Equitable
Asset Management Group

Investment Playbook

Equitable Life Active Balanced Portfolios – Q4 2015

Content

Global economic outlook
Asset class outlook

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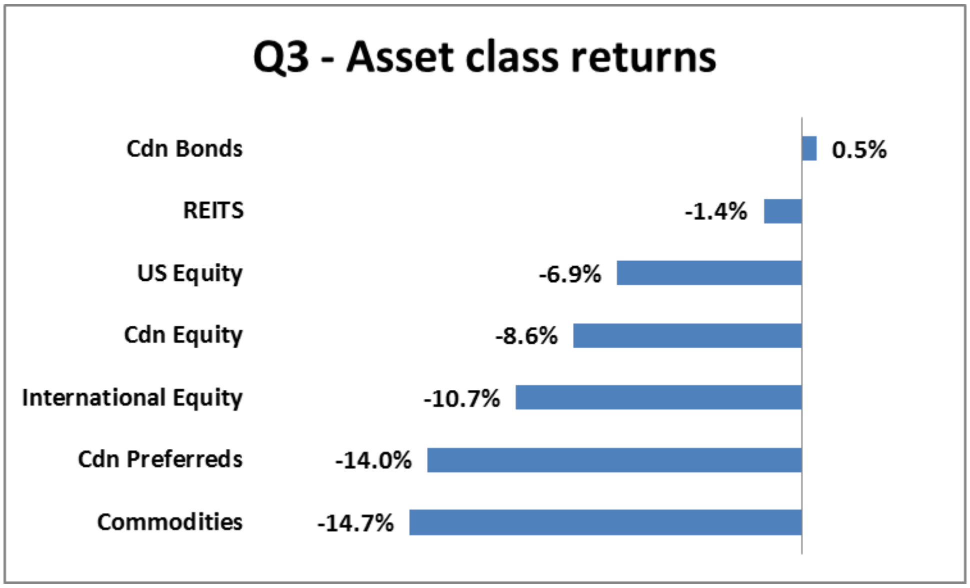

Source: Bloomberg, as of 9/30/2015

Economic outlook
US

- Growth in the US will be entirely driven by the consumer, as personal consumption and housing continue to expand. Weak business investment and a contraction in trade continue to act as obstacles to growth.
- The risks to personal consumption are balanced as the consumer has room to bring down savings rates and/or wage growth accelerates; risks remain, including slowing international growth, disruptions in the energy sector, and weak trade activity impacting job growth and consumer confidence.
- We expect the consumer will continue to pull the US economy along in the near term although the risks of a 2016 US recession increase as the economy becomes more dependent on the consumer for growth.

Canada

- In Canada economic growth is improving as the massive business investment correction in the energy sector is put behind us.
- Canadian growth is marginally more balanced, as the almost 2% growth is achieved from all sectors of the economy outside of government.
- Housing and business sectors will make modest contributions to growth while the consumer will continue to make strong contributions, provided wages accelerate. Pro-stimulus government efforts, including cuts from the Bank of Canada and increased child care benefit payments, will also support growth.

Europe

- In Europe, growth will remain below 2% because of headwinds from Greece, VW, China, Japan, and Russia.
- Lending standards are no longer loosening, and total supply of credit remains flat.
- While the improvement in trade and a stabilizing employment situation will help, action is needed through stimulus or currency depreciation.
- Growth remains challenged in Europe; as a result, inflation is unlikely to accelerate without a strong weakening of the currency.

Asset class outlook
Fixed Income (Neutral)

- The overall risk environment remains elevated as global growth continues to slow.
- China has emerged as a large seller of US government treasuries in recent months in an effort to protect their currency but they remain the largest individual holder of US Treasuries. The Chinese government will likely continue selling in a prudent manner.
- Deflation concerns re-emerged in Q3 2015 with a re-acceleration in the commodity sell-off.
- Divergent Canadian/US monetary policy will have a mixed effect on Canadian rates as the Bank of Canada will stay on hold for an extended period and could potentially cut rates once again if the economy falters.
- The Fed will likely begin a cautious hiking cycle but is in no rush to do so.
- There is a strong possibility of further easing from both the ECB and BoJ in 2016.
- Developed world deleveraging and the demographic backdrop continue to pressure interest rates.
- The resulting fixed income environment remains largely unchanged for Canadian bonds relative to our Q3 strategy leading us again to a neutral view on Canadian bonds, although volatility has increased.
- We remain more bearish on US government bonds given the probabilities of oncoming rate hikes over the next several quarters.

