iA Investment
Watch

Economic and Market Overview and Featured Funds

For advisor use only

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

Economic and Market Overview

Clément Gignac

International

From an economic standpoint, 2017 was marked by strong synchronization. While growth was apparent across the globe, it was the significant upturn in certain regions, including Canada and Europe, that particularly caught the attention of investors. All indications suggest that the global economy will continue to grow this year. Economists expect the upswing in economic growth to continue in 2018, achieving a rate of 3.7%, according to the OECD.

Europe

GDP growth in the Euro zone has outpaced that of the United States since the beginning of 2016, and leading indicators generally point to additional gains in 2018. Current growth, driven in large part by domestic demand, appears to be sustainable. Cumulative progress in the labour market in recent years has greatly improved financial conditions for Europe's middle class. Recent data show that domestic demand is finally making up for lost ground in recent years against the United States and even Japan.

United States

Economic conditions in the U.S. remain very favourable and point to a good year in 2018. GDP growth continued into the fourth quarter, and inflation remains below the 2% mark. While we expect this trend to continue in early 2018, it should be borne in mind that the pace of growth may slacken somewhat due to the position of the business cycle and a tighter labour market. The last quarter ended with the U.S. adopting the long-awaited tax reform plan promised in President Trump's 2016 election campaign. The long-term impact of the plan is somewhat uncertain given that some of the measures in it will come into effect only over a ten-year period and that the gains made by businesses and households will be funded by an increase in the national debt.

Canada

As expected, the pace of Canada's economic growth gradually returned to normal in the second half of the year. The frenetic growth rate in real GDP from mid-2016 to mid-2017 – namely, 3.5% – was clearly not sustainable and was due in large part to rebounding petroleum production following the forest fires in Fort McMurray in 2016. Against this backdrop, the Bank of Canada will probably have to increase its policy interest rate two or three times in 2018, despite its cautious tone at quarter's end.

/ iA Strategy

As a result of tighter monetary policies in North America and prospects for an end to quantitative easing in Europe, we foresee that yield curves will continue to flatten. The slope of the U.S. yield curve, as measured by the difference between rates at ten years and at two years, is slowly approaching the threshold of 50 basis points that generally corresponds to greater volatility, but, also, to lower expected returns.

If, as we expect, volatility makes a comeback in 2018, it will be important for investors to maintain a certain cash level in their portfolio in order to seize market opportunities.

Bonds will also play a key stabilizing role in diversified portfolios, even if bond market returns are not expected to exceed stock market returns.

iA Financial Group

/ iA Managed Solutions

Diversified Funds

Given current conditions, we reduced our equity market exposure in the United States at the end of the quarter and increased it in Canada and overseas.

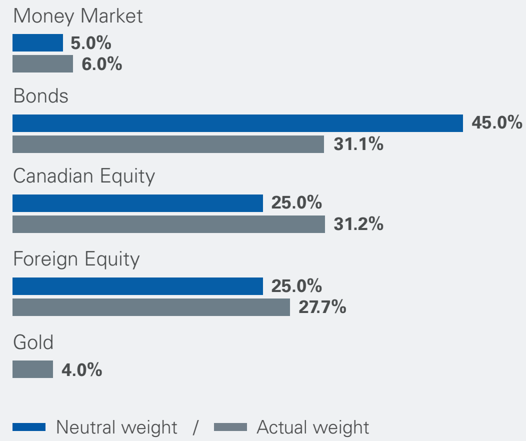
This strategy of overweighting equities is also combined with index put options in an effort to protect the funds from abrupt market declines.

As for bonds, we always maintain an underweight position in response to the trend toward tightening monetary policies at the international level and, more significantly, the likely prospects for higher policy interest rates in Canada in 2018. Nevertheless, we have pursued a proactive duration management strategy by taking positions in long-term U.S. bonds, so as to protect the funds in the event of a sharp downturn in the stock market and to benefit from long U.S. rates, which seem well anchored at this time.

At the end of the quarter, Canadian equities accounted for 31% of the Diversified Fund, as compared with 28% for foreign equities.

The proportion of bonds rose slightly to 31%, a level that remains much lower than the 45% target, due to the asset class's fine performance.

The cash position now accounts for a rather neutral share of fund assets, namely 6%, thereby enabling us to seize stock market opportunities as they arise.

