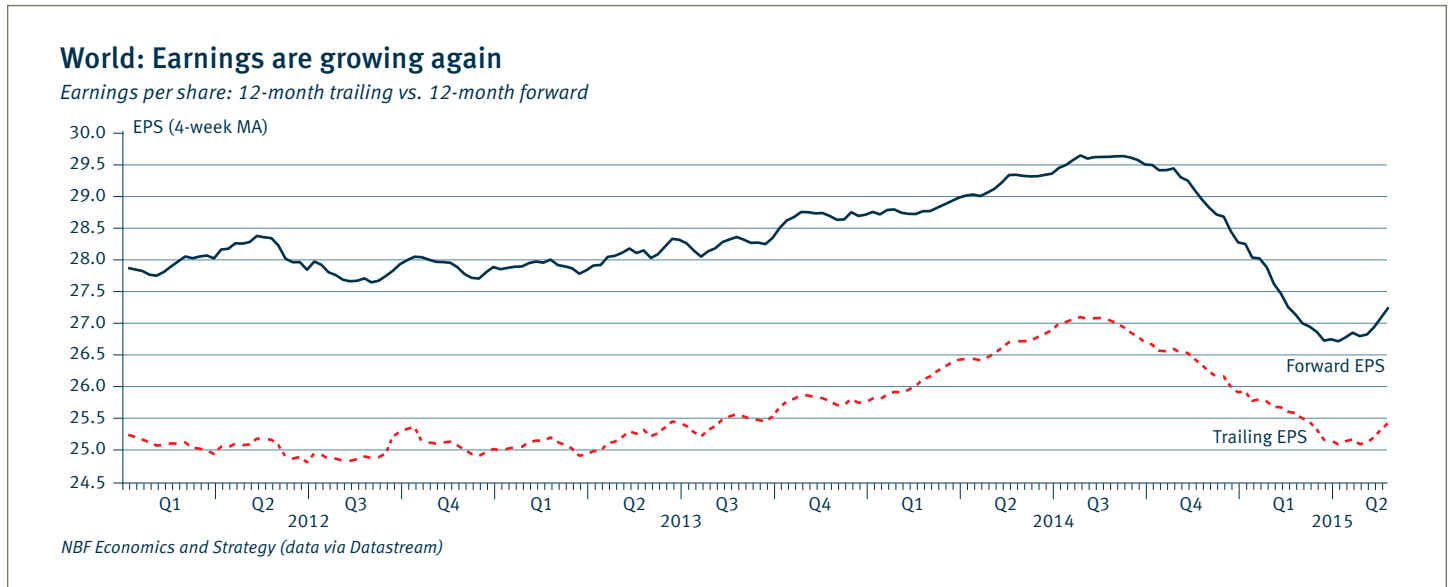


# Investment Strategy

## Financial Markets

Global equities rose to an all-time high in May. With price/earnings ratios (P/E) now roughly in line with the historical average, the room for further expansion is clearly limited. For earnings, however, there is upside potential. In the last few weeks, both reported earnings and 12-month forward estimates have shown notable improvement

(see chart below). If the global economy remains resilient, as we think it will, an upside earnings surprise is a strong possibility. In this scenario, current equity valuations are not alarming because headwinds from higher interest rates are likely to be offset by faster earnings growth.



