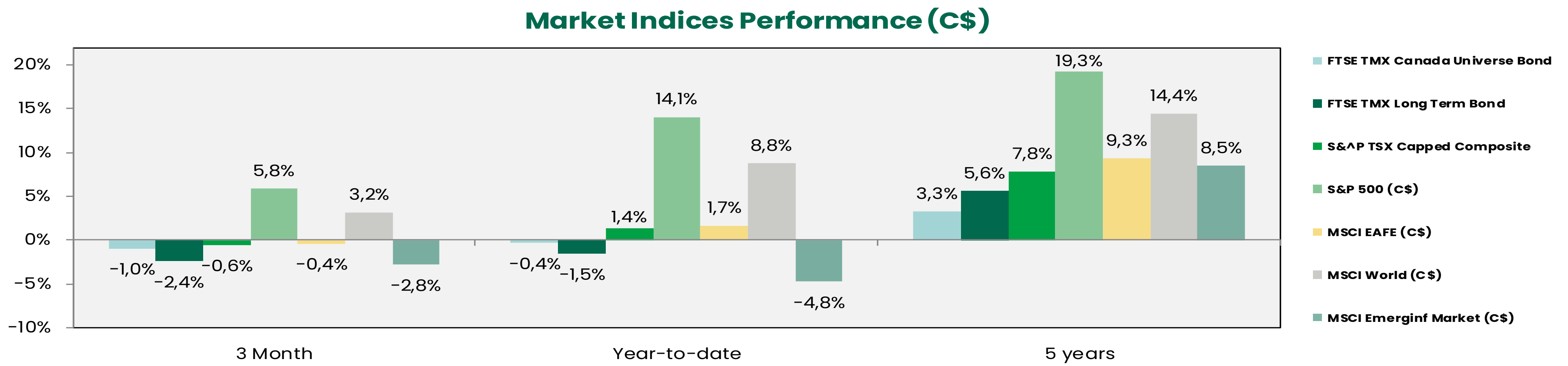
Commentary as at September 30, 2018



US market resilience

Market volatility and geopolitical tensions sent most indexes plunging into negative territory in the third quarter, with the exception of MSCI World and the US indexes, all of which had a positive quarter. The robust US economy gave US stocks a boost in the third quarter, driven by corporate earnings and solid growth. Meanwhile, emerging and Canadian equities generated lower returns, primarily due to worldwide trade tensions, protectionist measures and restrictive monetary policy in the US. The US and Canadian dollars both appreciated against other currencies, thanks primarily to 25-basis-point key rate hikes by the US Federal Reserve and the Bank of Canada, as well as marginally higher oil prices. The Russell 1000 Growth index was the best performer with a return of 9.2% in US$, followed by the S&P 500 with a return of 7.7% in US$.

Emerging equities grabbed the most attention this quarter, hampered by fears surrounding the vulnerability of certain economies and by tighter US monetary policy. The emerging economies are having a hard time dealing with these restrictive policies because they hold significant amounts of debt denominated in US$ and are dependent on external financing.

The European markets posted positive returns thanks to lower political risks in Italy. Nevertheless, that country continued to generate headlines as the populists in power announced a higher budget deficit in September (2.4%, up from 0.8%).

In the Canadian bond market, interest rates increased in a relatively parallel fashion, which accounts in part for the negative quarterly return of the FTSE TMX Canada Universe index.

Gold closed the quarter down 5.05% to US$1187.25 an ounce. In the oil patch, Brent crude was up 4.13%, closing the quarter at US$82.72 a barrel. West Texas Intermediate (WTI) and Western Canada Select (WCS) were down -1.21% and -27.85%, closing the quarter at US$ 73.25 and US$38.35 respectively.

In employment news, the US economy created 634,000 jobs in the third quarter and nearly 2.25 million over the past 12 months. In Canada, 120,660 jobs were created during the quarter and nearly 277,260 over the past 12 months. Unemployment in Canada was down slightly to 5.9% while the US rate was 3.7%.

