iA Investment
Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **As at March 31, 2018**

Economic and Market Overview

Clément Gignac

International

The macroeconomic backdrop remains positive, with a forecast of 4% growth for the world economy in 2018 and 2019, the highest level in over ten years. The North Korean threat is subsiding, causing the geopolitical picture to brighten. But the spectre of protectionism still hovers over 2018. It all began, of course, with last year's launch of the North American Free Trade Agreement (NAFTA) renegotiations by the United States, and now their target is China. For the moment there does not seem to be a desire for an escalation of trade tensions, which is some good news.

Europe

In 2017, the eurozone economy grew at its fastest pace since the financial crisis, at 2.7%. Household confidence was also strong at the start of the year, despite a slight drop as compared to the 17-year high reached last quarter. All this momentum is reflected in the evolution of the European credit cycle, which continues to accelerate for both households and businesses. This is precisely the result sought by the European Central Bank (ECB), which for the last two years has maintained one of the most accommodating monetary policies on the globe, with a negative key rate and monthly bond purchases on the secondary market (a measure commonly known as quantitative easing).

United States

We are now entering the second year of Donald Trump's presidency, and it may well prove even more eventful than the first. While 2017 was clearly focused on the domestic economy (deregulation of the financial sector, major tax reform, etc.), it seems the Trump administration is looking outside the country in 2018. In terms of economic data, the first quarter was once again characterized by a slowing in GDP growth. We nonetheless expect the first world economy to perform well this year, stimulated by the effects of the tax reform.

Canada

The Canadian economy is expected to grow at a slower pace than our southern neighbours in 2018, but there is no cause to worry as all signs point to green. As in the U.S., the economic indicators in Canada showed a definite slowdown at the start of the year. Whether it was in manufacturing sales, international trade or retail sales, there was a deceleration or a weaker-than-anticipated recovery in activity. However, this softness in economic data was not sufficient to prevent the Bank of Canada from going ahead with another increase in its benchmark interest rate in January. The Bank even noted the surprising vigour of the economy in 2017 as well as notable improvements in the job market, which is currently sporting its lowest unemployment rate since 1976.

/ iA Strategy

The financial environment should offer good opportunities for active investors in 2018.

We continue to recommend staying overweight in equities, since the combination of a robust world economy and a gradual return of inflation provides a good environment for riskier asset classes to do well. The impact of tax reform south of our border should not be overlooked, as it is likely to contribute to strong growth in U.S. corporate earnings. In short, although the road may be bumpy, returns should be positive by the end of the year.

Even though we remain optimistic about U.S. equities, we prefer to concentrate this overweight outside the U.S. since the valuations of the Canadian, European, Japanese and emerging markets are currently at historically low levels relative to the U.S. market.

The Canadian stock market lagged behind considerably at the start of this year, and its underperformance, in Canadian dollars, at one point even reached over 10% in relation to the U.S. market. Foreign interest for Canadian stocks, and more generally for energy stocks, has been rather weak for the last few months, causing us to see growth potential over the coming quarters. In our opinion, it would take just a few positive surprises in the NAFTA negotiations for foreigners to become interested in Canada once again, which would bolster both the S&P/TSX Index and the loonie.

iA Financial Group

/ iA Managed Solutions

Diversified Funds

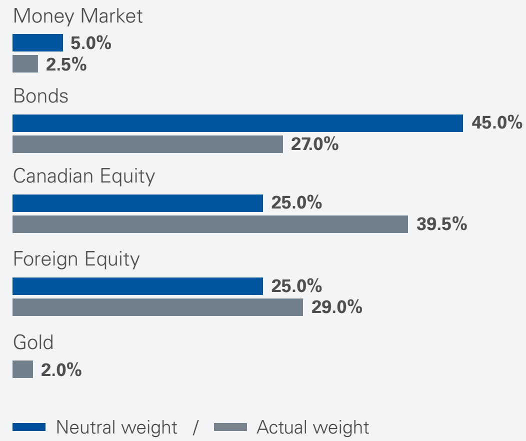
The Diversified Fund's exposure to equities increased significantly in the first quarter, as we considered the episode of the 10% drop in equities to be a good buying opportunity. This overweight is no longer supported by a holding of index put options.

