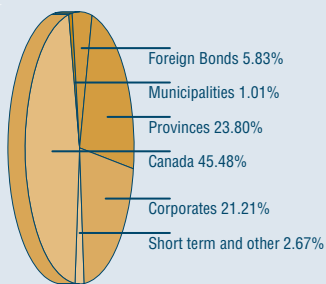


Asset mix of the Fund



Characteristics of the Fund
Bond and short term Portfolios

| | |
|------------------------|-------------|
| Average rating - Bonds | AA |
| Average term | 10.25 years |
| Modified duration | 6.87 years |
| Average coupon | 4.98% |
| Yield at cost | 4.24% |
| Yield at market value | 4.31% |

Top 10 holdings of the Fund

| | |
|-------------------------------------|---------------|
| Gov. of Canada, 4.500%, 2015-06-01 | 6.31% |
| Gov. of Canada, 5.750%, 2029-06-01 | 4.73% |
| Prov. of Quebec, 4.500%, 2016-12-01 | 4.36% |
| U.S. gov., 4.625%, 2011-08-31 | 4.07% |
| Gov. of Canada, 5.250%, 2013-06-01 | 4.02% |
| Gov. of Canada, 5.750%, 2033-06-01 | 3.76% |
| Gov. of Canada, 5.250%, 2012-06-01 | 3.67% |
| Gov. of Canada, 4.000%, 2016-06-01 | 3.52% |
| Gov. of Canada, 8.000%, 2027-06-01 | 3.29% |
| Gov. of Canada, 4.250%, 2008-09-01 | 2.89% |
| Total | 40.62% |

Investment limits

| | | |
|------------|------|------|
| | Min. | Max. |
| Short term | 0% | 20% |
| Bonds | 80% | 100% |

The average duration of the portfolio must be situated between 50% and 150% of the duration of the Scotia Capital Universe Bond index.

Commentary

The Fund's management is based on interest-rate movement forecasts, derived from analyses of macro-economic trends. The core of the portfolio is actively managed with respect to the duration, the allocation between different classes of issuers and the maturity spread. On occasion, the manager may add securities denominated in foreign currencies, real return bonds or other special situations likely to improve the portfolio's return or to reduce volatility.

Investment Advisor



Management team composed of several managers

Inception date: May 1977

First offering: February 1993

Management expense ratio (MER): 2.13% (GST included)

Objectives of the Fund

- Oriented toward current income
- Moderate long-term capital growth
- Conforms to a medium- to long-term investment horizon

Investment style

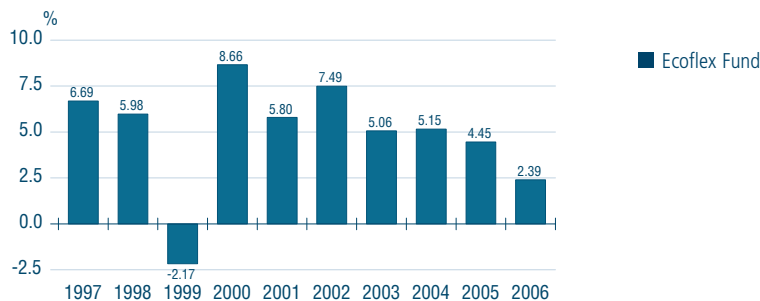
Interest rate forecasts

Performance Data

The returns or performance information shown assume that all income/realized net gains are retained by the segregated fund in the periods shown and are reflected in higher unit values of the segregated fund. The return or performance information do not take into account sales, redemption, distribution or other optional charges or income taxes payable that would have reduced returns or performance. How the segregated fund has performed in the past does not necessarily indicate how it will perform in the future.

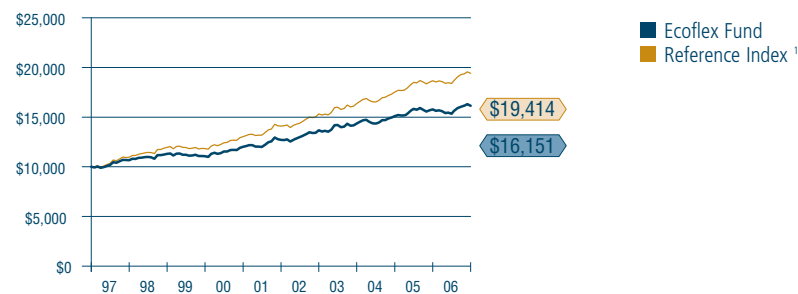
Year By Year Returns

This chart shows you the fund's annual performance and how an investment made on January 1 would have changed by December 31.



Past Performance

This graph shows you how a \$10,000 investment in this fund would have changed in value compared with the reference index.



Annual Compound Returns

This table shows the simple returns for the monthly periods and the historical annual compound total return of the segregated fund compared with the reference index.

| | Since February 1993 | 10 years | 5 years | 3 years | 2 years | 1 year | 6 months | 3 months | 1 month | YTD |
|------------------------------|---------------------|----------|---------|---------|---------|--------|----------|----------|---------|-----|
| Fund | 5.7 | 4.9 | 4.9 | 4.0 | 3.4 | 2.4 | 5.3 | 0.5 | (0.9) | 2.4 |
| Reference Index ¹ | | 6.9 | 6.6 | 5.9 | 5.3 | 4.1 | 5.6 | 0.7 | (0.8) | 4.1 |

¹ SC - Universe Bond.

Bonds

Firm

Industrial Alliance
Investment Management Inc.

The portfolio management operations of Industrial Alliance segregated funds is carried out by Industrial Alliance Investment Management Inc., a subsidiary of the Industrial Alliance Group. Industrial Alliance Investment Management Inc. has offices in Quebec City, Toronto and Vancouver. Its management team is made up of fifteen investment professionals. This team is responsible for the management of several funds, including money market, bond, Canadian equity and diversified funds. It is also responsible for the asset allocation process of several diversified funds and ensures a follow up with all external managers within the Industrial Alliance family of funds.



■ Investment Philosophy

In his management of the Bond Fund, the manager adopts a disciplined approach to investments, and supports long term objectives. His management style is based on interest rate forecasts, which are derived from analyses and studies of national and international economic outlooks. The credit quality of issuers and the temporary price differences of specific securities, generally created by unique situations of supply and demand, is also considered. The Bond Fund is characterized by an average duration that allows it to participate in the growth of the fixed income securities markets while offering moderate volatility in terms of interest rate fluctuations.

■ Fund Manager

Management team composed of several managers

Industrial Alliance Investment Management Inc. favours a team approach to managing its funds. Its investment professionals manage money markets, Canadian bonds and Canadian equity. They each specialize in one asset class and are backed by financial market analysts. For Industrial Alliance's diversified products, an asset allocation committee makes decisions pertaining to asset distribution. While its members are located in Quebec City, Toronto and Vancouver, the management team meets formally once a week by video-conference to discuss market trends and directions.