In the US residential real estate sector, the most recent data for the S&P CoreLogic Case-Shiller index (July 2018) showed a variation of 5.92% over the past 12 months while the Teranet-National Bank House Price index, which measures Canadian residential real estate, showed a 2.14% variation for the same period.

	Canada	United States
GDP Growth (y/y)	3.0%	4.2%
Inflation (y/y growth)	2.4%	2.3%
Core Inflation (y/y)*	1.8%	2.2%
Job Creation (QTD)	120 660	634 000
Job Creation (y/y growth)	277 260	2 250 000
Unemployment Rate	5.9%	3.7%

*Core inflation, excluding food and energy
Most recent data as of October 26th, 2018

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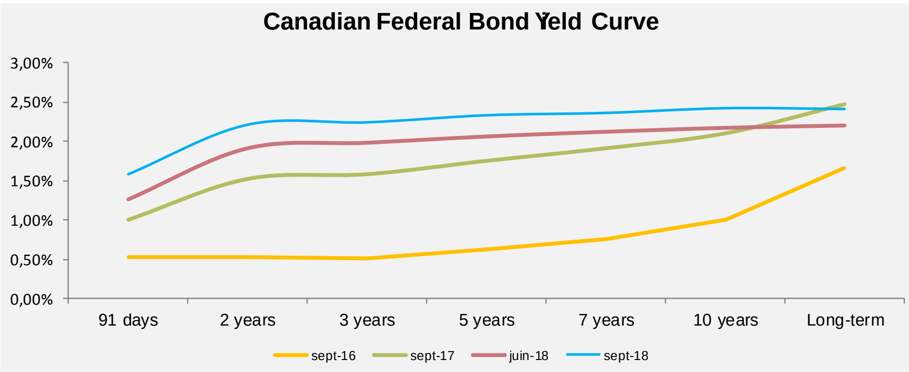
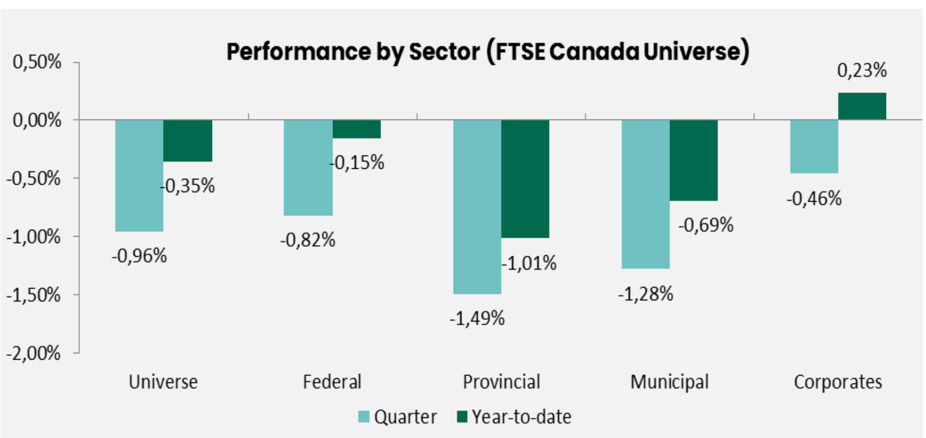
Canadian bond market

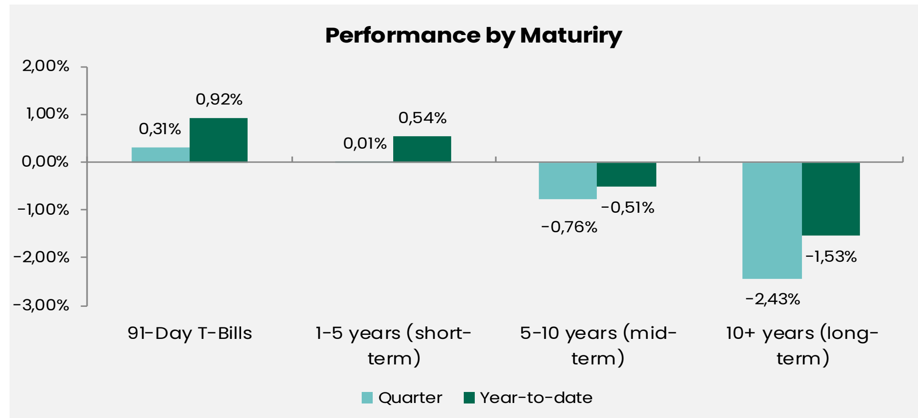
During the quarter, the yields to maturity of Canada bonds increased along the entire curve.



