iA Investment

# Watch

**Economic and Market Overview and Featured Funds**

For advisor use only

Quarterly / **As at March 31, 2017**

# Economic and Market Overview

Clément Gignac

### International

The trend in world economic data continued to improve in the first quarter of 2017, illustrating a healthy synchronization between Europe, the United States and Asia. The monetary and fiscal policies of the last few years were highly expansionist in nature, and in no small way responsible for the current economic strength.

### Europe

Economic surprises on the old continent have been positive since the fall. Economic growth is accelerating and spreading to both central and peripheral Europe, and inflation has surpassed the forecast. For the moment, the European Central Bank (ECB) is maintaining its quantitative easing program, scheduled to continue until at least December 2017. Great Britain's exit from the European Union (commonly known as "Brexit") was officially set in motion on March 29. The process is expected to be slow.

### United States

South of the border, post-election optimism hasn't yet materialized in the real economic data. At the end of the quarter, we notice a significant gap between the optimism stemming from economic surveys and the strength of real economic data, such as investments, industrial production, household consumption and wage growth. We are therefore remaining cautious before raising our expectations for U.S. economic growth following the arrival of the new president in the White House.

### Canada

The year 2017 has also started on the right foot, with economic data mostly surpassing expectations. Retail sales, wholesale sales and manufacturing sales all delivered robust results, even though certain seasonal factors linked to the automotive sector and which could dissipate rapidly could be behind this acceleration. Canada's overall picture is therefore much more auspicious than in 2016, when the spectre of recession hovered briefly over the country.

## / iA Strategy

In the last two quarters, we described the ways in which we have been implementing our strategy of protecting capital: underweighting of equities, overweighing of the U.S. dollar, holdings in gold and purchases of index put options. The first quarter of the year was rather calm and the overall tone, positive.

This leads us to believe that we perhaps under-estimated the strength of investors' "animal spirit", as investors who had abandoned the stock markets for the bond market over the last few years are now moving their assets in the opposite direction.

iA Financial Group

# / iA Managed Solutions

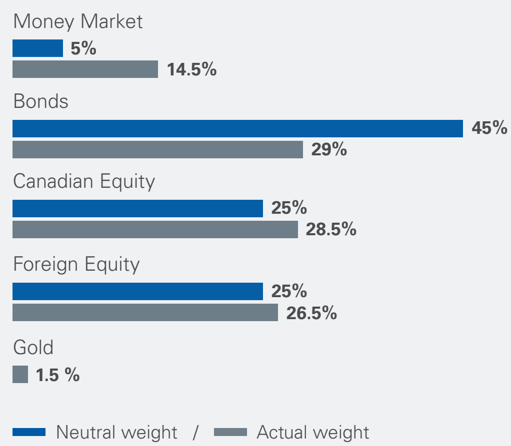
## **Diversified** Funds

As managers of diversified funds, it is our job to identify trends and turning points but, especially, to properly evaluate the risks inherent in our investment decisions. We therefore identified investors' appetite for risk as a significant risk to our strategy, since it has stayed higher for longer than we had anticipated, and so decided to gradually increase our exposure to equities in each of our mandates during the quarter.

The weight of bonds is now 29.0%, below the 45.0% target. We took advantage of the robust performance of the bond market during the quarter to earn some profits and reduce our holdings.

We once again remained overweight in equities during the quarter, despite our caution, in light of our put options on the main indexes in which the funds under our management are invested (thereby giving us an asymmetrical profile). At the end of the quarter, Canadian equities accounted for 28.5% of the Diversified Fund, including 4.0% in small-cap stocks. International equities accounted for 26.5% of the assets.

The fund currently contains a relatively high level of cash, 14.5% of the assets, reflecting the low weight of bonds within the portfolio as well as our desire to maintain some flexibility to take advantage of any opportunities that may present themselves in the stock markets.

