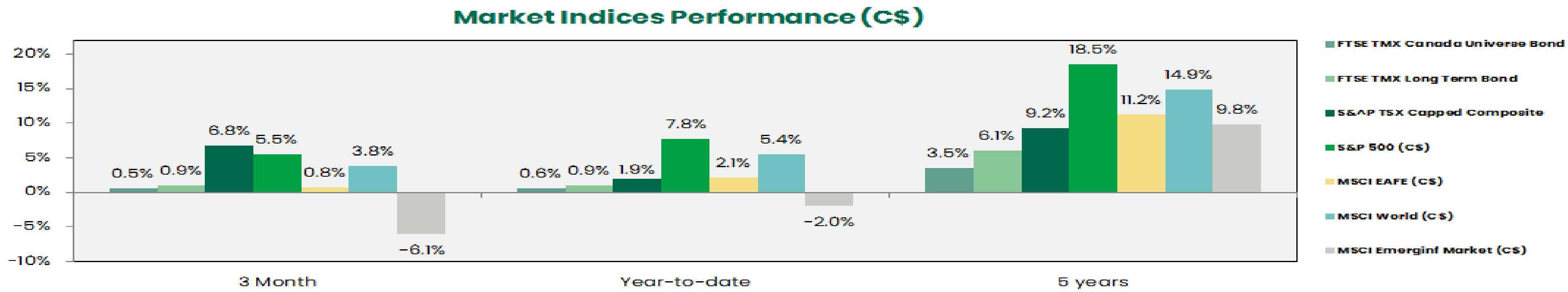
Commentary as at June 30, 2018



The weight of geopolitical tensions

Despite market volatility and geopolitical tensions, most indexes had a positive second quarter. Only the emerging markets had a difficult time of it, primarily due to protectionist measures and increased trade barriers in the US. These two factors boosted the US dollar and simultaneously affected the GDP of various emerging countries, which are strongly export-focused. The risks of a trade war did not dissipate during the second quarter. In fact, relations between the US and its main trading partners (e.g. China, the European Union, Canada, and Mexico) appeared to take a poisonous turn in the wake of the tariffs imposed on exports from those countries. The US and Canadian dollars both appreciated in relation to the other main currencies during the quarter, primarily due to a 25-basis-point increase in the US Federal Reserve's key rate, as well as to sharply higher oil prices. The S&P/TSX was the best-performing index, with a return of 6.8%, followed by the S&P 500 (+5.5%).

What retained the attention in the second quarter was the rising tide of trade protectionism. A trade war between the abovementioned countries could have negative consequences on global GDP growth. Despite those concerns, the global economy continued to expand during the quarter, helped along by the US, where growth intensified thanks to budgetary stimulus measures.

European markets posted a positive return, supported by the Energy, Health Care and Information Technology sectors. The return of political risk in Italy had a negative impact on European markets as well as on the euro. Following Italy's non-conclusive election in March, a coalition was formed between the main populist party (La Liga) and the Five Star Movement. As regards monetary policy, the European Central Bank decided not to increase its key rate until summer 2019 and declared that it would end its asset-buying program in December 2018.

In the Canadian market bond, short and medium-term yields were up, although long-term yields were down slightly. This partly explains the positive quarterly return posted by the FTSE TMX Canada Universe index.

Gold closed the quarter down 5.54% to US$1,250.45 an ounce. Brent crude oil was up 13.1%, finishing the quarter at US$79.44 a barrel. WTI (West Texas Intermediate) and WCS (Western Canada Select) were up 14.2% and 23.8%, closing the quarter at US$74.15 and US$53.15 respectively.

In labour market news, the US economy added 620,000 jobs during the quarter, with nearly 2.2 million created over the past 12 months. North of the border, 23,200 jobs were added during the quarter, with nearly 214,900 created over the past 12 months. Canada's unemployment rate was up slightly to 6.0%, compared to 4.0% in the US.

In the US residential real estate market, the most recent data from the S&P CoreLogic Case-Shiller index (April 2018) show a 12-month variation of +6.56%, while the Teranet/National Bank House Price index, which measures Canadian residential real estate, showed a variation of +2.87% for the same period.

