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IAG.TO - Q4 2019 iA Financial Corporation Inc Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the Industrial Alliance Fourth Quarter Earnings Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, February 13, 2020.

I would now like to turn the conference over to Marie-Annick Bonneau, Director of Investor Relations. Please go ahead.

Marie-Annick Bonneau - *iA Financial Corporation Inc. - Head of IR*

Good afternoon, and welcome to IAG's Fourth Quarter and Year-End Earnings Conference Call.

Before we start, please note that all of our Q4 documents, including the news release, the slides for this conference call, the MD&A and the supplementary information package are posted in the Investor Relations section of our website at ia.ca.

This conference call is open to financial community, the media and the public. The call will begin with prepared remarks, followed by a question period, which is reserved for financial analysts. A recording of this call will be available for 1 week starting this evening. The archived webcast will be available for 90 days, and a transcript will be available on our website in the next week.

I also want to draw your attention to the word about forward-looking statements at the end of the slide package. A detailed discussion of the company's risk is provided in our 2019 MD&A available on SEDAR and on our website.



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I will now turn the call over to our President and CEO, Denis Ricard.

Denis Ricard - iA Financial Corporation Inc. - CEO, President & Director

Good afternoon, everyone, and thank you for joining us on the call today. I will, first, introduce everyone attending the call on behalf of iA. Jacques Potvin, Chief Actuary and CFO; Mike Stickney, Chief Growth Officer; Alain Bergeron, Chief Investment Officer; Renée Laflamme, in charge of Individual Insurance and Annuities; Carl Mustos, responsible of our Mutual Fund Business and Wealth Management Distribution Affiliates; Sean O'Brien, in charge of our Dealer Services and iA Auto and Home; and Martin Bélanger, responsible of our Group Businesses.

Now for the results. Q4, like 2019 as a whole was very positive for iA Financial Group. As shown on Slide 3, reported EPS at \$1.59 is at the top of guidance and core EPS at \$1.62 is above guidance. Several positive items, which will be presented in further detail by Jacques, explain these good earnings results.

For the full year, reported EPS of \$6.40, and core EPS of \$6.26 are both above guidance. Reported ROE for the full year and core ROE, both expanded in 2019 and are also above guidance at 12.9% and 12.6%, respectively.

In fact, as you can see on Slide 7, for all metrics, our 2019 results are favorable. As for our book value per share, it continued to grow by 10% in 2019 and was at \$51.99 as of December 31, 2019.

In view of our strong 2019 results, and of our comfortable capital position, we are happy to increase by 7.8% our quarterly dividend to common shareholders.

In addition to our solid financial results, 2019 was marked by the announcement of the acquisition of IAS Parent Holdings. IAS is one of the largest independent providers of solution in the U.S. vehicle warranty market. And, following completion of this acquisition, iA will be a leader in North American vehicle warranties market. This acquisition, which should materialize during the first half of 2020, is a thoughtful step in the execution of our growth strategy. We are happy that we are able to deploy capital in areas with high-growth potential in which we have expertise.

In 2020, the continuing execution of our growth plan will remain a priority. Firstly, we will complete the IAS acquisition as well as the integration of WGI and Lubrico, the companies that we acquired in early January in the Canadian vehicle warranties market. At the same time, we will vigorously pursue our organic growth by building on the strength of our distribution networks and the breadth of our product offering.

Operating efficiency and client experience are 2 other key components of our strategy which are supported and can be improved by an optimized use of technology. In 2020, we will make meaningful investments in technology that will focus on improving efficiencies and providing a superior experience for clients and distributors. These investments will enable us to sustainably achieve our financial objectives in the long run.

Among other things, these IT initiatives will facilitate and improve the experience of our clients and distributors in their dealings with iA, and will support our business growth. I will conclude my remarks by highlighting the tremendous work of our people. Our outstanding performance in 2019 is the result of their hard work and strong performance, and I want to thank them.

I will now let Mike, our Chief Growth Officer, comment on Q4 business growth. Following Mike's remarks, Jacques will give an update on the earnings and capital. Jacques will also provide information on the guidance for 2020.

On that note, I'll pass it over to Mike.