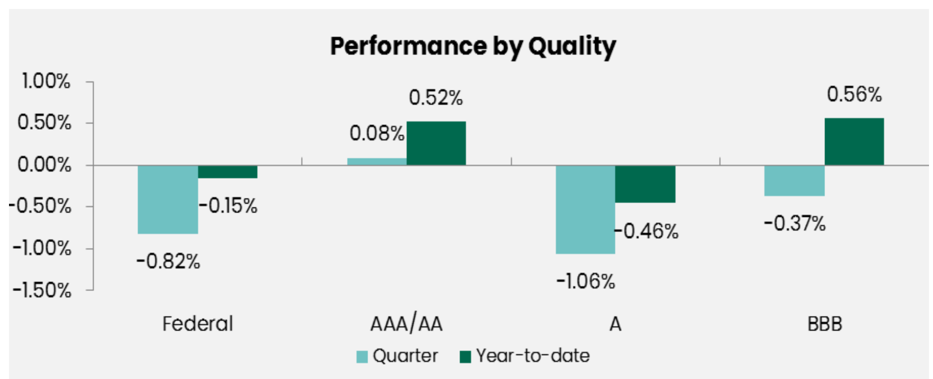
During the period, the FTSE Canada Universe index posted a return of -0.96%. Most bond categories had a relatively difficult time of it, primarily due to the Canadian key rate hike early in the quarter. The weakest performers were provincial bonds (-1.49%).



Short-term bonds generated the highest returns this quarter, delivering a marginally positive performance of 0.01%, due to their coupons and lower duration, thereby offsetting higher interest rates. Medium-term bonds were down -0.76%. Federal 2, 10 and 30-year bonds finished the quarter with yields to maturity of 2.21%, 2.42% and 2.41% respectively, while 91-day Treasury bills were up 1.58%.

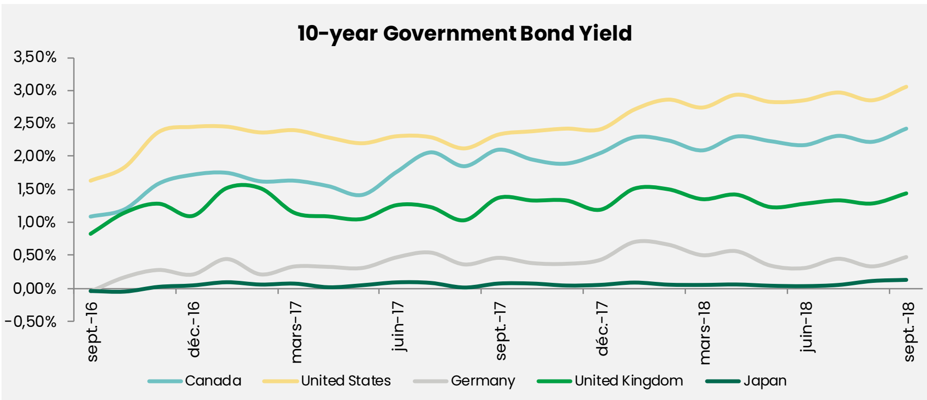


AAA/AA corporates saw their credit spreads diminish in relation to A and BBB bonds, which affected the latter categories' performance during the quarter. Lower-quality bonds posted negative returns.

