Equitable
Asset Management Group

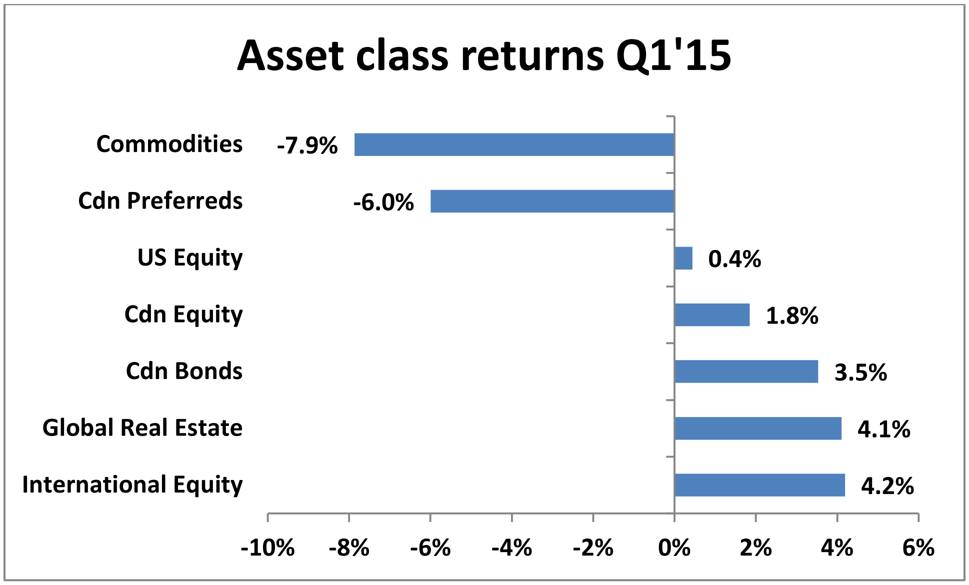
Investment Playbook

Second quarter 2015

Content

Global economic outlook
Asset class outlook

Paul English, MBA, CFA – Senior Vice President, Investments
Tara Proper, CFA – AVP Capital Markets
Derek Vinke, CFA – AVP Quantitative Investment and Portfolio Risk
Dan Lavric, CFA – Director Credit Portfolio Management
Kevin Osborne, MBA, CFA – Portfolio Manager
David Irwin, MBA – Portfolio Manager, Director Client Relations
Ryan Laird, MBA – Credit Analyst
Jeff McLarty, CFA – Quantitative Analyst



Global economic outlook

- Over the last quarter, the drivers of global economic growth have shifted in favour of overseas markets. Europe in particular has accelerated on the back of their QE program, a weak currency and falling energy prices.

- Oil prices since the beginning of 2015 have fallen approximately 30%. The outlook for supply and demand remains negative for the price of oil as excess production is not expected to fall in the short term and additional demand from China and emerging markets continues to fall short of expectations.

- In China, the PBoC is balancing short-term growth needs with long-term reform. Disinflationary forces and weakening demand continue to be a challenge, and growth expectations are being moved down. Premier Li Keqiang admitted that China will struggle to meet its 7% growth rate target for 2015 but has pledged to maintain growth thanks to its many “tools in the toolbox”.

- For the US, our one year forward GDP estimate has fallen by 0.4% since the last strategy as personal consumption weakened. This softness has largely been in retail sales, with 3 straight weak months starting in December. While this has been influenced by unseasonably cold weather and the West Coast port shutdown, we see some slowing in the underlying fundamentals versus our previous expectation.

Global economic outlook (cont'd)

- The situation in Canada is more uncertain, with our expectations for growth declining by almost 1% quarter-over-quarter. Our downward revisions were almost equally in personal consumption and business investment. The growth in personal consumption has been declining over the past three quarters, as retail sales weakened into 2015, and gasoline savings at the pump have not led to increased consumption in other sectors of the economy. Instead, the savings rate has been increasing, which is positive given record debt levels for Canadian consumers.

- On the business investment front, forward estimates for capital expenditures in the energy sector continue to be revised down, with budgets now reflecting 25-30% declines. Given that energy is about 30% of business investment and manufacturing only about 5%, it will be challenging for growth in the manufacturing sector to offset this decline. Canadian consensus expectations are for 2% growth.

Asset class outlook

Equities (Positive)

- Over the past six months, P/E multiples across developed markets have expanded and approximately 90% of the world's major stock markets remain in positive territory.

- Globally, the environment remains positive for equities given the low interest rate backdrop. Global central bankers are providing stimulus which keeps downward pressure on interest rates, and investors are applying the lessons learned from US equities to markets worldwide. So far in 2015 alone, 21 central banks have lowered interest rates in a bid to devalue their currencies. While the QE trade in the US is complete, Europe and China are just beginning.

US equities (Neutral)

- The US bull market is now in its 7th year, one of the longest on record. Despite this relative strength, premium valuations remain a risk in the event the US Federal Reserve begins hiking rates in 2015. To gauge potential future performance, we look to equities over past rate-hike cycles which averaged returns of approximately 10% in the 6 months before and after a hike.

