iA Investment
Watch

Economic and Market Overview and Featured Funds

For advisor use only

Quarterly / **September** / 2019

Economic and Market Overview

Clément Gignac

International

The world economy has continued to display signs of a synchronized slowdown in the third quarter of 2019. During this period, the world has seen significant deterioration in negotiations between China and the United States, as both countries repeatedly announced tariff increases. Once again, this escalation was triggered by the U.S. President's impatience with China's sluggishness in acceding to his demands. From a purely economic standpoint, the Organisation for Economic Co-operation and Development (OECD) struck a new note of pessimism in its outlook by lowering once again its forecasts for global economic expansion from 4.0% to 2.9% in 2019 and to 3.0% in 2020.

Europe

Germany, Europe's leading economy, will soon officially be in a technical recession (that is, as soon as the country's third-quarter GDP growth figures are officially published, since a recession is defined as a drop in GDP in two successive quarters). In September, in light of the German government's unwillingness to take action (announcing instead that it will increase spending only in the event of a "deep" recession), the ECB undertook not one but three initiatives: a cut in the policy interest rate; a return to quantitative easing; and a commitment to preserving a very accommodating monetary policy over the long term.

United States

Multiple signs indicate that the U.S. economy cannot remain, in the words of the great Alan Greenspan, "an oasis of prosperity" while the rest of the world deals with a generalized slowdown. Certainly, the most significant indicator is the ISM manufacturing index, which is probably the gauge that shows the strongest historical correlation with GDP growth in the U.S. It has dropped below 50, signalling a contraction of activity in this sector. The risks of a recession in the U.S. in the next 12 to 18 months are, in our view, on the rise but remain between 35 and 40%. Accordingly, a recession is not our baseline scenario.

Canada

Canada's economy continues to show tremendous resilience. Driven by rebounding oil production and, incidentally, energy exports, the country's economic growth rate rose to nearly 4.0% in the second quarter. The labour market is still in peak condition. More than 471,000 jobs were created in Canada in the 12-month period ending in August 2019, thereby achieving the best sequence of its kind since 2003. In the month of August 2019 alone, more than 80,000 jobs were added to the country's economy. In sum, Canada's demographic strength is stimulating job creation and, incidentally, household wealth.

/ iA Strategy

In light of significant risk factors and the various markets' apparently diverging perceptions regarding these risks, we recommend a measure of caution in the fourth quarter. In the bond market, the current low-interest-rate regime will likely remain in effect for some time. A majority of global central banks are lowering and, in the months ahead, will continue to lower their policy interest rates, thereby keeping short- and medium-term rates at very low levels. To give long-term rates a sustainable upward push, what is needed are clear signs of an increase in manufacturing cycle times, along with the emergence of fiscal stimulus packages in China or Germany. Low interest rates and slow corporate-profit growth are generally associated with higher volatility in stock markets. Keep in mind that corrections have been occurring on Wall Street – of the kind we saw in autumn 2018 – every 9 months on average since the Second World War. As a result, it would not be surprising – though impossible to predict in the short term – if a correction were to occur in the months ahead.

iA Financial Group

/ iA Managed Solutions

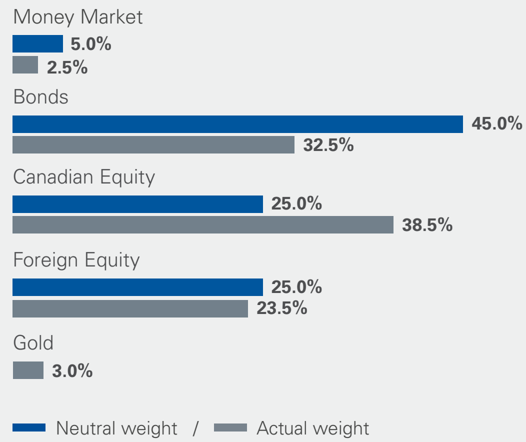
Diversified Funds

In the third quarter, we navigated through market volatility by maintaining fairly steady equity exposure, which went from 63.0% to 62.0% in the Diversified Fund. This weighting, however, is supported by put options on equity indices designed to protect portfolios in the event of a negative resolution of trade tensions.

Increasing friction between the United States and China and a wave of global monetary policy easing have led us to increase, once again, our holding of fixed-income securities in the course of this quarter. As a result, the weighting of fixed-income securities has gone from 31.0% to 32.5%.

Also in the course of this quarter, we have maintained our holdings in gold (purchase of futures contracts on gold bullion and equity ETF of companies in the gold sector) again as a means of protection against geopolitical risks and as a source of potential earnings given gold's favourable performance in a period of declining interest rates. At the end of September, exposure to gold bullion represented 3.0% of the Fund's holdings.