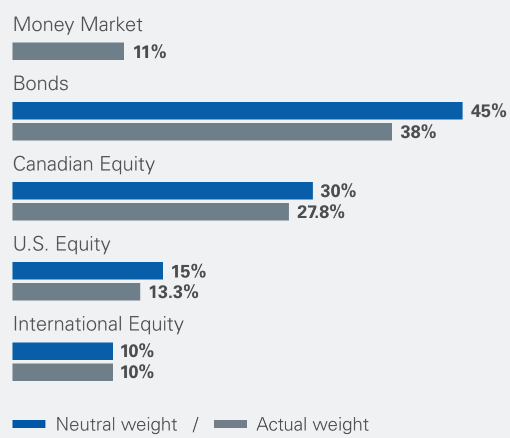



## **Selection** Funds

Equity exposure in the selection funds has been reduced to 51.0% for the Selection Balanced Fund, mostly through profit taking on international equities. The positioning of the selection funds differs from the diversified funds because their structure does not allow the use of hedging tools, such as put options.

The weight of fixed income remained stable at 38.0% for the Selection Balanced Fund.

Finally, cash makes up 11.0% of the Selection Balanced 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

This is 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 Balanced Fund (QV)

**Offered in all products**

### Portfolio manager

QV Investors Inc.

### CIFSC Fund Category

Canadian Neutral Balanced

### Lead portfolio managers

**Darren Dansereau, CFA**

- Vice-President and Portfolio Manager at QV Investors Inc.
- Responsible for the analysis of larger Canadian companies
- Holds a Bachelor of Commerce in Finance from the University of Alberta

**Wendy Booker-Urban**

- Co-founder of QV Investors and Senior Vice-President and Chief Operating Officer
- Responsible for private management and serves as a Director of the firm
- Holds a Bachelor of Arts in Economics from the University of Manitoba

### Why consider this fund?

— QV believes in investing in quality companies with attractive valuations

— Proven portfolio management over extended time periods

— QV's commitment to protect capital during volatile markets

— QV's investment approach that strategically positions the Fund through all economic cycles

### Investment style & other characteristics

— Targets above average long-term growth with low risk, through investment in a diversified mix of high quality Canadian common shares, preferred shares, income trusts and bonds

— Management team seeks better returns and lower valuations than the market

— Invests in companies with above average returns on equity capital, but whose shares trade below their intrinsic value

— For fixed income, QV believes in investing in quality companies with attractive valuations and favours short-term bonds with shorter maturities than the FTSE TMX Universe Bond Index

### Current Fund strategy

The first quarter of 2017 really had no blockbuster news to sway the market. It was, for the most part, a continuation of the backdrop set in Q4 of 2016 subsequent to the U.S. election. Almost all global equity markets continued their upward trend, and global economies seemed to be improving as they entered 2017. The market is optimistic about the prospects for corporate earnings and the potential for even greater tailwinds from U.S. fiscal policy.

Canadian equities performed well in Q1 of 2017, but the Canadian economy is showing some diverging data points, with the Bank of Canada still fairly cautious in their outlook for economic growth. Most recently, exports from the manufacturing sector have picked up but the sustainability of this remains questionable. Specific Canadian real estate markets and consumer debt levels remain stretched. This will likely have an impact on longer-term growth rates.

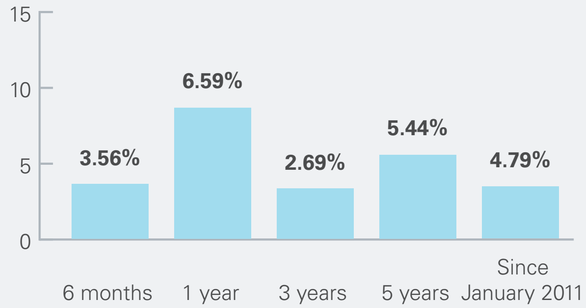
In the first three months of 2017, the QV Canadian Balanced Fund slightly outperformed its benchmark on a gross return basis. The Fund's corporate bond exposure and shorter maturities in its bond portfolio contributed positively to performance. Over the last year, the Fund has a very strong equity performance, but did not beat its benchmark because of the latter's commodity and financials heavy weightings.

