iA Investment

Watch

Economic and Market Overview and Featured Funds

For advisor use only

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

Economic and Market Overview

Clément Gignac

International

When we look at 2019, we can see that global growth should be lower than in 2018 and vulnerabilities should intensify. While, initially, we still do not anticipate a global recession in 2019, the advanced position of the current cycle leads us to increase our perception of the likelihood of a recession in the United States, from 15% to 25%. The most recent forecasts from the International Monetary Fund (IMF), published in October, reflected a more pessimistic tone. The IMF reduced its growth forecast for the global economy in 2019 by 0.2%, from 3.9% to 3.7%.

Europe

While everyone's attention was on Brexit in the fourth quarter of 2018, economic data from Germany weakened noticeably during the year. Business confidence also suffered and found itself at a six-year low at the end of the year. A weak French economy garnered special attention over the last few months whereas France was among the first developed countries to publish data pointing to a short-term economic contraction. In this context, the European Central Bank (ECB) should probably be cautious before it begins normalizing its monetary policy.

United States

Unless there is an unpleasant surprise, U.S. economic growth should sit at 2.9% for 2018, the fastest growth since 2005. This growth helped push the unemployment rate to 3.7%, the lowest level since 1969. Two thousand nineteen should be marked by sluggish growth, in the 2% to 2.5% range, due to the weakening of the effects of the tax reform enacted in December 2017. Even though we see a greater likelihood of a recession in 2019, we remain optimistic regarding the macroeconomic prospects of the world's biggest economy. We note that growth remains quite strong and a slowdown, from such high levels, should proceed smoothly.

Canada

The Canadian economy slowed in 2018 but held up well, with growth of more than 2%, which remains to be confirmed. During the quarter, the Alberta government took important steps to address the problem of oil inventory accumulation, which is stuck in Alberta due to a lack of export capacity: first, investing in new capabilities in rail transportation, then providing producers with a tax incentive to help reduce production. As we expected, the federal budget included a measure that allows Canadian businesses to also benefit from the accelerated depreciation of some investment spending in order to level the playing field following tax reform in the U.S.

/ iA Strategy

Over the next year, we expect interest rates to continue to rise, almost certainly in successive bullish moves followed by pauses at key levels, thus making stock markets more volatile.

We still expect the bull market to continue for the next 12 to 18 months (difficult to anticipate, but we remain positive) and that increased volatility will be the norm.

The result is that, in relative terms, most global stock market indices are attractively valued. It is still difficult to predict when market trends change direction but there is little doubt that investors around the world will eventually take the profits earned on U.S. soil and chase savings elsewhere.

The U.S. stock market significantly outperformed stock markets worldwide over the last ten years, due to the enviable strength of the U.S. economy following the last recession. The result is that overseas markets are now weaker than the U.S. market and may benefit considerably from the return of investor risk appetite.

iA Financial Group

/ iA Managed Solutions

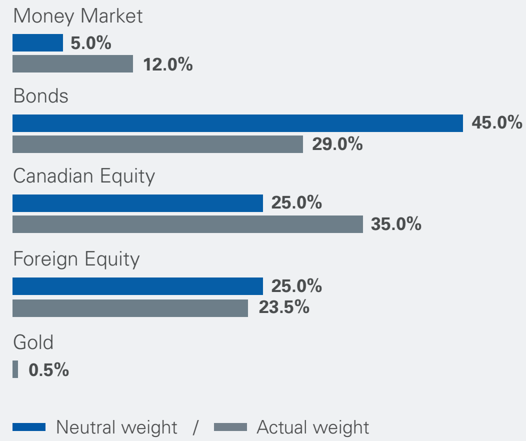
Diversified Funds

We always recommend gradually reducing exposure to the U.S. stock market and gradually building positions in the Canadian, European and Japanese stock markets (EAFE index). Emerging markets are also attractively valued and could perform well with the return of risk appetite.

One factor to watch closely is the strength of the U.S. dollar, which seems to have peaked in December and will largely dictate the emerging market trend.

Because we anticipate that the central banks will continue to gradually tighten their monetary policies, we are maintaining a recommendation to underweight bonds.

Finally, because of the loonie's sensitivity to geopolitical developments, we continue to recommend the dynamic management of exposure to foreign currencies. At the end of the quarter, due to stabilizing oil prices, we see a stronger loonie in the short term.

