iA Investment
Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **As at June 30, 2018**

Economic and Market Overview

Clément Gignac

International

The global economic impulse remains vigorous, with a forecast of 4% growth for the world economy in 2018 and 2019, the highest level in over ten years. The geopolitical picture brightened further, with the Kim-Trump summit resulting in a preliminary deal on the denuclearization of North Korea. The rise of protectionism, however, managed to accelerate, as the United States finally imposed tariffs on its major trading partners. Canada, Europe and Japan were no exception, even though the target has always been very clear: China.

Europe

The biggest surprise of 2018 was undoubtedly the sudden and widespread weakness of data in Europe. The tone was so disappointing that, at one point, analysts seemed to have to go back to their drawing boards and review their perspectives. Faced with this slowdown, the European Central Bank (ECB) remained rather optimistic and confident that the slowdown would only be temporary, at most. As the quarter ends, the data does seem to be improving, but it is too early to claim victory. The ECB has also maintained a very cautious position by announcing that, if everything goes as planned, its quantitative easing program will actually end in December, but that its key rate should remain unchanged until at least the summer 2019.

United States

Beyond the situation on international trade, economic data indicate that US growth will exceed expectations in the first half of the year. Most of the studies published since the adoption of the tax reform showed a 0.5% beneficial effect on US GDP in 2018, followed by a negative impact for the years to come when the weight of US government debt will gradually weigh on the economy. The signs that the tax reform, voted last December, already has stimulated the world's largest economy are everywhere. Household and business confidence was already at historically high levels in the second half of 2017 and remains near record highs despite the uncertainty surrounding the Trump administration's trade policies.

Canada

The NAFTA file became significantly more complicated during the quarter, with the about-face of the Trump administration, which finally decided to withdraw the exemption that Canada and Mexico enjoyed in terms of tariffs on steel and aluminum imports in order to put pressure on its main trading partners and force an agreement. This change in strategy of the United States, which had previously exempted its major trading partners, has thrown a wrench in the works for international diplomatic relations, and, in our view, has substantially reduced the likelihood of a rapid and favourable resolution for NAFTA, as we had expected. We now feel that the odds of a stalemate in negotiations are high, especially with the US administration continuing to move ahead with the addition of protectionist measures in order to extract maximum concessions from its commercial partners.

/ iA Strategy

Despite all this volatility, markets still offer opportunities to those who know where to look.

In our view, the Canadian market still offers interesting prospects. This is especially true for the energy sector, which is still trading at depreciated levels relative to recent oil price increases.

OPEC's recent decision to raise oil production by fewer than one million barrels per day surprised the markets, which were expecting more. The rate with which oil inventories are falling at the end of the quarter is also helping to support the price of oil, which is now at an almost four-year high. Adding the depreciation of the loonie, the price of a Canadian barrel of oil is now around $90, enough to boost the profit margins of producers.

The US market still offers a valuation aligned with its historical average, but higher than that of Europe and Asia. Despite the almost spectacular economic data obtained at the beginning of the year in the United States, leaving several investors thinking that the US market was one of the best opportunities, we believe that the tax reform voted last December is mainly responsible for this strength and that the effects may not last as long as expected.

iA Financial Group

/ iA Managed Solutions

Diversified Funds

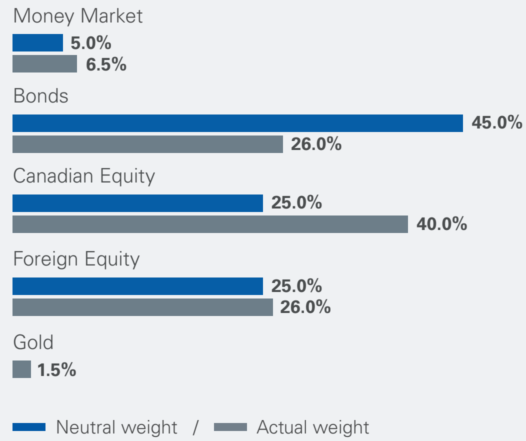
The Diversified Fund's exposure to equities increased slightly in the second quarter, with a targeted increase in the weight of Canadian equities. This overweight is supported by a holding of index put options.