At the end of the quarter, Canadian equities represented 39.5% of the Diversified Fund, compared to a total of 29% for foreign equities.

We are keeping the fund underweight in bonds in light of the international trend toward monetary policy tightening and, especially, the new prospects for increases to the Canadian leading interest rate in 2018.

The weight of bonds decreased to 27%, a level that remains well below the 45% target, due to the good performance of the asset class. The reduction in bond weight was achieved through the sale of short-term Canadian bonds, which were exposed to underperformance should the Bank of Canada raise its key rate.

The cash level is now close to target at 5%, which gives us the possibility of taking advantage of any opportunities that present themselves on the stock markets.

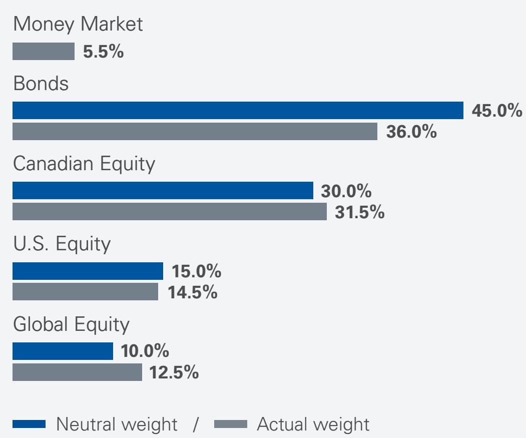


Selection Funds

Equity exposure in the Selection funds was increased, to 58.5% of the Selection Balanced Fund, as we took advantage of the correction to increase the Fund's exposure to Canadian and international equities.

The weighting of fixed-income securities decreased slightly to 36% of the Selection Balanced Fund, given the reduction in exposure to corporate bonds, which are riskier than government bonds.

Finally, cash in the Selection Balanced Fund decreased to 5.5%, which is above the target level.



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

SRI Balanced (Inhance)

Offered in all products

Portfolio manager

Vancity Investment Management

CIFSC Fund Category

Canadian Neutral Balanced

Lead portfolio managers

Andrew Simpson, CFA

- Director and Portfolio Manager
- Also manages several other Socially Responsible Investment (SRI) funds
- Joined Vancity in 2010
- More than 15 years of investment experience in Canada and abroad
- Bachelor of Economics

Dermot Foley, CFA, CIM

- Portfolio Manager, Environmental, Social, Governance (ESG) senior analyst
- Also manages several other SRI funds
- More than 25 years of experience in social and environmental advocacy, research, and policy

Vancity

Why consider this fund?

— Invested in sustainable companies that 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 ESG analysis with traditional financial analysis.

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

Investment style and other characteristics

— Diversified, balanced solution for investors who want to invest responsibly in the pursuit of their financial goals

— Target asset mix of 50% equities and 50% fixed-income securities, broadly diversified across asset classes, geography and sectors

— Investment process that combines ESG analysis with in-depth financial analysis to identify companies likely to thrive

Current Fund strategy

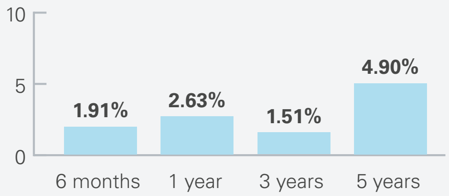
The first quarter of 2018 has provided the expected reminder to investors that markets can move down as well as up, and a return to higher volatility was inevitable in the beginning of 2018. Canadian economic growth will continue to moderate from the G7 leading pace of 2017. Interest rates in Canada will continue to edge higher, though the Bank of Canada may remain cautious as it grapples with a number of potential headwinds including elevated housing prices, high consumer debt levels, and the renegotiation of NAFTA.