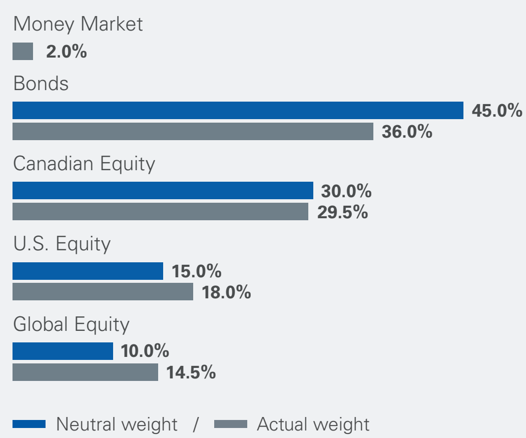


Selection Funds

Exposure to equities in the Selection funds increased in the fourth quarter of 2018, from 59% to 62% for the Selection Balanced Fund whereas we benefited from the sharp drop in the markets to increase the weight in equities.

The weight of fixed-income securities increased slightly by a percentage point to 36% for the Selection Balanced Fund because of the good performance of the asset class.

Finally, cash dropped to 2% of the outstanding amount of the Selection Balanced Fund.



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.

Morningstar 4 stars Fund*

/ Featured Funds

Strategic Income

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

Portfolio manager
iA Clarington Investment Inc.

CIFSC Fund Category
Canadian Neutral Balanced

Lead portfolio manager

Dan Bastasic, CFA, MBA

— 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
— Bachelor of Commerce (Finance)

iA Clarington

Why consider this fund?

— Flexible income-focused balanced fund that can adjust asset allocation as market conditions warrant
— Manager's expertise in both equity and fixed income providing an unbiased asset allocation decision and the ability to assess relative value across the capital structure of a company
— Fixed-income component which 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 and other characteristics

— Value-oriented bottom-up approach combined with quantitative analysis to identify opportunities
— Macro analysis to identify systemic risks and opportunities
— Flexible allocation allowing the portfolio to be adjusted based on market conditions:
 - Up to 70% in any one asset class (fixed-income versus equity)
 - Up to 49% in foreign equities
— Potential for equity-like returns with lower volatility

Current Fund strategy

Although the Fund fared relatively well during the year, we gave up some of our annual gains in December when speculation seemed to have overtaken facts. While we concede that earnings growth and economic growth in the North American markets will likely decelerate during the next 12 months, we see very little evidence of a pending recession and expect earnings growth, while lower, to remain positive, which historically has been associated with higher market returns. Based on these assumptions, we expect equity market returns to rebound as 2019 progresses and credit spreads for less interest-rate-sensitive fixed income to decrease. Other potential catalysts include a thaw in trade war disputes as well as a U.S. Federal Reserve that will likely keep overall liquidity in the system relatively high by not raising short-term rates too aggressively.

We remain invested primarily in higher-yielding corporate bonds with low sensitivity to rising interest rates and find that current yields of approximately 8% and spreads at 500 basis points are attractive after overcorrecting during the fourth quarter. For the first time in two years, yields and spreads are at a level that can potentially produce capital gains in addition to an attractive current yield. Default rates are at historically low levels and will likely remain muted if there is positive economic and earnings growth to help support overall expected returns during the next year.

We increased our defensive positioning and our cash levels during the past quarter while decreasing the Fund's exposure to U.S. equity markets. We generally avoided one of the worst-performing sectors with a low relative exposure to energy while having a higher exposure to Canadian telecommunications and U.S. healthcare securities, two of the better-performing sectors during the quarter.

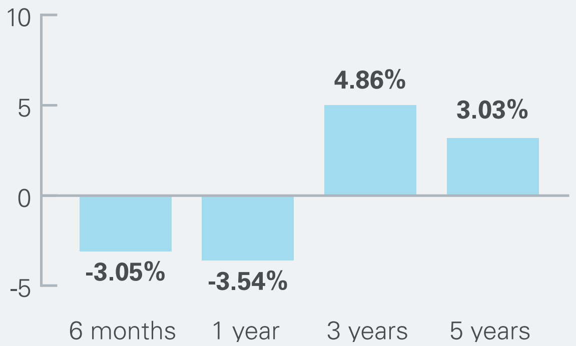
The Fund's top two contributors to performance over the quarter were holdings in Merck & Co. Inc. and Loblaw Companies Ltd. The largest detractor from performance came from an exposure to Encana Corp.