Corporate bonds (Negative)

- We are recommending an underweight bias to corporate bonds over a 12 month horizon, finding tactical opportunities to reduce risk over the following quarter.
- The trend of deteriorating corporate credit metrics is likely to continue into 2016 and sentiment has deteriorated. Balance sheet metrics continue to deteriorate as balance sheet leveraging remains an easy source for profits.
- Free cash flow to debt ratios continue to trend lower.

- M&A activity has increased as companies seek out topline growth in a generally low growth environment.
- Rising leverage will drive credit and equity volatility higher. Shrinking bank balance sheets and increased ETF flows are also reducing market liquidity and impacting volatility.
- We do not see imminent risk of a deep slowdown in US or Canadian economic growth in the coming year, although the risk backdrop, sentiment, and the slow deterioration in credit metrics will continue to weigh on the market.
- We are bearish on credit over the next 12 months; nonetheless, we believe there will be tactical trading opportunities throughout the year.
- Unchanged from the last several quarters, we continue to maintain our preference for higher quality companies in industries with low exposure to event risk.

Equities (Neutral)

- We received some valuation relief after the global equity sell off in August and September. After the Federal Reserve took a more dovish tone on slowing Chinese growth, and hence global growth, we saw investors switch into a risk-on mode.
- With the low yield environment we find ourselves in, investors need the returns offered by equities which will provide support to risk assets. Despite this, we still remain elevated from a valuation perspective particularly given the backdrop of mediocre global growth.
- We carry a neutral view of the US equity market while we are cognizant of the increasing downside risks. Our view would become more bullish on acceleration in personal consumption as well as some relief in the form of a weakening US dollar.
- In Canada, energy related risks remain; as well, there is continued concern surrounding an overleveraged consumer.
- Still, economic surprises in Canada could support the TSX.
- The region with the greatest promise is Europe. We base this on accelerating earnings results, as well as the potential for further ECB stimulus.
- Additional tailwinds include decelerating austerity measures and continued accommodation by the ECB.
- Based on these factors, an overweight European position is recommended.

Real Estate (Neutral)

- Thus far in 2015, real estate securities have been influenced by interest rate concerns more so than the positive fundamentals that underpin the sector.
- With treasury yields expected to rise, REITs will continue to face selling pressures in the short-term.
- In the mid/longer term, given positive fundamentals including increasing occupancy levels and signs of rent inflation, REITs are in position to perform well. A short-term sell off will likely provide a buying opportunity.
- We recommend holding benchmark weight over the mid-term while remaining cautious in the short-term.

Current positioning - 10/26/2015

Asset class	**Current weight**	**Previous weight**
Cash	**Neutral**	**Neutral**
Government bonds	**Neutral**	**Neutral**
Corporate bonds	**Underweight**	**Underweight**
Equity	**Neutral**	**Overweight**
Canada	**Underweight**	**Underweight**
US	**Neutral**	**Overweight**
International	**Overweight**	**Overweight**
Global Real Estate	**Neutral**	**Neutral**

EAMG Investment philosophy

The Equitable Asset Management Group investment philosophy follows an asset allocation model, which differs from the more prevalent stock selection approach to asset management. To guide us in our asset class decisions, we employ a macro-driven, top-down investment philosophy which we believe minimizes risk and maximizes returns across the entire asset class spectrum. Our insurance based background offers a conservative and measured approach to return generation that seeks to grow client wealth in a safe and responsible manner.

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, is constructed based on the above asset class views

Equitable Life Active Balanced Portfolios fund codes

		Investment Class 75/75		Estate Class 75/100		Protection Class 100/100	
Fund name	MERs*	DSC	No Load	DSC	No Load	DSC	No Load
Equitable Life Active Balanced Income Portfolio	2.42%	ELC638	ELC738	ELC838	ELC938	ELC1038	ELC1138
Equitable Life Active Balanced Portfolio	2.35%	ELC637	ELC737	ELC837	ELC937	ELC1037	ELC1137
Equitable Life Active Balanced Growth Portfolio	2.46%	ELC639	ELC739	ELC839	ELC939	ELC1039	ELC1139

*MERs are based on figures as at January 2015 and include estimated HST and operating expenses. MERs may vary at anytime.

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

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