For the United States, we continue to expect solid corporate earnings growth but maintain expectations for higher interest rates based on an economy running at relatively full capacity and decade lows in unemployment. We believe the U.S. will avoid a recession, marginally growing GDP in 2018. Negative sentiment in the equity markets, due to the announcement of U.S. trade tariffs (and the prospect of retaliation tariffs) and weakness in technology shares, drove a bid in bonds. Earlier credit spread widening in corporate lenders and a pullback in preferred shares, presented an opportunity to add perpetual preferred shares that had been sold. We also added to the Fund's green bond exposure. We continue to see any near term weakness in equity markets as an opportunity to add companies with reasonable valuation and attractive growth prospects across North America and overseas.

SRI Balanced (Inhance)

Net compound returns[1]

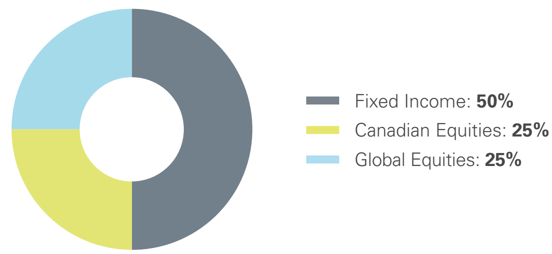
As at March 31, 2018



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

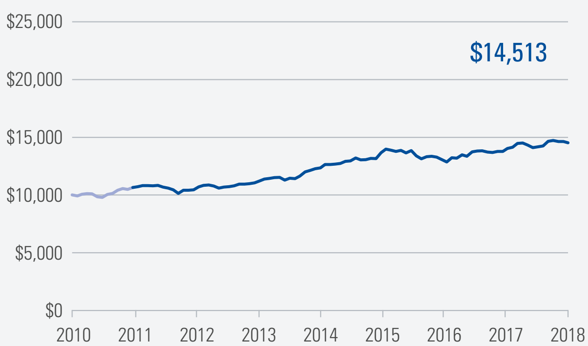
Asset mix

As at March 31, 2018



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

Main components of the Fund

As at March 31, 2018

IA Clarington Inhance Bond SRI Fund, Series I	40.2%
IA Clarington Inhance Global Equity SRI Class, Series I	23.4%
IA Clarington Inhance Monthly Income SRI Fund, Series I	17.9%
IA Clarington Inhance Canadian Equity SRI Class, Series I	17.7%
Other Assets	0.8%
TOTAL	**100.0%**

Vancity Investment Management snapshot

— Founded in 1995
— One of Canada's leading investment managers in responsible investing
— Goal of helping Canadians achieve their investment objectives in a way that aligns with their commitment to progressive values

Companies are assessed based on seven main ESG criteria:

1– Corporate governance
2– Environmental leadership
3– Employee relations
4– Employee diversity
5– Community relations
6– Human rights practices
7– Product sustainability

/ Featured Funds

Fidelity European Equity

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

CIFSC Fund Category
European Equity

Lead portfolio manager*

Matt Siddle, CFA
- Also manages two European equity funds
- Joined Fidelity in 1999
- 18 years of investment experience
- Based in London
- Master of Economics, Cambridge University

Why consider this fund?

— Aims to achieve long-term capital growth by investing primarily in equity securities of companies in the United Kingdom and continental Europe
— High conviction and actively managed portfolio (60 to 90 holdings)
— Dedicated "on the ground" investment team and global resources

Investment style and other characteristics

— "Quality companies at an attractive price" investment style
— Bottom-up analysis, fundamentally driven approach
— Looks for companies with high quality franchises, identifying stocks where valuation is attractive for the quality of the franchise
— Emphasis on large-cap companies

Current Fund strategy

I believe the near-term outlook for Europe is positive. European economies are rebounding, though the global economic cycle is extended and there are risks. While European equities are not cheap, they are attractively valued versus alternatives. More than ever, selectivity is key.

Macroeconomic data are positive in Europe with GDP growth robust across the core and periphery. Consumer and business confidence are strong, and lead indicators are at elevated levels. This has fed through to the corporate level and we have seen returns and earnings for European companies begin to catch up with their U.S. counterparts. It is worth remembering however, that we are no longer early in the cycle, with European margins (excluding commodity companies) back to peak levels.

This economic acceleration has fed a willingness to take risk, with investors increasingly paying up for risk whether it be in equities or credit, where plenty of European high yield corporates can now borrow cheaper than the U.S. government. This means that while I am positive on the economic environment for Europe in 2018, I am more cautious on the prospects for a series of riskier companies to outperform.

