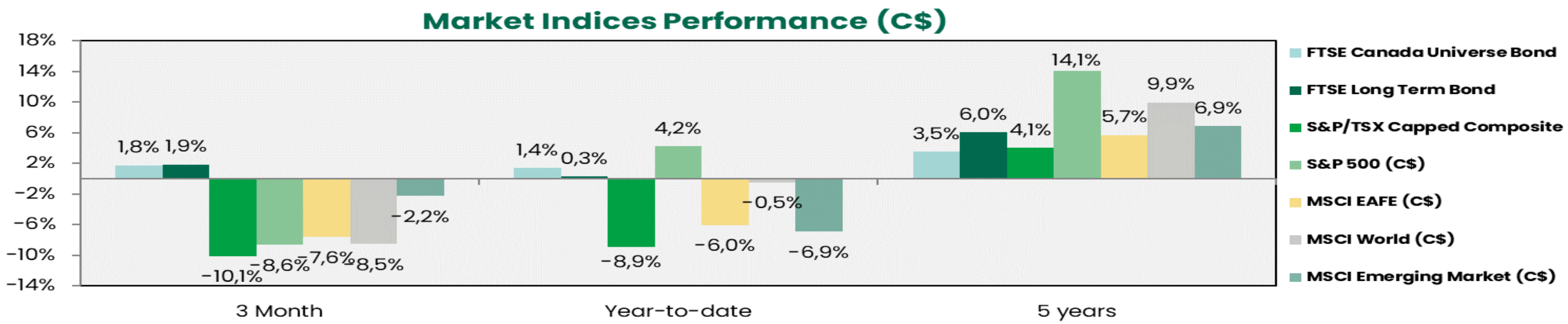
Commentary as at December 31,2018



Collateral damage from the China/US trade war

The markets closed 2018 on a busy note with a fourth-quarter correction, bringing most stock indices into negative territory. It was a difficult year for nearly all asset categories worldwide. The performance was due to many factors like economic growth prospects, political uncertainties and trade wars. In the United States, economic growth is still good, although a number of signs indicate that this trend is drawing to a close. Both US and Canadian stocks generated lower returns, primarily due to global trade tensions and uncertainties over the Federal Reserve's monetary policy. The Canadian dollar depreciated in relation to the other currencies during the quarter, primarily due to the increase in the Fed's key rate, the recent pessimistic comments from the Bank of Canada and oil prices, which began to drop in the third quarter. South of the border, the Russell 1000 Value index was the best fourth-quarter performer with a return of -11.7% in US$, followed by the S&P 500 with a return of -13.5% in US$.

The biggest attention-getter was China, whose domestic economy was hit hard by tarifs imposed by the US. The Chinese economy is also starting to feel the effects of a slowdown in the real estate sector, compounded by anti-pollution measures (which hampered factory output) and higher borrowing costs. The various markets are slowing down faster than expected, due in part to uncertainties over global trade issues.

On the other side of the Atlantic, European markets posted negative returns as British PM Theresa May desperately tried to negotiate a Brexit agreement with the European Union. In addition, Mario Draghi, president of the European Central Bank (ECB), confirmed that both growth and inflation were slowing in the eurozone.

In the Canadian bond market, interest rates fell in a relatively parallel fashion on the medium-term portion of the curve, which accounts in part for the positive quarterly return posted by the FTSE TMX Canada Universe index.

Gold prices were up 7.7%, finishing the quarter at US$1,279 an ounce. In the oil patch, a barrel of Brent crude fell -34.96% to finish at US$53.80. WTI (West Texas Intermediate) and WCS (Western Canada Select) were down 38.00% and 22.66%, closing the quarter at US$45.41 and US$29.66 respectively.

In employment news, the US economy created 650,000 jobs in the fourth quarter and nearly 2.54 million in the past 12 months. In Canada, 114,600 jobs were created during the quarter, with nearly 163,300 created in the past 12 months. Unemployment in Canada was down slightly to 5.6% while the corresponding US figure was up slightly to 3.9%.

