iA Investment Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **As at June 30, 2017**

Economic and Market Overview

Clément Gignac

International

Most economic data published over the last year confirms synchronized recovery among developed and emerging countries, leading several central banks to consider gradual reduction in the monetary accommodation that has been in place for almost a decade. However, inflationary pressures remain moderate, which would suggest the current economic cycle leaves room for more expansion.

Europe

The risks associated with the disintegration of the European Union have largely dissipated with the convincing victory of Emmanuel Macron, who was elected as the president of France. The strong political majority of the new French government may even be perceived as a unique opportunity to stimulate the country's growth potential by implementing important reforms in the labour market, which has seen an unemployment rate above 10% for several years.

United States

U.S. economic data has been disappointing over the last few months, an observation that reflects, in large part, the extremely optimistic expectations resulting from the promises of tax cuts associated with the election of Donald Trump. Nevertheless, this weakened data should not stall the Federal Reserve's plan to standardize monetary policy. We are also encouraged by the recent upturn in business investment, which would eventually lead to an extension of the economic cycle.

Canada

The Bank of Canada (BoC) changed its tone significantly in June by questioning the relevance of maintaining its 50-basis-point "insurance policy" with respect to the prime rate, which was implemented in 2015 to protect the Canadian economy against the oil crisis. The BoC says it is encouraged by the country's strong economic recovery, which extends to a large number of sectors and regions, and it anticipates above-potential growth over the coming quarters.

/ iA Strategy

We continue to encourage the overweighting of equities and the underweighting of government bonds. We believe that an economic environment characterized by an improvement in global growth and moderate inflationary pressures is conducive to an acceleration in corporate earnings and to higher interest rates. However, we still believe that the equity market is showing a certain level of complacency and therefore, are continuing to monitor events that could reverse investors' appetite for risk. We are keeping a close eye on communications from central banks and developments on the geopolitical scene.

iA Financial Group

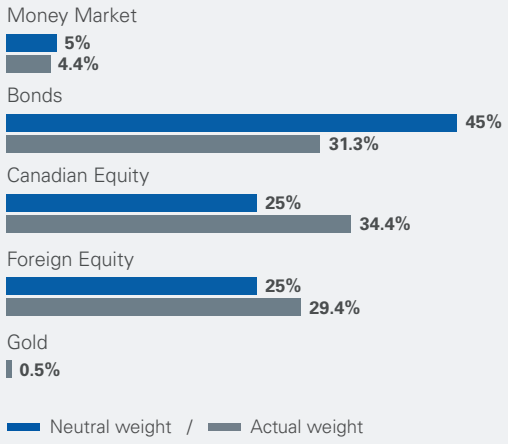
/ iA Managed Solutions

Diversified Funds

The strategy of diversified funds in the second quarter was focused on an overweighting of European equities and a preference for more technology-focused sectors. We have also hedged the foreign exchange risk associated with foreign equities, which has allowed us to profit from the significant appreciation of the Canadian dollar.

We are staying the course with our strategy to overweight equities and have increased our exposure to the Canadian financial sector, which may benefit from higher interest rates. At the same time, we continue to actively manage the downside risk of our portfolio through equity put options and long-term American bonds.

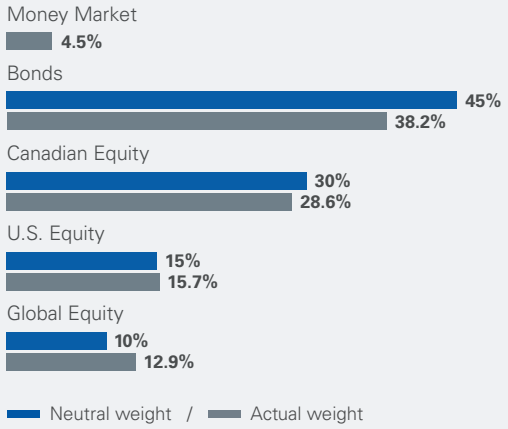
The Diversified Fund posted a weight of 31.3% in bonds as at the end of June. Canadian equities accounted for 34.4% of the Fund, including 4.1% in small-cap stock and 2.3% in preferred stock. Foreign equities accounted for 29.4% of the assets and cash accounted for 4.4%.



Selection Funds

We reduced the Selection funds' cash during the quarter in order to increase equities while favoring international securities. The Balanced Selection Fund's exposure to foreign equities has therefore increased from 23.3% to 28.6%, which brings the total weight in equities to 57.3% of the portfolio. Note that the Selection funds are managed differently from the diversified funds; their structure does not permit the implementation of option strategies and currency hedging.