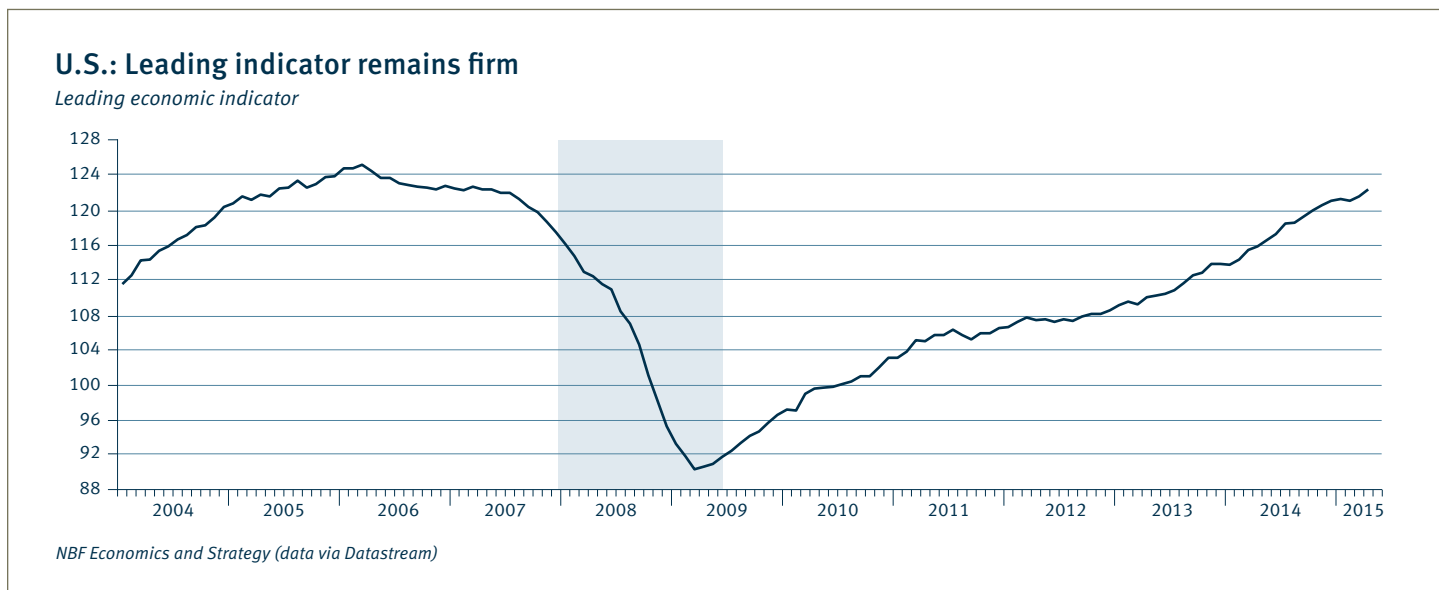
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## United States

The U.S. economy surprised on the downside in Q1 as GDP contracted for the first time in a year. That said, we remain positive on the U.S. economy, expecting its main engine, i.e. consumers, to drive growth. Crucially for consumers, the labour market remains resilient as evidenced by a low rate of layoffs (initial jobless claims are at a 15-year low) and high number of job openings. Record corporate profits and

the earlier USD surge (which has made it cheaper for firms to import machinery from, say, Germany or Japan) should help boost business investment. Domestic demand should strengthen further and offset any drag from trade, the latter remaining under pressure from the strong dollar. The Fed remains on track to hike interest rates later this year, but don't expect it to get aggressive when it starts tightening.



## Investment Strategy

As the European Central Bank monetary easing continues uninterrupted and the U.S. economy is emerging from a soft patch caused by another colder than expected winter, risk assets remain well positioned to offer the best expected returns on a short and longer-term horizon. In spite of the performance of the energy markets, we think that the rebound may prove temporary as the USD strengthens, and we remain confident that the general trend is still unfavorable to resource-heavy markets and their currencies. As a result, we continue to favor USD denominated foreign equities over their Canadian counterparts.