In the US residential real estate market, the most recent data from the S&P CoreLogic Case-Shiller index (October 2018) showed a 12-month variation of 5.03% while the Teranet/National Bank house price index, which measures Canadian residential real estate, indicated a variation of 2.81% during the same period.

	Canada	United States
GDP Growth (y/y)	2.2%	3.4%
Inflation (y/y growth)	2.0%	1.9%
Core Inflation (y/y)*	2.3%	2.2%
Job Creation (QTD)	114,600	650,000
Job Creation (y/y growth)	163,300	2,540,000
Unemployment Rate	5.6%	3.9%

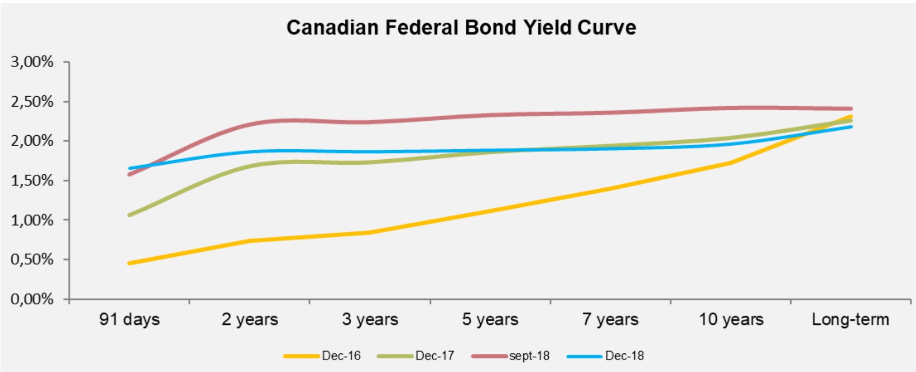
*Core inflation, excluding food and energy

Most recent data as of January 30, 2019

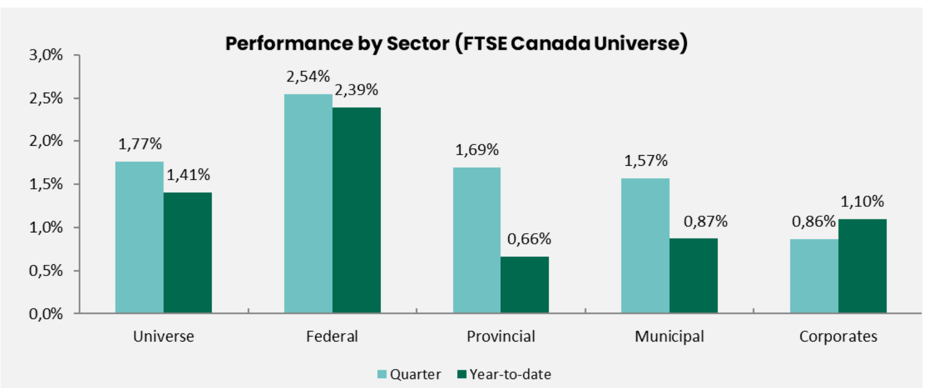
Commentary as at December 31, 2018

Canadian bond market

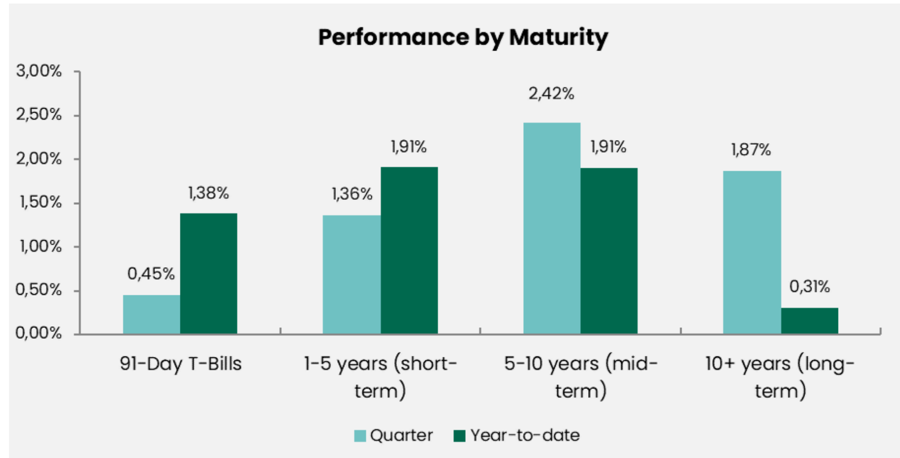
During the quarter, the yields to maturity of Canada bonds fell along most of the curve.



