iA Investment

Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **March** / 2019

Economic and Market Overview

Clément Gignac

International

Two themes dominated the economic and political news cycles in the first quarter: the slowdown in China and, more importantly, Brexit. With China being responsible for no less than a third of global economic growth, we are seeing serious signs of its momentum slowing down. Generally, two reasons are cited: the impact of recent efforts to curb credit growth and the imposition of trade tariffs by the United States. As for Brexit, as the quarter ended, Parliament had still not voted in favour (after three attempts) of the agreement negotiated and the risk of a disorderly exit by Britain remains a possibility.

Europe

Besides Brexit, the European economy was of concern in the first quarter of 2019. The German manufacturing sector was particularly concerning, and Europe's largest economy came close to a recession in the second half of 2018. Economic data from France and Italy also shows signs of weakness, whether for cyclical reasons (the "yellow vest" movement in France) or structural reasons (a fragile banking system in Italy). It is therefore not surprising to see that the European Central Bank (ECB) acted in the face of the evidence by announcing an extra dose of monetary stimulus.

United States

In the first quarter, the U.S. economy remained at the forefront in terms of the strength of developed nations. The effects of the tax reform adopted in December 2017 continue to be felt as the benefits from tax season will be higher this year. As for businesses, the biggest impact was felt in 2018, which means that the net effect on corporate earnings is virtually zero this year compared to last. The trade relationship between China and the United States obviously remains a big questions mark.

Canada

The Canadian economy is a small, open economy, and is thus not immune to the synchronized slowdown of the global economy. This observation was obvious when the official GDP growth numbers were posted in the fourth quarter of 2018, which dropped to 0.4% at an annualized rate compared to 2% in the third quarter. Expectations for the first quarter of 2019 are even more pessimistic, at 0%, as the loss of momentum remains evident. In the coming quarters, we expect the Canadian economy to grow at the same pace as the global economy, which means a slow start early in the year likely followed by a slight acceleration in the second half of the year.

/ iA Strategy

After coming close to a bear market[1] in the fourth quarter of 2018, the American stock market came into 2019 with a roar as it regained nearly 80% of the losses in less than three months. History shows that it generally takes six to nine months to recover losses when coming close to 20% in losses, making this rebound one of the strongest in the last few decades.

The Canadian stock market led the way for most of the quarter, posting gains of almost 15% at one point in 2019. The global market also posted returns of nearly 13% in mid-March. Even if we believed that the reaction of the stock markets at the end of the year was exaggerated, given that, in our opinion, the risk of recession was low, we were surprised at the speed at which optimism returned to the stock exchanges.

After the panic that characterized the month of December, stock market investors rallied behind the statements of the Fed, which did an about-face as it adopted a more cautious tone by repeating that it would pay more attention to economic data and would wait for clear signs of rising inflation before tightening its monetary policy.

iA Financial Group

[1] Defined as a decline of more than 20% since the most recent peak

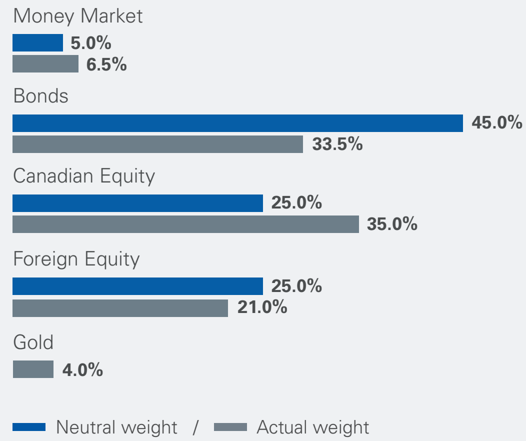
/ iA Managed Solutions

Diversified Funds

We do not anticipate a recession before the end of 2020 (likelihood of a recessionary scenario at 25%) and continue to focus on a strategic (over six to 18 months) overweighting position in equities in 2019. Conversely, tactically (for up to three months), we will end the quarter with neutral weighting in equities within our managed solutions, due to the impressive gains recorded since the beginning of the year and the slowdown of the bullish movement.