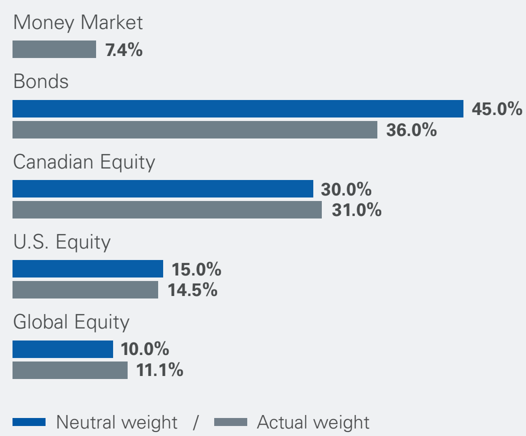


Selection Funds

Equity exposure in the Selection Funds was reduced to 57% for the Selection Balanced Fund, and we decreased the proportion of international equity at the very end of the quarter as a way of diminishing equity-risk exposure. The Selection Funds' positioning differs from that of the Diversified Funds, as their structure does not allow for the addition of risk mitigation tools such as put options.

The proportion of fixed-income securities within the Selection Balanced Fund has decreased somewhat to 36%, due to its reduced exposure to corporate bonds, which represent a greater risk than government securities.

To conclude, the cash position accounts for 7% of holdings within the Selection Balanced Fund, which exceeds the target.



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

Morningstar 5 Star Fund*

Global Fixed Income (PIMCO)

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

Portfolio manager
PIMCO

CIFSC Fund Category
Global Fixed Income

Lead portfolio manager

Alfred T. Murata

- Managing director
- Named by Morningstar Fixed-Income Fund Manager of the Year (U.S.) for 2013
- Joined PIMCO in 2001
- Ph.D. in engineering-economic systems and operations research, Stanford University

PIMCO

Why consider this fund?

— Potential of a relatively high and consistent stream of income with an emphasis on high-quality fixed income securities

— Actively managed in an effort to maximize current income while maintaining a relatively low risk profile, with a secondary goal of capital appreciation

— Multi-sector approach to seek out PIMCO's best income-generating ideas in any given market climate, targeting multiple sources of income from a global opportunity set

— Known firm around the world for its innovative philosophy, proven expertise, extensive resources and experienced managers

Investment style and other characteristics

— Approach of combining perspectives from an economic, big-picture standpoint (top-down) and security level (bottom-up)

— Tactical and flexible portfolio

— Complement to a core Canadian bond portfolio

— Hedged against currency risk at a minimum of 90% to provide a high and consistent level of income with the lowest volatility possible

Current Fund strategy

The Global Monthly Income (PIMCO) Fund utilizes a flexible, multi-sector approach to generate an attractive and consistent income stream; balancing its investments in higher quality and higher yielding assets to perform well in any given market environment. Given we are heading into 2018 with asset prices at relatively elevated valuations, we are taking a more cautious and diversified approach across portfolios at PIMCO.

In this Fund, we will continue to look for the most attractive risk-adjusted income generating ideas around the globe, balancing exposures across higher quality and higher yielding sectors. The Fund's highest conviction sector continues to be non-Agency mortgage-backed securities (MBS). We believe these securities should provide attractive sources of yield and risk-adjusted returns going forward, while offering relatively attractive valuations and seniority in the capital structure.

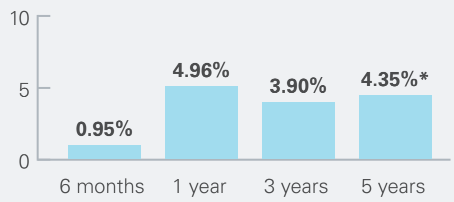
We are also cautiously optimistic around select emerging market countries. The combination of improved fundamentals, tailwinds of developed markets central bank accommodation and continued disinflation will allow this sector to do well over the next 12 months. We currently believe select hard currency EM debt, such as quasi-sovereign and corporate debt issued in U.S. dollars, can boost portfolio diversification – and can be particularly helpful when other credit sectors struggle. Additionally, local sovereigns and select EM currencies can help add attractive yield while also providing diversification.

The Fund will also seek to maintain high quality exposure in countries that have relatively higher yields, such as Australia and the US, versus other developed market countries. These positions provide a good source of high quality yield and a hedge against risk off environments.