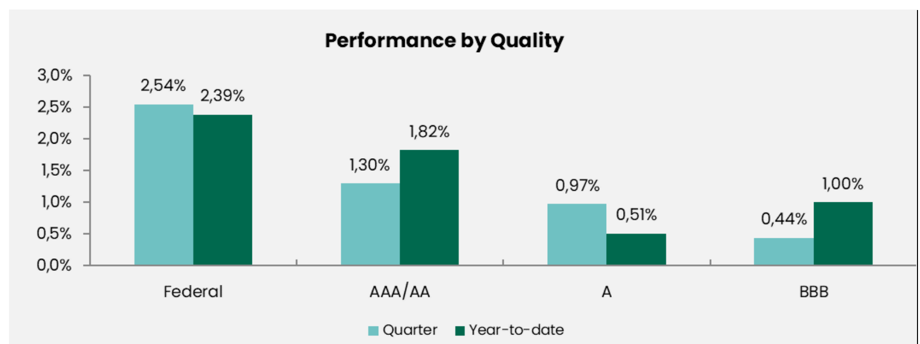
During the period, the FTSE Canada Universe index posted a return of 1.77%. Most bond categories had a slightly positive quarter, thanks mostly to lower interest rates during the quarter. The weakest performer was corporate bonds, with a return of 0.86% for the quarter.



Medium-term bonds turned in the best quarterly performance, up 2.42%. This was attributable to a more pronounced drop on this portion of the yield curve. Short-term bonds were up 1.36% while long-term were up 1.87%. In addition, 2-year, 10-year and 30-year federal bonds finished with yields to maturity of 1.86%, 1.96% and 2.18% respectively, while 91-day Treasury bills posted a yield of 1.65%.



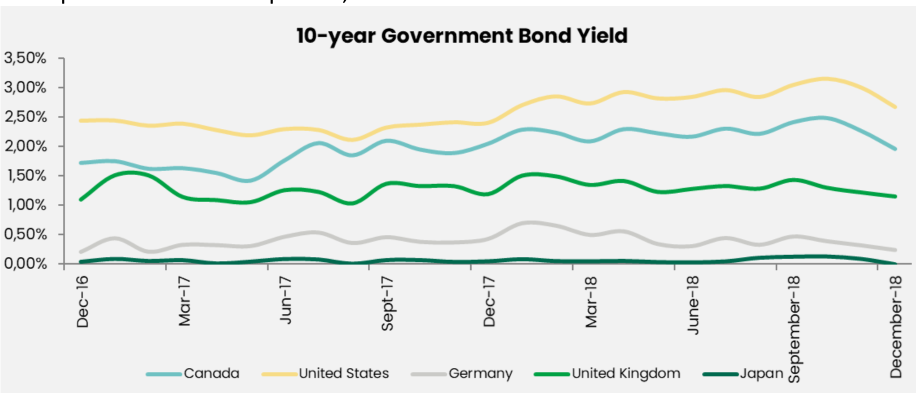
AAA/AA, A and BBB corporate bonds saw their credit spreads widen in relation to federal bonds, which affected their quarterly performance. Lower-quality bonds turned in weaker performances.