For our portfolios, the quarter was divided in two phases. First, after buying equities at the end of last quarter, our strategy early in the year was focused on an overweighting position in American, international and Canadian equities, given the attractive valuations and the strength of the technical rebound that occurred before our eyes. Then, during the quarter, the S&P 500 earnings season reminded us that the prospects for profit growth for American companies weakened due to the fading effects of the tax reform and the synchronized slowdown of the global economy.

In this context, we gradually reduced the weight of equities by increasingly targeting U.S. equities, given that the prospects for profit growth are better than anywhere else on the planet. In return, we increased the weighting in bonds, which was profitable given the steep decline in interest rates throughout the quarter.

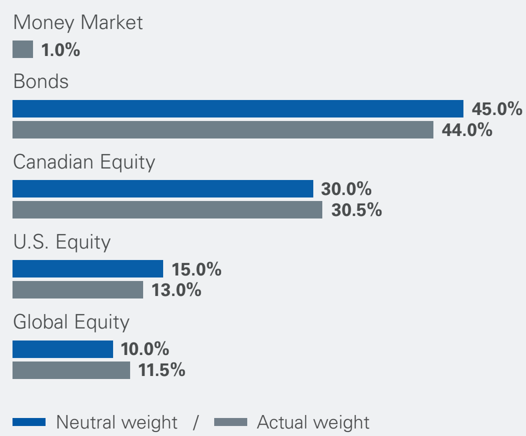


Selection Funds

A similar strategy was adopted for the Selection funds, as the funds posted significant overweighting in equities at the beginning of the quarter followed by a gradual reduction of the overweightedness over time to crystallise gains.

Exposure to equities in the Selection Funds gradually decreased in the first quarter of 2019, from 62.5% to 55% for the Selection Balanced Fund.

Conversely, the weight in fixed-income securities rose, from 35.5% to 44%, for the Selection Balanced Fund to reduce fund volatility and benefit from the appreciation in value of this asset class propelled by a general decline in interest rates in developed countries. The change in tone of central banks paired with weak global economic data were especially beneficial for global bond markets.



Focus Funds

This is a family of five funds, made up of various subfunds, 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 True Conviction

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

Portfolio manager
Industrial Alliance Investment Management Inc. (iAIM)

CIFSC Fund Category
Global Equity

Lead portfolio managers

Marc Gagnon, CFA (Canadian Equities and Portfolio Risk Management)
— Joined iAIM in 1998

Jean-Pierre Chevalier, CFA (U.S. Equities)
— Joined iAIM in 2011

Sevgi Ipek, CFA (International Equities)
— Joined iAIM in 2008

Pierre Chapdelaine, CFA (International Equities)
— Joined iAIM in 2008

iA Investment Management

Why consider this fund?

- High-conviction portfolio
- Portfolio of around 45 securities invested equally in Canada, the United States and Europe/Asia
- Three sub-portfolios managed by three different teams that seek to leverage their top 15 ideas in each of the sub-portfolios
- Excellent complement to a core global equity portfolio

Investment style and other characteristics

- Mixed investment style: growth, thematic and growth at reasonable price ("GARP")
- Bottom-up investment approach, focusing on stock selection
- Aims to achieve high total investment return
- Risk management criteria ensure proper sector diversification

Current Fund strategy

Canadian sub-portfolio: A better tone between China and the U.S. regarding trade negotiations could bode well for the Canadian market. If the Fed maintains a cautious tone, and the Chinese economy shows signs of improvement, the U.S. dollar could peak, helping commodities. Thus, the manager stands ready to increase his sub-portfolio's weight in materials and energy. Valuations are attractive in the energy sector, and the manager is overweight in producers and neutral integrated energy companies. The manager continues to increase weighting in pipelines, real estate, telecommunications and utilities, but is ready to slowly decrease his allocation to defensive sectors.