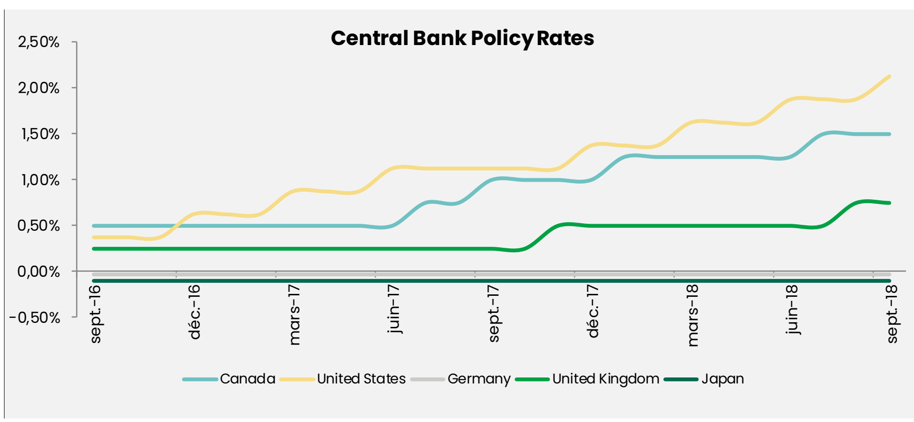


Global bond markets

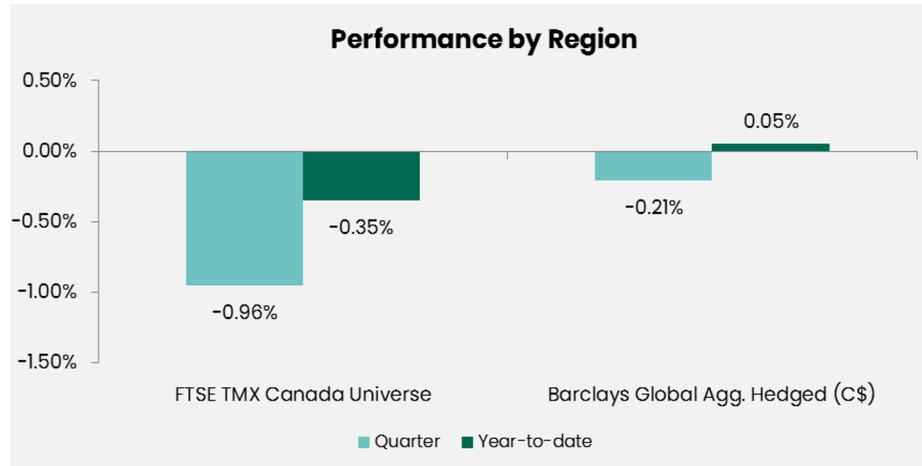
The yields to maturity of 10-year government bonds were up in the third quarter in the UK and North America driven by key rate increases. Meanwhile, Japan increased its curve above 10 basis points for the first time since 2015.



The US Fed once again boosted its key rate by 0.25% during the quarter and plans to do so once again by the end of the year. Three increases are planned for 2019 if economic conditions are right. The Bank of England decided to raise its key rate by 25 basis points to 0.75%, while the European Central Bank is expected to wind up its bond buyback program by year-end (the ECB does not plan to raise its key rate until summer 2019).



Canadian bonds, as measured by the FTSE Canada Universe index, were down -0.96%, as opposed to -0.21% for global bonds, as measured by the Barclays Global Aggregate index (currency hedged/C$). The Bank of Canada's interest rate hike was the underlying factor in Canadian bonds' underperformance in relation to global bonds.



