LAURENT WERMENLINGER, PL.FIN., FCSI®
VICE-PRESIDENT AND PORTFOLIO MANAGER

Strategic Outlook, September 2015

For some time now, Yves, a long-time client, had offered to introduce me to the Îles de Sorel. I could not have found a better guide than Yves, a regular visitor to these islands, and someone who is well aware of my passion for sound recordings in a natural habitat. This is how we ended up a few weeks ago, on a beautiful and sunny Friday morning, on the aptly named Chenal de la Sauvagesse! What a beautiful spot, just like a Louisiana bayou.

The splendid light played tricks on us: shadows, half lights and, in the background, stunning scenery. A profusion of sounds discreetly filled the air. We moved along slowly on the channel to a spot narrow enough to beach our boat. We were quite ready for a recording session. This was the perfect moment. A natural tranquility permeated the surroundings. I wished that this moment, this peaceful atmosphere would remain frozen in time.

This is somewhat similar to what we, as investors, have experienced for the past few years now: Bullish markets, respectable returns and, in the end, very little volatility. What more could we ask for! Many of you even called us in February, asking if there had been some mistake in our January statements. The value of your portfolios had rapidly appreciated. One can only wish that this lasts for a very long time.

But, this was probably a premonitory sign. Over the following months and to this day, market volatility increased and stock market prices around the world suffered a serious correction. A grim return to the reality of markets! Since it is impossible for us to systematically predict these corrections, simple prudence dictates that we keep cash available to rebalance the portfolio in the event of a significant drop in prices. This is what we did.

We must also identify the most probable economic environment that will prevail over the next few years. All our sources of economic research point to a scenario of modest growth on a global scale. If this is the case, what impact will this have on investors:

1. Both short and long-term rates will tend to remain historically low, which assumes modest expectations with regard to the rise of inflation, and even deflationary pressures in certain countries.

2. The supply of raw materials, especially those linked to hydrocarbons, will continue to be abundant versus the modest growth of demand. Prices should remain relatively near current levels, a bad omen for raw material producing countries such as Canada.
3. If the global economy were to progress rather moderately, this will not be case for the major economic groups, countries or major sectors. Raw materials importing countries, for instance, China and India, will be first in line to take advantage of the situation. Countries in the process of economic recovery such as some of the European countries (Germany, Spain and Sweden, to name just these few), will benefit from a momentum effect compounded by a weakened currency.

Despite all the noise about Greece and its problems, the European Economic Community has fully emerged from recession and is showing progress. You will receive, under separate cover, a recent research document published by Desjardins' economic studies department on the subject.

Just as all our clients who went through the horrors of 2008 have come to realize, we must remember to maintain a strategic vision (over the long-term) of the key economic and financial issues. It is very easy to focus on short-term issues. Yet, certain geopolitical, technological and ecological issues will have a major and lasting impact on markets over the coming years. These mainstream issues deserve our attention and we should reflect on them. Who would have predicted 15 years ago that China would become the second global economic power!

It is quite likely that over the coming months, markets will continue to be more volatile. This will neither be the first nor the last time. From a 10 to 20-year perspective, this volatility is quite normal, just as the sea is not always calm.

As I wrote in January, in a global economic environment where we are subjected to deflationary pressures and with interest rates near 0%, the expected returns of asset classes such as stocks and real estate can only be <u>moderate</u> over the coming years. As for traditional government bonds, it is quite likely that real returns (after deducting inflation from the nominal return) will end up in negative territory. Take note!

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Here is brief summary of our main strategies:

Fixed Income

1. For Revenue +, Balanced and Growth mandates, we are underweighting fixed income securities versus stocks.
2. We prefer corporate bonds over traditional bonds.
3. We prefer shorter maturities except in the case of preferred shares.
4. It is essential to diversify issuers on an international basis to take advantage of the specific economic environment of certain countries and of certain categories of fixed income investments.

Stocks

1. We are underweighting to the fullest extent raw material producing sectors/countries.
2. We are overweighting the financial, real estate and technological sectors.
3. We favor Europe, Japan and the United States.
4. We are maintaining our positions in China and in India with the strategic vision of increasing these positions when appropriate.

Before closing, I wish to thank you once again for the confidence you have placed in us even during more difficult times. We fully appreciate this and are totally committed to continue to deserve your confidence.

We are always available to respond to your questions and comments.

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Vice-President and Portfolio Manager

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