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Michael Stickney - iA Financial Corporation Inc. - Executive VP & Chief Growth Officer

Good afternoon, everyone. During Q4 2019, business growth was generally very good. Premiums and deposits grew by 21% year-over-year and were over \$3 billion at the end of the quarter. Also assets under management exceeded \$100 billion, which propelled total AUA, AUM to \$189.5 billion, with a resulting solid 12% growth in 2019.

I will now comment on sales by line of business. Please refer to Slide 5. Individual sales had a strong finish to the year, with an 8% year-over-year increase in sales, totaling more than \$51 million. About Individual Wealth Management, starting with seg fund sales, our excellent results in Q4 demonstrate that we continue to be in a leading position in Canada. Gross sales were up 38% year-over-year, and we remain #1 in the industry with net sales totaling \$244 million for the quarter and \$663 million for the year.

Mutual fund sales improved as gross sales were up 18% year-over-year. In almost all networks, iA Clarington's mutual fund and ETF sales were net positive in the quarter. These results are quite promising, and we are encouraged for our prospects for continued success.

Overall, our group insurance business sales were about the same as last year's sales for the quarter and the year. As for our group savings and retirement sector, Q4 sales were up 35% year-over-year, a good way to conclude a very good year.

U.S. operations sales momentum remains strong as sales for the quarter increased by 37% in Individual Insurance and 36% in Dealer services. 2019 was a great year for both U.S. divisions, with sales growth exceeding 20%.

Now ending the sales overview with our affiliate, iA Home and Auto, where written premium continued their steady growth and increased 11% year-over-year. Sales for the full year increased by a solid 9%, which is quite good in such a competitive environment.

I also want to make a comment briefly on the acquisitions. In December, we announced the acquisition of an American company, IAS Parent Holdings. We still expect to close this important acquisition in the first half of 2020. IAS is complementary to iA, and it will support our expansion efforts in the U.S. vehicle warranties market.

In January, we also announced the acquisition of WGI and Lubrico. They will strengthen our leading position in the Canadian vehicle warranties market by achieving scale and industry-leading productivity and by increasing our presence in the used car market. These acquisitions are well aligned with our organization's growth plan, and our vision to be a leader in the vehicle warranties in both Canada and the United States.

I will now turn it over to Jacques to comment on Q4 earnings.

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Thank you, Mike, and good afternoon, everyone. Again, profitability was very good in Q4.

As presented on Slide 7, reported EPS was at the top of our guidance, and core EPS was above guidance. Generally speaking, our results also compare positively with our 2019 guidance.

Items of note for experience gain and loss versus expected profits appear on Slide 8. On the positive side, strain, taxes and macroeconomic variations were favorable to earnings. On another side, an increase of our litigation provision had a onetime negative impact of \$0.14 EPS. Take note, this is not related at all to Ituna.

We also had a software write-down during the quarter, which represents a loss of \$0.07. Part of it is due to our decision to exit the residential mortgage market. The other part mainly results from technology changes related to the implementation of IFRS 17.

Policyholder experience, which generated a small loss, is detailed on Slide 9. Experience in Industrial Insurance was globally positive. Individual Wealth Management had a loss of \$0.06 due to less favorable expenses, longevity and sales mix. In Group Insurance, experience was positive for

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long-term disabilities in the Employee Plans division. The Dealer Services division generated a loss, which can mainly be explained by higher expenses and unfavorable experience in creditor insurance.

As for Group Savings and Retirement, it produced a small gain. Finally, both U.S. divisions generate experience gains this quarter, totaling \$0.04.

Our results in the U.S. in 2019 confirm the growth potential of this market.

Looking back at 2019, I'm very satisfied with our results, which were quite positive. I will now comment on our year-end actuarial assumption review. Please refer to Slide 10.

For policyholder assumptions, such as mortality, morbidity and lapse, we made some minor adjustments, which resulted in a small reserve strengthening. Also, a reserve release from economic assumptions was partly offset by a reserve strengthening for the adjustment of expense assumptions.

Globally, as expected, the outcome was immaterial with a \$0.02 positive impact.