In closing, the strength of Canada's economic data, combined with high expectations of policy interest rate cuts in the United States, has led us to increase our hedging position considerably on the Canadian dollar (versus the U.S. dollar) so as to benefit from a potential appreciation by the loonie.



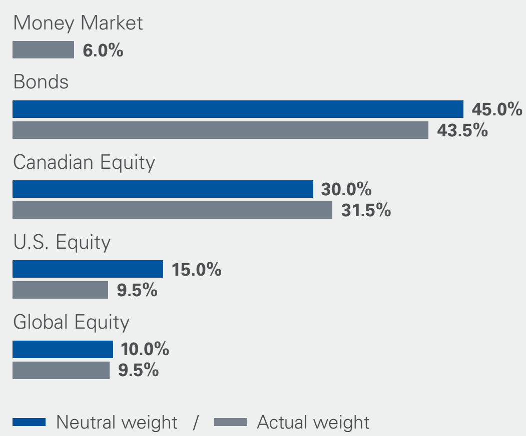
Selection Funds

After ending the previous quarter in equity overweighting, the Selection Fund displayed an increasingly defensive strategy during the course of the third quarter. The month of July rewarded the equity overweighting strategy with positive performance in mainstream stock exchanges. The return of volatility in August, given trade frictions between the United States and China, led us to implement a capital-preservation strategy.

Accordingly, the Balanced Selection Fund's equity exposure gradually went from 59.0% to 51.0%.

The Balanced Selection Fund's weighting of fixed-income securities, however, rose by more than three percentage points from 40.0% to 43.5%. In our view, the drop in interest rates seems excessive, leading us to underweight bonds.

In closing, the cash balance was increased to 6.0% of the Balanced Selection Fund, providing us with the option of jumping quickly back into stock markets in the event of positive news in the months ahead.



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).

Morningstar 4 stars Fund*

/ 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), Ecofl*extra* (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
- Over 35 years of investment experience
- Bachelor, 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

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 best ideas of four experienced portfolio managers, who have more than 110 years of combined investment experience
- Portfolio management team backed by Loomis Sayles' deep global research capabilities (15 sector and macro teams) and risk management infrastructure: ~100 people could touch the portfolio
- Assessment of ESG factors is one of the team's 7 attributes for assessing the quality of a company

Investment style & other characteristics

- Global equity sleeve (50% to 70%): Concentrated, high-conviction portfolio of 40 to 60 stocks selected through a bottom-up fundamental research; structured to outperform regardless of whether value or growth is leading equity markets; unhedged currency
- Fixed income sleeve (30% to 50%): Value-driven and opportunistic approach; portfolio of 200 to 400 fixed income securities invested across the entire credit quality spectrum, primarily focused on AA to BB, to increase yield, reduce interest rate risk and diversify; focus on security specific risks with an emphasis on credit rather than yield curve positioning; active currency hedging

Current fund strategy

Slowing global growth and the ongoing trade dispute between the US & China continue to whipsaw markets. President Trump escalated the drama in early August by implementing a timetable for tariffs on the remaining imports from China that had not previously been targeted. China of course responded with increased tariffs of their own. As a result, August was a difficult month for risk assets, including credit. September however thankfully saw a reduction in tensions and credit markets responded accordingly.

The strategy's investment philosophy is based on the belief that investing in companies with multiple alpha drivers and quantifiable risks can deliver outperformance. The managers follow a disciplined and repeatable process, investing only in opportunities that meet three alpha drivers: quality, intrinsic value growth and compelling valuation. A bottom-up approach results in a concentrated portfolio of businesses where the managers fully understand and have quantified the risks associated with each investment.

The managers are currently finding opportunities in the information technology, consumer discretionary, and financials sectors. The strategy has little exposure to commodities and continues to not own securities in the real estate, utilities and telecom sectors.

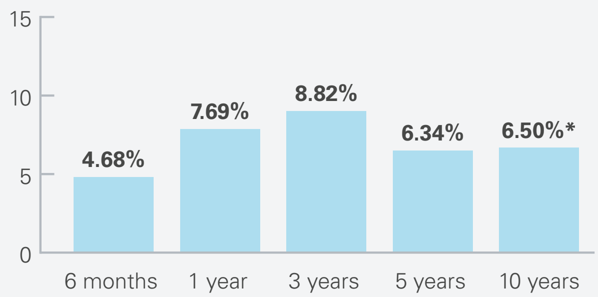
The managers continue to focus on investing in quality companies with the ability to grow their intrinsic value and that trade at an attractive valuation. They view short-term market volatility as an opportunity to add to existing holdings or establish new positions.

