iA Investment

Watch

Economic and Market Overview and Featured Funds

For advisor use only

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

Economic and Market Overview

Clément Gignac

International

The third quarter of the year was marked by a series of negative surprises in emerging markets. Take, for example, the situation in Turkey, Argentina and Venezuela, without forgetting South Africa, which just went into recession. Even if the list is long, we believe that the contagion spreading throughout emerging markets is not very likely, even in the event of a real trade war, for as long as the Chinese economy holds steady. We must not forget that emerging markets trade a lot among themselves and China is by far the most important trading partner of many of these countries.

Europe

In Europe, things are improving slowly but surely. The European index of economic surprises is back to neutral in the third quarter, after reaching its lowest level since 2011 in the second quarter. As we mentioned several times during the last few quarters, it has been a long and perilous journey for the European economy since the financial crisis, but the path now seems to have been charted for a return to sustainable growth. In this context, we are not surprised to see the European Central Bank (ECB) maintain a positive, though cautious, tone.

United States

It's official! We are currently in the longest period of uninterrupted economic growth recorded in American history (that is, since World War II). This is not all that surprising because history clearly shows that expansions after financial crises have a tendency to be long and not very energetic. This description is consistent with the current cycle, which was characterized by a poor appetite for risk from consumers and businesses, thereby creating fewer risks of excess which typically cause the end of high economic cycles.

Canada

After several months of, let us say, turmoil, the NAFTA renegotiation process finally resulted in a new trilateral agreement just a few hours before the October 1st deadline. The terms of the agreement were revealed and are, all things considered, rather positive for the Canadian economy. Even through all this uncertainty and political turmoil, the Canadian economy has continued to show a good growth profile in the third quarter and even cuts a fine figure as one of the countries where economic surprises are the most positive among developed countries.

/ iA Strategy

Calm returned to the American stock market in the third quarter with the VIX index returning to a 12 to 15 bracket after crossing the 35 level at the beginning of February.

Global stock markets have had a quarter that is positive overall with the American market far ahead once again. Since the month of February, there has been a sharp divergence between the S&P 500 and the rest of the world, which makes it difficult to seek high returns outside the United States. This outperformance is largely due to the impact of the recent tax reform, which propelled the growth of benefits for American businesses by nearly 25%.

The result is that, relatively speaking, the majority of global stock market indices have ended up with good valuations. It is still difficult to predict the moment when market trends will change direction, but it is very likely that investors will eventually take profits from their gains on American soil and go in pursuit of opportunities elsewhere in the world.

iA Financial Group

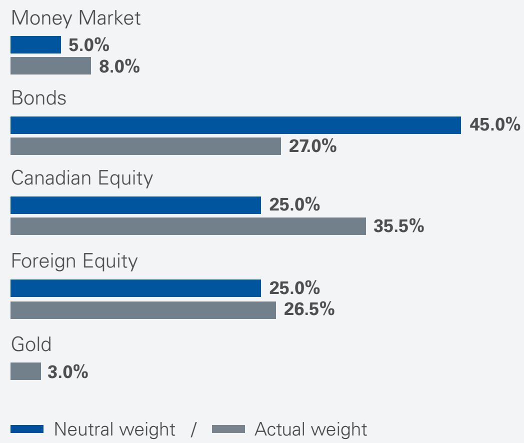
/ iA Managed Solutions

Diversified Funds

In the current economic climate, we still recommend gradually reducing exposure to the American stock market and progressively building positions on the European and Japanese stock markets (EAFE index). Emerging markets are also showing an attractive valuation, but caution is always advised because it is very risky to try to predict when the market will bottom out!

As we are forecasting that the Bank of Canada will step up its progressive tightening of its monetary policy over the next few years, we recommend underweighting bonds. Same thing for American bonds, where the movement of interest rates was back up recently in response to robust economic data.

Finally, because of the loonie's sensitivity to geopolitical developments, we continue to recommend a dynamic management of exposure to foreign currencies. At the end of the quarter, because of the success of the renegotiation of a trilateral agreement on NAFTA, we have almost fully covered the American dollar and euro exposure.