Now turning to income on capital on Slide 21. Some items are worth mentioning. iA Auto and Home completed 2019 with another positive quarter despite a weather event in Québec that cost \$0.04 during the quarter. On the other hand, a charge was incurred as a result of the software write-down that I already mentioned. There was also a onetime charge for an accounting adjustment of the participating policyholders' account. These charges were partly offset by higher-than-expected investment income.

Moving to taxes. The effective tax rate for the fourth quarter was more favorable than expected and, at 16.6%, was below our target range. You may remember the tax optimization work that I mentioned during our Q3 earnings call. This work was applied to previous years, resulting in a onetime gain. I refer you to Slide 20 for more information on taxes.

Regarding our capital position, which is presented on slides 12 to 14. Our solvency ratio was 133% at December 31, 2019. Many items explain the change quarter-over-quarter in our solvency ratio. Among other things, I want to mention the positive impact of investment strategies to reduce macroeconomic risks and organic capital generation. Also, in Q4, our capital was reduced by real estate acquisitions.

Our solvency ratio should decrease in the first half of 2020 as a result of the acquisitions that were announced in December and January. It is then expected to be within or slightly above our target range of 110% to 116%. This target range is appropriate for iA's risk profile, and we continue to be very comfortable with our capital position.

In addition, the solvency ratio sensitivity remains low, along with our leverage ratio, which is currently below 22%.

Finally, organic capital generation was strong in 2019, which allowed us to achieve our goal to generate over \$250 million. We will keep the same target for 2020, as we expect capital generation to remain strong.

I will conclude my remarks by presenting our expectations for 2020. Please refer to Slide 16 and 17. First, we expect our 2020 core EPS to be between \$6.30 and \$6.90. This represents an 11% increase for the midpoint of our core EPS guidance. EPS growth in 2020 is expected to come mainly from organic growth and profitability improvement initiatives. The company's acquisition in recent years will also contribute to EPS growth.

As for the ROE, increased return on common shareholders' equity is an important objective for the company. After exceeding guidance in 2019, we are also raising our target range for ROE to between 11.5% and 13%. This increase in ROE target range for 2020 reflects the success of recent initiatives to improve profitability.

We also improved our target for strain, which confirms a sustained improvement in this metric over the past few years. Finally, our target for our solvency ratio, our dividend payout ratio and the effective tax rate remain unchanged for 2020.



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Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Meny Grauman with Cormark Securities.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Just a question on how we should interpret the 2020 EPS guidance given that, at the low end, it implied basically flat year-over-year growth? And even at the upper end, around 10%, which you did much better in 2019. So I guess the question is, is there a message there?

Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

Okay. Thank you, Meny. It's Denis here. Let's say that I would like first to reiterate the message that we made at our last Investor Day, that we are aiming to grow the EPS by at least 10-year -- 10% a year in average. And so that was our message, 10% a year in average.

As you know, when we look at the objective for 2020, we're talking about 11% above our 2019 midpoint guidance, and this is pretty much in line with the commitment that we made in the past. We've taken into consideration, for the 2020, the positive development of 2019, like the good performance of the stock market. But we also incorporated in our 2020 guidance, the fact that we are ramping up some investments in technology to improve productivity and increased growth in the future. And basically, those investment will have some positive impact, but those positive impacts will probably materialize more after 2020.

And I shall add also that, at the same time, we've considered some additional expenses to run our businesses that are related to IFRS 17 implementation, the ramping up of our data security and also the impact of low interest rates on our pension plan costs.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And then just a question on capital release. In 2019, you know the \$420 million in capital release from investment strategies. I'm just wondering, if you look out to 2020, is there more available for you to do in 2020?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Jacques speaking here. That's a good observation, Meny. For sure this year -- in 2019, we did change our exposure to the public equity using call spread. By doing that, we released a huge amount of capital. Like we said at previous calls, we'll continue to look into those kind of opportunities. So we have nothing to announce for the moment, but we will continue to do that.

As for the reduction of our IRR sensitivity, you will have noticed from the slides we provided that we have achieved our goal. So on that, there's always new business. So that will be a little bit less, but we will continue, of course, to optimize our investment strategy.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And then finally for me. I just noticed, on a year-over-year basis, a 10% drop in the number of carrier reps. I'm wondering if there's any story there? Is this something meaningful from your perspective? Or just regular variability? It seems a little larger than what we've seen.