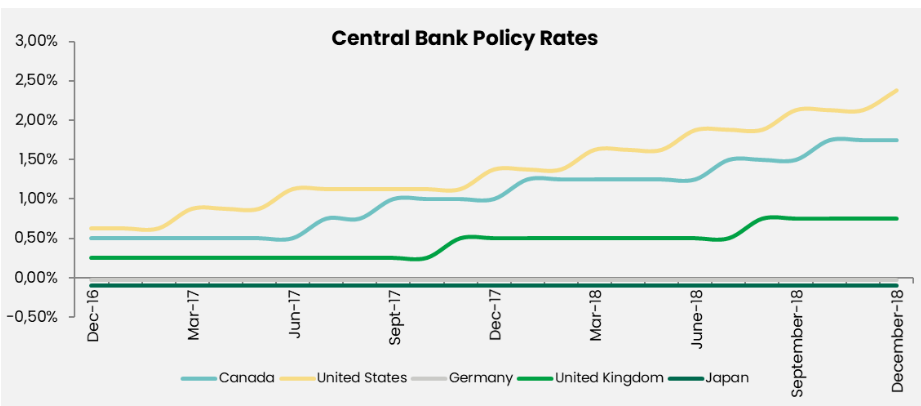
Commentary as at December 31, 2018

Global bond markets

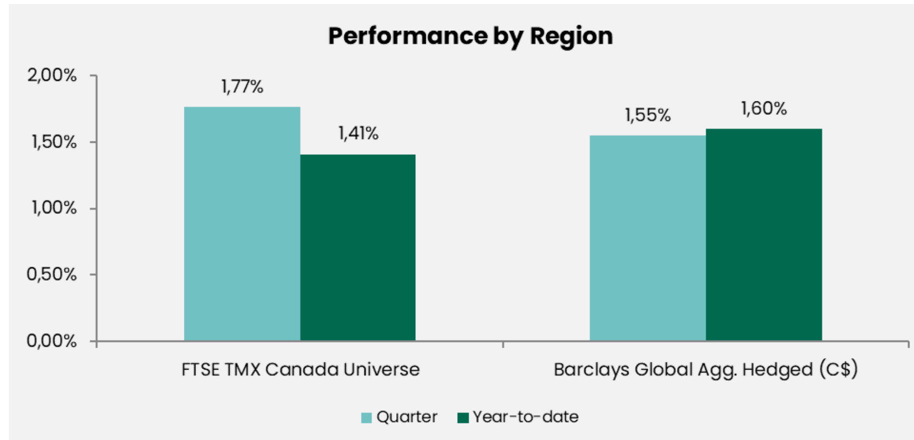
The yields to maturity of 10-year government bonds were lower for all countries listed below. Japan recorded a yield of 0% after an initial increase of more than 10 basis points in the third quarter, which had not been seen since 2015.



The US Federal Reserve once again raised its key rate by 0.25%, for a total of four increases in 2018, and cut its forecast to two increases in 2019. The Bank of Canada decided to raise its key rate by 25 basis points in October. Meanwhile, the Bank of England left its key rate at 0.75% due to Brexit-related uncertainties, while the European Central Bank opted to end its bond-buying program earlier than scheduled and began a monetary policy normalization program.



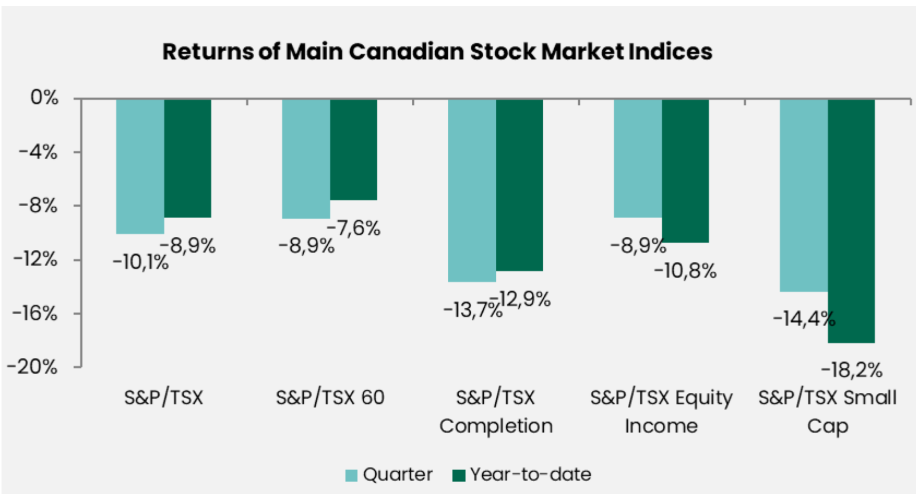
Canadian bonds, as measured by the FTSE Canada Universe index, posted a return of 1.77%, outperforming global bonds, which were up 1.55% (Barclays Global Aggregate index, currency-hedged (C$)). The drop in interest rates was responsible for both indices' performance.