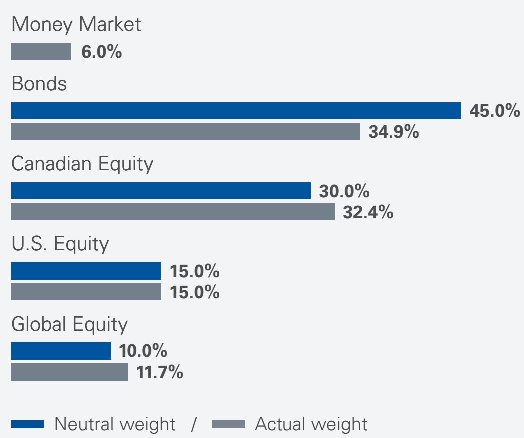


Selection Funds

The equity exposure in Selection Funds has lessened, in the case of Selection Balanced to 59%, mainly because of slight profit-taking from American shares during the quarter.

The weight of fixed-income securities remained unchanged at 35% for Selection Balanced.

Finally, the cash balance increased to 6% of the Selection Balanced Fund, which is slightly above 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

Global Asset Allocation Security (iAIM)	Global Fixed Income Balanced
Global Asset Allocation (iAIM)	Global Neutral Balanced
Global Asset Allocation Opportunity (iAIM)	Global Equity Balanced

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

Industrial Alliance Investment Management Inc. (iAIM)

Lead portfolio manager

Clément Gignac

- — Senior Vice-President and Chief Economist 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?

- — Similar to the Diversified funds, offering increased diversification within several types of asset classes and multiple geographic regions throughout the world
- — Expertise of a highly experienced team of managers looking after day-to-day investment decisions
- — One of the first segregated fund managed solutions in Canada that provides access to private alternative investments, for which most retail investors do not have access, and which offer many advantages

Investment style and other characteristics

- — Active asset allocation approach based on economic and market forecasts
- — Combines top-down and bottom-up investment approach
- — Strong focus on downside protection
- — Significant degree of leeway to move within investment limits
- — Active management of foreign currency exposure to increase return potential and reduce volatility
- — Opportunistic use of exchange traded funds (ETF) to allow tactical movements
- — Access to alternative assets (including real assets) such as real estate, mortgages, infrastructure, private equity and private debt offering favorable risk return characteristics and low correlations to traditional markets

Current Fund strategy

We are pleased to offer you a new series of segregated funds managed by Clément Gignac's team, which is also responsible for managing the iA Diversified Funds.

This new series of three funds, called the Global Asset Allocation Funds, spans three investor spectrums, ranging from the most conservative (security profile) to the most aggressive (opportunity profile).

There are several differences between the Global Asset Allocation Funds and the Diversified Funds.

First, while the Diversified Funds are classified as Canadian funds, i.e., they contain a minimum of 70% Canadian assets, the new Global Asset Allocation Funds will rather focus on a global orientation.

Second, the Global Asset Allocation Funds will include managers from within and outside iA with regard to asset allocation. This will allow investors to benefit from a wide range of expertise across several asset classes, such as emerging market bonds.

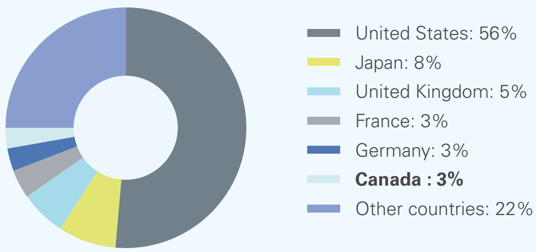
Lastly, we are proud to offer our clients access to our alternative investment expertise for the first time. iA is a pioneer in the Canadian segregated funds industry by incorporating direct exposure to alternative asset classes such as commercial real estate, mortgages, infrastructures, private debt and private equity into this new series of funds. The iA team, backed by its extensive expertise, will directly underwrite each of these investments, which in the long term will represent approximately 15% of the size of each of the new funds.

Beyond these differences, our investors will continue to benefit from our active management style, as well as from our dynamic foreign currency exposure hedging.

Global Asset Allocation (iAIM) Funds

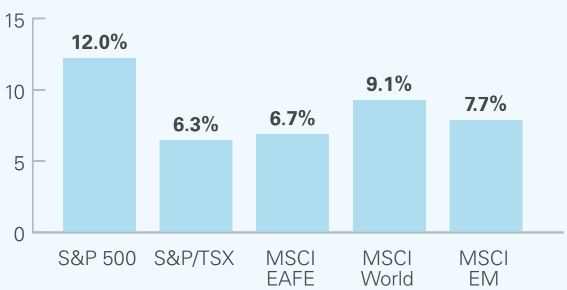
Why go Global?