	Canada	United States
GDP Growth (y/y)	2.5%	2.8%
Inflation (y/y growth)	2.2%	2.9%
Core Inflation (y/y)*	1.7%	2.3%
Job Creation (QTD)	23,200	620,000
Job Creation (y/y growth)	214,900	2,235,000
Unemployment Rate	6.0%	4.0%

*Core inflation, excluding food and energy

Most recent data as of July 15th, 2018

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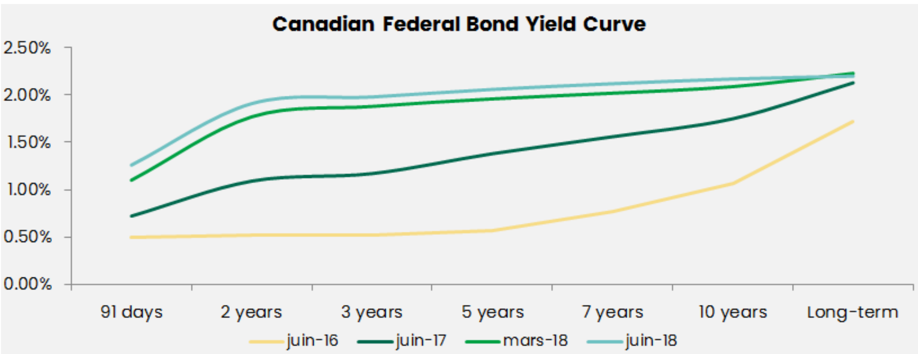
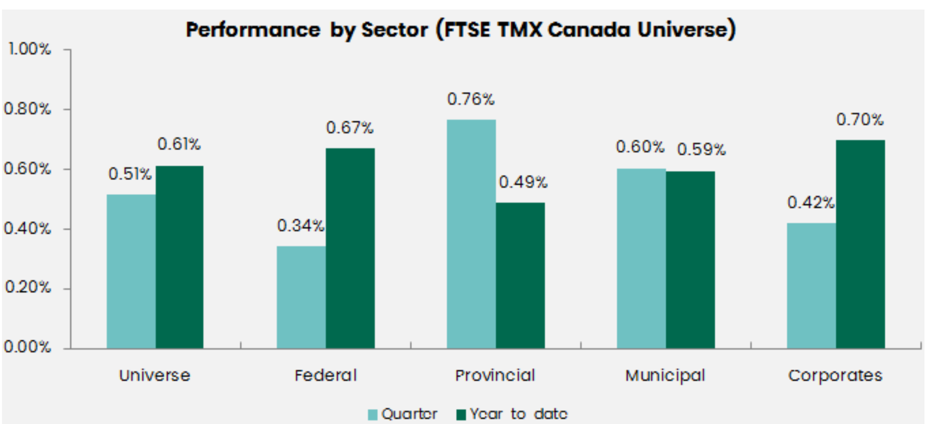
Canadian bond market

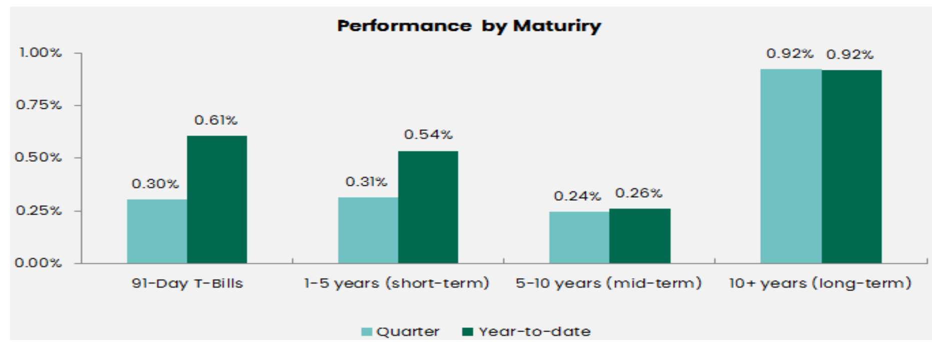
During the quarter, yields to maturity for Canadian bonds continued to rise on the 10-years-and-less portion of the curve but decreased slightly for 30-year bonds. The overall effect was a flattening of the long portion of the curve.



