Strategically managed asset allocation, determined by our strategist who seeks to benefit from economic and financial circumstances

— Investments selected by experts specialized in their particular asset class

Investment style & other characteristics

— Key diversified investment solution

— 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: 50% in fixed income securities, 25% in Canadian equities and 25% in foreign equities

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

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

— The manager can use currency hedging

Current Fund strategy

We expect continued growth in the global economy, led primarily by emerging countries, U.S. consumers and better economic results in Europe. On the other hand, we continue to monitor oil prices and the appetite of foreign investors for Canadian assets.

Stocks remain expensive and volatility could take hold in the markets between now and the end of 2016, given the upcoming U.S. elections and the possible rise in interest rates introduced by the U.S. Federal Reserve (the Fed). We took advantage of recent low market volatility to purchase protection via put options on the S&P 500 and the S&P/TSX, protecting us against a market downturn between now and year end. This strategy lets us stay as invested in stocks as our peers, while protecting ourselves from downward movements, which in fact gives us an asymmetric risk profile.

As budget austerity is drawing to an end in several countries, we expect a lesser degree of monetary easing globally. This change in tone from the central banks could lead to increased volatility on the bond market. At 33.7%, the weighting of bonds in the Diversified Fund remains below target. We prefer provincial bonds and high-quality corporate bonds.

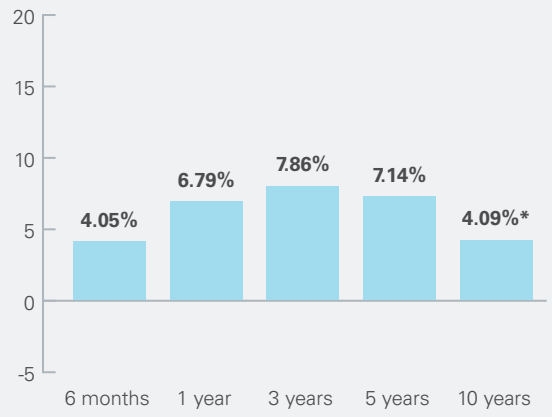
Cash accounts for nearly 6.0% of Fund assets.

We continue to have direct exposure to gold through futures contracts, as we believe that gold could appreciate if geopolitical risks resurface.

*Morningstar ratings reflect performance as at September 30, 2016.
For more details, see morningstar.ca.

Diversified

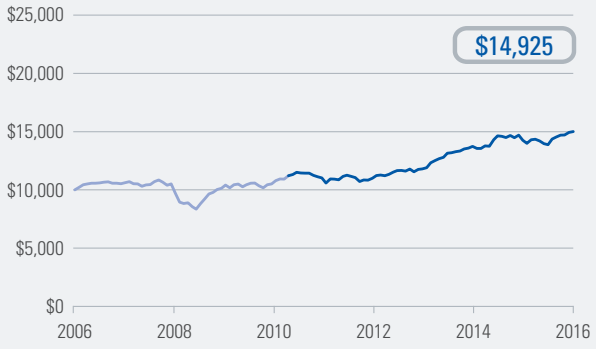
Net compound returns[1]
As at September 30, 2016



* 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.

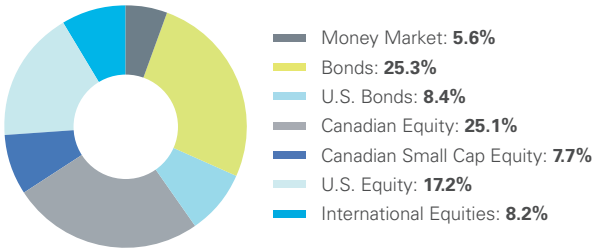
Growth of $10,000
Since inception



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

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

Asset allocation
As at September 30, 2016

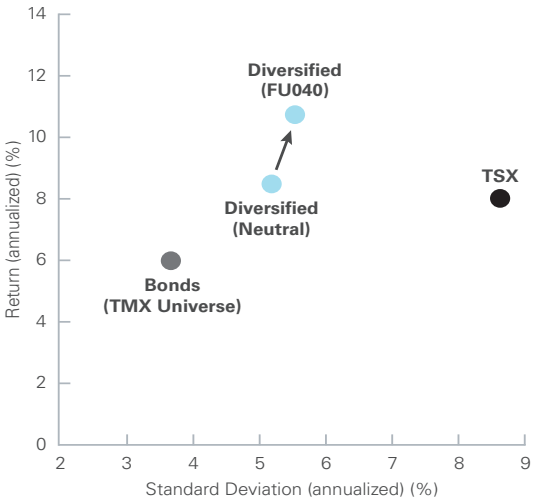


How we added value while protecting the portfolio

	Capture Ratio*	
	Upside	Downside
	3 years	3 years
Diversified	**107.2**	**62.5**
Peers	*87.4*	*73.3*

*Source: Morningstar, data as of June 30, 2016

Value added from our active management relative to neutral positioning
Risk–return relationship
3-year period ending September 30, 2016