The weight in fixed-income securities has remained relatively stable, at 38.2% of the Balanced Selection Fund, whereas the cash has dropped to 4.5%.



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

Global Dividend Fund (Dynamic)

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)

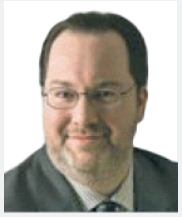
Portfolio manager

Dynamic Investment Funds

CIFSC Fund Category

Global Equity

Lead portfolio manager



David Fingold

- Vice-President and Portfolio Manager
- Expertise: International and U.S. equities
- Joined Dynamic's investment team in 2002 (managed the Fund since 11 years)
- Over 25 years of experience
- Bachelor of Science with High Distinction in management (Babson College)

Why consider this Fund?

— Invests in global equity securities that generate or will eventually generate regular dividends (which will be reinvested in the Fund) while ensuring long term capital growth

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

— Focuses on large-cap companies and will usually have an overweight to the U.S., in order to decrease volatility

— Active hedging strategy used to mitigate fluctuations of foreign currencies

Investment style & other characteristics

— Value style approach

— Bottom-up analysis to find companies with healthy or improving balance sheets and with a clearly understood dividend policy

— Searches for companies that are trading below their intrinsic value

— 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 Q2 2017, the Fund returned 5.2%, outperforming the benchmark MSCI World Index (C$) which returned 1.5%. The primary reason for the relative outperformance during the quarter was stock selection in the industrials and materials sectors. The only sector to detract from relative performance was financials – primarily due to the Fund's underweight allocation.

Four of the top ten stock contributors to performance came from the industrials sector. Belimo and Schweiter Technologies were among the top three contributors and are both non-benchmark Swiss companies. Other top contributors from the sector included Israeli international defence electronics company Elbit Systems and U.S. pest control (Orkin) company Rollins Inc. These companies were also not owned by the benchmark. The Fund did not own General Electric - the benchmark's top detractor. Israeli flavour and fragrance company Frutarom (the Fund's top contributor) and Swiss specialty company Sika, were top ten stock contributors for the Fund from the materials sector and were also not held by the benchmark.

The Fund increased its allocation to the financials, consumer discretionary and health care sectors – adding companies such as Allstate, McDonald's, and Zoetis. The Fund allocation to the industrials and information technology sectors were reduced by taking profit and exiting positions in Parker Hannifin, and VAT Group (industrials) and reducing the weight of several technology companies that have been strong contributors during the past year.

At quarter end the Fund was invested 75% in four sectors. We are not finding opportunities in the utilities, energy, telecommunications, or real estate sectors and have zero weighted those sectors. We will not own companies in a sector just to have exposure to that sector and avoid deviating far from the benchmark. Our investment process is based on our bottom-up research and whether a company meets our investment criteria. A number of the Fund's key contributors and the main reason for our relative outperformance this quarter and in many others are the stocks we have held for quite some time have been strong performers and are not held by the benchmark.

*Morningstar ratings reflect performance as at June 30, 2017.
For greater detail see morningstar.ca.

Global Dividend Fund (Dynamic)

Net compound returns[1]
As at June 30, 2017

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

[1] Returns on a net basis, for the Classic Series 75/75 of the IAG SRP

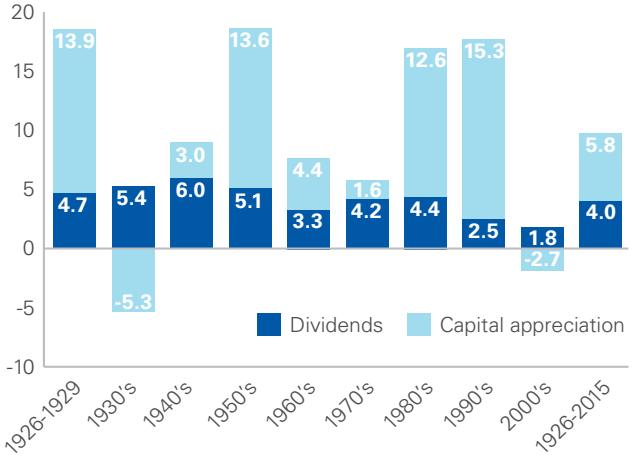
Growth of $10,000
Since inception

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

Dynamic Investment Funds snapshot

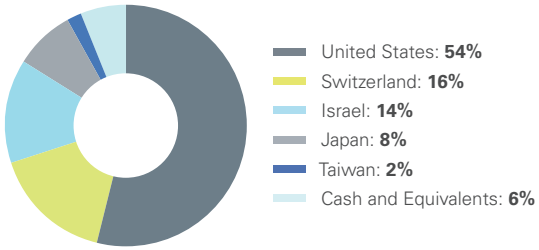
- Founded in 1957
- Investment team is currently at 63 employees
- Firm emphasis on fundamental analysis and long-term investment
- One of the country's largest and most recognized wealth management brands