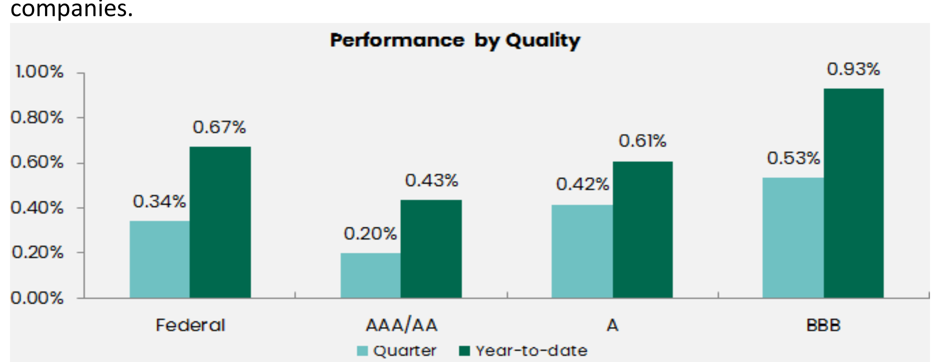
During the period, the FTSE TMX Canada Universe index posted a return of 0.51%. The narrowing of credit spreads for provincial bonds was the biggest contributor to quarterly performance. The best performers were provincial bonds, while federal bonds were the worst.



Long-term bonds generated the highest return in the second quarter with a positive performance of 0.92%, due to lower yields on the 30-year portion and the narrowing of credit spreads for provincial bonds. Medium-term bonds recorded a return of 0.24%, good for last place. Meanwhile, 2-year, 10-year and 30-year federal bonds finished the quarter with yields to maturity of 1.91%, 2.17% and 2.20% respectively, while 91-day Treasury bills posted a yield of 1.26%.



AAA/AA corporate bonds saw their credit spreads increase significantly more in relation to federal bonds than for A and BBB corporate bonds, which affected the their performance during the quarter. All corporate bonds, however, recorded positive returns thanks to their positioning on the curve and the coupons paid by companies.



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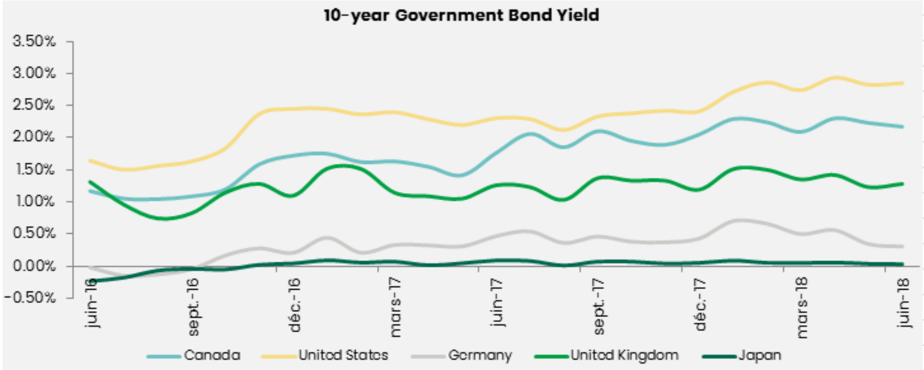
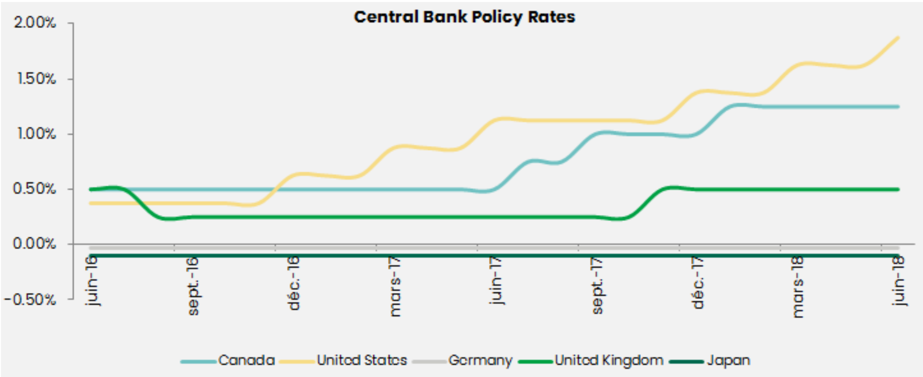
Global bond market

