iA Investment Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **As at December 31, 2016**

Economic and Market Overview

Clément Gignac

International

The election of Donald Trump to the White House is likely to have repercussions for global trade because of the protectionist tone adopted by the president during his electoral campaign. Globalization, which has made a strong contribution to the growth of the world economy and has been a key economic driver since the 1970s, is now showing signs of fragility and could quickly switch directions and become a headwind.

Europe

The referendum held in early December regarding changes to the Italian constitution resulted in a victory for the no's and the stepping down of Prime Minister Matteo Renzi. The outcome of the referendum was no surprise, as the polls indicated that the No camp was clearly ahead. So 2016 was the year of unsuccessful referendums in Europe, and 2017 is looking to be just as busy on the political scene, with general elections being held in France and Germany, pillars of the European Union.

United States

It could be said that the event of the year 2016 was Donald Trump's election as 45th President of the United States on November 8 and has taken office on January 20, 2017. We have our reservations about the possible impact of this expansionist plan, even if everything went well, given the duration of the current economic cycle, which has lasted over seven years now. Nevertheless, Donald Trump's willingness to use tax mechanisms to support growth is a major change for the world's central banks.

Canada

The U.S. election will clearly have significant ramifications for the Canadian economy, given the close trade relationship between the two countries. On the one hand, the U.S. is the number one destination for Canadian exports (accounting for around 75% of our exports). On the other hand, Canada is the primary destination for U.S. exporters, with almost 20% market share. A renegotiation of NAFTA, the most significant trade agreement signed by Canada, could have a lasting impact on Canadian consumers and companies, possibly making 2017 a year full of uncertainty.

/ Strategy

For the second quarter in a row, we have adopted a capital protection strategy. We were surprised by the stock market reaction to the November presidential election, given the already high market valuations at the time as well as the geopolitical risks that could emerge following Donald Trump's arrival to the White House. It would appear that the U.S. market has already priced in all the potential good news while turning a blind eye to the risks, which in our view are significant.

iA Financial Group

/ iA Managed Solutions

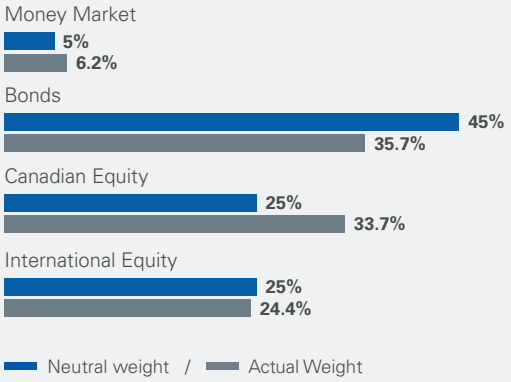
Diversified Funds

In the context of high stock market valuations and the historically low cost of protection, we have maintained a defensive strategy, investing at target in the equity markets while taking out an insurance policy in the form of index put options. This lets our portfolios benefit from most of the upward market movement while protecting against much of the downward movement. Evidently, the cost of this protection weighs on fund yields as long as the markets continue to rise and have low volatility. But it could become one of our best investments if the markets pull back or volatility returns.

We took advantage of the recent rise in interest rates to reduce our underweighting in bonds (35.7% versus to a target of 45%), maintaining a bias in high-quality corporate bonds and provincial bonds.

We maintained an overweight position in equities in the fourth quarter, reflecting our significant holdings in put options on the main indices in which the funds we manage are invested (giving us a de facto asymmetrical risk profile). At the end of the quarter, Canadian equities represented 33.7% of the Diversified Fund (6.0% of which were small caps), and international equities made up 24.4% of the Fund assets.

Cash now accounts for 6.2% of the Fund's assets.