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

Strategic Income

Net compound returns[1]

As at December 31, 2018



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

Growth of $10,000

Since inception

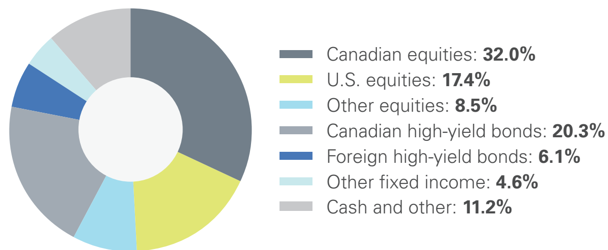
Classic Series 75/75 of the IAG SRP
Simulation of past returns as if the fund had been in effect for these periods

iA Clarington snapshot

- Over $15 billion in assets managed as at December 31, 2017
- 220 employees
- Offices in Montreal, Toronto, Calgary and Vancouver
- Wholly-owned subsidiary of iA Financial Group

Asset mix

As at December 31, 2018



Equity sector allocation*

As at December 31, 2018

Financials	28.9%
Consumer Staples	14.1%
Utilities	13.0%
Health Care	11.5%
Industrials	8.8%
Energy	8.3%
Real Estate	6.0%
Consumer Discretionary	3.9%
Information Technology	3.2%
Materials	2.3 %

* Cash not included

Top 10 holdings of the Fund

As at December 31, 2018

The Toronto-Dominion Bank	2.9%
Unilever NV	2.9%
Royal Bank of Canada	2.7%
Pfizer Inc.	2.5%
Brookfield Asset Management Inc.	2.4%
Canadian Imperial Bank of Commerce	1.9%
Gouvernment of Canada, 2.000%, 2028-06-01	1.8%
Microsoft Corp.	1.7%
Chrysler Group Co./CG Co-Issuer Inc., 4.500%, 2020-04-15	1.6%
JP Morgan Chase & Co.	1.6%
	22.0%

/ Featured Funds

Morningstar 5 Star Fund*

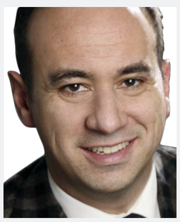
Fidelity Canadian Opportunities

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

Portfolio manager
Fidelity Investments

CIFSC Fund Category
Canadian Small/Mid Cap Equity

Lead portfolio manager



Hugo Lavallée, CFA

- Joined Fidelity in 2002
- Portfolio manager of the Fund since 2006
- Also manages 2 other Fidelity funds
- 17 years of investment experience
- Bachelor of Commerce, First Class in economics and finance, McGill University

Why consider this fund?

- Aims to generate long-term capital appreciation by focusing on the dynamic growth potential of the small and mid-capitalization market
- Aims to mitigate downside risk and manage fund volatility
- Tends to outperform during down markets (lower beta)
- Exhibits a lower risk than similar large-cap funds
- Not subject to benchmark constraints: the portfolio manager will not hesitate to deviate from the index in terms of sector allocation

Investment style and other characteristics

- Fundamental, bottom-up stock selection
- Contrarian style, seeking value in out-of-favour stocks
- Between 75 and 100 stocks
- Typical foreign exposure of 10% or less
- Aims to invest in companies where the operating margin is bottoming and has lots of potential to expand and drive earnings higher

Current Fund strategy

At the end of the quarter, the Fund held its largest overweight allocation, compared to its benchmark, in the consumer staples sector, where top holdings included Metro, based on optimism for its growth potential in the pharmacy business, and Loblaw Companies, considered to be less economically sensitive. Convenience store operator Alimentation Couche-Tard, which is expected to generate synergies from its acquisition of CST Brands, was also a top holding.

The Fund was also overweight in the communication services sector. Top holdings in this sector included Cogeco Communications, which was favoured for the sustainability of its business and compelling free-cash-flow yield.

Other top holdings included Constellation Software, based on its strong fundamentals; Restaurant Brands International, given its long-term earnings growth potential and strong management team; and Chipotle Mexican Grill, favoured for its growth opportunities, strong balance sheet and improved management team.

Dollarama, also a top holding, was added after its valuation fell following a couple of negative earnings releases that weakened investor sentiment. Portfolio manager Hugo Lavallée nevertheless believes the company has a strong business model and will do well as the issues worrying investors dissipate over time.

The manager observes that the business cycle is stretched and market valuations in both Canada and the U.S. remain elevated, warranting a more conservative approach with a lower beta and a larger cash allocation in the Fund. He is concerned about the outlook for Canadian consumers as interest rates rise, limiting their ability to increase spending.