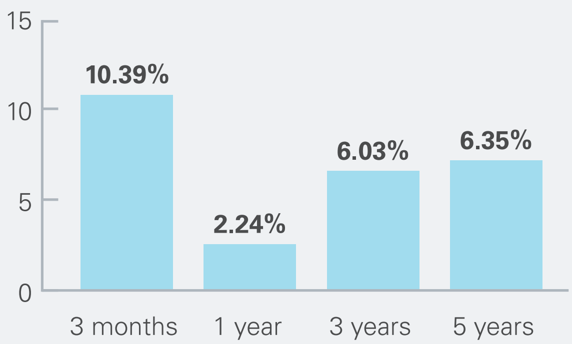
American sub-portfolio: On February 1st, the manager of the U.S. sub-portfolio changed, and underlying stocks were rotated to reflect Jean-Pierre Chevalier's highest convictions. Some new positions include Comcast, GM, Expedia, and JP Morgan Chase Financial. The only two positions that were saved are Microsoft and Google. The manager focused on stocks with a cyclical tilt to their business models as he expects to see opportunities driven by valuation discrepancies in some areas of the market.

International sub-portfolio: The international sub-portfolio remains overweight in continental European equities and underweight in the UK. The managers believe that Brexit will have significant adverse and long-lasting implications for the UK economy. After the sharp underperformance of European assets over the past year, the managers believe the region still represents excellent value relative to other developed regions. They also expect the ECB to keep an easy monetary policy bias for longer than anticipated. Their second largest overweight is in emerging markets as the managers expect recovery in earnings growth for the region.

Global True Conviction

Net compound returns[1]

As at March 31, 2019



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

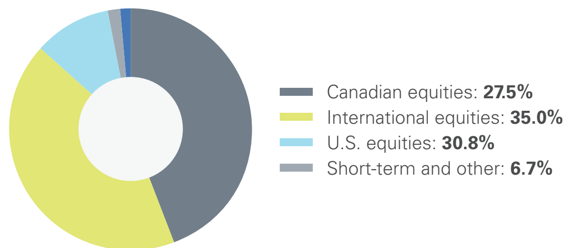
Growth of $10,000

Since inception

Classic Series 75/75 of the IAG SRP

Asset mix

As at March 31, 2019



Sector allocation*

As at March 31, 2019

Sector	Global True Conviction (%)	MCSI World Index (%)	Deviation (%)
Telecommunication Services	14.9	8.4	6.5
Consumer Discretionary	15.8	10.4	5.4
Industrials	14.4	11.1	3.3
Information Technology	17.0	15.2	1.7
Health Care	13.2	13.0	0.2
Real Estate	1.5	3.2	-1.7
Materials	2.7	4.6	-1.9
Consumer Staples	5.5	8.5	-3.0
Financials	13.1	16.2	-3.1
Utilities	0.0	3.4	-3.4
Energy	2.1	6.1	-4.0

* Cash not included

iAIM snapshot

- Founded in 2004
- Major player in the asset management industry
- Manages $63.2 billion in general portfolios and segregated and mutual funds
- A team of 140 people, including 88 investment professionals (including 45 CFA charterholders)
- Composed of prudent managers who emphasize fundamental analysis, identification of value and long-term investing

Top 10 holdings of the Fund

As at March 31, 2019

Worldline SA /France	3.4%
Comcast Corp.	3.4%
Microsoft Corp.	3.3%
Moncler SpA	3.2%
Alphabet Holding Company Inc.	3.2%
Alibaba Group Holding Ltd., Sponsored ADR	3.2%
Shaw Communications Inc., Class B	3.0%
Brookfield Asset Management Inc.	2.9%
Orpea	2.9%
NextEra Energy Inc.	2.6%
	31.1%

/ Featured Funds

Fidelity Global Monthly Income

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
Fidelity Investments

CIFSC Fund Category
Global Neutral Balanced

Lead portfolio managers

Geoffrey Stein, CFA

- Joined Fidelity in 1994
- Over 30 years of investment experience
- MBA, Stanford University
- Bachelor of Economics, Yale University

David D. Wolf

- Over 20 years of investment experience
- From 2009 to 2013, advisor to the Governor and secretary to the Governing Council of the Bank of Canada
- Bachelor of Economics with honors, Princeton University

Why consider this fund?