- The duration of the bull market however, combined with the strong US dollar and weak corporate results in the energy sector, offers potential downside risk. As well, economic indicators point to weakening demand based on broad based inventory builds, slowing industrial production and weakening retail sales.

- With P/E ratios at an expensive 17x P/E, we believe we are in the later innings for US equity returns.

Canadian equities (Negative)

- The soft commodity demand backdrop has hurt broad based Canadian fundamentals keeping risks to the downside. Given Canada's dependency on commodities, a lack of pick-up in global demand will prove to be a headwind throughout 2015.

- The TSX remains the most expensive developed market with an 18x P/E ratio. As oil and gas markets continue to settle, extremely high energy valuations increase downside risks.

European equities (Positive)

- Europe remains our preferred developed market as the region shows continued signs of an improving fundamental backdrop. While deflation remains a concern in Europe, increased economic activity is supported by the ECB's version of the Federal Reserve's Quantitative Easing (QE) program which is expected to extend through to September 2016.

- With another 18 months of bond buying to go, equity markets appear to be confident that the ECB's QE program will be a success as European markets YTD are the top performing developed equity markets. We expect these trends to continue over the coming months.

- The strengthening fundamental backdrop should translate into improving corporate results with positive impacts to profitability

Corporate credit (Neutral)

- Our reads on the corporate fundamental metrics show more weakness due to high leverage and slow cash flow growth. The recent deterioration in corporate profitability could be further compromised in Q1 earnings season on the back of flattening sales and the stronger USD.

- In Canada, the sharp drop in oil price is stressing metrics in the energy-related sectors. However, this shock is unlikely to be lasting and spread towards the other sectors of the Canadian economy.

- The demand for Canadian spread product remains strong, driven by continuous need for yield enhancement and by strong relative valuation compared to other international bond markets.

- The market has been comfortably digesting the recent strong supply of corporate bonds, a sign that demand for spread product remains intact on the back of low absolute level of yields, pushing managers to enhance return.

- We maintain our credit recommendation at neutral as the credit market enters a later part of the credit cycle where most of the credit return is generated by carry only. Simultaneously, strong seasonal demand for corporate bonds during the first part of the year could be followed by a more volatile second half.

- As overall credit return becomes susceptible to external sentiment shocks, we have less preference for BBB-rated corporates and cyclical sectors and select the issuers with higher credit quality in each sector.

Government bonds (Neutral)

- Government bonds remain supported by accommodative policies in both Canada and the US. Tepid global growth, disinflationary forces, stimulative monetary policy from the EU, Japan and the PBoC will continue to pressure yields.

- Expectations for low inflation appeared to have bottomed and the forward outlook for inflation is moving up as oil seems to have found stability.

- There are downside risks to the Canadian economy and the BoC may have to provide further stimulus should the economy not rebound in the second half 2015. This will continue to keep yields low even in the event the Fed raises its overnight rate in the back half of the year.

- Deleveraging trends across developed markets and aging demographics continue to put pressure on yields. Low global rates, in some cases negative, continue to drive strong international demand for Canadian bonds. The resulting fixed income environment remains bullish and we are revising down our one year forecast from 1.60% to 1.45% on 10-year government bonds.

About Active Balanced Portfolios Investment Playbook

- The Active Balanced Investment Playbook is a quarterly publication intended to communicate our high level asset class views
- This investment playbook can be used as a guide to better explain to clients how our portfolios are positioned
- Our portfolio line-up, which includes Active Balanced Growth Portfolio Select, Active Balanced Portfolio Select and Active Balanced Income Portfolio Select, are constructed based on the above asset class views, and are adjusted to deliver a risk/reward profile appropriate for each fund's intended investment mandate

		Investment class fund codes		Estate class fund codes	
Fund name	MERs*	DSC	No Load	DSC	No Load
Equitable Life Active Balanced Income Portfolio	2.35%	ELC638	ELC738	ELC838	ELC938
Equitable Life Active Balanced Portfolio	2.35%	ELC637	ELC737	ELC837	ELC937
Equitable Life Active Balanced Growth Portfolio	2.40%	ELC639	ELC739	ELC839	ELC939

*Negative, neutral and positive ratings indicate current, not full year views

Prepared for information purposes only and does not constitute investment, legal, accounting, tax or other professional advice.

Any statements contained herein that are not based on historical fact are forward-looking statements. Any forward-looking statements represent the portfolio manager's best judgment as of the present date as to what may occur in the future. However, forward-looking statements are subject to many risks, uncertainties and assumptions, and are based on the portfolio manager's present opinions and views. For this reason, the actual outcome of the events or results predicted may differ materially from what is expressed. Furthermore, the portfolio manager's views, opinions or assumptions may subsequently change based on previously unknown information, or for other reasons. Equitable Life of Canada® assumes no obligation to update any forward-looking information contained herein. The reader is cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements. Investments may increase or decrease in value and are invested at the risk of the investor. Investment values change frequently and past performance does not guarantee future results. Professional advice should be sought before an investor embarks on any investment strategy.