At the end of the quarter, Canadian equities represented 40% of the Diversified Fund, compared to a total of 26% for foreign equities.

We are keeping the fund underweight in bonds in light of the international trend toward monetary policy tightening around the world and in Canada in 2018.

The weight of bonds decreased to 26%, a level that remains well below the 45% target, due to the poor 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 6.5%, which gives us the possibility of taking advantage of any opportunities that present themselves on the stock markets.

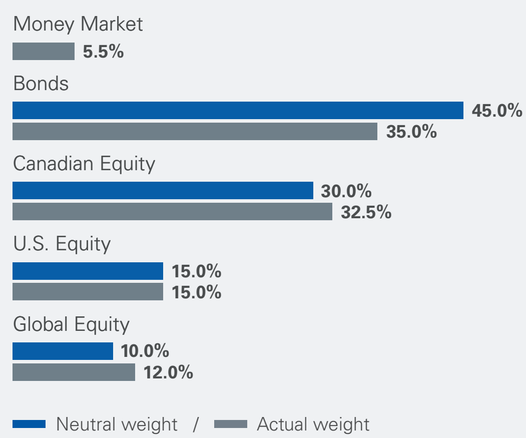


Selection Funds

Equity exposure in the Selection funds was increased, to 59.5% of the Selection Balanced Fund, mostly through the outperformance of Canadian equities during the quarter.

The weighting of fixed-income securities decreased slightly to 35.0% of the Selection Balanced Fund, through further reduction of the exposure to corporate bonds, which are riskier than government bonds.

Finally, cash in the Selection Balanced Fund remained at 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

Diversified

Offered in all products

Portfolio manager

Industrial Alliance Investment Management Inc. (iAIM)

CIFSC Fund Category

Canadian Neutral Balanced

Lead portfolio manager

Clément Gignac

— Senior Vice-President and Chief Economist at iA Financial Group since 2012
— Former Vice-President and Chief Economist at National Bank Financial
— Minister of Natural Resources (2011 to 2012)
— Quebec Minister of Economic Development (2009 to 2011)

iA Investment Management

Why consider this fund?

— Simplicity and effectiveness of managed solutions
— Investment solution that requires little advisor intervention and offers an optimal diversification
— Expertise of a highly experienced team of managers looking after day-to-day investment decisions

Investment style and other characteristics

— Strong focus on downside protection
— Active asset allocation approach based on economic and market forecasts
— Diversification within main asset classes
— Combines top-down and bottom-up research
— Target allocation:
- 50% in fixed income securities
- 25% in Canadian equities
- 25% in foreign equities
— Significant degree of leeway to move within investment limits (± 20% from target allocation)
— Active management of exposure to foreign currency to increase return potential and reduce volatility

Current Fund strategy

Economic growth remains strong worldwide while inflationary pressure is still moderate. This situation makes for a positive environment for company profits and enables central banks to reduce their level of monetary accommodation progressively.

With regard to portfolio asset allocation, we favour overweighting equities and underweighting bonds. We continue to employ strategies to reduce volatility, including active currency management, the purchasing of preferred shares and index put options.

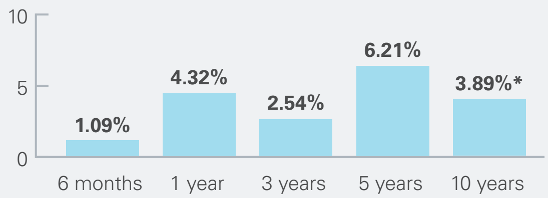
With respect to equities, we believe that the Canadian market still provides interesting opportunities, mainly in the oil sector where company stocks are relatively undervalued. The U.S. market is currently benefitting from strong profit growth following tax reforms, providing value close to its historical average. The Federal Reserve's monetary tightening, however, may result in additional pressure on companies' multiples. In addition, these companies are not completely immune from the effects of worsening trade relations between the United States and China. Accordingly, we continue to favour overweighting Canadian and foreign markets, which seem to us to be more appealing from a risk-performance standpoint.