The Fund closed the quarter with 11% invested in cash and treasury bills, 37% invested in fixed-income securities and 52% in equities (mostly Canadian). The Fund's defensive asset allocation detracted from performance given the strength of the Canadian stock market. Relatively high valuations and the resulting downside risks cause the managers to maintain a conservative asset mix. The managers continue to hold a defensive bias toward interest rate risk by maintaining a relatively low term-to-maturity profile in their bond strategy.

# Canadian Balanced Fund (QV)

## Net compound returns[1]

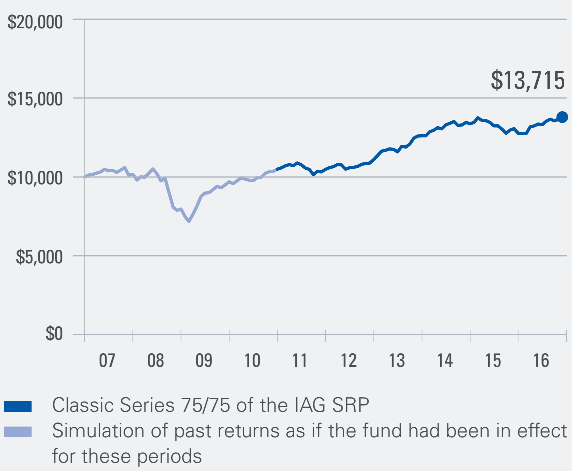
As at March 31, 2017




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

## Growth of $10,000

Since inception

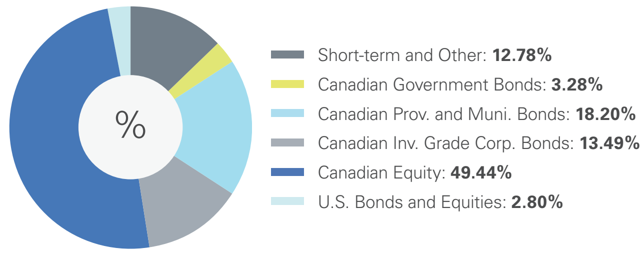



## QV Snapshot

- Employee-owned, independent investment management firm
- Founded in 1996 on the principles of Quality and Value
- $15.2 billion in assets under management
- Personally invested in the funds they manage

## Asset Mix

As at March 31, 2017




## Sector Allocation

As at March 31, 2017

| Sector | Canadian Balanced Fund (QV) (%) | S&P/TSX 60 TR CAD (%) | Deviation (%) |
|---|---|---|---|
| Financials | 25.0 | 40.5 | -15.5 |
| Energy | 16.3 | 22.3 | -6.0 |
| Industrials | 15.0 | 7.3 | 7.7 |
| Utilities | 12.1 | 1.8 | 10.3 |
| Consumer Discretionary | 10.6 | 5.1 | 5.5 |
| Consumer Staples | 7.7 | 4.1 | 3.5 |
| Information Technology | 7.6 | 2.2 | 5.4 |
| Materials | 5.8 | 10.1 | -4.4 |
| Health Care | 0.0 | 0.3 | -0.3 |
| Telecommunications | 0.0 | 6.3 | -6.3 |
| Real Estate | 0.0 | 0.0 | 0.0 |

## TOP 10 holdings of the Fund

As at March 31, 2017

| | |
|---|---|
| Cash and Equivalents | 10.32% |
| Canadian Imperial Bank of Commerce | 2.82% |
| Loblaw Companies Ltd. | 2.74% |
| Bank of Nova Scotia | 2.42% |
| Canadian National Railway Co. | 2.42% |
| ATCO Ltd., Class I, NV | 2.24% |
| Power Financial Corp. | 2.14% |
| Province of Ontario, 2.600%, 2025-06-02 | 2.11% |
| CGI Group Inc., SV | 2.00% |
| Canadian utilities Ltd. | 1.90% |
| | **31.11%** |

# / Featured Funds

## Strategic Income Fund

**Offered in:** All products except Ecoflextra

### Portfolio manager

iA Clarington Investments Inc.