Canadian market is relatively small but Canadian investors tend to be overinvested in Canada.
Canada represents less than 4% of global equity market capitalization.

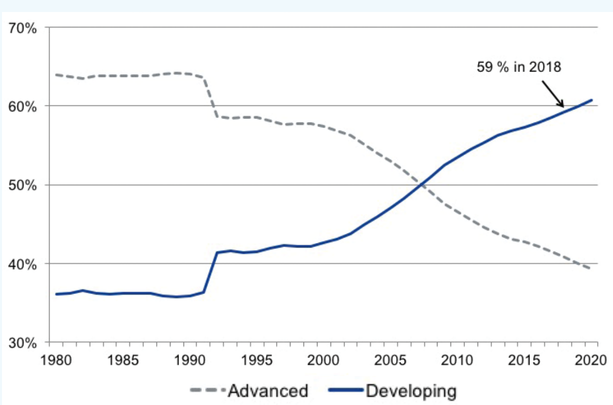


Source: MSCI All Country World Index

Global assets offer interesting potential returns.
10-year annualized return of select asset classes



Emerging markets are now larger than developed countries.
% of world GDP contributed by emerging vs developed countries

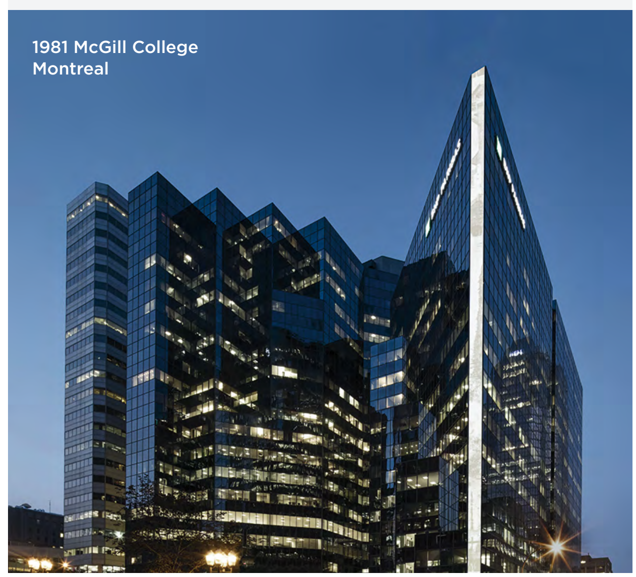


Long-term target asset mix

Asset Class	Global Asset Allocation Security (iAIM) (%)	Global Asset Allocation (iAIM) (%)	Global Asset Allocation Opportunity (iAIM) (%)
Canadian Fixed Income	20.0	12.0	5.0
Global Fixed Income	35.5	25.5	12.0
High Yield Income	4.5	3.5	3.0
Floating Rate Loan	2.5	1.5	0.0
Private Debt	3.5	3.5	2.0
Mortgage	4.0	4.0	3.0
TOTAL - Fixed income	**70.0**	**50.0**	**25.0**
Canadian Equity	5.0	10.0	15.0
Global Equity	17.5	32.5	50.0
Private Equity	2.5	3.5	6.0
Infrastructure	2.0	2.0	2.0
Real Estate	3.0	2.0	2.0
TOTAL - Equity	**30.0**	**50.0**	**75.0**
TOTAL - Private alternative and real assets	**15.0**	**15.0**	**15.0**

Key benefits of private alternative assets and real assets

— Increase portfolio diversification
— Lower correlation to traditional markets
— Offer a very positive risk return relationship



For an overview of iAIM, refer to page 8.

Data as at September 30, 2018

/ Featured Funds

Thematic Innovation

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
Industrial Alliance Investment Management Inc. (iAIM)

CIFSC Fund Category
U.S. Equity

Lead portfolio manager

Jean-Pierre Chevalier, CFA

— Joined iAIM in 2011
— Nearly 10 years in the industry
— Bachelor's degree in business administration, Université Laval

iA Investment Management

Why consider this fund?

— Large-cap U.S. equity fund that benefits from a thematic investment style
  - Companies benefitting from technological advances
  - Companies prospering in a perpetually changing environment
— A different way to invest by focusing on innovation
— Since its creation, illustrates a more attractive risk return profile than that of its benchmark index (S&P 500)

Investment style and other characteristics

— Bottom-up investment approach
— Disciplined investment process combining qualitative and quantitative evaluation
— Well-diversified portfolio (100 to 120 securities) that aims to invest in companies from all sectors of the economy

Current Fund strategy

More than ever, technological innovations are impacting every sector of the economy. As an investor, ignoring these changes has important implications on returns, as today's industry leaders can quickly become laggards while tomorrow's leading firms are rapidly booming. The Fund aims to benefit from disruptive innovations by investing in a diversified portfolio of U.S. companies using a thematic style, seeking companies that are positively exposed to these changes and avoiding those that are negatively affected.