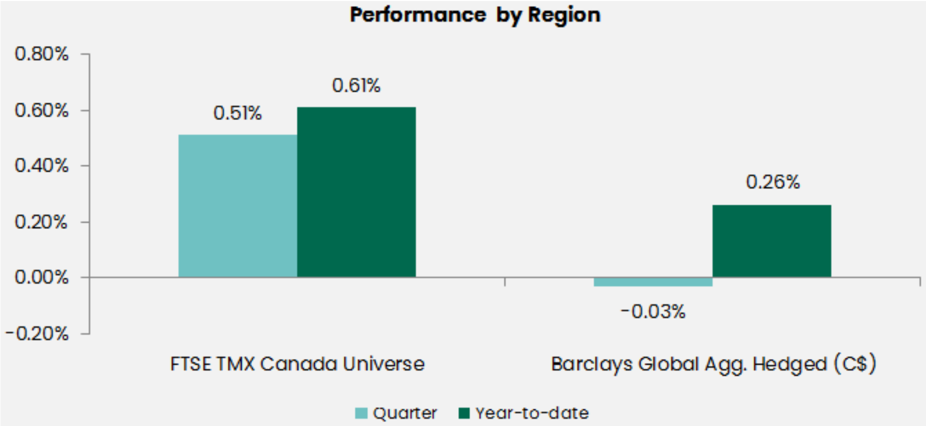
Yields to maturity for 10-year government bonds rose in the second quarter in North America following a rise in the US key rate. However, they decreased in the UK, in part due to negotiations over Brexit, and in Europe due to the political situation in Italy. Meanwhile, Japan continues to maintain its curve under 10 basis points.



During the quarter, the US Fed boosted its key rate by 0.25% again and plans to implement two more increases by the end of the year if the economic situation allows. The other central banks stuck with the status quo. In addition, the European Central Bank announced that its bond buyback program would be wound up at the end of this year (it does not plan to raise its key rate until summer 2019).



Canadian bonds, as measured by the FTSE TMX Canada Universe index, posted a positive return of 0.51%, as opposed to -0.03% for global bonds, as measured by the Barclays Global Aggregate index (currency hedged/C$). The decrease in long-term yields and the coupon rate in Canada were responsible for Canadian bonds' strong performance compared to global bonds.



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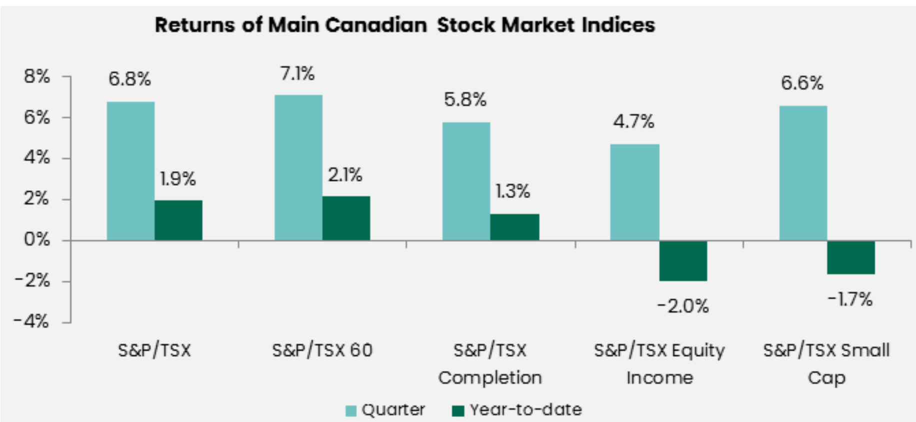
Canadian stock market