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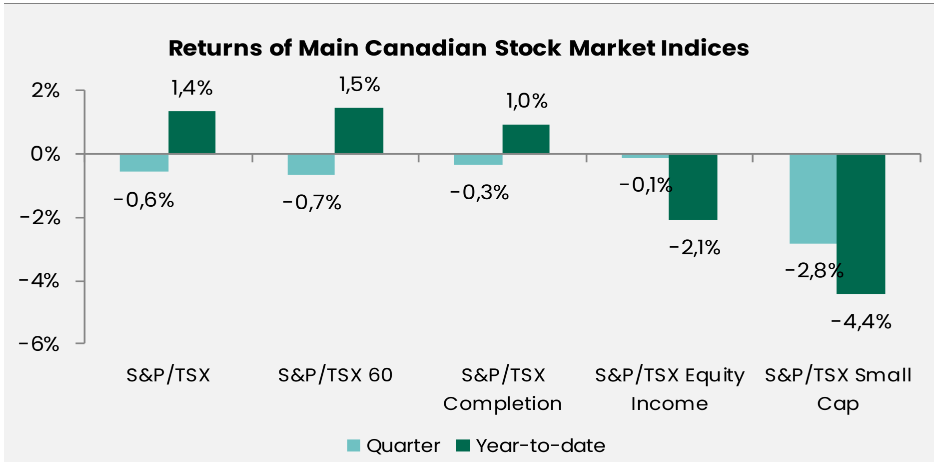
Canadian stock market

The Canadian stock market, as measured by the S&P/TSX index, finished the quarter with a return of -0.6%, due primarily to the Materials and Consumer Discretionary sectors, which together make up 15% of the index. This negative performance stemmed from the US's protectionist policies. Healthcare (31.97%) posted significant growth this quarter, led by companies operating in the cannabis industry.

All of the main Canadian indexes posted negative returns during the quarter. Income securities (-0.1%) were the least affected, while small caps suffered the most (-2.8%).



S&P/TSX Sector	Weight (%)	Returns		
		Quarter	Year-to-date	3 years
Energy	19,1	-5,84%	-1,29%	6,96%
Materials	10,1	-12,94%	-10,10%	12,36%
Industrials	10,6	5,63%	12,60%	17,76%
Consumer Discretionary	4,4	-8,01%	-4,76%	6,91%
Consumer Staples	3,4	-0,94%	-3,53%	4,05%
Health Care	2,0	31,97%	30,47%	-38,02%
Financials	34,3	3,84%	2,33%	13,57%
Information Technology	4,1	3,04%	25,94%	19,58%
Telecommunications Services	5,3	2,40%	-2,69%	8,00%
Utilities	3,7	-0,78%	-6,96%	6,16%
Real Estate	3,1	2,98%	8,76%	s.o.

In the third quarter, performance was quite mixed as six of the 11 S&P/TSX sectors posted positive returns. In first place was Healthcare (31.97%). The biggest contributor to that sector's performance was Canopy Growth Corp (63.33%) following the legalization of cannabis during the quarter. In second place was Industrials (5.63%), pushed along by Canadian National Railway (7.78%) and Canadian Pacific Railway (13.41%), as well as by higher earnings and Canada's robust economy.

The Materials sector was the worst quarterly performer (-12.94%), with the biggest detractors being Goldcorp (-27.13%) and Agnico-Eagle Mines (-26.80%). Consumer Discretionary and Energy also dragged down the Canadian index's performance. Energy was down due to lower Canadian oil prices (WCS).