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

Global Diversified (Loomis Sayles)

Net compound returns[1]

As at September 30, 2019

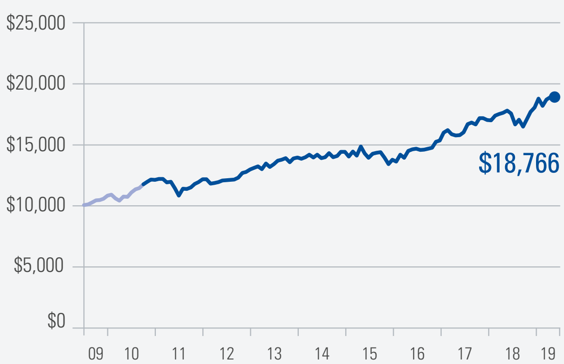


[1] These returns are on a net basis, for the Classic Series 75/75 of the IAG SRP

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

Growth of $10,000

Since inception



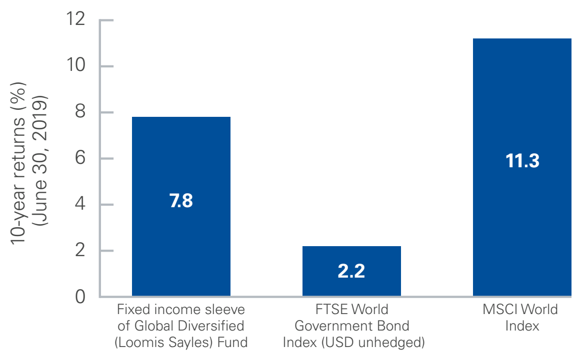
- Classic Series 75/75 of the IAG SRP
- Simulation of past returns as if the Fund had been in effect for these periods

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"
- Independent research is the bedrock beneath every investment strategy, with US$99 million committed to proprietary research in 2019

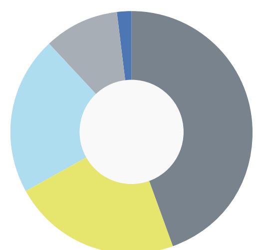
Unique approach to fixed income

Structured to enhance returns, not just to balance equity market risk



Asset mix

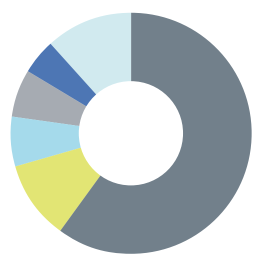
As at September 30, 2019



- U.S. equities: **44.6%**
- Bonds: **22.5%**
- Foreign equities: **21.0%**
- Short term and other: **9.9%**
- Canadian equities: **1.9%**

Geographic allocation*

As at September 30, 2019



- United States: **60.2%**
- Canada: **10.6%**
- United Kingdom: **6.6%**
- Asia: **6.4%**
- Switzerland: **4.6%**
- Other countries: **11.6%**

*Cash not included

Top 10 holdings of the Fund

As at September 30, 2019

Danaher Corp.	3.3%
Roper Technologies Inc.	3.2%
Northrop Grumman Corp.	3.2%
The Sherwin-Williams Co.	2.7%
Nestlé SA	2.6%
Alibaba Group Holding Ltd., ADR commandité	2.5%
Marriott International, Inc.	2.4%
Amazon.com Inc.	2.4%
UnitedHealth Group Inc.	2.3%
AIA Group Ltd.	2.1%
Total	**26.7%**

Morningstar 4 stars Fund*

/ Featured Funds

Bonds

Offered in all products

Portfolio manager

Industrial Alliance Investment Management Inc. (iAIM)

CIFSC Fund Category

Canadian Fixed Income

Lead portfolio managers

Alexandre Morin, CFA

- Principal Portfolio Manager
- Also manages the Short Term Bonds Fund
- Joined iAIM's team in 2015
- More than 20 years of investment experience
- Bachelor's degree in business administration, Université Laval

Louis Gagnon, CFA

- Senior Portfolio Manager
- Also comanages the Short Term Bonds Fund
- Joined iAIM's team in 2005
- More than 30 years of investment experience
- Bachelor's degrees in business administration and economics, Université Laval

Investment Management

Why consider this fund?