The Canadian stock market, as measured by the S&P/TSX index, finished the quarter with a return of 6.8%, primarily thanks to the Energy and Industrials sectors, which together account for more than 30% of the index and contributed nearly 57% of the overall return. Energy benefited from higher oil prices during the quarter, while the Industrials sector was led by the fine performances of Canadian National Railway (14.7%) and Canadian Pacific (6.3%) following the weekly wagon loadings, which surpassed the levels of the past three years.

The main Canadian indexes all generated positive returns during the quarter. Large caps (7.1%) fared better, while dividend stocks suffered the most, with a return of only 4.7%. The Canadian small cap index finished the quarter with a return of 6.6%, helped along by strong performances by the Energy and Materials sectors.



S&P/TSX Sector	Weight (%)	Returns		
		Quarter	Year-to-date	3 years
Energy	20.2	15.76%	4.83%	2.48%
Materials	11.7	7.89%	3.26%	7.15%
Industrials	10.0	9.45%	6.60%	14.83%
Consumer Discretionary	5.5	6.59%	3.53%	8.59%
Consumer Staples	3.5	3.51%	-2.61%	7.09%
Health Care	1.3	14.30%	-1.14%	-46.59%
Financials	33.2	2.12%	-1.45%	10.98%
Information Technology	3.9	10.94%	22.23%	19.49%
Telecommunications Services	4.4	1.85%	-4.97%	8.09%
Utilities	3.5	-0.41%	-6.23%	7.30%
Real Estate	2.8	4.65%	5.62%	s.o.

In the second quarter, 10 of the 11 S&P/TSX sectors posted positive returns. Energy led the pack with a return of 15.76%, with the biggest contributor being Suncor Energy (21.1%) following another profitable quarter (actually, four in a row). The company reported revenues of $7.2 billion, up 22% year-on-year. In second place was Health Care (14.30%), which continued to benefit from the strong showing of Valeant as the company's share price was up 49.2% on bigger-than-expected quarterly gains.

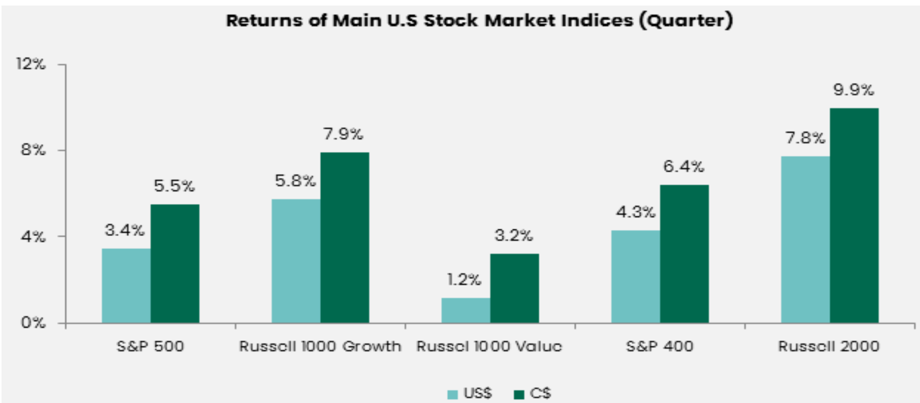
Utilities came in last place (-0.41%), with its biggest detractor being Brookfield Infrastructure Partners (-5.8%). Despite the sluggish performance of some stocks, the sector return was primarily attributable to interest rate changes rather than to new company specifics in the second quarter.