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Renée Laflamme - *iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement*

This is Renée speaking. We actually got a very good year in terms of recruiting. So you should see that number coming back up in 2020 as we proceeded yet to their licensing process, but we do have an extremely good momentum in the carrier network.

Operator

Our next question comes from the line of Gabriel Dechaine with National Bank Financial.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

First question on the alternative auto lending business. We're at around \$730 million sizeable loan book. I believe you're capping that at \$750 million, but might be some prime in there, so the numbers could change a bit. I'm just wondering if you're thinking more about the amount of capital you want to put into that business? Or what are the size of it, rather?

Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

It's Denis here. I will leave Sean answer that question, but let me say first that we are quite pleased with the progression of that business so far and the results that they produce. So I'll leave it to Sean to answer.

Sean O'Brien - *iA Financial Corporation Inc. - SVP of Dealer Services*

Yes. The quick answer is that limit was increased. We went to investment, that limit has been increased to \$1 billion, which will carry us through for probably another 1.5 year at our current growth rate, which is slowing down from where it's been, but still quite happy with the growth and performance of that book.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And then could you talk a bit more about the... I guess, there was an experience loss of \$0.01 due to some provision. I don't know if you're... like, is there an IFRS 9 impact there? Or is that specific provisions that you're seeing? And what's shaking up in that book from a credit standpoint?

Sean O'Brien - *iA Financial Corporation Inc. - SVP of Dealer Services*

Yes, it's still Sean on here. But experience is close to our expectations. There's no worrying or negative trends, but we're obviously watching it very closely. And I look at 2020, I think we're going to be pretty much on our plan for '20.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

So does that mean flat from these levels? Flat ratio...

Sean O'Brien - *iA Financial Corporation Inc. - SVP of Dealer Services*

Yes. Flat, flat. Correct.



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Gabriel Dechaine - National Bank Financial, Inc., Research Division - Analyst

Okay. And I'm sorry if this was asked already, I wasn't paying attention. But... you've made a few acquisitions in the last little while, including the 3 smaller ones in Canada and then the big one in the U.S. I see the slide deck showing that you've updated your dry powder figure to \$400 million, and that's pretty much all set capacity at this stage. Are you still on the lookout for acquisitions? And when I say acquisitions, I mean, bigger ones like small MGAs, I don't think that's a big deal. But could there be more larger acquisitions in the near term? Or are you really focused on integration and execution at this point?

Denis Ricard - iA Financial Corporation Inc. - CEO, President & Director

It's Denis here. Obviously, with the recent acquisitions, there is a huge focus to execute on those and make sure that we reap the benefit out of these acquisitions. So the focus will be there. At the same time, we're open to tuck-in acquisitions in the various businesses we're in. So that would be my answer to that.

Gabriel Dechaine - National Bank Financial, Inc., Research Division - Analyst

Okay. No, that's clear. And last one, just a quick one then. Jacques, you were kind enough to point out that the litigation provision was not related to Ituna, it is still a pretty big number. I'm just wondering what business line that was related to? I know you can't tell me specifics obviously, but the business line perhaps.

Renée Laflamme - iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement

Yes. This is Renée speaking. So it's in Individual Life. So the number represent mainly from a settlement that was done in the Universal Life, a group of Universal Life policyholders in January. And it's a settlement that is a conclusion of a private mediation process.

Operator

Our next question comes from the line of Steve Theriault with Eight Capital.

Stephen Theriault - Eight Capital, Research Division - Principal & Head of Research

I had a couple of quick questions. But before that, I want to clarify, I think it was Meny asking about the guidance and looking at Slide 16. Does that \$6.90 to \$6.30, does that incorporate the \$0.15 of accretion that you point out in the MD&A from the acquisition, I guess, in the back half of 2020? Or is it more on a reported basis? Like it talks about a neutral impact in 2020 and a \$0.15 impact in terms of accretion in 2020, excluding integration. Just want to make sure I have the right reference point.

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Jacques speaking here. Actually, what we will do, we will present the integration expenses as a noncore item every quarter. So here, when you look at our guidance, it's the core.

Stephen Theriault - Eight Capital, Research Division - Principal & Head of Research

So that \$6.90 at the top end of the range includes \$0.15 of accretion?