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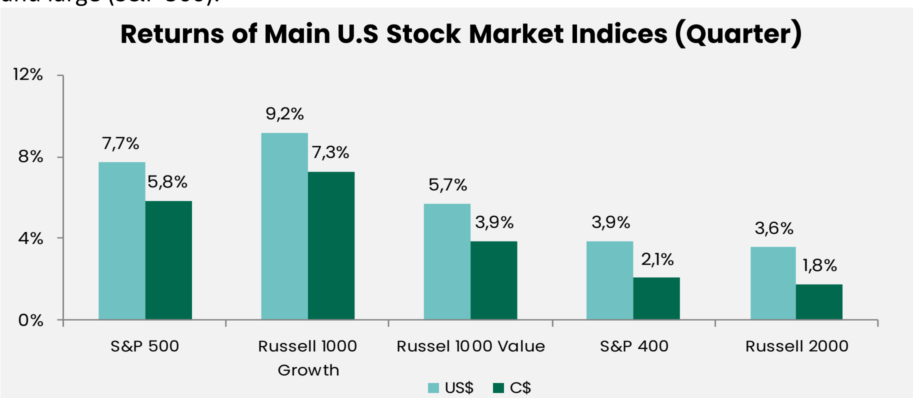
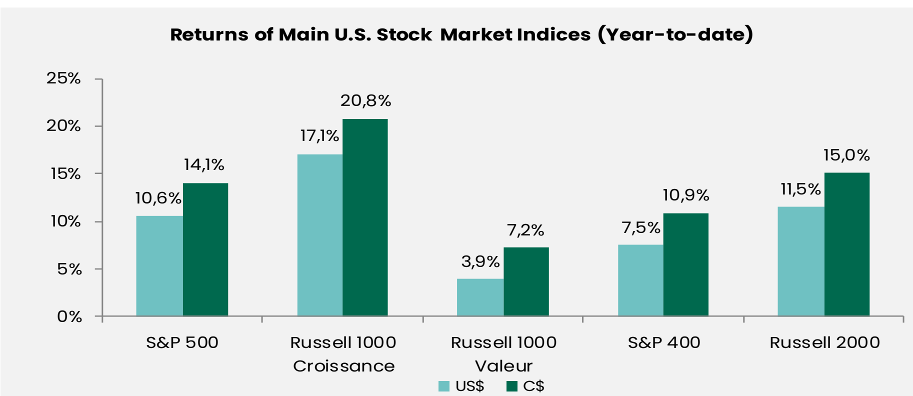
US stock market

During the quarter, the S&P 500 index posted a return of 7.7% in US$, although taking into account the Canadian dollar's appreciation against the greenback, this worked out to 5.8% in C$.

"Growth" style stocks continued to dominate "value" style in the third quarter. The Russell 1000 Growth index recorded a return of 9.2%, outperforming the Russell 1000 Value index, which posted a return of 5.7% in US$. In terms of market capitalization, small caps (Russell 2000) were outperformed by medium (S&P 400) and large (S&P 500).





S&P 500 Sector	Weight (%)	Returns (in US$) Quarter	Year-to-date	3 years
Energy	6,0	0,61%	7,46%	10,73%
Materials	2,4	0,98%	-2,13%	15,76%
Industrials	9,7	10,01%	4,84%	17,66%
Consumer Discretionary	10,3	8,17%	20,63%	18,50%
Consumer Staples	6,7	5,70%	-3,34%	7,56%
Health Care	15,1	14,53%	16,63%	14,81%
Financials	13,3	4,36%	0,09%	16,75%
Information Technology	21,0	8,81%	20,63%	27,68%
Telecommunications Services	10,0	9,93%	0,75%	9,75%
Utilities	2,8	2,39%	2,71%	10,61%
Real Estate	2,7	0,87%	1,69%	s.o.

All US stock index sectors generated positive returns in US$ this quarter. Healthcare finished first (14.53%), followed by Industrials (10.01%). The two largest contributors in the Healthcare sector were HCA Healthcare (35.9%) and PerkinElmer (32.9%). In the Industrials sector, Flowserve Corp (35.8%) and Arconic (29.8%) were the two biggest contributors. The highest-performing company in the US index was Advanced Micro Devices with a third-quarter return of 106.1%.

In contrast, the two lowest-performing sectors were Energy (0.61%) and Real Estate (0.87%), although both generated positive quarterly returns. The biggest Energy detractor was EQT Corp (-19.8%). In the Real Estate sector, Extra Space Storage (-12.4%) was the biggest detractor.