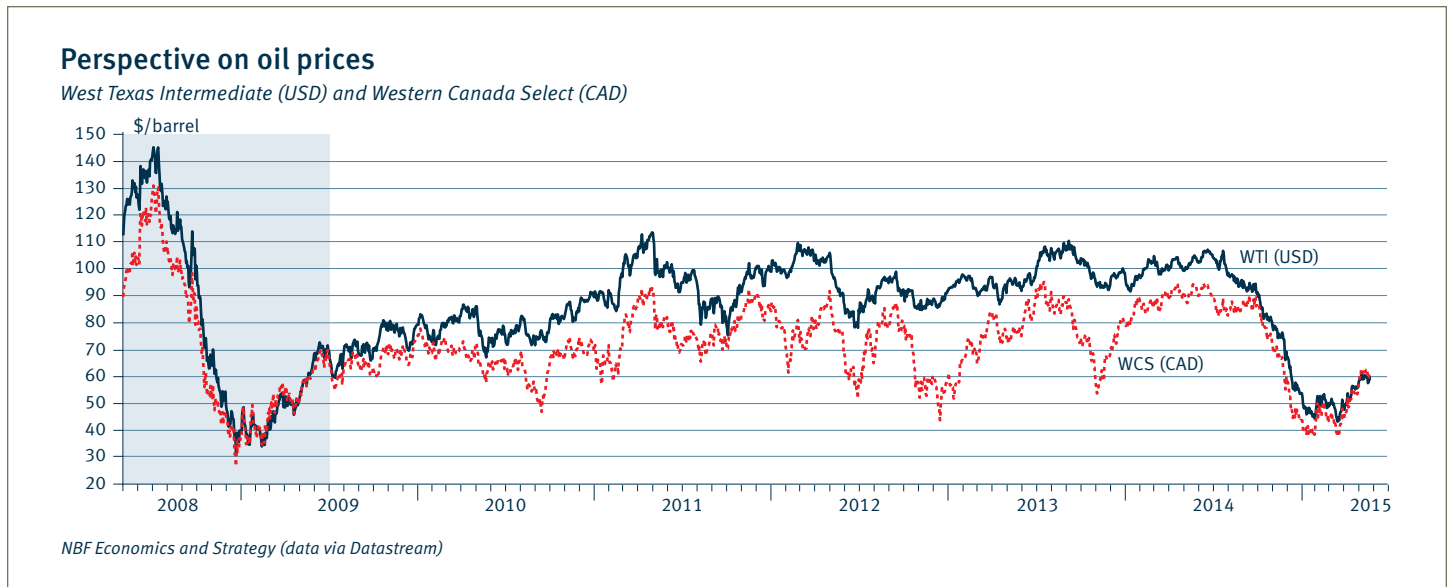
In fixed income, we maintain our underweight position as yields look unattractive. The Federal Reserve is still leaning towards a hike by the end of the year, though the rate of increase may prove less severe than expected in the previous quarters. The timing of the eventual action will be totally data-dependent, and any uptick in inflation would be a strong signal for action.

The drop in crude oil prices certainly had a material impact on inflation, but we expect the effect of low energy costs to wane as the year progresses and the annual change in the cost index to increase gradually. Another factor the Fed will keep an eye on is wage inflation, which is more and more at risk of increasing as the US employment situation continues to improve.

## Canada

Canadian GDP growth decelerated sharply in Q1 after three strong quarters. The Q1 weakness was partly due to extraordinary circumstances such as the oil supply shock, atypically bad weather which disrupted overall economic activity, and closures of auto assembly lines in Ontario for retooling, which curtailed manufacturing output. Expect a rebound in Q2 as these temporary factors dissipate and oil prices maintain their recent gains. Importantly, the impact of

the oil shock on the labour market has not been as bad as feared due to good performances from Ontario and Quebec. With domestic demand restrained by the curtailment of investment in the oil patch, and a likely moderation in growth in housing and consumption, trade will remain the driver of Canadian growth in 2015. The Bank of Canada will likely continue to err on the side of caution and delay interest rate hikes to next year.



## Global Economy

Global manufacturing took a breather in the first quarter of 2015 due to weaker trade flows, the latter impacted partly by temporary factors. As these factors dissipate, export-centric emerging economies should bounce back. Unlike emerging markets, the OECD should perform much better than last year buoyed by the US, Japan and even the Eurozone, all three set to grow synchronously for the

first time in five years. Thanks to unprecedented stimulus by the European Central Bank, monetary policy seems to be working again as evidenced by household and business loans, which both grew in Q1 at the fastest pace seen in years. Low oil prices, combined with accommodative monetary policy, set the stage for global GDP growth of just under 3.5% in 2015.