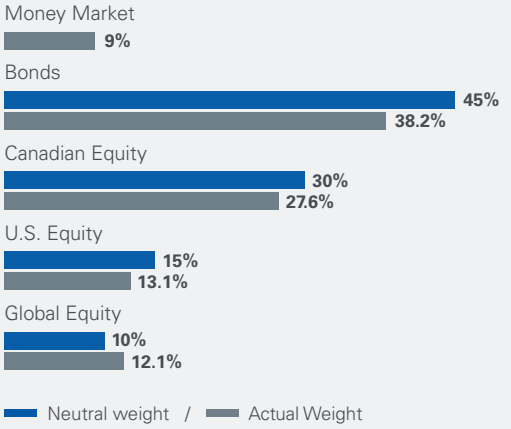


Selection Funds

Equity exposure in Selection Funds has remained fairly close to 55% for the Balanced Selection Fund, but the relative weighting of Canadian and international equities has been adjusted: Canadian equities are now underweighted by 2.4% while international equities (excluding U.S.) are overweighted by 2%. The reason for this is that the North American market posted strong returns in the wake of the U.S. election, making their valuations expensive on a historical basis, while the European and U.S. markets look attractive on a risk/return basis.

Once again, we took advantage of rising interest rates to increase to target our weighting of fixed-income securities, which now represents 38% of the Balanced Selection Fund.

And finally, cash makes up 9% of the Balanced Selection Fund's assets, a high level that reflects our defensive attitude and gives us the flexibility to seize opportunities if the markets pull back.



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

Canadian Conservative Equity (Leon Frazer)

Offered in: all products except for IAG SRP (Ecoflextra Series 75/100)

Portfolio manager

Leon Frazer & Associates

CIFSC Fund Category

Canadian Dividend & Income Equity

Lead portfolio manager:

Douglas Kee, CFA

- Over 30 years in the investment management industry
- Currently Chief Investment Officer at Leon Frazer, a member of the Investment Committee and co-manager of the iA Clarington Canadian Conservative Equity Fund
- Bachelor of Arts, Economics, from Trent University

Terry Thib, PEng, MESc, MBA, CFA

- Joined the iA Clarington Investment Management team as a Portfolio Manager and Vice-President of Investments in 2014
- Over 10 years' investment experience
- Selected as a TopGun Investment Mind by Brendan Wood International in 2012, 2014 and 2015/2016

Why consider this fund?

— The Fund is a large cap dividend fund which tends to bode well in times of uncertainty

— The Fund uses a barbell approach, combining interest-rate sensitive securities with those that are in sectors not adversely affected by rising rates (financials, consumer discretionary, industrials). This approach may balance out risk

— Companies that are growing their earnings alongside their dividends may improve long-term returns, prevent inflation from eroding investment earnings and lower portfolio volatility

Investment style & other characteristics

— The Fund's objective is to seek to achieve long-term capital growth and maintain value by investing primarily in large cap Canadian companies with the potential to grow their dividends

— Manager employs a disciplined process to screen for names, focusing on quality companies that are growing and trading at cheap or reasonable valuations

— The fund may invest up to 30% of its assets in foreign securities and manages a fairly concentrated portfolio of 30 to 50 holdings

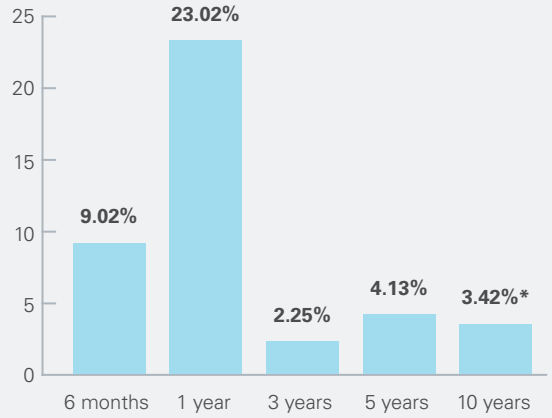
Current Fund strategy

For 2017, the manager notes they are finally seeing stronger North American economic data while at the same time there is stability in the European Union, Asia and Emerging Markets. It's the manager's belief that this should finally lead to a more synchronized global growth profile with the global growth engine firing on all cylinders for once, which is something that they have not seen since before the financial crisis of 2008. Closer to home, in North America it appears that the earnings recession that we saw in late 2015 and early 2016 and was a key driver of the market decline is clearly in the rearview mirror. We are finally seeing a reacceleration of earnings driving market appreciation not just multiple expansion.