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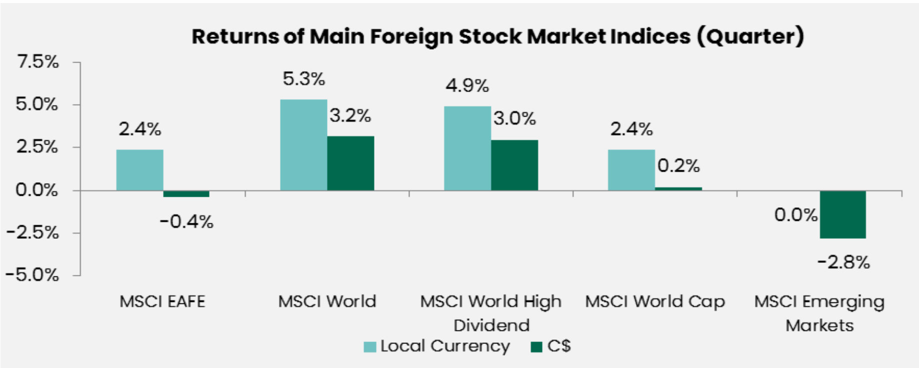
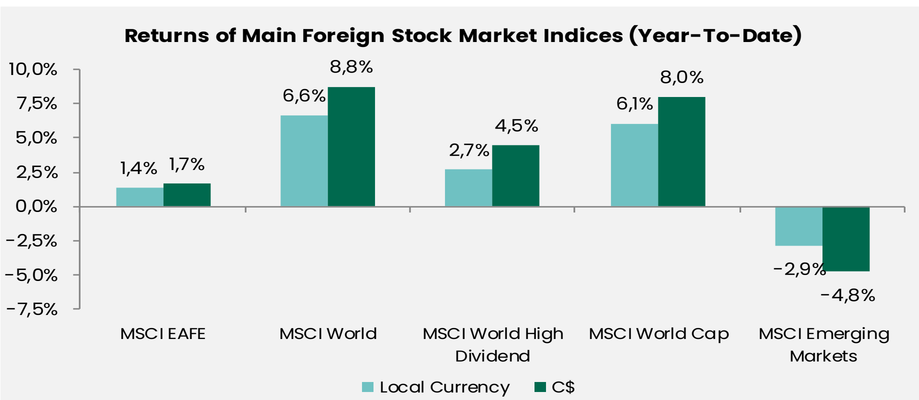
Foreign stock markets

During the third quarter, the main foreign stock indexes posted positive returns in local currencies as well as in Canadian dollars, except for the MSCI Emerging Markets index and the MSCI EAFE index, both of which generated negative returns in C$. Emerging countries suffered from the US Fed's restrictive monetary policy, resulting in a repatriation of US investors' assets and negatively impacting countries with US$ denominated debts.

Among the indexes listed below, MSCI Emerging Markets had the worst quarterly performance with a return of 0.0% in local currencies, due to the higher US dollar and escalating trade tensions with the Asian emerging markets.





MSCI EAFE Region	Weight (%)	Returns (in local currency) Quarter	Quarter	3 years
United Kingdom	17,50%	-0,44%	0,94%	11,63%
Europe ex-UK	46,17%	1,83%	0,60%	7,39%
Japan	24,56%	6,32%	2,42%	10,17%
Pacific ex-Japan	11,77%	0,64%	2,24%	11,89%

In local currencies, 12 of the 21 EAFE index countries posted positive returns during the quarter. The best performers were the US and Norway, with Ireland and Belgium bringing up the rear.

MSCI EAFE Sector	Weight (%)	Returns (in local currency) Quarter	Year-to-date	3 years
Energy	6,2	4,42%	16,71%	22,99%
Materials	8,1	1,56%	0,68%	17,67%
Industrials	14,5	3,61%	1,38%	12,84%
Consumer Discretionary	12,2	1,00%	0,00%	8,01%
Consumer Staples	11,2	0,63%	0,00%	8,27%
Health Care	11,1	6,15%	9,30%	5,26%
Financials	19,7	1,79%	-4,29%	6,54%
Real Estate	3,4	-2,06%	-2,61%	s.o.
Information Technology	6,8	1,64%	3,40%	16,34%
Telecommunications Services	3,7	5,43%	-2,15%	2,26%
Utilities	3,2	0,24%	4,20%	5,55%

As regards the MSCI EAFE index, 10 of the 11 sectors posted positive performances in local currencies. The best was Healthcare (6.2%), with the biggest contributor being Teva Pharmaceutical Industries (45.2%), an Israeli pharmaceutical company specializing in generic drugs and active components. In second place was Telecommunications (5.4%), with KDDI Corp delivering a quarterly return of 9.31%.

Real Estate was the only sector to post a negative return in the third quarter (-2.1%). The biggest detractor was City Developments (-16.6%).