As for the bond market, upward trending interest rates have compelled us to shorten portfolio duration to below neutral targets. We are keeping a close watch on the yield curve as it has flattened considerably in recent months. The Fed continues to apply upward pressure on short-term rates while the uncertainty stemming from trade tensions between the Trump administration and the vast majority of its trading partners limits interest-rate increases in the longer term.

Diversified

Net compound returns[1]

As at June 30, 2018

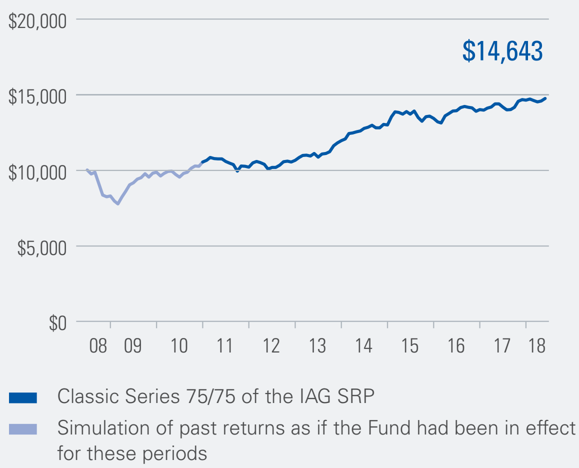


* Simulation of past returns as if the Fund had been in effect for these periods

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

Growth of $10,000

Since inception



iAIM snapshot

- Founded in 2004
- Major player in the asset management industry
- Manages $65.5 billion in general portfolios and segregated and mutual funds
- A team of 136 people, including 99 investment professionals (including 45 CFA charterholders)
- Composed of prudent managers who emphasize fundamental analysis, identification of value and long-term investing

Strategies used to reduce portfolio volatility

- Active currency management
- Purchase of put options on indices to protect against the risk of major losses
- Investments in gold (commodity and producers) that is negatively correlated with equities during periods of risk aversion
- Investments in preferred shares that outperform when short rates are rising

Priority to capital protection

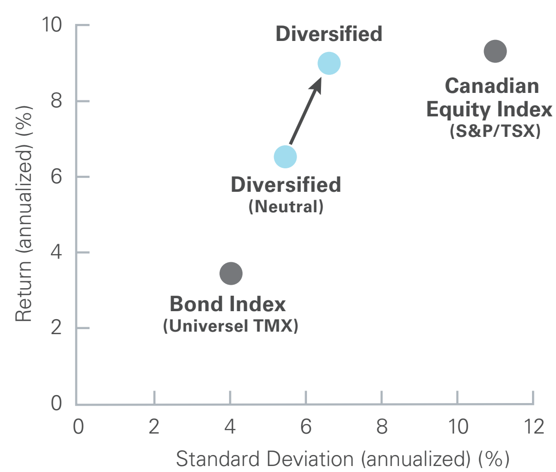
	Capture ratios	
	Upside 1 year	**Downside 1 year**
Diversified	**67.02**	**40.31**
Peers	*70.12*	*67.47*

Source: Morningstar, as at June 30,2018

Value added from our active management relative to neutral positioning

Risk - return relationship

5-year period ending June 30, 2018



* Source: iAIM and Bloomberg

/ Featured Funds

Morningstar 5 Star Fund*

Global Dividend (Dynamic)

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
Dynamic 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 (has managed the Fund for 12 years)
— Over 30 years of experience
— Bachelor of Science with High Distinction in management from Babson College

Dynamic Funds
Invest with advice.