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Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Exactly, yes.

Stephen Theriault - *Eight Capital, Research Division - Principal & Head of Research*

Okay. And then I noticed the experience in the creditor insurance line has been negative for a couple of quarters. Can we get some details on some of the drivers there?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Actually, because of regulation, sales are lower in that division, specific division. We're quite pleased because it's an increase on the P&C side. However, the expenses as a percentage of the premium are higher. So that has an impact on the experience.

Stephen Theriault - *Eight Capital, Research Division - Principal & Head of Research*

Okay. So just from the lower volumes. Okay. And then last thing for me. Looking at the U.S. division, expected profit growth was showing really strong growth, but little, quite close to flat in Q4. Can we hear about some of the drivers there? Some color would be helpful.

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Yes. Actually, that's a good observation, Steve. Actually, when we look at that, it was the first time that we tried to do a seasonality quarter-by-quarter. And probably, if you look at the growth of Q3, which was 35%, this 1%, 2%. So probably, there was a sense that should have been allocated in Q4 instead of Q3. So, we will be better next year with our quarter seasonality on that line of business.

Stephen Theriault - *Eight Capital, Research Division - Principal & Head of Research*

So next year, it'll be smooth versus that lumpiness is what you're saying?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Yes, because if you look at the results, we are very proud of the results. The sales are very good. If you look at that business it is a fee income business, and also the experience on the risk retained has been positive. So we are showing a \$0.03 gain there. But part of it is probably explained by seasonality of the budget.

Operator

Our next question comes from Sumit Mahotra with Scotiabank.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

A couple of clarification questions just to start. On that litigation that you said was mediated, was iA the only life insurance company that was part of that settlement? Or were there other industry members involved?



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Renée Laflamme - *iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement*

This is Renée speaking. We are the only one.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

And second one for clarification, probably for Jacques. Just one of the items that was mentioned in the longer list this quarter related to the mortgage, or exiting from the mortgage portfolio. It's not something we've talked about a lot. Can you just give me a bit of an explanation as to this decision to exit the mortgage market? What that means for IAG going forward? Does it have any kind of impact on some of the numbers that we focused on?

Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

Yes, it's Denis here. That's a good question. Listen, we used to be active in the residential mortgage for a long time. And it was because of some needs in our balance sheet, of the general fund. And nowadays, we don't really need it in our general fund. And we realize that we have some -- I mean, our business is so small, and this isn't the business of head on against the big banks in Canada. So there was no strategic, really good positioning for us in that business. It's very small. For your information, it's very small. And so the decision was made after some strategic thinking that it was better for us to move out of that business. But there's no real financial consequences in our results.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

All right. And Denis, while you're there, just to stay with you. Since you've been in the role, we've had a lot of conversations around how the company is thinking about capital management and obviously, at the end of the day, capital is to use for your shareholders, and you did that with the IAS acquisition last month. When we look at the pro forma LICAT ratio being at the lower end of your target range or maybe the midpoint of it, how quickly do you think you will be able to build back the LICAT position with some of the changes you've made in terms of the macro exposure or the investment portfolio?

Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

I think we are in a good position. Because at the end of the day, we have some capability in terms of raising either debt or pref shares. And at the same time, we are generating organic capital on a quarterly basis. So we'll be able to, let's say, replenish our capital position in a reasonable period of time. So I'm quite pleased with the current situation.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Last one for me. This one's probably for Jacques. Just looking at your actuarial assumptions review, and I apologize if I missed this, but just want to make sure I understand the expense component as well because I also heard some talk about the technological initiatives that the company is thinking about. So by having the expense item included as one of the areas, for lack of a better term, that you strengthened in the review, does that give you some breathing room in terms of how much you can allocate to expenses on a run rate basis throughout 2020 without it causing an experience loss? Is that the right way to think about it, that basically, you just have more room to invest towards technology without it having as much of an earnings impact?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Actually, that's a good observation, Sumit. If you look at all the different lines of business, I would say, for Individual Life Insurance for sure that expenses that I see as recurring, year-after-year. I put them into the reserve calculation. So those expenses, what will happen next year will be the expected profit, that will be the release of the PfAD on that. However, there are some expenses that will be kind of a onetime shot out too. As an



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example, let's use IFRS 17. The implementation of IFRS 17 we're in the current year of that project right now. And like Denis mentioned, it has an impact on the growth of EPS in 2020, and this won't be recurring as for that, once it will be implemented, it won't be there. So this one will affect the EPS next year. And it will affect also the other lines that are shorter term.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Okay. It probably would be useful. Maybe -- I know you have an Investor Day in June, it might be useful to get some more detail on some of the initiatives, especially on the technology side that the company is considering in the overall expenses, but we'll look forward to that in June.

Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

Yes. I'd like to -- Sumit, if you don't mind, I just -- I'd like to add on this because I think it's an important topic. And you're right that we want to give more color on the Investor Day in terms of our investments. But basically, I'd like to add this, when I became CEO in 2018, there is a process that we started, the whole management team to -- I mean, the top management to -- we did a full and extensive analysis of the businesses we want to be in. And we basically tabled the plan last fall to the Board. And in that plan, we call it 2023 plan, we incorporated some quite ambitious growth objectives. And also, at the same time, important investments in technology, because we are thinking long term, okay? We are a company that think long term, and it's always been a value of this organization. So I think the important thing to keep in mind, because it all relates to the guidance at the end of the day, is that we are still committed to the average 10% EPS growth. And today, obviously, we are disclosing our results, which take into consideration those investments in 2020. But keep in mind that, going forward, we are still committed to that 10% commitment. Stay tuned.

Operator

Our next question comes from Paul Holden with CIBC World Markets.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Couple of questions related to the interest rate protection. Is there any kind of negative earnings impact associated with eliminating the IRR sensitivity?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

No. Actually, you can see now that the sensitivity is negative. Actually, if you look at the impact on capital was great, and now the sensitivity just reversed. And actually, it would be impossible for us to be -- to have a 0 sensitivity. We will -- it will vary quarter-by-quarter between plus and minus \$5 million every quarter because it's a dynamic process we're doing, there is new business coming in every quarter, so we have to readjust it. So it's completely nonmaterial, the impact of interest. That's the way we look at it, and we manage it.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. So just to be clear, in terms of the impact to core earnings, whether that's through cost of hedging or some kind of lower investment yield, that's not the case here. You've been able to hedge it out effectively 0 cost to core earnings?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

I've always mentioned over the call that we've been disciplined. We have had the luxury to, I would say, decide on when we were doing transactions. So we've always been able to do transactions at the term we set there. So we've been very disciplined. So all the transactions we made were great transactions, and we will continue to be disciplined like that.



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Paul Holden - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

Okay. That's great. And then sort of, I guess, related question is, you mentioned you took a number of actions into higher-yielding assets in the quarter, which was a negative impact on capital, but obviously, a positive impact on investment income. Can you be more specific on the type of higher-yielding assets that you invested in?

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Actually, it's mainly real estate that we bought.

Paul Holden - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

It's the real estate. Okay. So it was previously mentioned. And then last question would be with respect to the Individual Insurance sales a little bit better than target at 8% this year. So maybe you can talk about some of the momentum in that business and how that might project into continued momentum in 2020.

Renée Laflamme - iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement

Yes. This is Renée speaking. Yes, we've had a good last quarter year-over-year. The momentum is great, as I mentioned, we are actually launching a new product next week, Universal Life YRT. So that will keep on the momentum as well as a new platform for administration. And we do have other initiatives coming down the pipe in the next quarters. So we're expecting to be on a good trend for 2020.

Operator

Our next question comes from Doug Young with Desjardin Capital Markets.

Doug Young - Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst

Probably for Jacques, just the 2019 year-end assumption review. I just wanted to go back to the release on economic assumptions. So the investment gains and strategies to manage macro risk, is that just the assumption essentially that you're moving more of those assets into higher-yielding investments, like real estate? And then the flip side, the UL rate guarantee assumption, hopefully, you can just flesh that out for us a little bit?