Canadian stock market

The Canadian stock market, as measured by the S&P/TSX index, finished the quarter with a return of -10.1% due to a synchronized correction in most stock markets worldwide. The Canadian market, which is strongly correlated with oil prices, was hit hard by a 23% drop in the price of Western Canada Select. Representing 51% of the index, the Energy and Financials sectors, in particular, contributed to the negative return. This negative performance stemmed from the China/US trade war. The Consumer Staples sector (5.86%) posted the best quarterly return.

The main Canadian indices all generated negative returns during the quarter. Income stocks (-8.9%) were less affected this quarter, while small caps suffered the most, down -14.4%.



S&P/TSX Sector	Weight (%)	Returns		
		Quarter	Year-to-date	3 years
Energy	17.8	-17.30%	-18.36%	0.94%
Materials	11.3	0.89%	-9.30%	11.31%
Industrials	10.8	-13.36%	-2.44%	12.72%
Consumer Discretionary	4.3	-11.82%	-16.01%	4.37%
Consumer Staples	4.0	5.86%	2.13%	5.76%
Health Care	1.6	-35.28%	-15.55%	-37.49%
Financials	32.9	-11.33%	-9.26%	8.50%
Information Technology	4.0	-10.31%	12.96%	11.55%
Telecommunications Services	6.0	1.95%	-0.79%	9.31%
Utilities	4.1	-1.29%	-8.16%	6.18%
Real Estate	3.2	-5.54%	2.74%	n.a.

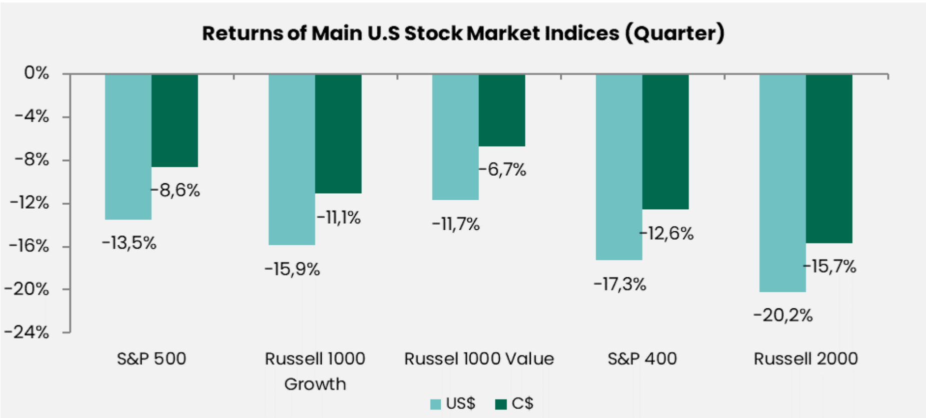
During the quarter, eight of the eleven S&P/TSX sectors posted negative returns. The best performer was Consumer Staples (+5.86%), helped by the main grocery store chains. One of the biggest sector contributors was Metro (18.33%) thanks to revenue and earnings growth. In second place was Telecommunications (1.95%), which benefited from strong showings by both BCE (4.45%) and Quebecor (11.18%). This sector was helped by investors seeking more defensive and non-cyclical stocks amid higher market volatility.