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
— 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 and other characteristics

— Value style approach
— Searches for companies that trade below their intrinsic value
— Bottom-up analysis to find companies with healthy or improving balance sheets and with a clearly understood dividend policy
— High-conviction portfolio (between 25 and 30 holdings)

Current Fund strategy

Over the past 12 months, the iA Financial Group Global Dividend (Dynamic) Fund (iAG SRP Classic Series 75/75) returned 14.4%, outpacing the benchmark MSCI World Index (C$) by more than 1%. The primary drivers for this outperformance were stock selection in the Information Technology and Health Care sectors along with the Fund's overweight exposure to the Information Technology sector, which was the top-performing sector for the benchmark. Four of the top five stock contributors to performance during the past year came from the Information Technology sector. Top-performing individual names included MasterCard Inc., Microsoft Corp. and Visa Inc.

As stock pickers (bottom-up managers), we don't make market calls. We have no targets for market averages and do not manage money relative to the indices. We invest in a concentrated portfolio of high-quality companies that we think will do well over the next 3 to 5 years. Whenever we own companies in cyclical industries, we hold a positive medium-term view of the industry. Many of the industries we have invested in are not deeply cyclical. They include but are not limited to Coffee (Strauss), Medtech (Straumann), Health Insurance (United Health), Animal Health (Zoetis) and Payments (MasterCard), among many others. Whenever we are negative about an industry, we do not invest in it at all; moreover, we assess the impact of negative developments in that industry on our other investments. We are presently negative about commercial aerospace, automotive, and mining; therefore, we have no investments in these fields at all. We are also concerned about the extremely high valuation and lack of growth of companies in the Utility, REIT and Telecom industries, which accounts for our lack of investments in these areas as well. Simply put, we invest in companies we like with no exposure to worrisome developments in the global economy.

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

Global Dividend (Dynamic)

Net compound returns[1]

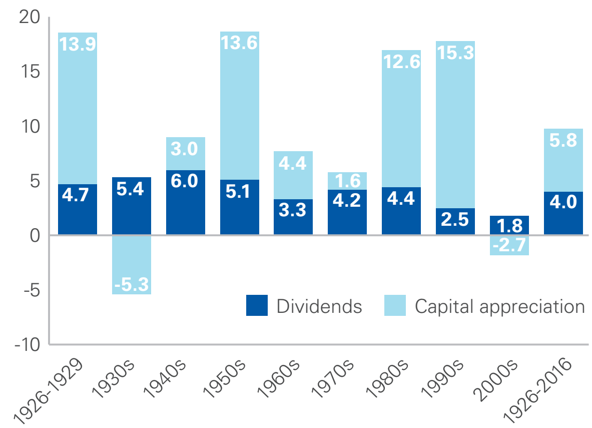
As at June 30, 2018

* 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

Dividend stocks lead to stronger long-term results

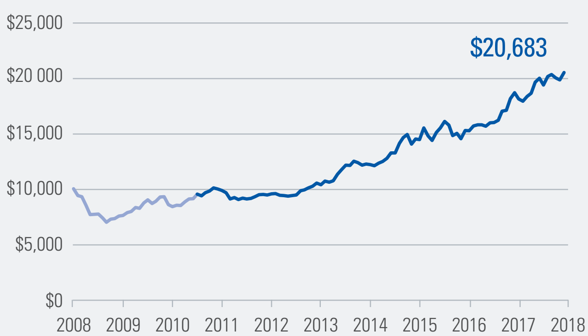
S&P 500 total return: dividends vs. capital appreciation (average annualized return (%))