### CIFSC Fund Category

Canadian Neutral Balanced

### Lead portfolio manager

**Dan Bastasic, CFA**

- Manages over $4 billion in assets
- Bachelor of Commerce in Finance
- 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
- Master of Business Administration (MBA)

### Why consider this fund?

— Can adjust asset allocation as market conditions warrant.

— Fixed income as an alpha generator, not just a diversifier.

— The manager's expertise in both equity and fixed income provides an unbiased asset allocation decision and the ability to assess relative value across the capital structure of a company.

— Fixed-income component includes high-yield corporate bonds that may have lower interest rate sensitivity than one focused on investment-grade bonds alone.

— Rigorous and active investment process that focuses on safety of income and incorporates the manager's macro outlook.

### Investment style & other characteristics

— Value-oriented bottom-up approach combined with quantitative analysis to identify opportunities.

— Macro analysis to identify systemic risks and opportunities.

— Flexible allocation: Up to 70% in any one asset class (fixed income vs equity) and up to 49% in foreign equities, allowing the portfolio to be adjusted based on market conditions.

— Potential for equity-like returns with lower volatility.

### Current Fund strategy

After the U.S. election, the market quickly priced in positive expectations based on Trump's policy platform, which included tax cuts and wide-ranging deregulation. However, the recent failure of health care reform has led investors to question how quickly Trump's pro-growth policies would be implemented. As a result, the market is now assessing more risk than it was a couple of months ago. For these reasons, in the near term, the manager expects a short-term market correction that would provide a buying opportunity. At the end of Q1 of 2017, the Strategic Income Fund held about 20% cash as the Fund positions itself for this anticipated correction.

Data suggest we are in the early stages of synchronized global growth. Furthermore, the manager expects the U.S. economy to post higher than expected growth this year. If this happens, and if inflation rates stay where they are, we could expect a 10-year bond rate of about 3% or 3.1% over the next seven or eight months.

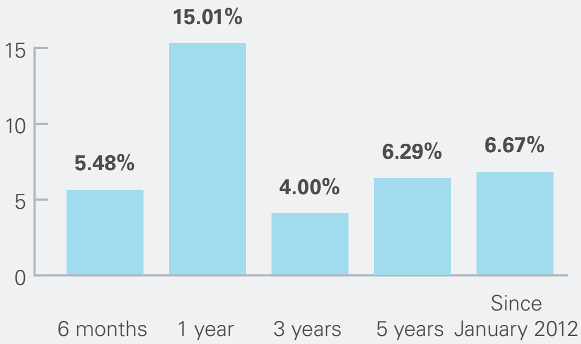
The manager is favorable to higher-yielding corporate bonds because they have low sensitivity to interest rate changes, yields are three or more times greater than investment grade bonds, and default rates have been almost non-existent over the last 17 years for the companies in the Fund.

Currently, the Fund is approximately 65% hedged. The Canadian dollar, in the manager's view, is currently range-bound. Furthermore, contrary to common view, the manager anticipates oil prices trending higher over the next two years. Stronger oil prices would help reduce the negative impact of the interest rate differential with the United States on the CAD/USD exchange rate, relative to other global currencies.

The manager always invests based on where he sees the best risk-adjusted returns. Currently, equity positioning is roughly 40% in cyclicals, 40% in high-yielding defensives, with the remaining 20% in cash.

# Strategic Income Fund

### Net compound returns[1]
As at March 31, 2017



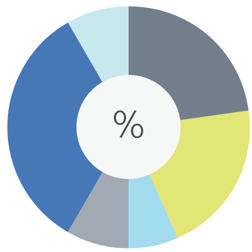

[1] These returns are on a net basis, for the Classic Series 75/75 of the IAG SRP.