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

It's not only that. It's certainly part of it, but it also the improvement in the matching of risks, so we use asset, liability duration matching and all that kind of stuff. So when we we say we derisk the interest rate, for sure, increasing the performance of asset is a part of it, but derisking the sensitivity is another part of it. Real estate is part of that as well. You're right. So it's a bunch of things. And in regards of the guarantee on Universal Life account, actually, we have 2 models. We have a stochastic model and general model and they were not aligned on one assumption, so we simply aligned it and cost some money there.

Doug Young - Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst

And so when you talk matching, is this more intersegment notes type of action that you're taking?



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Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Intersegment notes, for sure, they are part of it. When you look at the LICAT. In the former regime, we were very encouraged to manage asset, liability matching portfolio by portfolio, line of business by line of business. But now with the LICAT and IFRS 17 coming, we look at it more and more globally as a company. It allows us to be better at, I would say, matching the overall risk of the company. So intersegment notes is certainly part of it.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And is there more to do? Like -- and so you've done this? I know you've done some of this in the past. And so it creeps back in. How much more -- like how far are you in terms -- offer you in terms of matching? And how much more could you do?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Actually, if you look at that now, our sensitivity to interest rate is nonexistent, it's within the plus or minus \$5 million. So we achieved our goal. But like I said, it's dynamic. Every quarter, we have new sales. There will be assets that will be renewed. So our goal is to continue to stay at that level. But at the same time there, our investment guy will continue to work to optimize the portfolio. So we'll continue to do some management action on that side.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. So it sounds like most of that is done. And then just on the expense side, I know you touched on it an earlier question. Is most of that technology related? Or is this -- can you talk a bit about where, like what divisions, a lot of this changes? Is it predominantly technology? Or is there other items that went along with that expense review?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Doug, and I think you're speaking about the basis changes, the assumption review?

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Sorry. Yes, sorry, year-end assumption basis?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

No problem. I wanted to make sure only. It's mainly Life Insurance, the Life Insurance division. And there, like I said earlier, it's expense that I feel that are recurring. Denis mentioned some of them in regard of data security protection. We spoke about IFRS 17 implementation will be costly, but also, we know it's a more complex regime to be -- the cost to run our financial statement in the future will be higher than -- at least in the early years, would be higher than presently because of the complexity of it and different things like that. And about the technology, that's one thing, though, that I should mention to everyone is the fact that in regard of the investment we're doing in technology, I used a prudent approach because I didn't want to recognize all the efficiency gain that we see when we decide to do a project. So I kept some margin on that part.

Operator

(Operator Instructions) Our next question comes from the line of Tom MacKinnon with BMO Capital Markets.



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Tom MacKinnon - BMO Capital Markets Equity Research - MD & Analyst

A couple of questions. The first, I think when you did the IAS acquisition, you talked about \$0.38 accretion in 2022. You've made a few other small ones here in Canada, and you've updated, at least, the thinking around integration costs and accretion for 2020 and 2021. Is it -- should we still be looking at \$0.38 for IAS for 2022? Or is it higher now that you've made a few other acquisitions?

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Actually, for sure, the other acquisitions are in the Canadian division that are shown in the Group Insurance division. So for sure, they will add to the to the number you just mentioned. Because the number you just mentioned are really relative to IAS only.

Tom MacKinnon - BMO Capital Markets Equity Research - MD & Analyst

Okay. And can you give us any idea as to how much we should add to that?

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

I don't know, Sean. If you can, if you have those numbers, I don't have those numbers on the top of my head.

Sean O'Brien - iA Financial Corporation Inc. - SVP of Dealer Services

I don't have at the top of my head, Jacques.

Denis Ricard - iA Financial Corporation Inc. - CEO, President & Director

So we will provide you more color, certainly at the Investor Day.

Tom MacKinnon - BMO Capital Markets Equity Research - MD & Analyst

Okay. And in 2019, you did do some buybacks, you kind of stopped them just over the last quarter or so. But I'm just wondering, in your guidance for 2020, you've got capital generation, but are we -- is there any significant buyback activity in that guidance?

Denis Ricard - iA Financial Corporation Inc. - CEO, President & Director

It's Denis here. You know that our first choice in terms of capital deployment is for growth. And considering where we are right now, we will certainly direct our capital towards either acquisitions or organic growth. And we also said, and we continue to act as is, that we will be opportunistic on the buyback. So right now, it's -- the activity is quite small.