* Source: iAIM and Bloomberg

/ Featured Funds

Fidelity NorthStar®

Offered in: IAG SRP (Classic Series 75/75 & Prestige, Series 75/100 & Prestige), My Education+ (including Prestige Preferential Pricing), Ecofl*extra* and Ecoflex

Portfolio manager

Fidelity Investments

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

Global Small/Mid Cap Equity

Lead portfolio managers

Joel Tillinghast

- Manages Fidelity NorthStar Fund, Fidelity NorthStar Balanced Fund, Fidelity Global Intrinsic Value Class and Fidelity Low-Prices Stock Fund
- MBA from the Kellogg School of Management at Northwestern University
- Holds the Chartered Financial Analyst (CFA) designation
- Joined Fidelity in 1986

Daniel Dupont

- Manages Fidelity Canadian Large Cap Fund, Fidelity Concentrated Value Private Pool, Fidelity NorthStar Fund, Fidelity NorthStar Balanced Fund
- Also manages the equity portions of Fidelity Monthly Income Fund and Fidelity Income Allocation Fund
- Bachelor of commerce, economics and finance from McGill University
- Joined Fidelity in 2001

Why consider this fund?

— Open mandate to seek the best ideas wherever they may lie

— No benchmark considerations or constraints, does not hesitate to deviate from the index in terms of sector or geographic allocation

— Focused on downside protection and risk/reward considerations

Investment style & other characteristics

— Blend

— Well-diversified portfolio, with more than 400 holdings

— Low portfolio turnover (between 20% and 25%)

— Presence in small, mid and large caps

— Seeks to achieve long-term capital growth by investing in undervalued securities

Current Fund strategy

The managers believe that companies in the U.S. offer attractive returns on capital, and despite valuations becoming more stretched, the U.S. economy appears the most stable relative to other geographies. In Europe, exposure is focused primarily in the U.K., where valuations appear attractive. The managers continue to find interesting opportunities among Japanese small- and mid-cap stocks, as well as in South Korea.

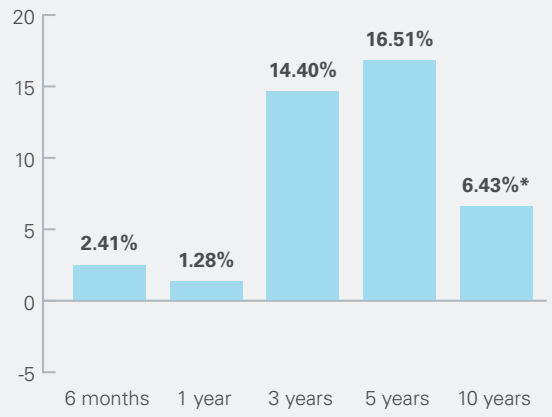
On a sector basis, the fund's largest absolute allocation was to consumer discretionary, where the portfolio managers focused on retailers with a high return on capital that were trading at reasonable valuations. The fund also maintained a large allocation to consumer staples companies, which were considered relatively stable and less economically sensitive.

The fund's smallest allocations were to the telecommunication services and utilities sectors. The portfolio managers believe the telecommunication services sector is highly competitive and that companies in the sector have difficulty maintaining a competitive advantage and market share. In utilities, there is a lack of investments that meet their investment criteria and utility companies typically rely on government subsidies to generate profits.

*Morningstar ratings reflect performance as at September 30, 2016.
For more details, see morningstar.ca.

Fidelity NorthStar®

Net compound returns[1]
As at September 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: $2.1 trillion
- Fidelity Canada: $127.5 billion
- More than 800 investment professionals
- Head office located in Boston with offices in every major city around the world

Country allocation
As at September 30, 2016

Country	Fidelity NorthStar® (%)	MSCI World Index (%)
Asia (exc. Japan)	4.66	5.37
Canada	-0.06	3.20
Emerging Markets	11.58	10.11
Europe	5.64	21.22
Japan	10.91	7.89
United States	67.22	52.20

Sector allocation
As at September 30, 2016

Sector	Fidelity NorthStar® (%)	MSCI World Index (%)
Consumer Discretionary	17.24	12.29
Consumer Staples	8.23	10.40
Energy	1.77	6.85
Financials	3.45	16.88
Health Care	12.12	11.73
Industrials	4.52	10.43
Information Technology	6.88	15.87
Materials	1.27	5.14
Real Estate	0.06	3.35
Telecommunication Services	0.25	3.75
Utilities	1.22	3.31
Cash/Other	42.99	-

Top 10 holdings
As at September 30, 2016

Security	Sector
Anthem	Health Care
Seria Co.	Consumer Discretionary
Ottogi	Consumer Staples
Gilead Sciences	Health Care
Johnson & Johnson	Health Care
Wal Mart Stores	Consumer Staples
Bed Bath & Beyond	Consumer Discretionary
Hyundai Mobis	Consumer Discretionary
H & R Block	Consumer Discretionary
Deckers Outdoor	Consumer Discretionary
Total number of holdings	**615**

/ Featured Funds

Global Fixed Income (PIMCO)

Offered in: IAG SRP (Classic Series 75/75 & Series 75/100) and My Education+ (including Prestige Preferential Pricing)

Portfolio manager

PIMCO

CIFSC Fund Category

(Canadian Investment Funds Standards Committee)

Global Fixed Income

Lead portfolio manager

Alfred T. Murata

- Managing director
- Co-lead portfolio manager on the U.S. Fund and lead portfolio manager on two other income-oriented closed-end funds
- Joint degree from Stanford Law School
- 16 years at PIMCO

Why consider this fund?