### Growth of $10,000
Since inception


### Snapshot of iA Clarington

- Over $14 billion in assets managed as at December 31, 2016
- 220 employees
- Offices in Montreal, Toronto, Calgary and Vancouver
- Wholly-owned subsidiary of iA Financial Group

### Asset Mix
As at March 31, 2017




### Composition of the Fund
As at March 31, 2017

| | |
|---|---|
| Corporate Bonds | 30.68% |
| Cash and Equivalents | 20.47% |
| Financials | 7.93% |
| Utilities | 7.76% |
| Energy | 7.00% |
| Consumer Staples | 5.61% |
| Real Estate | 4.77% |
| Industrials | 4.07% |
| Telecommunication Services | 2.79% |
| Health Care | 2.62% |
| Consumer Discretionary | 2.48% |
| Materials | 2.46% |
| Information Technology | 1.38% |

### TOP 10 holdings of the Fund
As at March 31, 2017

| | |
|---|---|
| Cash and Equivalents | 20.26% |
| CCL Industries Inc., Class B, NV | 2.33% |
| Loblaw Companies Ltd. | 2.33% |
| Waste Connections Inc. | 2.22% |
| Unilever, NV | 2.08% |
| Manulife Financial Corp. | 1.96% |
| The Toronto-Dominion Bank | 1.96% |
| Royal Bank of Canada | 1.95% |
| Brookfield Infrastructure Partners LP | 1.93% |
| BCE Inc. | 1.89% |
| | **38.91%** |

# / Featured Funds

## Dividend Growth Fund

**Offered in:** All products except Ecofl*extra* Series 75/100 of the IAG SRP

### Portfolio manager

iA Clarington Investments Inc.

### CIFSC Fund Category

Canadian Dividend & Income Equity

### Lead portfolio managers

**Gil Lamothe, CFA**

- Bachelor of Commerce (Business Administration) from Laurentian University
- Joined iAIM in 1999
- Responsible for the management of more than $2.8 billion
- Has more than 15 years of investment experience as a portfolio manager
- Also manages IA Clarington Canadian Dividend Fund

**Donny Moss, CFA**

- Bachelor of Commerce from Dalhousie University
- Joined iA Financial Group in 2008
- Has more than 10 years of investment industry experience
- Also manages IA Clarington Canadian Dividend Fund

### Why consider this fund?

— A core dividend-focused portfolio is comprised of securities representing mostly large, well-known Canadian companies that endeavor to pay regular and rising dividends.

— Emphasizes capital appreciation and income.

— Mandate with a track record of consistent performance and low volatility.

### Investment style & other characteristics

— The portfolio manager combines a top-down economic view with bottom-up fundamental security selection to identify stocks of companies that offer good valuation, a strong balance sheet and excellent management.

— Flexible allocation: Up to 30% in foreign equities, allowing the portfolio to be adjusted based on market conditions.

— Managers employ a philosophy of investing that allows long-term investors to benefit from short-term overreactions of the market.

### Current Fund strategy

Canadian equities had another positive quarter, with the S&P/TSX and S&P/TSX 60 indices advancing, both progressing by 2.4%. North American markets were driven in part by improving economic data worldwide, which was, in turn, driven in part by the important fiscal stimulus plan in China. In Canada, the leading sectors over the quarter were consumer discretionary, utilities and industrials.

During the first quarter of 2017, the Fund outperformed its benchmark on a gross return basis. Positive contributors included stock selection within consumer staples – Cott Corp., Pepsi Co., and P&G adding the most value. Furthermore, the Fund was overweight in information technology, which was a sector that performed particularly well over the quarter. Its outperformance in the sector was driven by its holdings in Cisco Systems. Benchmark-relative performance was further enhanced by being underweight in energy, which was an underperforming sector, and by being overweight in industrials.