First, we identified four major investment themes: Intelligent Connectivity, Smart Energy, Industrial Digitisation and Next-Generation Genomics, and more than 40 sub-themes arising from those major themes. We then identified companies that would benefit from these trends and those that are negatively impacted by them. We buy the former and avoid the latter. It results in more than 700 companies positively exposed to the investment themes and which were included in the strategy's investable universe. Currently, the strategy results in an increased focus on the following sub-themes: machine learning, immunotherapies, factory automation and cloud computing infrastructure. Thus, the nature of the strategy is to add value by benefitting from a deep understanding of the pervasive impacts of disruptive innovations. The evolution of the economy and the markets makes it possible to have strong exposure to innovation while keeping risk in line with the S&P 500 index. In that regard, the goal is to keep a better risk return proposition than the reference peer group.

Thematic Innovation

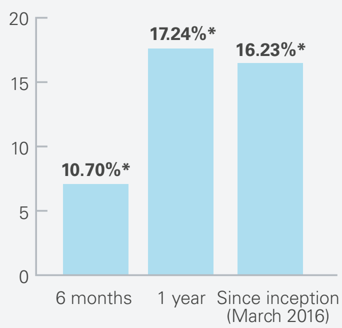
Examples of securities held in the Fund

As at July 31, 2018

Company	Sector	Investing theme
Microsoft	Information technology	**Cloud computing** – Microsoft is in a strong position to benefit from the growing wave of cloud computing adoption and information technology viewed as a service.
tpi COMPOSITES	Industrials	**Renewable energy** – Benefitting from continually decreasing costs, wind energy should see strong growth in the coming decade. TPI Composites, the world's largest independent manufacturer of wind blades, is well positioned to benefit from this growth.
natera	Health care	**Next generation genomics** – Natera benefits from its diagnostic technology which allows for early detection of cancer relapses, giving patients a better chance for recovery.

Net compound returns[1]

As at September 30, 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

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

For an overview of iAIM, refer to page 8.

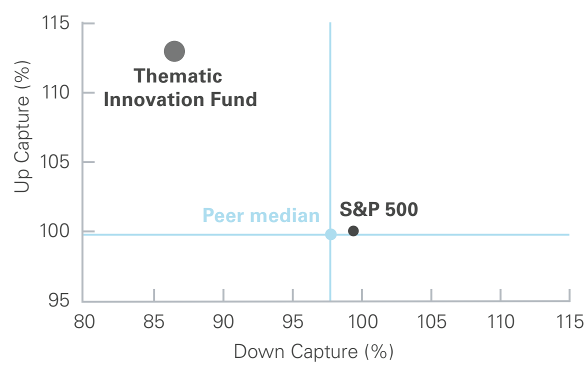
Sector allocation*

Sector	Thematic Innovation (%)	S&P 500 (%)	Deviation (%)
Health Care	26.8	15.1	11.8
Information Technology	25.7	21.0	4.7
Telecommunication Services	11.8	10.0	1.8
Industrials	10.2	9.7	0.5
Real Estate	2.9	2.7	0.2
Materials	1.7	2.4	-0.7
Utilities	1.7	2.8	-1.2
Energy	3.7	6.0	-2.3
Consumer Discretionary	6.0	10.3	-4.3
Consumer Staples	2.0	6.7	-4.7
Financials	7.5	13.3	-5.8

* Cash not included

Upside and downside capture ratios

As at June 30, 2018



/ Featured Funds

Canadian Equity Growth

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
Industrial Alliance Investment Management Inc. (iAIM)

CIFSC Fund Category
Canadian Equity

Lead portfolio manager

Marc Gagnon, MSc, CFA

— Joined iAIM in 1998
— More than 26 years of investment experience
— MBA in Finance, Université Laval
— Bachelor's degree in business administration, Université Laval

Morningstar 4 stars Fund*

iA Investment Management

Why consider this fund?