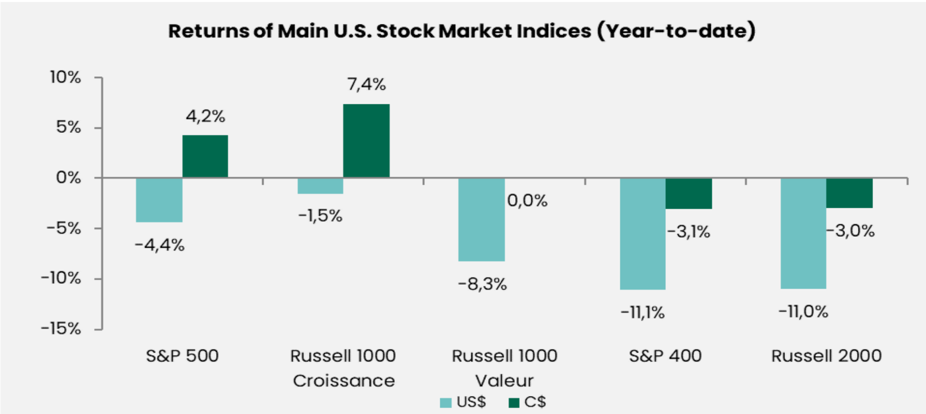
Health Care posted the worst quarterly performance (-35.28%), with the biggest detractors being two cannabis stocks, Aurora Cannabis (-45.37%) and Canopy Growth (-41.66%). Financials and Energy also cut into the Canadian index's quarterly performance with Energy down due to lower Canadian oil prices (WCS).

US stock market

During the quarter, the S&P 500 posted a return of -13.5% in US dollars, although due to the loonie's appreciation against the greenback, this return was -8.6% in Canadian dollars. The recent US government shutdown added to uncertainties looming over US stock markets, including the US/China trade war and slower corporate earnings growth.

Value-style stocks outperformed growth-style stocks during the quarter for the first time in 2018. The Russell 1000 Value index generated a return of -11.7%, outperforming the Russell 1000 Growth index, which posted a return of -15.9% in US dollars. As regards market capitalization, large caps (S&P 500) outperformed medium caps (S&P 400) and small caps (Russell 2000).





S&P 500 Sector	Weight (%)	Returns (in US$) Quarter	Year-to-date	3 years
Energy	5.3	-23.62%	-17.92%	1.15%
Materials	2.7	-12.31%	-14.18%	7.44%
Industrials	9.2	-17.28%	-13.28%	7.65%
Consumer Discretionary	9.9	-16.42%	0.82%	9.55%
Consumer Staples	7.4	-5.21%	-8.37%	3.10%
Health Care	15.5	-8.72%	6.46%	8.14%
Financials	13.3	-13.11%	-13.03%	9.28%
Information Technology	20.1	-17.37%	-0.32%	16.36%
Telecommunications Services	10.1	-13.18%	-12.54%	2.17%
Utilities	3.3	1.36%	4.10%	10.71%
Real Estate	3.0	-3.83%	-2.21%	n.a.

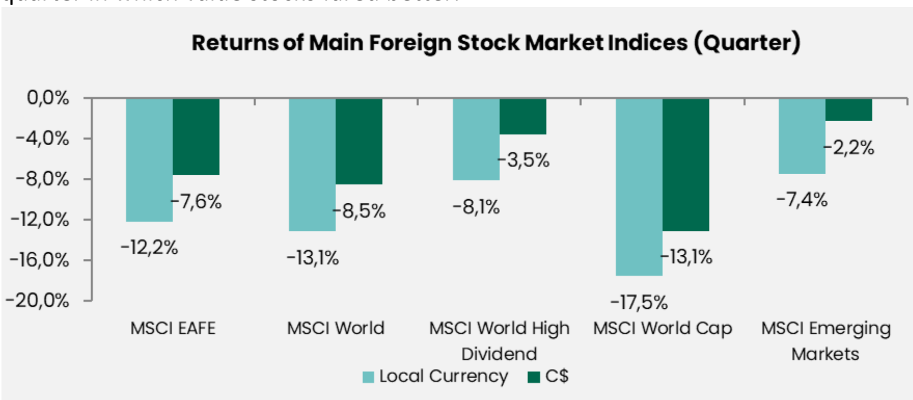
All US stock index sectors generated negative returns in USdollars during the fourth quarter, except for Utilities (1.36%), which benefited from market volatility, prompting investors to seek refuge in the more defensive sectors. The two most important sector contributors were Duke Energy (9.0%), which produces, transports and distributes electricity, and SCANA (23.9%), a holding company with an energy-related portfolio value of $5 billion. The company was recently acquired by Dominion Energy.