- Globally-focused, all-in-one solution offering exposure to equities and fixed income securities
- Access to asset classes individual investors would have difficulty accessing on their own
- Diversification benefits through a unique combination of asset classes that tend to exhibit low or negative correlation to each other
- Portfolio manager supported by Fidelity's world-class global research platform

Investment style and other characteristics

- Target allocation: 50% in fixed income securities, 50% in global equities
- Degree of leeway to move within investment limits (±20% from target allocation)
- Analysis of markets short- and long-term performance to help gauge the relative attractiveness of asset classes and identify opportunities to diversify to other regions and/or asset classes
- Particular emphasis on watching for inflection points where there is a high likelihood of mean reversion
- More than 2,500 holdings

Current Fund strategy

Lead portfolio managers Geoff Stein and David Wolf seek to maintain a strategic allocation of equities and fixed-income securities in line with the Fund's neutral mix.

They believe that the market is approaching the later stages of its economic cycle and global growth has weakened. In their opinion, inflation risks stem from tight economies, trade frictions and threats to central bank independence. Additionally, they concluded that monetary policy tightening has paused for now, but policy rates remain below neutral. As a result, they have added tactical allocations to the Fund, including U.S. Treasury inflation–protected securities as insurance against higher inflation expectations, and high-yield commercial mortgage-backed securities and floating rate debt securities to manage duration risk.

In global equities, portfolio manager Ramona Persaud expects the market to be volatile over the next two to three years. This is a more favourable environment for stock pickers and for more defensive strategies. In anticipation of an oscillating market, Ramona aims to capitalize on periods of fear and greed to upgrade the quality of the portfolio to prepare for the eventual market contraction. More specifically, she has been buying high-quality companies that are trading at attractive valuations due to negative sentiment and selling winners when the valuation appears drawn out.

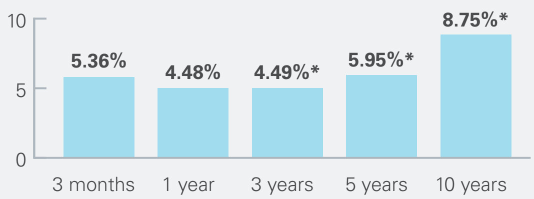
Lately, Ramona has been finding opportunities in multiple sectors in the U.K. as uncertainty about Brexit weighs on stock prices, providing her with more attractive entry points. She focuses on high-quality domestic defensive companies with strong balance sheets and capable management.

In global bonds, the portfolio managers are focused on maintaining a well-diversified, liquid portfolio that can adapt to changing market environments. They believe corporate bonds offer better potential for active returns than government bonds, due to the low-interest-rate environment for many of the world's biggest domestic bond issuers outside of the U.S.

Fidelity Global Monthly Income

Net compound returns[1]

As at March 31, 2019



* 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

Classic Series 75/75 of the IAG SRP

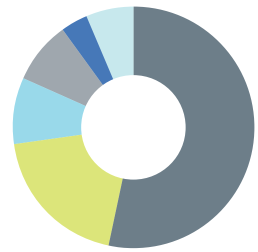
Simulation of past returns as if the Fund had been in effect for these periods

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 750 investment professionals worldwide

Geographic allocation*

As at March 31, 2019



United States: **53.5%**

Europe: **19.4%**

Emerging Markets: **8.9%**

Japan: **8.3%**

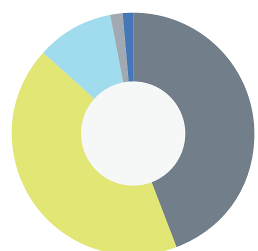
Asia and Pacfic (ex. Japan): **3.7%**

Other countries: **6.2%**

* Cash not included

Asset mix

As at March 31, 2019



Foreign bonds: **44.4%**

Foreign equities: **42.4%**

Short-term and other: **10.2%**

Canadian equities: **1.8%**

Canadian bonds: **1.2%**

Sector allocation*

As at March 31, 2019

Sector	Fidelity Global Monthly Income(%)	MSCI AWCI Index (%)	Deviation (%)
Real Estate	16.6	3.2	13.4
Health Care	13.2	11.8	1.4
Consumer Staples	9.1	8.2	0.9
Information Technology	15.8	15.1	0.7
Energy	5.7	6.3	-0.7
Utilities	2.4	3.3	-0.9
Telecommunication Services	7.5	8.8	-1.3
Industrials	8.5	10.5	-1.9
Financials	14.2	17.2	-3.0
Materials	1.4	4.9	-3.5
Consumer Discretionary	5.7	10.7	-5.0

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/ Featured Funds

Real Estate Income

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

Portfolio manager
Industrial Alliance Investment Management Inc. (iAIM)

CIFSC fund category
Real Estate Equity

Lead portfolio manager

Marc Gagnon, CFA

- Joined iAIM in 1998
- More than 17 years of investment experience
- MBA in Finance, Université Laval
- Bachelor's degree in business administration, Université Laval

iA Investment Management

Why consider this fund?