Source: JP Morgan Asset Management

Growth of $10,000

Since inception

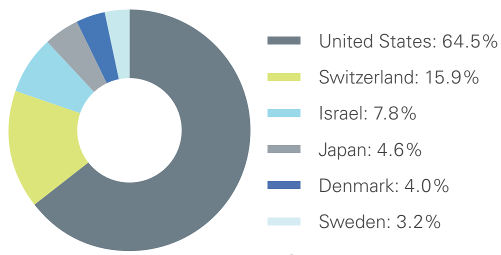


Classic Series 75/75 of the IAG SRP

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

Geographic allocation

As at June 30, 2018



* Cash not included

Sector allocation

As at June 30, 2018

Sector	Global Dividend (Dynamic) (%)	MSCI World Index (%)	Deviation (%)
Information Technology	31.4	18.5	12.9
Industrials	23.4	11.2	12.2
Health Care	21.5	12.2	9.4
Materials	8.4	4.9	3.5
Consumer Staples	7.1	8.3	-1.2
Telecommunication Services	0.0	2.6	-2.6
Utilities	0.0	3.0	-3.0
Real Estate	0.0	3.0	-3.0
Energy	0.0	6.8	-6.8
Consumer Discretionary	3.2	12.7	-9.5
Financials	5.0	16.8	-11.8

Dynamic Funds snapshot

- Founded in 1957
- Investment team of 61 employees
- Firm emphasis on fundamental analysis and long-term investment
- One of the country's largest and most recognized wealth management brands

/ Featured Funds

U.S. 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 Edducation

Portfolio manager

Industrial Alliance Investment Management Inc. (iAIM)

CIFSC Fund Category

U.S. Equities

Lead portfolio manager

Pierre Trottier, MBA, CFA

— Joined iAIM in 2006
— More than 20 years of investment experience
— MBA in finance, Laval University and University of South Florida
— Bachelor's degree in actuarial science, Laval University

iA Investment Management

Why consider this fund?

— Suitable for investors seeking U.S. equity exposure as well as active U.S. currency management
— Not subject to benchmark constraints and will not hesitate to deviate from the index in terms of sector allocation
— Excellent complement to a well-diversified portfolio as the U.S. is the world's largest and most diversified economy

Investment style and other characteristics

— Blend (growth & value)
— Fundamental, bottom-up investment process
— Prefers companies that pay a dividend, but is not dogmatic on dividend yield
— Favours companies that have strong balance sheet earnings, earnings growth and excellent corporate discipline
— Well-diversified portfolio (55 to 80 securities)
— Possibility of employing a covered call strategy to enhance income and decrease volatility

Current Fund strategy

The first half of the year was characterized by an increase in stock-market volatility over the previous year – despite the strength of the U.S. economy. Traditionally, increases in volatility occur 30 months following the U.S. Federal Reserve's tightening of its interest-rate policy. Since the Fed launched its tightening cycle in December 2015, it should come as no surprise that signs of volatility have begun to emerge. Moreover, other factors, including commercial trade, are contributing to the current picture.

We believe that our value-based approach is well positioned to perform in this environment since our style traditionally benefits from higher interest rates. Our Fund has a value bias, with its forward price-to-earnings ratio at 13.8x profits as compared with 16.6x profits for the S&P 500 Index. What is also interesting is that the performance gap between the value-based and growth-based styles is now wider than ever since the 1999-2000 tech bubble. In the past 18 months, the value-based style has performed less well – by 27% in fact – than its growth-based counterpart. We know that following periods during which it underperforms, the value style goes on to over-perform since managers use profits from overpriced securities to capitalize on favourable opportunities among undervalued value stocks. Among the value stocks, we hold 25% of our Fund in U.S. banks as they offer attractive value and they benefit from the Fed's interest-rate hikes.