Dividend stocks lead to stronger long-term results
S&P 500 total return: Dividends vs. capital appreciation (average annualized return (%))



Source : JP Morgan Asset Management as at March 31, 2017

Country allocation
As at June 30, 2017



Sector allocation
As at June 30, 2017

Sector	Global Dividend (Dynamic) (%)	MSCI World Index (%)	Deviation (%)
Industrials	30	11	19
Information Technology	21	15	5
Materials	9	5	4
Health Care	12	12	0
Real Estate	-	3	(3)
Telecommunication Services	-	3	(3)
Utilities	-	3	(3)
Financials	13	18	(5)
Consumer Discretionary	7	12	(6)
Energy	-	7	(7)
Consumer Staples	3	10	(7)
Cash and Equivalents	6	-	6

/ Featured Funds

Global Diversified (Forstrong)

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

Forstrong Global Asset Management Inc.

CIFSC Fund Category

Global Equity Balanced

Lead portfolio manager

Tyler Mordy, CFA

- President and CIO
- Tyler is a recognized innovator in the design and application of "global macro" ETF portfolios
- Recently, ETF.com profiled Tyler as one of the "best and brightest" working in the ETF Strategist industry
- Joined Forstrong in 2003
- Mathematics and English Literature (University of British Columbia)

Why consider this Fund?

— Pioneer in this market

— ETF are excellent tools:
  - Superior quality vehicles to actively manage a portfolio invested globally
  - Access to specialized investment opportunities: emerging markets, real estate, commodities, foreign currencies, etc.

— Tactically adjusts asset allocation to capitalize on opportunities

— Manages "income risk" from a global perspective

Investment style & other characteristics

— Strategic diversification across a broad range of global asset classes and sectors

— Active management through long-term macroeconomic analysis and short-term strategies

— Owner of dozens of macro-economic models based on "super trends": Forstrong believes that these investment themes will stimulate the capital markets for years to come

— Portfolio securities: up to 35 ETF

— Target allocation: 35% in fixed income securities, 65% in global equities

— Significant degree of leeway to move within investment limits (±25% from target allocation)

— Dynamic currency hedging strategy to mitigate exchange rate risks and seize opportunities

Current Fund strategy

A big surprise in 2017 has been that the US dollar has stopped rising. This is remarkable considering that the Fed is hiking rates and preparing to shrink its balance sheet. Yet it is becoming clear that Trump will have far less impact on the global economy than originally envisioned by markets. Reduced regulation will be the key support for business confidence, rather than lower taxes and public investment programs. As such, Trump's sectoral impact will still be substantial.

Still, as we have expected in this environment, broad outperformance is now moving away from the US toward Europe and emerging markets, driven by cheaper valuations, earlier stage economic expansions and monetary policy that is nowhere near substantial tightening. This trend will be measured in years, not quarters like many are forecasting.

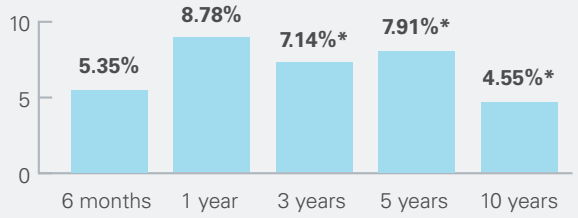
Most investors are still heavily underweight in emerging markets, in part driven by fears of a China crash (that never seems to appear). We take a different view. The most important facts about China today are not the problems of slowing growth and high leverage. Rather they are the shift away from exports and capital spending to consumer-led growth, improving margins and financial liberalization. On balance, this will be positive for Chinese asset prices and the wider emerging market complex.

Also, economic growth and reflation have been encouragingly synchronized across global regions this year. Yet, they are still relatively modest in historical terms. As such, fears of "policy normalization" from the world's central banks are too extreme. In fact, a "slower for longer" recovery would be a favourable backdrop for equity markets; providing a stable operating environment for businesses while limiting prospects for aggressive tightening.

The Fund continues to align its position with the above themes, namely an overweight to European and emerging market equities, an underweight to longer-dated bonds and an emphasis on globally-sourced income. 2017 continues to be a year of massive asset and sector rotation. For the intrepid macro investor, this is our time.