- Emphasis on a regular income stream while generating total rate of return consistent with safety of capital
- A core Canadian fixed income portfolio that may include a combination of government issues and high-quality corporate bonds
- Defensive investment in the event of a stock market correction: Active management of duration to benefit from or hedge against changes in interest rates
- Leverage of the iAIM corporate credit team expertise, that favours a prudent approach

Investment style & other characteristics

- Top-down multi-strategy approach that aims to find diversified sources of value
- Active management of duration (+/- 1 year vs index), sector (+/- 20% vs index) and yield curve positioning, combined with credit analysis of corporate issuers
- Can benefit up to 30% from opportunities in foreign bonds, fully hedged against currency risk
- Risk management: Average credit quality of AA and maximum investment of 5% high-yield bonds and senior loans

Current fund strategy

The most positive contributor to the Fund's performance over the quarter was actively managing duration in a period where interest rates moved back and forth. Reach for yield was important, which helped Provincial bonds versus Federals, which lagged the benchmark's performance. The Fund was underweight Federals, which contributed slightly to performance, and a position in an investment grade corporate bond ETF was positive for the fund's performance.

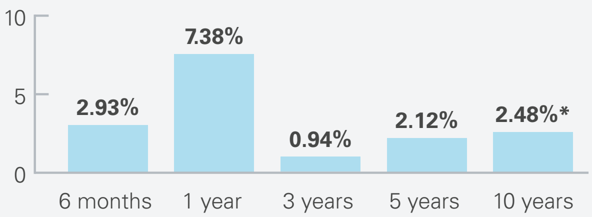
Going forward, the manager expects that interest rates will be mainly affected by recession risks, monetary policy easing from several central banks and the US-China trade war. Furthermore, the manager expects that the divergence in monetary policy could to continue to cause a tightening rate differential between the US and Canadian yields, and that the Canadian dollar could strengthen. Entering the last leg until year-end could provide strong volatility in the markets and therefore opportunities.

In upcoming months, the manager intends to be cautious on risk assets, such as corporate bonds and provincial credit. The manager feels that these securities are expensive compared to the overall market sentiment and could be in trouble ahead of the year-end. The Fund is nonetheless present in these sectors for their carry. In past quarters, the manager bought corporate bond ETFs instead of directly investing in the bonds themselves. Maintaining this strategy provides carry while being able to rapidly reduce exposure in a timely manner. As always, the manager stays nimble and opportunistic on duration, credit and currencies while favouring liquidity.

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

Bonds

Net compound returns[1]
As at September 30, 2019



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

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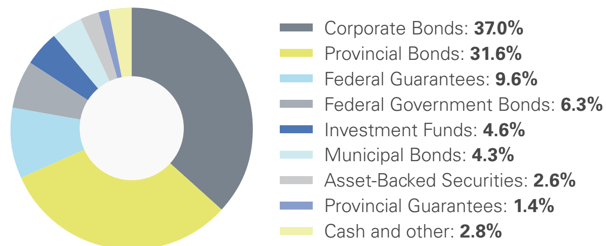
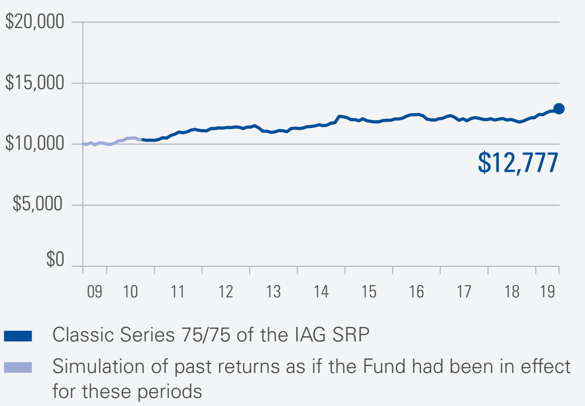
Asset mix
As at September 30, 2019



Growth of $10,000
Since inception



Portfolio characteristics
As at September 30, 2019

Average credit quality	AA
Yield to maturity	2.8%
Average coupon	3.2%
Modified duration	8.1 years
Average term	11.3 years

iAIM snapshot

- Founded in 2004
- Major player in the asset management industry
- Manages $63.5 billion in general portfolios and segregated and mutual funds
- A team of 158 people, including 94 investment professionals (including 46 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 September 30, 2019

Government of Canada, 2.750%, 2048-12-01	5.2%
Canada Housing Trust, 2.900%, 2024-06-15	4.3%
Canada Housing Trust, 2.000%, 2019-12-15	3.4%
iShares iBoxx $ Investment Grade Corporate Bond ETF	3.1%
Province of Ontario, 2.800%, 2048-06-02	2.6%
Province of British Columbia, 5.700%, 2029-06-18	2.3%
Province of Quebec, 3.500%, 2045-12-01	2.3%
Government of Canada, 2.250%, 2029-06-01	1.9%
Province of Ontario, 2.900%, 2046-12-02	1.9%
Cash and Cash Equivalents	1.9%
Total	**29.0%**

/ Featured Funds

Morningstar 4 stars Fund*

Fidelity True North®

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
Canadian Equity

Lead portfolio manager

Maxime Lemieux

— Joined Fidelity's team in 1996
— More than 23 years of investment experience
— Bachelor of Commerce, McGill University

Why consider this fund?