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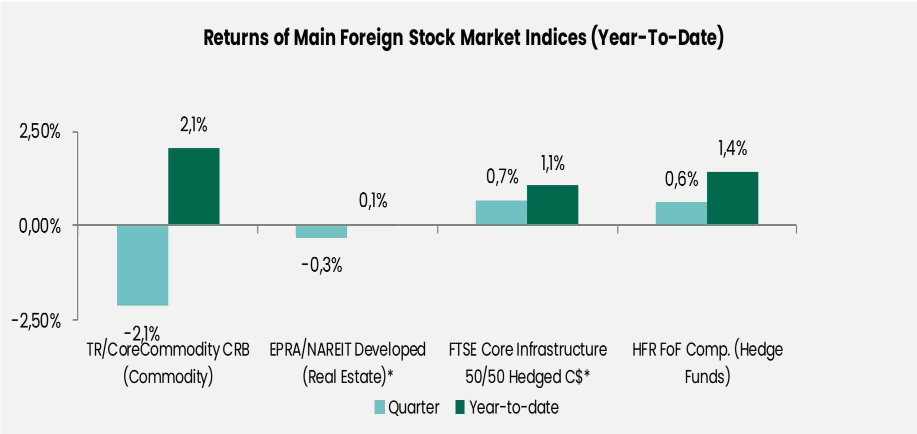
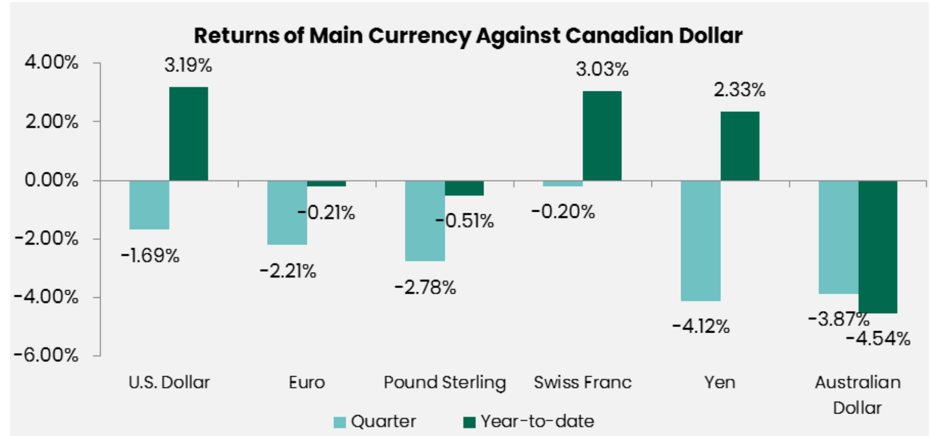
Alternative investments and currencies





Returns in C$**				
Quarter	-2,1%	-2,0%	0,7%	-1,1%
YTD	2,1%	3,2%	1,1%	4,7%

*FTSE in local currencies hedged in C$; other indexes hedged in US$.
**Return of the FTSE index hedged in C$, TR/CoreCommodity CRB hedged in US$ and the two others in C$.

The infrastructure index came in first in the alternative investment category, up 0.7% during the third quarter. The CoreCommodity index posted the worst quarterly return (-2.1% in C$). The global real estate index recorded a quarterly performance of -0.3% in US$.

During the quarter, the loonie appreciated against all other major currencies. The Canadian dollar continues to benefit from the Bank of Canada's tighter monetary policy.

Commodity TR/CoreCommodity CRB	Weight (%)	Returns (in US$)	
		Quarter	Year-To-Date
Energy	40,5%	4,5%	21,2%
Agriculture	39,3%	-8,0%	-11,3%
Precious Metals	6,9%	-6,1%	-11,4%
Base Metals	13,3%	-5,6%	-12,0%

The TR/CoreCommodity CRB index turned in a negative quarterly performance (-2.6%), primarily due to Agriculture, which posted a return of -8.0%. Only Energy posted a positive return this quarter (4.5%).