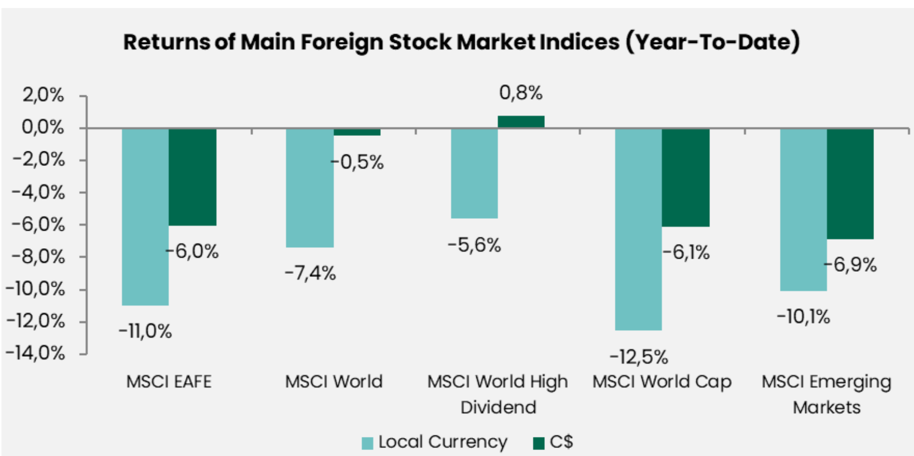
The two worst-performing sectors were Energy (-23.62%) and Information Technology (-17.37%). The fourth-quarter drop in oil prices greatly affected energy companies, particularly oil producers. The biggest detractor was from that sector was Exxon Mobil (-18.9%) as the company's stock price fell following its withdrawal from the liquefied naturel gas (LNG) export project in Western Canada, valued at $25 billion. Meanwhile, the Information Technology sector's biggest detractor was Apple (-29.9%) as the company's stock price fell following the announcement of lower-than-expected fourth-quarter sales.

Foreign stock markets

Stock markets around the world finished the year on a bad note. In the fourth quarter, all the main foreign stock indices posted negative returns in both local and Canadian currencies. Contributing factors included the US/China trade war, slowing global growth and the flattening of the yield curve, all of which added to investors' anxieties.

Of the indices shown below, the MSCI World Small Cap posted the worst quarterly performance, with a return of -17.5% in local currencies. Higher volatility had an adverse impact on this asset category, which has growth characteristics, during a quarter in which value stocks fared better.





MSCI EAFE Region	Weight (%)	Returns (in local currency)		
		Quarter	Quarter	3 years
United Kingdom	16.94%	-9.67%	-8.82%	6.67%
Europe ex-UK	46.02%	-11.84%	-11.31%	1.01%
Japan	24.61%	-17.16%	-15.15%	0.29%
Pacific ex-Japan	12.43%	-6.56%	-4.47%	7.32%

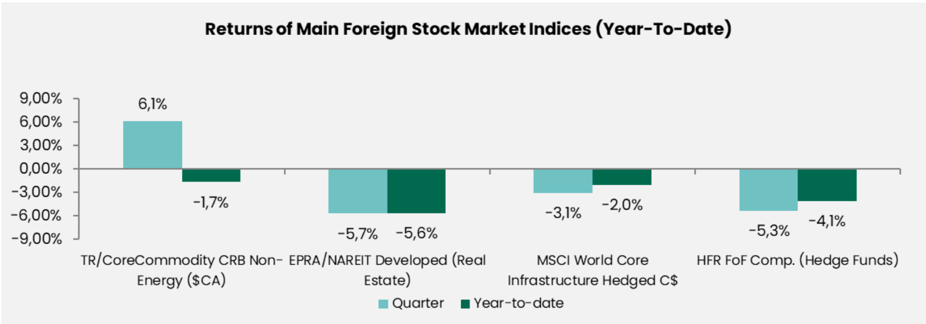
In local currencies, all 21 MSCI EAFE index countries posted negative returns during the quarter. The best performers were Spain and Australia, with Austria and Japan pulling up the rear.