Global Diversified (Forstrong)

Net compound returns[1]
As at June 30, 2017



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

[1] Returns on a net basis, for the Classic Series 75/75 of the IAG SRP

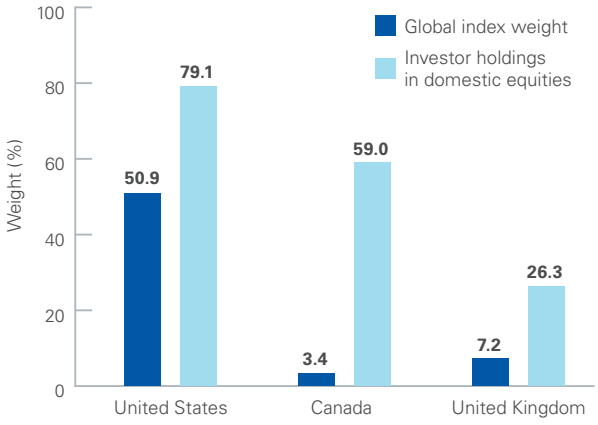
Growth of $10,000
Since inception

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

Forstrong snapshot

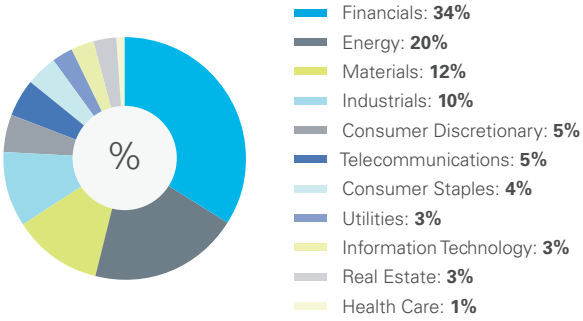
- Founded in 2001
- First Canadian manager to offer global asset allocation strategies using ETF securities exclusively
- Manages more than $700 million
- Daily goal to provide every client with the optimal exposure to the right assets, in the right allocation and at the right time

Canadians tend to be overinvested in Canada



Source: Vanguard, 2014

Canadian equities → Lack of depth
In the S&P/TSX Composite, the top 3 sectors (Financials, Energy and Materials) represent more than 2/3 of the index.*
Sector allocation as at June 30, 2017



*Source: S&P/TSX Composite Index

Asset mix
As at June 30, 2017

	Minimum (%)	Neutral Weight (%)	Maximum (%)	Actual Weight (%)
Money Market	-	2.5	25.0	8.7
Canadian Bonds	-	0.3	-	0.5
Foreign Bonds	-	32.2	-	26.0
Total - Fixed Income	**10.0**	**35.0**	**60.0**	**35.2**
Canadian Equities	-	2.1	-	2.5
U.S. Equities	-	35.0	-	20.0
International Equities	-	21.0	-	30.3
Emerging Markets Equities	-	6.9	-	12.0
Total - Equities	**40.0**	**65.0**	**90.0**	**64.8**
Total - Portfolio	**-**	**100.0**	**-**	**100.0**

/ Featured Funds

Global Diversified (Loomis Sayles)

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

Loomis, Sayles & Company L.P.

CIFSC Fund Category

Global Neutral Balanced

Lead portfolio managers

David W. Rolley, CFA

- Vice-President and Portfolio Manager
- Co-team leader of the global fixed income group and emerging market debt group
- Co-manager of many other funds
- 34 years of investment experience
- Joined Loomis Sayles in 1994
- BA from Occidental College

Eileen N. Riley, CFA

- Vice-President and Co-portfolio Manager since 2013
- Began her investment industry career at Loomis Sayles in 1998
- BA with honors from Amherst College
- MBA from Harvard Business School

Why consider this Fund?

— An unconstrained, go-anywhere asset allocation strategy that will invest across multiple asset classes, sectors, regions, countries and currencies in pursuit of a strong total return

— A well-diversified, yet concentrated portfolio based on the highest conviction ideas of four experienced portfolio managers, that have more than 110 years' combined investment experience

— Continuous collaboration between teams, supported by Loomis Sayles' deep global research platform, ensures only their best ideas are represented in the Fund

Investment style & other characteristics

— Security selection driven by bottom-up fundamental research

— Combines a concentrated global equity portfolio (50% to 70%) with a high conviction U.S. and global fixed income allocation (30% to 50%)

— Look for valuation disparity in the market place to position the portfolio where the greatest risk/reward opportunities lie which typically runs counter to macro trends

— Unhedged currency in the global equity sleeve & active currency hedging in the fixed income sleeve

Current Fund strategy

Global markets are likely to become more volatile as we move through 2017, driven largely by geopolitical events. Globally, central bank action and an increasingly bellicose North Korea top the list of risks. In the US, investors may lose patience with the Trump administration's ability to implement pro-growth policies, as the IMF seemingly did (it recently downgraded US 2017 and 2018 growth forecasts). In Europe, economic data is showing signs of improvement; however, significant disparities among countries remain. Brexit proceedings are arguably now more uncertain with a hung parliament in the UK, and pro-EU Macron is leading France with a meaningful parliamentary majority.