Income Portfolio	Asset Class	Minimum/Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
<b>Investor Profile:</b> You want to preserve your capital or establish a source of periodic income to finance ongoing expenses. You do not find the stock market very attractive because of its volatility, but you are not against the idea of investing a small part of your portfolio in stocks, mainly to counteract the effects of inflation. Your tolerance for risk is low.	Cash equivalents	0% to 20%	5.0%	3.0%	0.0%
	Fixed-income (duration: 5 years) <sup>1</sup>	60% to 100%	70.0%	66.0%	0.0%
	Canadian equities	0% to 30%	7.5%	9.0%	0.0%
	US equities		7.5%	11.0%	0.0%
	Foreign equities		5.0%	6.0%	0.0%
	Alternative investments <sup>2</sup>	0% to 10%	5.0%	5.0%	0.0%
<b>Conservative Portfolio</b>					
<b>Investor Profile:</b> On the whole, you want your portfolio invested in fixed-income securities. Although you can tolerate limited volatility to ensure that your assets will grow, you prefer having a portfolio consisting mainly of fixed-income investments for reasons of stability. Your tolerance for risk is low.	Cash equivalents	0% to 20%	5.0%	3.0%	0.0%
	Fixed-income (duration: 5 years) <sup>1</sup>	45% to 80%	55.0%	51.0%	0.0%
	Canadian equities	20% to 45%	14.0%	15.5%	0.0%
	US equities		14.0%	17.5%	0.0%
	Foreign equities		7.0%	8.0%	0.0%
	Alternative investments <sup>2</sup>	0% to 15%	5.0%	5.0%	0.0%
<b>Balanced Portfolio</b>					
<b>Investor Profile:</b> You give equal importance to achieving growth in your investments and receiving income. You can tolerate moderate changes in market value to ensure growth, but you prefer having a mix of fixed income investments and equities for reasons of stability.	Cash equivalents	0% to 20%	5.0%	1.5%	0.0%
	Fixed-income (duration: 5 years) <sup>1</sup>	30% to 65%	40.0%	36.0%	0.0%
	Canadian equities	30% to 65%	17.5%	19.0%	0.0%
	US equities		17.5%	22.0%	0.0%
	Foreign equities		10.0%	11.5%	0.0%
	Alternative investments <sup>2</sup>	0% to 20%	10.0%	10.0%	0.0%
<b>Growth Portfolio</b>					
<b>Investor Profile:</b> Your main goal is capital growth. Although you can tolerate greater volatility in order to increase the value of your assets, you are not prepared to invest your entire portfolio in stocks. Your tolerance for risk is high.	Cash equivalents	0% to 25%	0.0%	0.0%	0.0%
	Fixed-income (duration: 5 years) <sup>1</sup>	25% to 45%	35.0%	28.0%	0.0%
	Canadian equities	40% to 75%	20.0%	21.5%	0.0%
	US equities		20.0%	24.0%	-0.5%
	Foreign equities		15.0%	16.5%	0.5%
	Alternative investments <sup>2</sup>	0% to 25%	10.0%	10.0%	0.0%
<b>Maximum Growth Portfolio</b>					
<b>Investor Profile:</b> You want to maximize the eventual return on your capital by investing all or most of your portfolio in the stock market. In doing so, you accept higher volatility of your investment returns in the hope that these returns will ultimately be higher. Your tolerance for risk is high.	Cash equivalents	0% to 30%	0.0%	0.0%	0.0%
	Fixed-income (duration: 5 years) <sup>1</sup>	0% to 30%	20.0%	11.5%	0.0%
	Canadian equities	55% to 100%	22.5%	24.5%	0.0%
	US equities		22.5%	27.5%	-0.5%
	Foreign equities		20.0%	21.5%	0.5%
	Alternative investments <sup>2</sup>	0% to 30%	15.0%	15.0%	0.0%

1 Dex Universe Index

2 Includes Hedge funds, Global real estate and Infrastructure, and Commodities.

FORECAST	Forecast				June 2015		December 2015		December 2016	
	2013	2014	2015	2016	Canada	US	Canada	US	Canada	US
	<b>Gross Domestic Product %</b>					<b>Rate %</b>				
Canada	2.0	2.5	2.0	2.0	Short-term rates (T-Bills, 91-Day)					
US	2.2	2.4	2.6	2.7	0.63	0.10	0.63	0.69	1.02	1.49
<b>Inflation %</b>					10-year bond yields					
Canada	0.9	1.9	1.0	2.2	1.86	2.26	2.08	2.62	2.42	2.92
US	1.5	1.6	0.4	2.3	2.44	3.00	2.63	3.26	2.86	3.39
					<b>Canadian dollar</b>		<b>US \$0.79</b>		<b>US \$0.81</b>	

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