*Morningstar Rating: For the Classic Series 75/75 of the IAG SRP

Global Fixed Income (PIMCO)

Net compound returns[1]
As at December 31, 2017



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

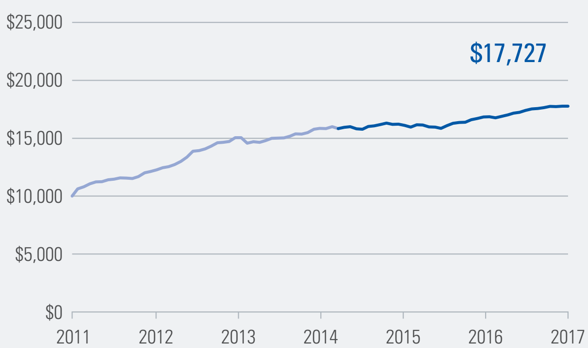
[1] These returns are on a net basis, for the Classic Series 75/75 of the IAG SRP.

Country and Region diversification*
As at December 31, 2017

Region	Duration[2] (%)
United States	80.0
Australia	17.7
Emerging markets	8.3
European Union Countries	1.0
United Kingdom	0.3
Canada	-1.7
Japan	-5.7

*Cash not included

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

Sector diversification
As at December 31, 2017

Sector	Duration[2] (%)
Government related	**29.3**
United States	30.9
Australia	12.7
United Kingdom	-4.3
Japan	-4.1
European Union Countries	-3.8
Others	-2.2
Mortgage	**15.3**
Emerging Markets	**10.6**
High-Yield Credit	**7.9**
Investment Grade Credit	**7.7**

PIMCO snapshot

- Founded in 1971
- Assets under management of more than $1.75 trillion
- One of the world's premier fixed income investment managers
- More than 2,200 employees around the world, including more than 700 investment professionals
- 12 global offices

[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.

Morningstar 4 Star Fund*

/ Featured Funds

Global Equity

Offered in
IAG SRP (Classic Series 75/75, Series 75/100 and Prestige Series)
My Education + (including Prestige Preferential Pricing)
Ecoflextra (Classic Series 75/75)
Ecoflex and My Education

Portfolio manager
Industrial Alliance Investment Management Inc. (iAIM)

CIFSC Fund Category
International Equity

Lead portfolio managers

Sevgi Ipek, CFA
- Vice-President and Portfolio Manager
- Also manages iA Clarington Global Value Fund
- Joined iAIM in 2008
- More than 23 years of investment experience
- MSc in economics, Université catholique de Louvain (Belgium)

Pierre Chapdelaine, CFA
- Co-Portfolio Manager
- Also co-manages IA Clarington Global Value Fund
- Joined iAIM in 2008
- More than 16 years of investment experience
- MBA in finance and accounting, University of Notre Dame

iA Investment Management

Why consider this fund?

— Exposure to the potential of the international equity market
— Offers both meaningful growth potential and capital protection
— Access to global investment opportunities while limiting potential downside through careful risk management
— Investments in industry-leading companies with strong earnings and effective management teams

Investment style and other characteristics

— Growth at a reasonable price (GARP) style
— Bottom-up approach (70%) for security selection
— Top-down approach (30%) for geographic and sector allocation
— Investment themes used to identify macroeconomic trends and global themes
— Quantitative and qualitative techniques
— Well-diversified portfolio (65 to 75 securities)

Current Fund strategy

International equities finished strong in 2017, with the MSCI EAFE Index rising by 5.1% in the fourth quarter and closing out the year with a 16.9% increase. This surge is due in part to an improving global economic outlook and better-than-expected profit growth resulting from favourable monetary and fiscal policies.

The broad-based global economic upturn has benefited commodity prices, which account for the energy and raw material sectors' overperformance in the fourth quarter. From a geographic perspective, it was Asia-Pacific exporting countries, including Australia, Japan, and Singapore, that delivered the best returns.

The Fund posted outstanding performance in 2017, outpacing its index by more than four percentage points as a result of certain European securities as well as most of our tech companies in Asia. The Fund's regional and sectoral positioning for 2018 has not been substantially altered, but exposure to cyclical sectors has increased following profit-taking in various tech securities that shot up in 2017.