We expect the U.S. Federal Reserve to raise rates four more times through the end of 2018, though the timing of these hikes is still uncertain due to the potential for fiscal stimulus and further acceleration in wage pressures. We continue to see relatively accommodative monetary policy from other central banks, though we expect the European Central Bank, Bank of England and other Commonwealth banks to shift away from easy policy slowly and gradually. In emerging markets (EM), disinflationary pressure in many EM economies should allow for generally more accommodative policy and bond market outperformance.

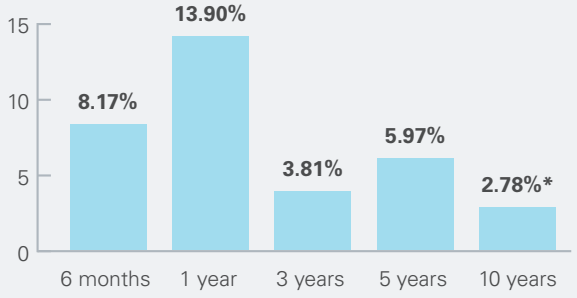
We continue to remain favorable on corporate bonds mainly because we do not expect recessionary conditions over the forecast horizon. A gradual increase in interest rates and the potential for pro-growth economic and tax plans would be quite favorable.

As a result of our bottom-up investment approach, we are primarily overweight the information technology, consumer discretionary, financials and materials sectors. We are underweight the energy, healthcare, consumer staples and industrials sectors. We do not hold any securities in the utilities, telecommunication or real estate sectors. From a regional perspective, we are currently overweight North America and underweight developed Asia, emerging markets and Europe.

We continue to focus on identifying and investing in quality companies with the ability to grow their intrinsic value over time and trade at an attractive valuation. We view short-term market volatility as an opportunity to add to existing holdings or establish new positions.

Global Diversified (Loomis Sayles)

Net compound returns[1]
As at June 30, 2017



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

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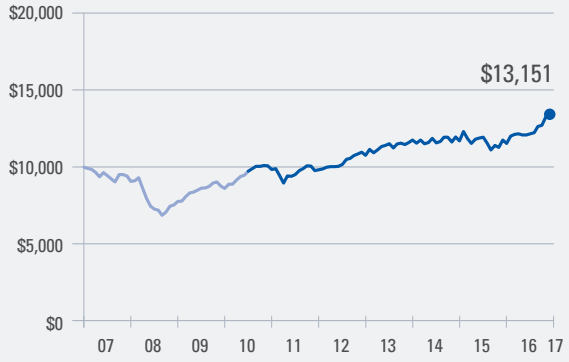
Growth of $10,000
Since inception

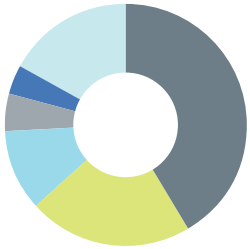


Classic Series 75/75 of the IAG SRP
Simulation of past returns as if the Fund had been in effect for these periods

Loomis Sayles snapshot

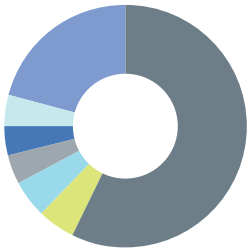
- Founded in 1926 by two Boston investment managers
- Investment offices around the world: Boston, Detroit, San Francisco, London and Singapore
- Organized around the principle, "Think broadly, act decisively"

Asset allocation
As at June 30, 2017



- U.S. Equities: **42%**
- Foreign Equities: **22%**
- U.S. High Yield Corporate Bonds: **11%**
- Foreign Investment Grade Corporate Bonds: **5%**
- Short Term: **4%**
- Other securities: **17%**

Geographic distribution
As at June 30, 2017



- United States: **58%**
- Canada: **5%**
- Switzerland: **5%**
- United Kingdom: **4%**
- China: **4%**
- Europe – Other: **4%**
- Others (Asia, France, Sweden, etc.): **21%**

Main Fund sectors
As at June 30, 2017

Corporate Bonds	24.3%
Information Technology	14.9%
Financials	14.8%
Consumer Discretionary	11.9%
Industrials	9.7%
Health Care	5.0%
	80.8%

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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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