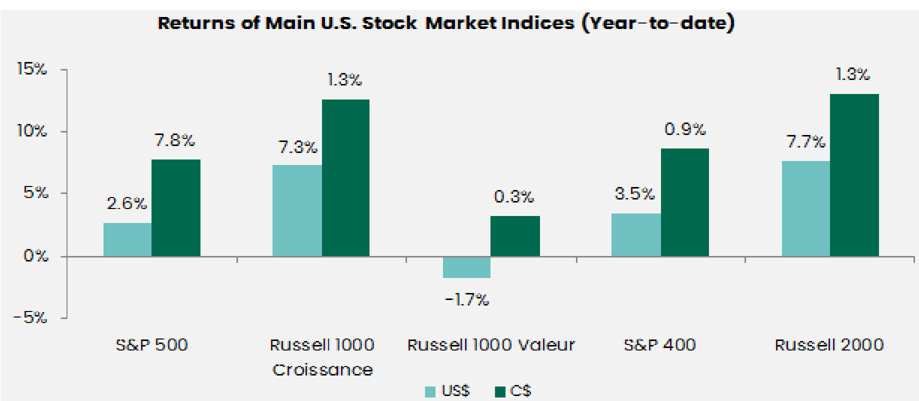
Financials, the index's dominant sector, finished the quarter with a return of 2.12%. As regards banks, generalized quarterly gains were partly offset by investors' concerns over the weakening of Canada's housing market. The biggest contributors to sector performance were Toronto Dominion (5.1%) and Brookfield Asset Management (6.6%).

US stock market

During the quarter, the S&P 500 index posted a return of 3.4% in US currency. However, taking into account the Canadian dollar's depreciation against the US dollar, the index's return was actually 5.5% in Canadian dollars.

"Growth" style stocks continued to outperform "value" style this quarter. The Russell 1000 Growth index generated a return of 5.8%, outpacing the Russell 1000 Value index, which posted a return of 1.2% in US dollars. As regards market capitalization, small caps (Russell 2000) outperformed medium caps (S&P 400) and large caps (S&P 500).





S&P 500 Sector	Weight (%)	Returns (in US$)		
		Quarter	Year-to-date	3 years
Energy	6.3	13.48%	6.81%	3.68%
Materials	2.6	2.58%	-3.08%	8.49%
Industrials	9.5	-3.19%	-4.69%	11.30%
Consumer Discretionary	12.9	8.17%	11.52%	14.45%
Consumer Staples	7.0	-1.54%	-8.55%	5.52%
Health Care	14.1	3.10%	1.84%	5.68%
Financials	13.8	-3.16%	-4.09%	12.46%
Information Technology	26.0	7.09%	10.87%	22.59%
Telecommunications Services	2.0	-0.94%	-8.36%	3.85%
Utilities	2.9	3.74%	0.32%	11.68%
Real Estate	2.9	6.14%	0.81%	s.o.

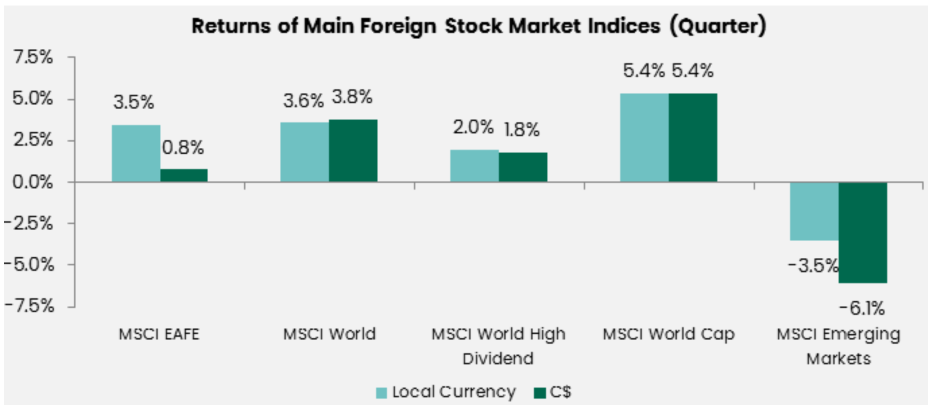
Seven of the 11 US stock market sectors generated positive returns in US dollars in the second quarter. Energy finished first with a return of 13.48% due to higher oil prices, followed by Consumer Discretionary (8.17%). The two biggest Energy contributors were Occidental Petroleum (29.9%) and ConocoPhillips (17.9%), both of which benefited from higher oil prices in the second quarter. In the Consumer Discretionary sector, Amazon was the biggest contributor with a return of 17.4% due to its strong index weighting. Under Armour (37.5%), however, had the highest absolute return on two solid quarterly earnings reports, as well as new product launches and changes to its management structure.