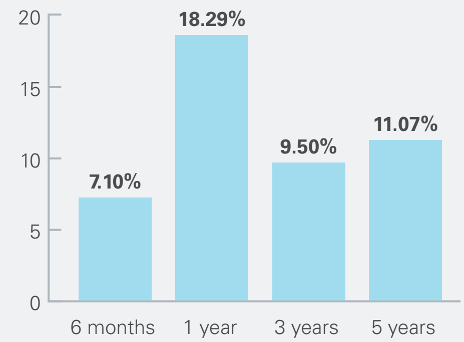
Western Europe remains our preferred region due to its more attractive valuations and more accommodating future monetary conditions. The European Central Bank (ECB) will maintain its eased monetary policy in 2018; conversely, the United States and Canada are expected to continue to normalize their key rates. We remain cautious, however, with respect to the United Kingdom whose economy will continue to suffer due to Brexit. We will also selectively maintain our overweight position for securities in emerging countries, mainly in Asia so as to benefit from their strong economic growth.

In closing, we foresee another good year in 2018, driven by increasing profits and better synchronized global economic growth. As a result, global trade will surely benefit despite the U.S. administration's new protectionist rhetoric.

*Morningstar Rating: For the Classic Series 75/75 of the IAG SRP

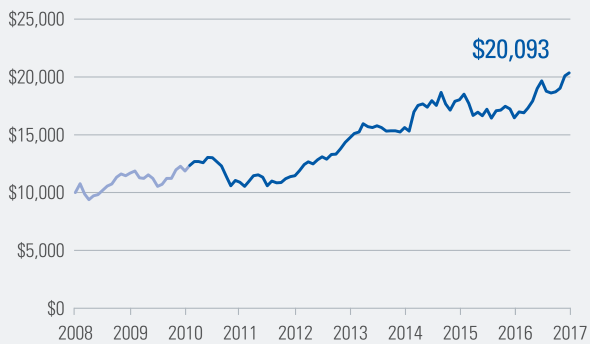
Global Equity

Net compound returns[1]
As at December 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



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
- Major player in the asset management industry
- Manages $40.5 billion in general portfolios and segregated and mutual funds
- A team of 134 people, including 91 investment professionals (including 46 CFA charterholders)
- Composed of prudent managers who emphasize fundamental analysis, identification of value and long-term investing

Geographic allocation*
As at December 31, 2017

Japan: **17.7%**
France: **14.5%**
United Kingdom: **13.2%**
Germany: **11.2%**
Switzerland: **8.6%**
Other countries: **34.8%**

*Cash not included

Sector diversification*
As at December 31, 2017

Financials	21.2%
Industrials	14.7%
Consumer Discretionary	13.9%
Health Care	11.6%
Consumer Staples	11.2%
Information Technology	9.8%
Materials	7.0%
Energy	6.6%
Real Estate	3.0%
Telecommunication Services	1.0%
Utilities	0.0%

*Cash not included

/ Featured Funds

Asian Pacific (Dynamic)

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

Portfolio manager
Dynamique Funds

CIFSC Fund Category
Asia Pacific Equity

Lead portfolio managers

Dana Love, CFA
- Vice-President and Portfolio Manager
- Also manages six funds (blue chip, U.S., international and global equities) and four private investment pools
- More than 18 years of investment experience
- Master in Finance, London Business School

Benjamin Zhan, CFA
- Portfolio Manager
- Also manages the European Equity Fund
- Joined Dynamic in 2003
- Master in Finance, University of British Columbia
- Bachelor of Engineering, Shanghai Jiao Tong University – one of China's most prestigious universities

Dynamic Funds®
Invest with advice.

Why consider this fund?
— Benefits from the rising economic power and strong consumption growth in the new era of Asia; Asia represents more than 40% of the world GDP
— Seeks to own dominant industry leaders with underappreciated strengths and mispriced secular growth opportunities
— Portfolio managers have more than 30 years of combined global investment experience

Investment style and other characteristics
— Active management using a core investment style to identify high-quality and transparent Asian businesses trading below their intrinsic value
— Long-term perspective, independent thinking, thorough qualitative and quantitative fundamental research
— Concentrated portfolio of select high-quality business franchises and a willingness to look where other investors are not
— Decisive preference for large and mega caps