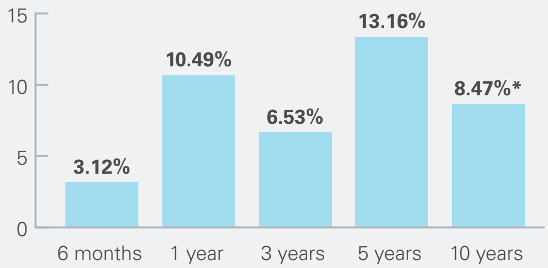
Accordingly, the Fund represents a turnkey solution for investors who wish to invest in the United States given the Fund's currently very favourable value style and its active management both of U.S. currency to protect its performance in Canadian dollars and of covered call options to increase its current yield.

iA Investment **Watch**

U.S. Equity

Net compound returns[1]

As at June 30, 2018

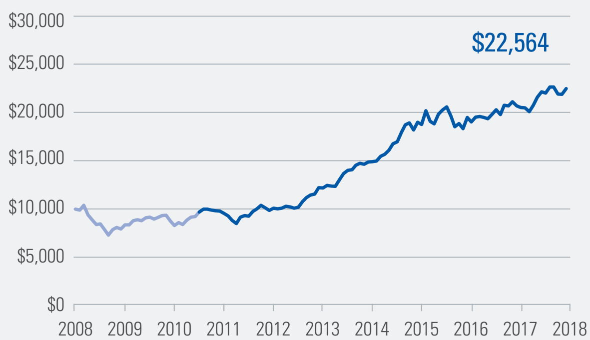


* Simulation of past returns as if the Fund had been in effect for these periods

[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

iAIM snapshot

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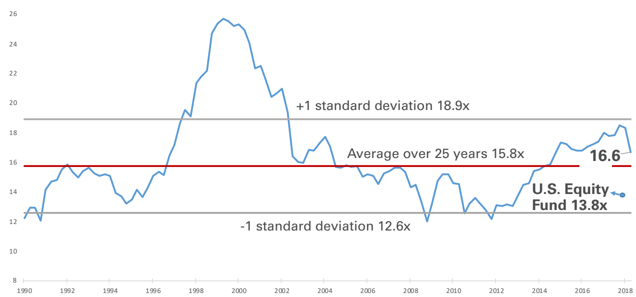
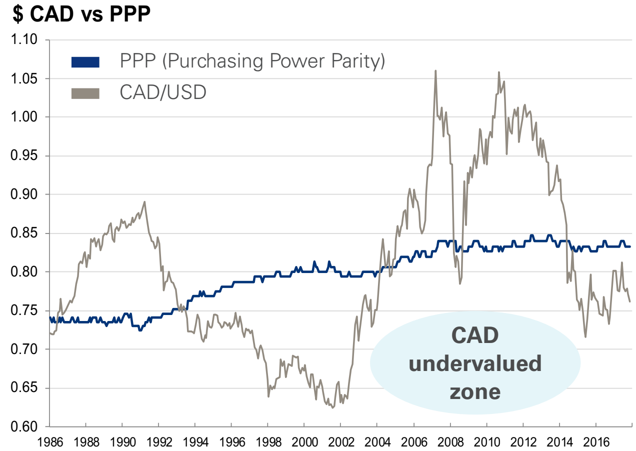
Forward price/earnings ratio (for the next 12 months) of the S&P 500



Active management of exposure to USD can increase return potential and reduce volatility.

$ CAD vs PPP



Sector allocation

As at June 30, 2018

Sector	U.S. Equity (%)	S&P 500 (%)	Deviation (%)
Financials	25.1	13.8	11.3
Consumer Staples	9.1	7.0	2.1
Consumer Discretionary	14.0	12.9	1.1
Energy	6.7	6.3	0.4
Materials	2.2	2.6	-0.4
Industrials	8.5	9.5	-1.0
Telecommunication Services	0.0	2.0	-2.0
Information Technology	23.3	26.0	-2.7
Real Estate	0.0	2.9	-2.9
Utilities	0.0	2.9	-2.9
Health Care	11.0	14.1	-3.1

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/ Useful links

Morningstar

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

Fidelity

http://www.fidelity.ca/cs/Satellite/en/public/home

Economic and Financial Publications (ia.ca)

http://ia.ca/individuals/epargeindividuelle/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

FORLIFE Series

http://forlifeseries.ca/docs/

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