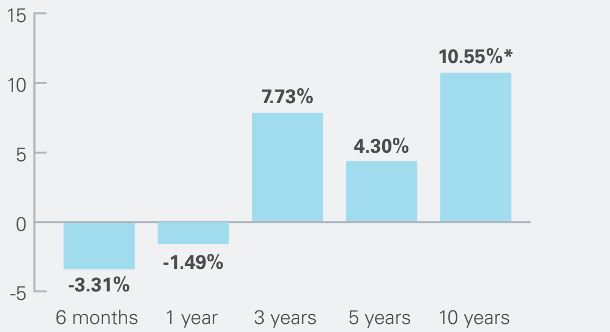
The manager remains selective when investing in the Canadian small- to mid-capitalization market, evaluating investment opportunities stock by stock and waiting for a chance to actively deploy cash into investments that fit his criteria or if segments of the market pull back. He continues to seek opportunities among securities that, in his view, have been significantly undervalued by the market but have the potential to outperform as their outlooks improve.

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

Fidelity Canadian Opportunities

Net compound returns[1]

As at December 31, 2018



* 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

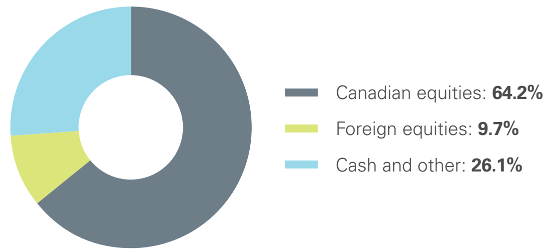
Since inception

Fidelity Investments 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

Asset mix

As at December 31, 2018



Sector allocation*

As at December 31, 2018

Sector	Fidelity Canadian Opportunities (%)	S&P/TSX Index (%)	Deviation (%)
Consumer Staples	17.8	4.0	13.8
Information Technology	14.8	4.0	10.8
Consumer Discretionary	14.2	4.3	9.9
Telecommunication Services	11.0	6.0	5.0
Utilities	5.4	4.1	1.3
Real Estate	3.8	3.2	0.6
Health Care	0.9	1.6	-0.7
Materials	5.8	11.4	-5.6
Energy	9.9	17.8	-7.9
Industrials	1.6	10.8	-9.2
Financials	14.8	32.9	-18.1

*Cash not included

Top 10 holdings of the Fund

As at December 31, 2018

Alimentation Couche-Tard, Cl. B, Sub Vtg	Food & Staples Retailing
Metro	Food & Staples Retailing
Loblaw	Food & Staples Retailing
Constellation Software	Software
Restaurant Brands International Inc.	Restaurants
Cogeco Communications	Telecom Services
Fairfax Financial Holdings, Sub Vtg	Insurance
Power Financial Corp.	Insurance
Dollarama	Multiline Retail
Chipotle Mexican Grill	Restaurants
TOTAL	**30.7%**

/ Featured Funds

Global Health Care (Renaissance)

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

Portfolio manager
Wellington Management

CIFSC fund category
Sector Equity

Lead portfolio manager

Jean M. Hynes, CFA

- Specializes in the pharmaceutical and biotechnology industries and conducts fundamental analysis
- Also manages the Vanguard Healthcare Fund and is a member of the healthcare team that manages other health and biotechnology sector mutual funds and hedge funds
- Joined Wellington Management upon her graduation
- BA in Economics, Wellesley College (1991)

CIBC Asset Management

Why consider this fund?

- Specialized fund that aims for long-term capital appreciation by investing primarily in U.S. and global companies in the medical technology, biotechnology, healthcare, and pharmaceutical sectors
- Proven team, managing healthcare assets together since 2000
- Deep scientific, biomedical, and healthcare industry expertise

Investment style and other characteristics

- Rigorous, proprietary research
- Research through fundamental, ESG (environmental, social and governance), quantitative, macro and technical lenses
- Approach of shifting assets into subsectors of the healthcare field with a better potential for future performance
- Within each subsector, bottom-up stock selection using value management filters to identify portfolio candidates
- Fundamental approach to understanding the science and technology behind a prospective company's products and services

Current Fund strategy

The final quarter of 2018 proved a turbulent time for global equity markets. The top portfolio detractor for the quarter was pharmaceutical company Allergan. Share prices of pharmaceutical company Bristol-Myers Squibb declined in the quarter after clinical setbacks for the company's immuno-oncology (I-O) drugs. Also contributing was a broad pull-back in the overall Japanese pharmaceuticals sector, perhaps related to weakening of the dollar versus the yen late in the quarter.

The top portfolio contributors during the quarter include pharmaceutical company Eli Lilly, and Genmab, a Danish biotech firm. Another solid portfolio contributor during the quarter was biotechnology company Global Blood Therapeutics.