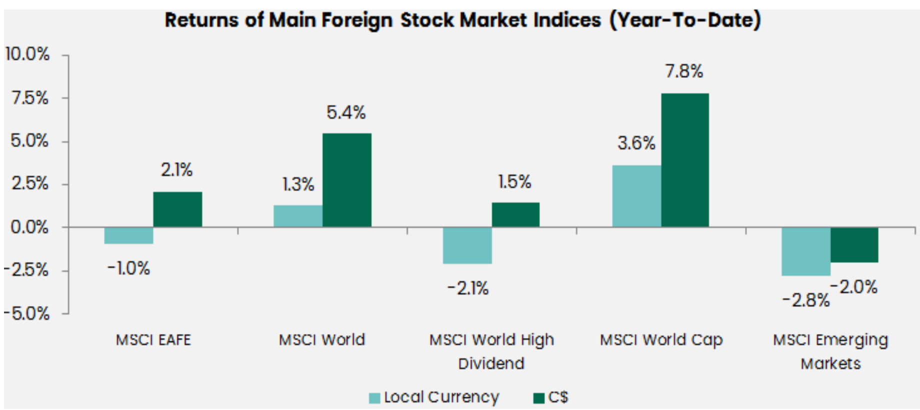
In contrast, the two worst sectors were Industrials (-3.19%) and Financials (-3.16%). With a return of -9.8%, 3M was the biggest Industrials detractor during the quarter. In the Financials sector, Berkshire Hathaway (-6.4%) dragged down the overall performance due to its strong weighting. Brighthouse Financial also had a difficult quarter as its share price fell more than 22%.

Foreign stock markets

During the second quarter of 2018, the main foreign stock indexes posted positive returns in local currencies as well as in Canadian dollars, except for MSCI Emerging Markets. After a major correction in the first quarter, global stocks recouped a portion of their losses dues to better-than-expected economic data and corporate profits.

Among the indexes shown below, MSCI Emerging Markets turned in the worst quarterly performance (-3.5% in local currencies). This was due to a stronger US dollar and escalating trade tensions with Asian emerging markets.





MSCI EAFE Region	Weight (%)	Returns (in local currency)		
		Quarter	Quarter	3 years
United Kingdom	17.98%	9.38%	1.39%	9.28%
Europe ex-UK	45.95%	2.07%	-1.21%	4.12%
Japan	24.03%	1.20%	-3.66%	2.78%
Pacific ex-Japan	12.04%	4.50%	1.59%	7.51%

In local currencies, 17 of the 21 countries in the MSCI EAFE index posted positive returns during the quarter. The best were Israel and New Zealand, while Italy and Austria were the worst.

MSCI EAFE Sector	Weight (%)	Returns (in local currency)		
		Quarter	Year-to-date	3 years
Energy	6.1	17.38%	11.77%	15.08%
Materials	8.2	5.68%	-0.86%	9.60%
Industrials	14.3	2.48%	-2.15%	7.30%
Consumer Discretionary	12.4	1.98%	-0.99%	3.58%
Consumer Staples	11.3	5.43%	-0.63%	8.24%
Health Care	10.7	6.76%	2.97%	2.05%
Financials	19.8	-1.80%	-5.97%	2.15%
Real Estate	3.5	2.86%	-0.56%	s.o.
Information Technology	6.8	4.37%	1.74%	11.16%
Telecommunications Services	3.6	-0.11%	-7.19%	-2.43%
Utilities	3.3	5.21%	3.95%	4.24%

Nine of the 11 MSCI EAFE sectors posted positive returns in local currencies, with Energy notching the best performance (17.38%). Due to its weighting in the sector, the biggest contributor was BP (17.4%), which made excellent gains on higher oil prices. In second place was Health Care (6.8%) as CSL made a strong contribution with a quarterly return of 21.8%.