— Seeks a consistent level of income while pursuing long-term capital appreciation

— PIMCO's best ideas across all sectors of the global fixed income markets

— Tactical and flexible portfolio (exposures adjusted dynamically according to macroeconomic views)

— Can be valuable in a potential context of rising interest rates in Canada

Investment style & other characteristics

— Global, multi-sector, unconstrained fixed income mandate (high yield, U.S. government, agency mortgage, non-U.S. developed, emerging markets, investment-grade corporates, etc.)

— Seeks the best fixed-income investment opportunities from a global opportunity set in any given market climate

— A minimum of 90% of the fund is hedged to Canadian dollars to provide a high and consistent level of income with the lowest volatility possible

— Higher yielding, slightly more volatile complement to a core Canadian bond portfolio

Current Fund strategy

The Global Fixed Income Fund continued to generate positive total returns through the third quarter. Main contributors to this performance were the Fund's holdings of securitized credit, primarily non-agency MBS, its exposure to high-yield credit, and U.S. and Canadian duration positioning.

The Fund is currently divided into two general sections. The first section is composed of higher yielding assets, weighted toward senior positions in the capital structure, that are expected to offer attractive returns if economic growth is robust. The manager allocates to select names within the high-yield sector, and allocations to emerging markets primarily focus on large, quasi-sovereign entities. The second section is composed of higher quality assets, with exposures primarily in Australia and the U.S., which should produce attractive returns if economic growth is weak. The manager finds Australian duration attractive, as rates likely have room for further compression should the country's growth, which is strongly tied to China's economy, remain sluggish. The Fund also selectively holds other high-quality corporate and securitized debt.

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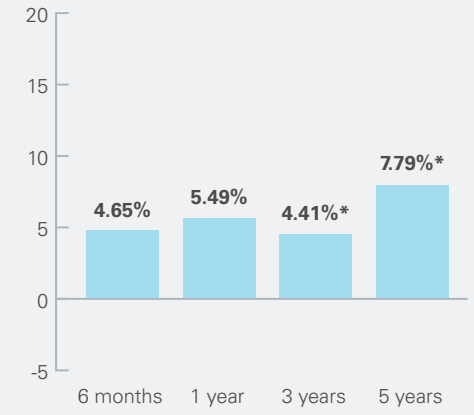
Global Fixed Income (PIMCO)

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



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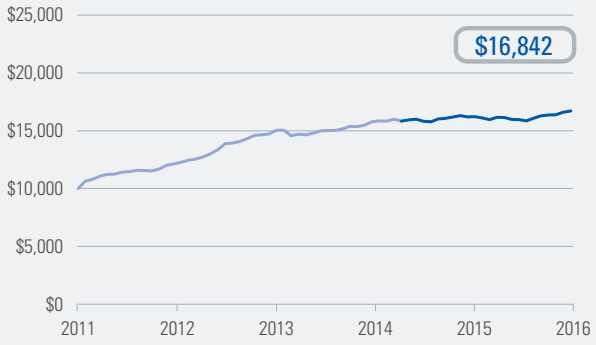
Growth of $10,000
Since inception



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

PIMCO snapshot

- Founded in 1971
- Assets under management: $1.5 trillion
- Specialized in fixed income
- Close to 2500 employees, including more than 750 investment professionals
- Global presence

Sector Diversification
As at September 30, 2016

Sector	Duration[2] (%)
Government related	**25.4**
Australia	22.4
EMU	0.6
United States	12.1
Other	-9.7
Mortgage	**28.0**
Non-Agency	9.6
ABS	18.4
Invest. Grade Credit	**9.8**
High-Yield Credit	**12.4**
Emerging Markets	**23.2**
Municipal/Other	**-1.0**
Net Other Short-Duration Instruments	**2.2**
Totals	**100.0**

Country Diversification
As at September 30, 2016

Region	Duration[2] (%)
United States	58.1
Australia	22.4
Mexico	6.9
Brazil	6.0
United Kingdom	5.9
European Union	3.0
Netherlands	1.0
Spain	0.7
South Africa	0.6
France	0.5
Greece	0.4
Germany	0.2
Portugal	0.1
Luxembourg	0.1
Japan	-0.1
Canada	-5.9
Totals	**100.0**

[2] The term duration is a measurement of how long, in years, it takes for the price of a bond to be repaid by its internal cash flows. Because interest rates directly affect bond yields, the longer a bond's duration, the more sensitive its price is to changes in interest rates.

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