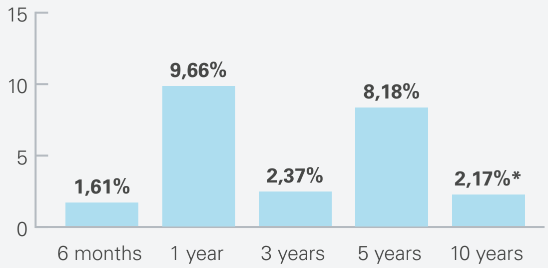
I am driven by stock picking, rather than any big picture outlook. The spread of opportunities between defensives and cyclicals has resulted in my broadly neutral exposure. I can do this without paying above a market P/E multiple. I feel my approach is well-positioned to deliver strong long-term returns while reducing downside risk.

* Matt Siddle will assume responsibilities of the Fidelity European Equity Fund on or about June 18, 2018. Matt is replacing Peter Hadden who will continue to manage portfolios for U.S. clients.

Fidelity European Equity

Net compound returns[1]

As at March 31, 2018

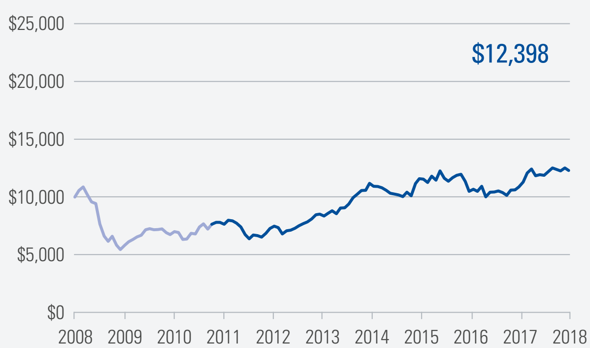


* Simulation of past returns as if the Fund had been in effect for these periods

[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

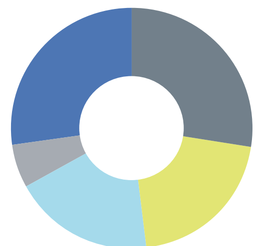
Simulation of past returns as if the Fund had been in effect for these periods

Fidelity snapshot

- Founded in 1946: over 70 years of growth and innovation backed by a proven approach to investing
- Global investment network spanning North America, Europe, the Middle East, Africa and Asia-Pacific
- One of the world's largest providers of financial services
- Managed assets of more than US$2 trillion
- Over 800 investment professionals worldwide

Geographic allocation*

As at March 31, 2018



- United Kingdom: **27.5%**
- France: **20.7%**
- Germany: **18.8%**
- Netherlands: **5.8%**
- Other countries: **27.2%**

* Cash not included

Sector allocation*

As at March 31, 2018

Financials	22.6%
Consumer Staples	13.2%
Health Care	11.8%
Consumer Discretionary	11.5%
Industrials	11.3%
Materials	8.1%
Energy	7.0%
Information Technology	4.8%
Telecommunication Services	3.8%
Utilities	3.8%
Real Estate	2.1%

* Cash not included

Top 10 holdings

As at March 31, 2018

	Sector
Unilever, NV	Personal Products
SAP AG	Software
AstraZeneca Group PLC	Pharmaceuticals
Kering SA	Textiles, Apparel & Luxury Goods
Moncler SpA	Fashion
Munich Reinsurance	Insurance
Erste Group Bank AG	Financials
Galp Energia SGPS SA	Oil
Bayer AG	Pharmaceuticals
Lundin Petroleum AB	Oil

/ 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)
Ecoflextra (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
- Joined Loomis Sayles in 1994
- 34 years of investment experience
- BA, Occidental College

Eileen N. Riley, CFA
- Vice-President and Co-portfolio Manager since 2013
- Joined Loomis Sayles in 1998
- MBA, Harvard Business School
- Bachelor with honours, Amherst College

Morningstar 5 Star Fund*

LOOMIS | SAYLES

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, who 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 and 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

We believe synchronized global growth will continue with strong earnings estimates and do not anticipate a near-term recession in the U.S. Fundamentals remain supportive for risk assets, provided the trade frictions between the U.S. and the rest of the world remain limited in scale and the U.S. Federal Reserve does not overtighten. White House policy remains a headwind, but we do not believe it will derail the positive economic momentum we've experienced. We expect the U.S. Federal Reserve will continue to raise rates at a gradual pace with two additional rate hikes this year, and a terminal Fed funds rate of 2.75% to 3.00% by the end of 2019.