With the rebound and positive outlook for growth, we are seeing a continuation of the rising trend in inflation and treasuries. Given this backdrop, the manager expects that we will continue to see a positive opportunity for large cap Canadian dividend paying equites, especially managed with a dividend growth strategy that the fund is based upon. This is critical in a rising rate environment. The focus of the fund remains on quality oligopolistic companies, that generate strong return on capital and free cash flow, which allows these companies to grow dividends at a rate equal to or greater than the increase in treasuries and at the same time reinvest in growth prospects.

Canadian Conservative Equity (Leon Frazer)

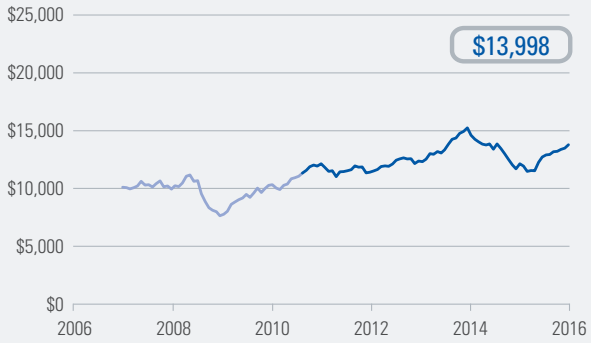
Net compound returns[1]
As at December 31, 2016



* 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

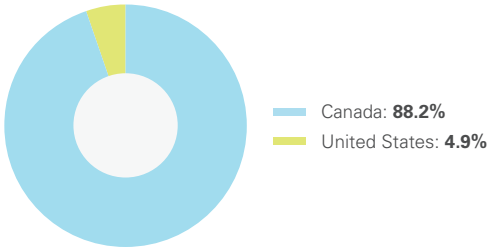


Classic Series 75/75 of the IAG SRP
Simulation of past returns as if the fund had been in effect for these periods

Leon Frazer Snapshot

- Founded in 1939
- Assets under management: $1.6 billion
- Team of 15 investment professionals
- Has established a reputation as one of Canada's leading authorities on dividend investing

Country Allocation
As at December 31, 2016



Sector Allocation
As at December 31, 2016

Sector	Canadian Conservative Equity (%)	S&P/TSX (%)	Deviation (%)
Financials	34.7	35.0	-0.3
Energy	29.4	21.4	8.0
Utilities	8.3	2.8	5.5
Industrials	7.2	8.9	-1.7
Cash and Cash Equivalents	6.3		6.3
Consumer Discretionary	4.8	5.0	-0.2
Telecommunication Services	4.5	4.8	-0.3
Materials	1.9	11.8	-9.9
Consumer Staples	1.8	3.8	-2.0
Health Care	0.5	0.6	-0.1
Real Estate		3.0	-3.0
Information Technology		2.7	-2.7

TOP 10 holdings of the fund
As at December 31. 2016

Cash and Cash Equivalents	6.31%
The Toronto-Dominion Bank	5.50%
Royal Bank of Canada	5.41%
Sun Life Financial Services of Canada Inc.	4.95%
Bank of Nova Scotia	4.56%
Enbridge Inc.	4.14%
Transcanada Corp.	4.09%
Pembina Pipeline Corp.	4.08%
Manulife Financial Corp.	3.75%
Altasgas Ltd.	3.57%
	46.36%

/ Featured Funds

Fidelity American High Yield Currency Neutral Fund

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

Portfolio manager

Fidelity Investments Canada ULC

CIFSC Fund Category

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

Current Fund strategy

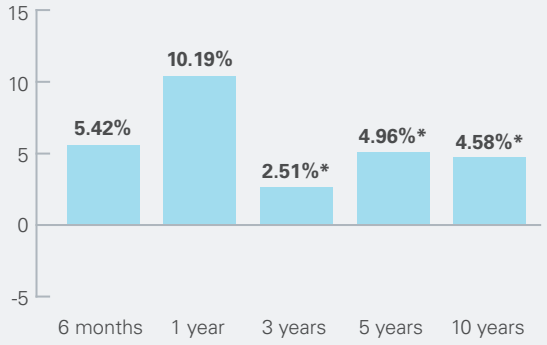
The fund continued to invest across all sectors of the high yield market to provide investors with broad market exposure and industry diversification. Portfolio manager believes it makes sense to maintain a neutral credit risk profile in line with the benchmark. At the end of the period, the fund diverged 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/Metal industry.