— An excellent Canadian equity core holding
— Seeks to invest in companies that are expected to grow over the long term and that are trading at reasonable valuations
— Invests primarily in Canada, but may take advantage of foreign investment opportunities up to 30% (average foreign exposure is 10% or less)
— Ideas are generated from multiple sources, of which Fidelity's in-depth research is the most important

Investment style & other characteristics

— Growth at Reasonable Price Style (GARP) approach with a focus on mitigating downside risk
— Bottom-up fundamental company analysis, the primary driver of portfolio construction
— Highly appreciates the quality and experience of business management
— Diversified portfolio of 80 to 100 high conviction stocks (benchmark agnostic); 5% to 7% of the portfolio may be invested in a single stock
— May sometimes invest in restructuring stories if valuations are sufficiently attractive and the outcome of restructuring has the potential to unlock significant value

Current fund strategy

The Fund's holdings in, and overweight exposure to, the consumer staples sector and holdings in the health care sector contributed to the fund's added value over the third quarter. In financials, an underweight allocation to Canadian banks contributed. In consumer staples, investments in several grocers, including Metro, Loblaw and George Weston, added the most value. Portfolio manager Maxime Lemieux notes that inflation in food prices is generally positive for grocers' margins. The industry is well structured, and the competitive landscape remains unchanged. In health care, lack of exposure to several cannabis companies was also positive for the fund as the category faced pressure the quarter.

The main factors that detracted from the fund's relative performance over the third quarter were an investment in SNC-Lavalin Group, and an underweight allocation to Brookfield Asset Management.

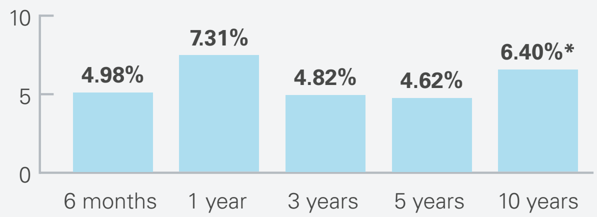
The portfolio manager believes the Canadian economy is late in the economic cycle and notes that it is operating close to full capacity with unemployment at very low levels. Additionally, he observes that global growth is decelerating but that U.S. consumers remain strong.

The manager believes we are more likely to see a further softening of the economy rather than a reacceleration. However, he does see a scenario where the market continues to go sideways unless there are significant changes in the credit cycle. He continues to favor large overweight allocations to the consumer staples and information technology sectors, which represent defensive areas and higher-growth areas, respectively, and continues to underweight many of the Canadian banks on concerns over potential write-downs during credit cycles.

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

Fidelity True North®

Net compound returns[1]
As at September 30, 2019



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

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

Growth of $10,000
Since inception

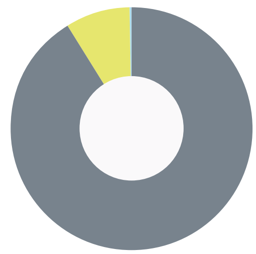
Classic Series 75/75 of the IAG SRP

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 financial services providers
- Manages more than $2 trillion in assets
- Over 750 investment professionals worldwide

Asset mix*
As at September 30, 2019



Canadian equities: **91.3%**
Foreign equities: **8.5%**
Other: **0.2%**

*Cash not included

Sector allocation
As at September 30, 2019

Sector	%
Financials	21.0
Consumer Staples	15.6
Energy	10.2
Information Technology	10.1
Industrials	10.0
Telecommunication Services	9.2
Materials	9.0
Consumer Discretionary	6.0
Utilities	5.9
Health Care	3.1

Top 10 holdings of the Fund
As at September 30, 2019

Toronto-Dominion Bank
Royal Bank of Canada
Alimentation Couche-Tard, Cl. B, Sub Vtg
Metro
Canadian National Railway
BCE
SUNCOR ENERGY INC
Enbridge
CGI INC CL A SUB VTG
Power Corporation of Canada, Sub Vtg

/ 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)

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Prestige Preferential Pricing

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Morningstar

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