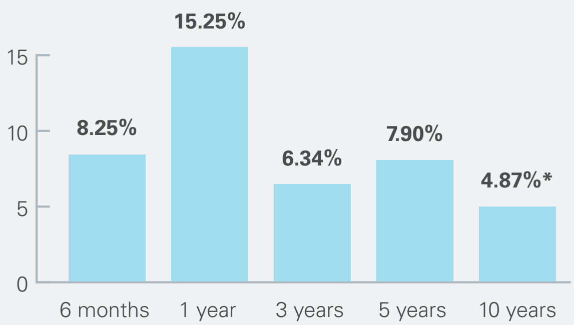
Going forward, the fund manager continues to favour industrial and consumer stocks, and is underweight in the energy and banking sectors.

The manager anticipates plenty of volatility in financial markets related to the Trump presidency. There will be overreactions both ways, and therefore, many opportunities. The manager plans to carefully monitor the anticipated overall tightening rate environment. Finally, the Fund's U.S. dollar positions are unhedged and the manager continues to monitor his outlook of midterm USD strength relative to CAD.

# Dividend Growth Fund

### Net compound returns[1]

As at March 31, 2017

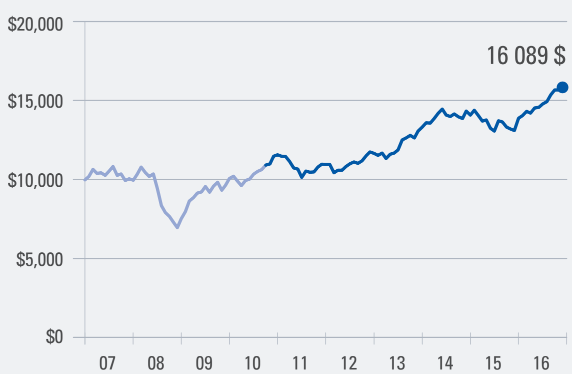



* Simulation of past returns as if the fund had been in effect for these periods

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

### Growth of $10,000

Since inception



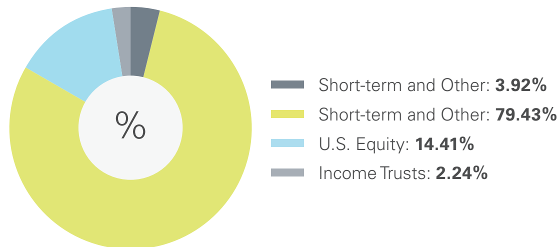

Classic Series 75/75 of the IAG SRP
Simulation of past returns as if the fund had been in effect for these periods

**iA Clarington Snapshot**

- Over $14 billion in assets managed as at December 31, 2016
- 220 employees
- Offices in Montreal, Toronto, Calgary and Vancouver
- Wholly-owned subsidiary of iA Financial Group

### Asset Mix

As at March 31, 2017



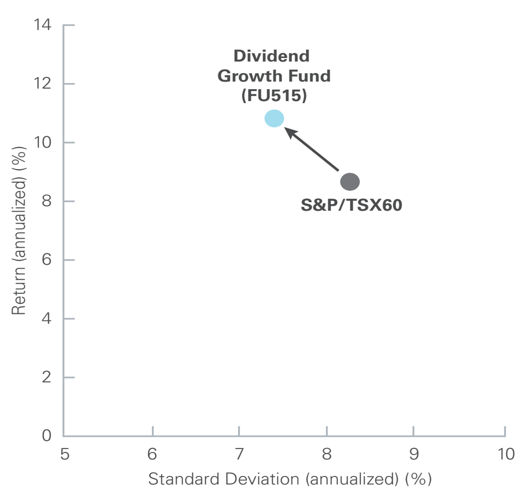

### Sector Allocation

As at March 31, 2017

| | |
|---|---|
| Financials | 36.95% |
| Energy | 17.77% |
| Industrials | 13.23% |
| Telecommunication Services | 6.64% |
| Utilities | 5.19% |
| Consumer Staples | 5.19% |
| Consumer Discretionary | 5.12% |
| Cash and Equivalents | 3.92% |
| Materials | 3.74% |
| Information Technology | 1.70% |
| Health Care | 0.56% |

### Value added from dividends

Risk - return relationship
5-year period ending March 31, 2017




Source: Mercer Insight

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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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