While painful, we believe that the significant valuation correction of this past quarter has expanded our range of opportunities going forward. The recent stock market gyrations will almost certainly continue, but with valuations broadly lower, we look to 2019 with cautious optimism. We believe innovation in the biopharmaceutical and medical technology sectors is alive and well—indeed, the FDA approved a record number of new drugs in 2018—and that fundamental innovation plus renewed interest in merger and acquisition activity among larger drug companies should ultimately lead the sector higher.

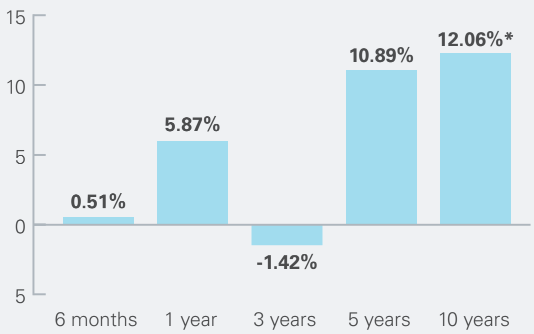
Pressure on pricing and payments models will be ongoing, but we continue to believe that fundamental structural reform is unlikely in the foreseeable future. The Trump administration healthcare blueprint seeks to address high drug prices by increasing competition, fostering pricing transparency, and wringing out inefficiencies in the pharmaceutical market. Importantly, it appears supportive of biomedical innovation and of the economic model thereof.

In selecting stocks for the portfolio, we favour companies that develop innovative products designed to address important, unmet medical needs. Over the long term, the tailwinds of innovation, an aging population, and the globalization of demand for cutting-edge Western-style medicines should continue to drive growth in the sector. We believe that we are favourably positioned to capitalize on that growth.

Global Health Care (Renaissance)

Net compound returns[1]

As at December 31, 2018

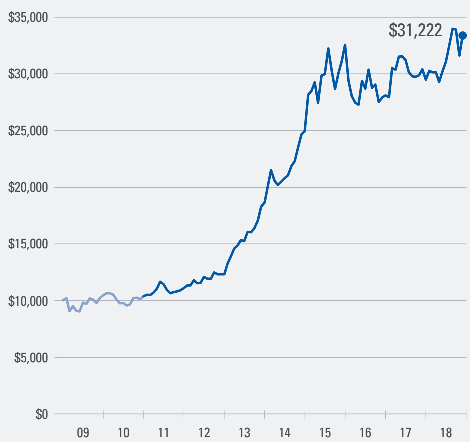


* Simulation of past returns as if the Fund had been in effect for these periods

[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

Wellington Management snapshot

— Founded in 1928: Innovator and leader in investment management

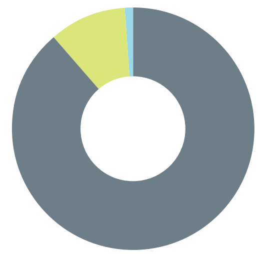
— More than US$1 trillion of assets under management

— Employee-owned private firm headquartered in Boston, Massachusetts, with a global presence

— Most distinctive strength: its proprietary, independent research

Geographic allocation*

As at December 31, 2018



United States: **63.3%**

Ireland: **9.9%**

Switzerland: **6.7%**

Japan: **6.6%**

Other countries: **13.6%**

* Cash not included

Industrial allocation*

As at December 31, 2018

Pharmaceuticals	38.6%
Health Care Equipment & Supplies	22.4%
Health Care Providers & Services	16.8%
Biotechnology	15.7%
Life Sciences Tools & Services	4.1%
Health Care Technology	2.3%
Food & Staples Retailing	0.2%

* Cash not included

Top 10 holdings of the Fund

As at December 31, 2018

UnitedHealth Group Inc.	6.0%
Novartis AG, Sponsored ADR	5.4%
Eli Lilly and Co.	5.3%
Bristol-Myers Squibb Co.	5.2%
Medtronic Inc.	4.6%
Boston Scientific Corp.	4.6%
AstraZeneca Group PLC	3.9%
Allergan inc.	3.4%
Thermo Fisher Scientific Inc.	3.4%
Eisai Co. Ltd.	2.9%
TOTAL	**44.7%**

/ Useful links

Fund Performance

https://ia.ca/funds-performance

Economic News with Clément Gignac and His Team (ia.ca)

https://ia.ca/economic-publications/posts

Economic and Financial Publications (ia.ca)

https://ia.ca/individuals/individualsavings/publications-savings

IAG Savings and Retirement Plan (ia.ca)

https://ia.ca/iag-savings-and-retirement-plan

Prestige Preferential Pricing

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Morningstar

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