Operator

Our next question comes from the line of Darko Mihelic with RBC Capital Markets.



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Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

A couple of modeling questions. And thank you very much for Slide 21, it's helping me a little bit with some of the geography of what's happening post IAS. I wanted to confirm a couple of things, though. When I look at this slide, and I see post IAS, the \$15 million effectively split between investment income and financing intangibles. I just want to confirm that this is not the integration charges that you will be excluding from the core number for 2020? Is that the way I should think of that?

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

You're totally right, it's not that. Actually, presently, the way you have to look at it is presently we are invested in assets, it could be bonds, it could be stock, whatever, and we will have to sell those bonds, and they would be transformed into goodwill and tangible assets that will earn 0. So this is the impact the loss of investment income on those assets.

Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

Perfect. Okay. So I know how to model that. So then the next question is, the actual integration charges, should I be taking that and running that through expected profit in the U.S.? Or will it be considered an experience loss?

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Yes, we will show it, like I said earlier, we will show that as being a noncore item. So it has to be subtract from the guidance we're providing.

Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

okay. But should I run that through expected profit? And then back it. I mean, it's just a geography question, like, I understand we'll be backing it out, but I just want to understand where?

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Yes. Actually, if you look at the guidance, you will have the expected profit there. And what we will show to you, it would be an item of notes in every quarter that would show that because we provided, actually, the \$0.15 from this year, 2020, and \$0.10 for next year as being the integration costs. So those ones won't repeat.

Go ahead, Darko.

Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

Yes. And what's causing the increase in the iA Auto and Home in terms of a run rate?

Jacques Potvin - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Actually, it's a business that is very profitable. If you look at the experience, this year has been tremendous. So the run rate is reflecting that there is a growth of business that we're expecting. Like Mike mentioned earlier, the growth in Q4 has been 11%. So we're quite pleased with that. So we are not surprised by that growth.

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Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

And please keep in mind that over the last 2 or 3 years, there's been, let's call it, a huge repricing being done in the province of Québec in terms of those products. We've been ahead of the game during all that time. We are reaping the benefit right now.

Operator

Our next question comes from Scott Chan with Canaccord Genuity.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

I just wanted to go back to your 2020 earnings guidance. And with IAS as being net neutral in 2020, you talked about prior acquisitions contributing to earnings growth. Would the prior acquisitions contribute up to the 2% that you kind of target on an annual basis? Within that guidance?

Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

Well, the way I look at it is that it's -- the acquisitions that we made in the past, and here, I think you're not talking about the IAS or the 2 that we did at the beginning of this year. So am I right to say that you're talking, like, about past acquisitions?

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

Perfect. Yes. That's right. Yes.

Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

Yes. So I think you have to look at it. When we made the presentation at the last Investor Day, we showed that out of the 10% EPS growth objective over the long term. There was impact coming from acquisition. That's an average over a long time. So yes, the acquisition that we made in the past, all in, they are incorporated in the guidance.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

And on a previous question, I thought the \$0.15 that you responded to was included in that number. But it looks like it's excluded when I read the slide, is that correct?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Yes, the \$0.15 is including all the recent acquisition, IAS and the 3 acquisitions we made in the dealer division in Canada.

Operator

Mr. Ricard, there are no further questions at this time. Please continue with your presentation or closing remarks.

Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

Okay. Thanks a lot. Listen, I've got maybe 2 very, very short messages, the first one is on growth, and on growth, I think you've seen that we've had very, very significant growth in our major sectors. And when we look at, let's say, in the insurance product, where we're really on the right path.



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The seg fund are fantastic. U.S. is doing great, and you see a turnaround in terms of the net sales on the mutual fund side. So we're really on the net path right now. And on the profitability side, just to reiterate that we are committed to our 10% long-term EPS to growth. And we'll be happy to give you more color in terms of the investments that we plan to do for the long-term benefit of the company at the next Investor Day. Thanks a lot.

Marie-Annick Bonneau - *iA Financial Corporation Inc. - Head of IR*

This concludes our conference call. If you have further questions on our results, you can contact me, Marie-Annick Bonneau. My contact information is in the slide deck and on the website. Thank you for joining us today.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line. Have a great day, everyone.

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