Current Fund strategy

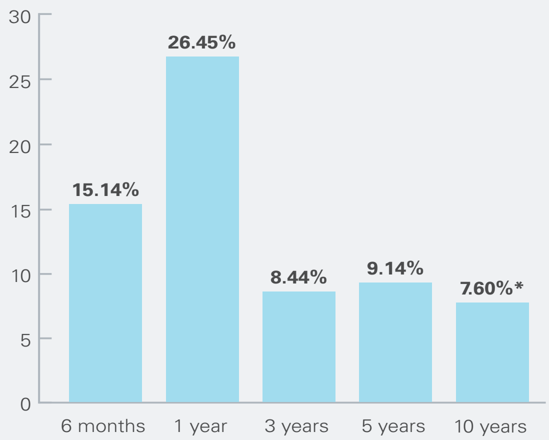
During the final quarter of 2017, the Fund returned 9.8%, outperforming the MSCI All Country Asia Pacific Index (C$) which returned 8.4%. The quarter's largest contributions to both absolute and relative returns came from strong security selection in the consumer staples, financials, information technology and industrials sectors.

The top contributors for the quarter were dominated by consumer staples names with half of the top ten contributing positions. At quarter end, consumer and information technology names make up 67% of the Fund relative to 40% of the benchmark. This is based on our views for the tremendous opportunities that the region offers.

To us, Asia today resembles a text-book example of an investment sweet spot. Many risk factors that have clouded investors' minds over the past few years, such as concerns on Chinese debt stability, currency devaluations, China's leadership transition, and North Korea military tensions are receding. As stability solidifies in the region, Asian equities' 25% discount to the US is becoming increasingly unjustified: MSCI Asia Pacific's 2018 PE (price-earning) multiple of 13.7x at a substantial discount to the 17.8x by S&P 500. Meanwhile, Asia's shift to consumption driven growth is gaining traction. With its enormous population base and rapidly growing income levels, Asia is ushering in a new era of consumerism, and tremendous growth opportunities are rising for products and services in leisure, education and luxuries. In this regard, some Asian consumer brands are well on their way to achieving global recognition. With so many factors playing into Asia's strengths, particularly China's, an investor with Asia in mind can hardly ask for more.

Asian Pacific (Dynamic)

Net compound returns[1]
As at December 31, 2017



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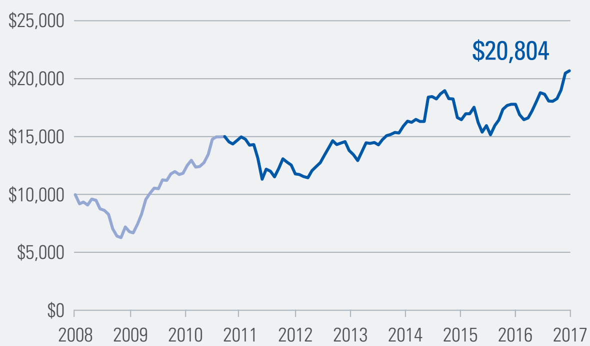
Growth of $10,000
Since inception



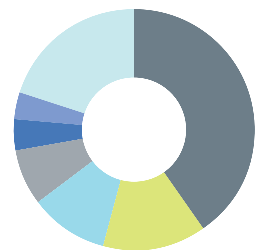
Classic Series 75/75 of the IAG SRP

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

Dynamique snapshot

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

Geographic allocation*
As at December 31, 2017



*Cash not included

Sector diversification*
As at December 31, 2017

Consumer Discretionary	29.7%
Information Technology	24.0%
Financials	16.3%
Consumer Staples	14.1%
Industrials	13.4%
Materials	1.6%
Real Estate	0.9%
Telecommunication Services	0.0%
Health Care	0.0%
Energy	0.0%
Utilities	0.0%

*Cash not included

Top 10 holdings
As at December 31, 2017

Baidu, Inc.	3.6%
Fosun International Limited	3.6%
Alibaba Group Holding Limited	3.5%
Swatch Group Limited	3.5%
Square Enix Holdings Company Limited	3.3%
Hengan International Group Company Limited	3.2%
Li Ning Company Limited	3.2%
Sony Corporation	3.2%
Industrial and Commercial Bank of China Limited	3.1%
Tsingtao Brewery Company Limited	3.1%
TOTAL	**33.3%**

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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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