The Financials sector posted the worst performance (-1.80%), with the biggest detractor being Banco Santander (-15.1%). The sector was impacted by a flattening of the yield curve and the risk of trade wars between the US and other countries. In next-to-last place was Telecommunications (-0.11%), dragged down by Telefonica, which lost 9.8% and has a significant weighting within the sector.

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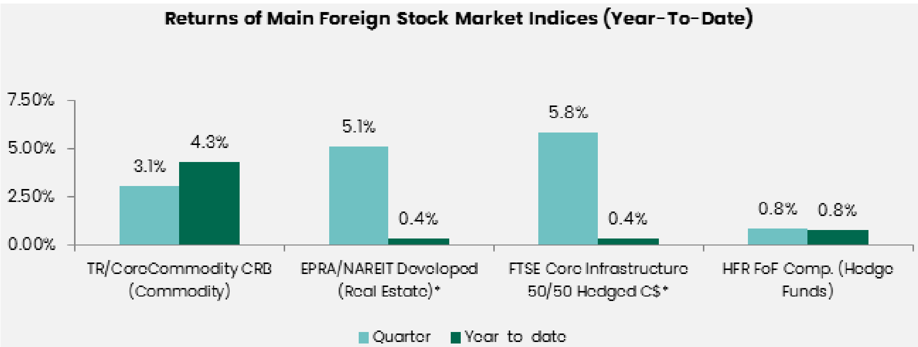
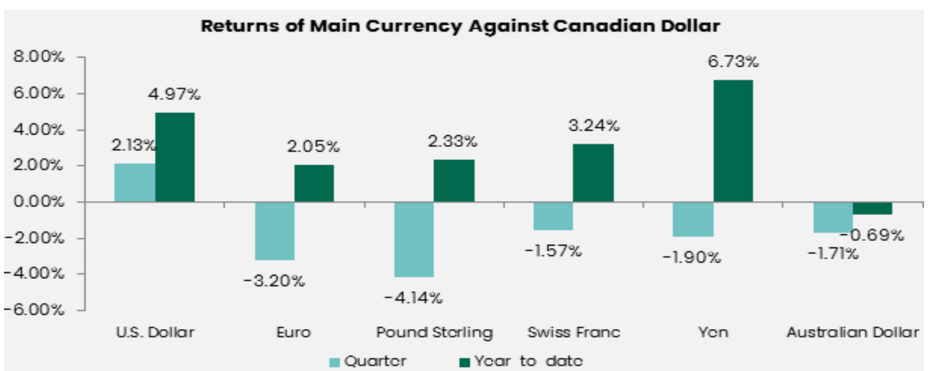
Alternative investments and currencies



Returns in C$**				
Quarter	3.1%	7.3%	5.8%	2.9%
YTD	4.3%	5.4%	0.4%	5.8%

* 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$.

Infrastructure finished in first place among the alternative investment indexes, up 5.8% in the second quarter. The hedge fund index had the worst quarterly return (2.9% in C$). The global real estate index posted a quarterly performance of 5.1% in US$.



During the quarter, the Canadian dollar appreciated against all other major currencies excluding the US dollar, which gained against the Canadian dollar. The greenback continues to benefit from the Fed's tighter monetary policy and an influx of investors seeking a safe haven in the face of growing concerns over US trade protectionism.

Commodity TR/CoreCommodity CRB	Weight (%)	Returns (in US$) Quarter	Returns (in US$) Year-To-Date
Energy	42.2%	11.4%	15.9%
Agriculture	39.2%	-4.5%	-3.7%
Precious Metals	6.9%	-5.3%	-5.6%
Base Metals	12.5%	3.1%	-6.8%

The TR/CoreCommodity CRB index turned in a positive performance during the quarter, helped in particular by Energy, the best sector, with a return of 11.4%. The worst sector was Precious Metals (-5.3%).