- The Fund has demonstrated favorable risk/return metrics as compared to the Canadian REITs (Real Estate Investment Trusts) and equity markets.
- REITs illustrate low correlation to traditional asset classes and can increase portfolio diversification.
- REITs tend to have a higher distribution rate than corporations, as they are only taxed on what remains after distributions to shareholders.
- The same portfolio manager has been managing the Fund since its inception in 2001.

Investment style and other characteristics

- Bottom-up investment approach while ensuring thorough diversification among the various Canadian real estate sub-sectors, per a macroeconomic analysis or a specific theme
- Good balance between Canadian REITs (65-75%) and Canadian dividend-paying stocks (15-25%):
  - For REITs: Search for companies with a strong balance sheet and above-average distribution forecasts, while considering acquisition
  - For dividend-paying stocks: Favours companies with an attractive growth profile, forecasts for above-average dividend yields and diversification in the real estate sector
- Diversified portfolio of 30 to 60 securities

Current Fund strategy

The manager intends to continue to overweight real estate income trusts (REITs) in the industrial sector and those dedicated to storage. These sectors have a favourable spread between demand and available space. After several years in which the supply of office space outpaced demand, an equilibrium is slowly returning and the manager expects to start re-investing in this sector. With the market for first-tier retail shopping centres stabilizing and opportunities opening up, the manager is starting to reinvest in this sector as well.

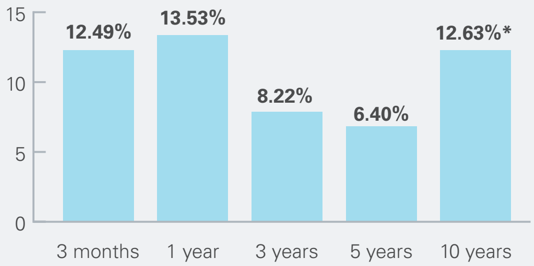
On the other hand, residential REITs are showing high valuations given the increase in immigration and the popularity of the Canadian housing market. The manager is consolidating certain gains and gradually decreasing overweighting in these REITs.

Finally, by combining REITs with certain dividend-paying stocks, the manager is able to increase diversification and reduce the risk level to below both the S&P TSX and S&P TSX REIT indices. When selecting Canadian securities, the manager looks for companies with attractive growth prospects and that provide diversification from the real estate sector.

Real Estate Income

Net compound returns[1]

As at March 31, 2019



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Growth of $10,000

Since inception

iAIM snapshot

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What are Real Estate Investment Trusts (REITs)?

- An entity that owns, operates and/or finances real estate assets that generate income, primarily from rentals:
  - Office towers
  - Shopping centres
  - Apartments
  - Industrial buildings
  - Etc.

Industrial allocation*

As at March 31, 2019

Retail REITs	29.8%
Residential REITs	27.7%
Industrial REITs	12.0%
Diversified REITs	10.8%
Office REITs	6.4%
Real Estate Operating companies	4.3%
Real Estate Services	4.0%
Diversified Real Estate Activities	3.3%
Health Care RETs	1.9%

* Cash not included

Top 10 holdings of the Fund

As at March 31, 2019

RioCan Real Estate Investment Trust	8.7%
Canadian Apartment Properties Real Estate Investment Trust	7.8%
Smart Real Estate Investment Trust	6.5%
H&R Real Estate Investment Trust	5.2%
Granite Real Estate Investment Trust	4.7%
Allied Properties Real Estate Investment Trust	4.6%
Boardwalk Real Estate Investment Trust	4.1%
Choice Properties Real Estate Investment Trust	3.4%
Chartwell Retirement Residences	3.2%
Brookfield Property Partners LP	3.1%
	51.2%

30%

INVESTED IN YOU.

/ 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

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

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