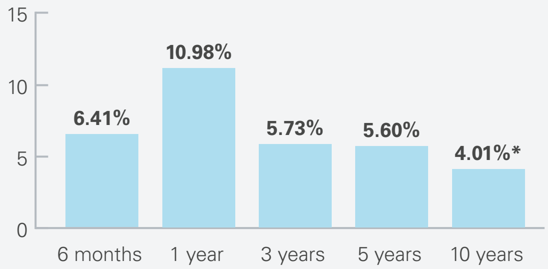
We continue to position the Fund with an overweight in equities relative to fixed income. We are currently finding opportunities in the information technology, consumer discretionary, and financials sectors. The strategy has little exposure to commodities and continues not to own securities in the real estate, utilities and telecom sectors. 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.

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

Global Diversified (Loomis Sayles)

Net compound returns[1]

As at March 31, 2018

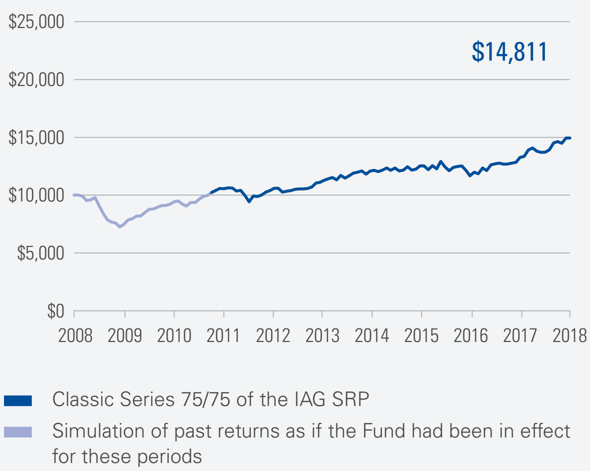


* Simulation of past returns as if the Fund had been in effect for these periods

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

Growth of $10,000

Since inception

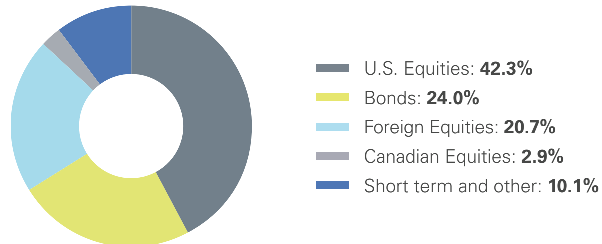


Loomis Sayles snapshot

- 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"

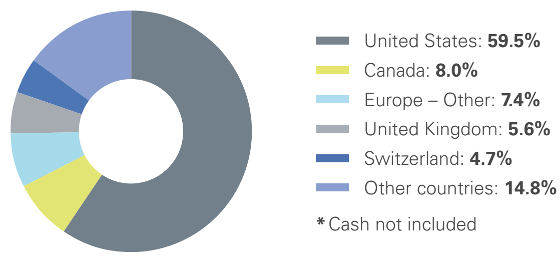
Asset mix

As at March 31, 2018



Geographic allocation*

As at March 31, 2018



* Cash not included

Top 10 holdings*

As at March 31, 2018

Roper Technologies Inc.	3.1%
Alibaba Group Holding Ltd., Sponsored ADR	3.0%
AIA Group Ltd.	2.8%
The Sherwin-Williams Co.	2.8%
Marriott International, Inc.	2.5%
Northrop Grumman Corp.	2.5%
Facebook Inc.	2.4%
Amazon.com Inc.	2.2%
Danaher Corp.	2.2%
UnitedHealth Group Inc.	1.9%
TOTAL	**25.5%**

* Cash not included

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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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