The fund ended the period with less exposure than the benchmark to BB- and B-rated issues given their higher sensitivity to interest rate risk and less attractive risk/reward profile. The portfolio manager held slightly more than the benchmark in lower-quality issues as valuations in this tier have become attractive. The fund's allocation to floating rate debt ended the quarter slightly increased as the risk/reward profiles in bank debt have improved. Market volatility remained elevated after the U.S. election; however the manager believes that companies with strong fundamentals are expected to perform well as the new administration could make policy changes that are favourable to growth.

Portfolio manager 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 fair, given that prices are trading around par; however select opportunities still exist in the lower-quality tiers. He expects that credit spreads may tighten further, 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 December 31, 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.

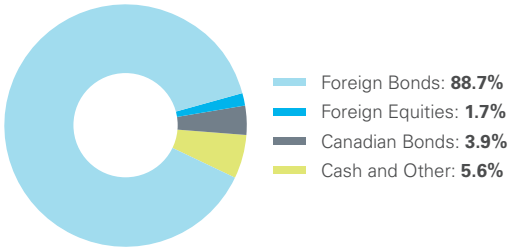
Growth of $10,000
Since inception

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

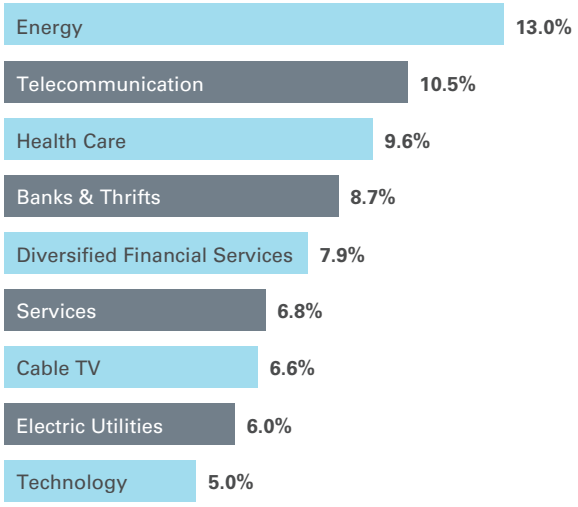
Fidelity Snapshot

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

Asset Mix
As at December 31, 2016



Sector Mix
As at December 31, 2016



Quarterly Top Five Issuers
As at December 31, 2016

Ally Financial
HCA
APX Group
International Lease Finance Corp.
Energy Future Intermediate Holding Co.

/ Featured Funds

SRI Balanced (Inhance)

Offered in: all products

Portfolio manager

Vancity Investment Management

CIFSC Fund Category

Canadian Neutral Balanced

Lead portfolio managers

Dermot Foley, CFA, CIM

- More than 25 years of experience in social and environmental advocacy, research and policy analysis
- Lead role in analyzing the environmental performance, social responsibility and corporate governance (ESG) of companies for the Fund

Andrew Simpson, CFA

- Joined Vancity Investment Management in 2010, with over 15 years of analytical and portfolio management experience, both in Canada and abroad
- Bachelor's Degree in Economics

Why consider this fund?

— A diversified balanced solution for investors who want to invest responsibly

— Holistic approach to responsible investing through a fully integrated in-house investment team

— Environmental, Social and Corporate Governance (ESG) and financial analysis teams work together for enhanced idea generation and risk management

— Managers seek to generate interest and dividend income as well as capital appreciation by investing primarily in a diversified portfolio of other mutual funds that meet their responsible investment principles, with a balanced holding of income, bond and equity

— Portfolio is monitored and rebalanced to ensure consistency with investment objectives

Why choose Socially Responsible Investing?