MSCI EAFE Sector	Weight (%)	Returns (in local currency)		
		Quarter	Year-to-date	3 years
Energy	5.9	-15.87%	-1.81%	15.00%
Materials	7.4	-14.34%	-15.13%	10.87%
Industrials	14.3	-14.93%	-13.76%	4.22%
Consumer Discretionary	11.2	-14.60%	-14.60%	0.08%
Consumer Staples	11.6	-7.74%	-7.74%	2.96%
Health Care	11.2	-9.65%	-1.25%	-0.65%
Financials	19.5	-12.94%	-16.67%	0.19%
Real Estate	3.7	-5.45%	-7.92%	s.o.
Information Technology	6.0	-17.32%	-14.50%	5.13%
Telecommunications Services	5.6	-7.80%	-9.78%	-3.09%
Utilities	3.8	0.78%	5.02%	4.43%

Ten of the eleven MSCI EAFE sectors posted negative performances in local currencies. Utilities was the only one that turned in a positive performance (0.78%) amid higher demand for defensive sectors and lower interest rates.

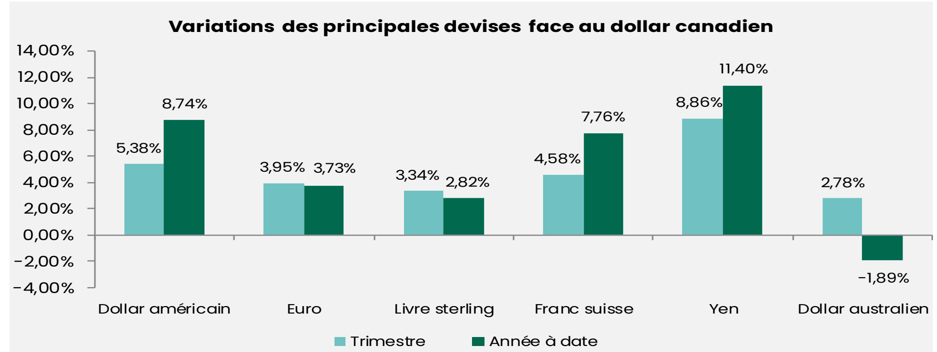
All of the cyclical sectors had a difficult quarter, most notably Information Technology (-17.32%), where the biggest performance detractor was SAP (-14.7%). It should be noted that SAP acquired Qualtrics, a direct competitor to SurveyMonkey, in November 2018 for $8 billion.

Alternative investments and currencies



Returns in C$				
Quarter	6.1%	-0.3%	-3.1%	0.0%
YTD	-1.7%	2.9%	-2.0	4.6%

The TR/CoreCommodity Ex-Energy index finished first among the alternative investment indices, with a quarterly return of 6.1%. Meanwhile, the global real estate index posted the worst quarterly performance with a return of -5.7% in US dollars. As for the MSCI World Core Infrastructure index, it posted a quarterly performance of -3.1%.



During the quarter, the Canadian dollar depreciated in relation to all other major currencies, including a pronounced fourth-quarter drop amid falling oil prices.

Commodity TR/CoreCommodity CRB Non-Energy	Weight (%)	Returns (in US$)	
		Quarter	Year-To-Date
Agriculture	67.1%	1.8%	-9.7%
Precious Metals	12.0%	6.3%	-5.7%
Base Metals	21.9%	-9.6%	-20.4%

During the quarter, the TR/CoreCommodity CRB Ex-Energy index turned in a negative performance (-0.23%), primarily due to the Base Metals sector (-9.6%). Precious Metals and Agriculture posted positive returns.