— Management strategy performing well in both up and down markets; the growth bias tends to help generate strong returns especially in up markets
— Same portfolio manager since inception of the fund in 2001
— Objective to outperform the benchmark returns while displaying lower volatility (lower risk)

Investment style and other characteristics

— Search for companies that present a good growth profile while being concerned about the price to pay to acquire them
— Between 100 and 130 securities
— Generally composed of 5% to 15% of small- and mid-cap stocks
— Possibility of investing up to 30% in U.S. securities, generally in health care and information technology sectors (has the option of hedging the currency)

Current Fund strategy

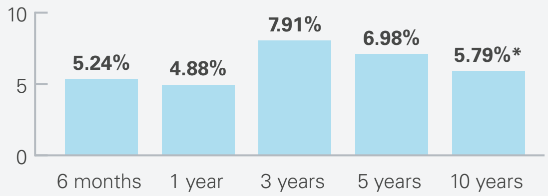
Currently, the Canadian and even North American economic climate has been rather disturbed by international trade disputes. The United States believes that the trend towards globalization and free trade has been generally unfavourable to them over the past 20 years. For this reason, they have taken steps to renegotiate some trade agreements with their major partners, including Canada and Mexico in the case of NAFTA, as well as the European Union and China. However, we are inclined to believe that these treaties will ultimately be renegotiated, even if this may be more difficult with China. Such renegotiation would help to eliminate a lot of uncertainty and could be a positive catalyst for the Canadian and U.S. equity markets. Moreover, we expect the North American economy to remain strong for at least several more quarters, which will lead to the creation of more investment opportunities.

More specifically, we foresee an investment window for certain commodities like base metals that, among other things, will be favored by China's strong determination to change its environmental practices to reduce pollution levels, mainly by closing outdated facilities. We also intend to take advantage of the significant and numerous technological changes that are currently revolutionizing several sectors of the economy as well as corporate business processes and the cost structures. These changes, combined with the significant demographic challenges facing OECD countries, create growth sectors that are particularly attractive to the Canadian Equity Growth Fund. The Fund intends to take advantage of these trends by being invested just under 10% in the U.S. equity market. The goal of the Fund's investment process is to target companies that will benefit from an increase in their cash flow that exceeds market expectations.

Canadian Equity Growth

Net compound returns[1]

As at September 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

- Founded in 2004
- Major player in the asset management industry
- Manages $64.4 billion in general portfolios and segregated and mutual funds
- A team of 138 people, including 87 investment professionals (including 44 CFA charterholders)
- Composed of prudent managers who emphasize fundamental analysis, identification of value and long-term investing

Sector allocation*

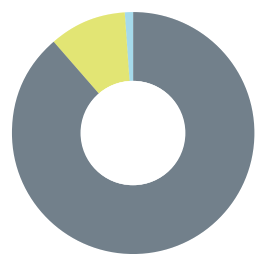
As at September 30, 2018

Sector	Canadian Equity Growth (%)	S&P/TSX (%)	Deviation (%)
Financials	37.4	34.3	3.2
Consumer Staples	4.4	3.4	1.0
Energy	19.6	19.1	0.5
Telecommunication Services	5.7	5.3	0.5
Real Estate	3.2	3.1	0.1
Utilities	3.5	3.7	-0.2
Industrials	10.2	10.6	-0.4
Consumer Discretionary	3.9	4.4	-0.5
Information Technology	2.8	4.1	-1.3
Materials	8.8	10.1	-1.3
Health Care	0.4	2.0	-1.6

* Cash not included

Geographic allocation*

As at September 30, 2018



Canada: **88.7%**

United States: **10.4%**

Other countries: **0.9%**

* Cash not included

Top 10 holdings of the Fund

As at September 30, 2018

Royal Bank of Canada	6.3%
The Toronto-Dominion Bank	6.3%
Bank of Nova Scotia	4.5%
Canadian National Railway Co.	3.4%
Suncor Energy Inc.	3.1%
Industrial Alliance Thematic Innovation Fund	2.7%
Bank of Montreal	2.7%
Brookfield Asset Management Inc.	2.6%
Canadian Natural Resources Ltd.	2.6%
Manulife Financial Corp.	2.6%
TOTAL	**36.8%**

/ 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

https://iae.interneweb.inalco.com/portal/ind/server.pt/gateway/PTARGS_0_1504029_665_330_0_43/Produits/Epargne/PerlAG_FondsDistinct/SeriesPrestige

Morningstar

http://www2.morningstar.ca/homepage/h_ca.aspx?byrefresh=yes&culture=en-CA

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