— *Invested in sustainable companies:* Sustainable companies create the conditions for long-term growth by balancing the interests of shareholders, customers, employees and communities

— *Helps reduce non-traditional risk:* Integrated portfolio management team that incorporates Environmental, Social and Governance (ESG) analysis with traditional financial analysis

— *Profitable:* Companies that are better managed tend to have greater potential for profits

Current Fund strategy

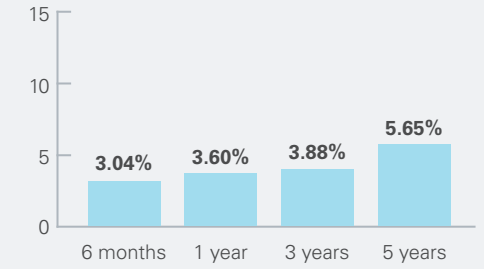
The two primary factors of the equity market rally globally have been improving economic growth and enthusiasm for political change. The global economy has experience a strong cyclical upturn since the weak environment in 2015 for manufacturing, energy and industrials that is evident in improving global purchasing manager index values.

The four main points of the portfolio managers' 2017 outlook are: firstly, the economic and earnings recovery that began in 2016 is set to continue into 2017. Interest rate normalization continues. Secondly, optimism for the election messages of lower taxes, less regulation and more fiscal spending have been reflected at current levels. They maintain caution on under-delivery and increased volatility. Thirdly, Canadian markets remain positioned for continued earnings growth after strong performance in 2016. They are watching for hints of U.S. trade protectionism. Lastly, political risks remain in Europe but have been fairly discounted, while earnings and the economy continue to improve in 2017. This should offer stock selection opportunities.

In summary, the portfolio managers believe that holding companies that can benefit from improving global growth rather than chasing stocks that may see a temporary political bump is the best way to position the portfolio for 2017, a time of ever-present uncertainty and volatility.

SRI Balanced (Inhance)

Net compound returns[1]
As at December 31, 2016



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

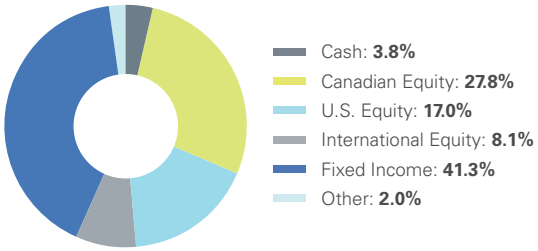
Growth of $10,000
Since inception

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

Vancity Investment Management snapshot

- Founded in 1995
- Wholly-owned subsidiary of Vancouver City Savings Credit Union
- Assets under management: $1.2 billion
- Rapidly growing leader in Responsible Investing in Canada
- Offers an integrated investment process that utilizes shareholder engagement and incorporates Environmental, Social and Governance (ESG) analysis and traditional financial analysis in the construction and management of investment portfolios

Asset Mix
As at December 31, 2016



*Source: Morningstar, data as at December 31, 2016

Sector allocation
As at December 31, 2016

Sector	SRI Balanced (Inhance) (%)
Materials	8.11
Consumer Discretionary	13.65
Financials	20.93
Real Estate	5.15
Telecommunication Services	2.84
Energy	9.19
Industrials	14.28
Information Technology	9.45
Consumer Staples	4.68
Health Care	4.30
Utilities	7.43

*Source: Morningstar, data as at December 31, 2016

Top holdings
As at December 31, 2016

IA Clarington Bond Fund, Series I	39.40%
IA Clarington Inhance Global Equity SRI Class, Series I	23.94%
IA Clarington Inhance Canadian Equity SRI Class, Series I	18.19%
IA Clarington Inhance Monthly Income SRI Class, Series I	18.02%
Cash and Cash Equivalents	0.70%

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/ Useful links

Morningstar

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

Economic and Financial Publications (ia.ca)

http://ia.ca/individuals/individualsavings/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

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