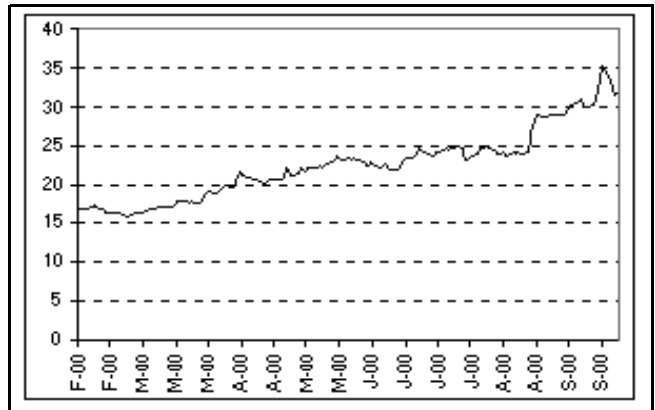


THE COMPANY

Industrial-Alliance Life Insurance Company is the one of the fastest growing life insurance companies in Canada. Based in Quebec, Industrial-Alliance provides coverage and wealth management services throughout Canada under three brand names: Industrial-Alliance, National Life and North West Life of Canada. In February 2000, Industrial-Alliance completed the demutualization process and is now listed on the TSE as a publicly traded insurance company.

FINANCIAL DATA

	1998	1999	2000e
Earnings per Share (\$)	1.80	1.98	2.20
Price to Earnings (times)	9.4	8.6	7.7
Dividend (\$)	-	-	-
Dividend Yield (%)	-	-	-
Book Value (\$)	15.91	17.02	18.60
Price to Book Value (times)	1.07	1.00	0.91

HISTORICAL SHARE PRICES

WHY ABC FUNDS BOUGHT INDUSTRIAL-ALLIANCE

Industrial-Alliance (IAG) of Quebec City is a well-run and undervalued life insurance company. IAG has three distinct regional brands, a multi-channel distribution network, including an exclusive sales force of over 1200 agents and has been expanding in Ontario and British Columbia. In 1999, the company ranked seventh in terms of assets under management (over \$13 billion), third in terms of new life insurance sales and second in terms of universal life policy sales, despite having the smallest market capitalization of the public life insurance companies.

ABC Funds applied our value investment disciplines while closely examining the IAG initial public offering. IAG was priced at the lower end of the target range and at over one dollar below book value. The eventual low initial public pricing of \$15.75 was due to interest rate concerns, IAG's small market capitalization and its disproportionate Quebec base. We realized that attractive value could be obtained at an affordable price and continued to purchase the shares in the open market after the public offering. Today IAG trades at approximately \$20, under 1.2 times book value and only 10 times earnings in 1999. Based on these fundamental measures, it is apparent that the market has yet to recognize the full value of Industrial-Alliance.

While IAG is fundamentally inexpensive, it is important not to underestimate the potential for a takeover. Because Industrial-Alliance is based in Quebec, the company is provincially not federally regulated. Federally regulated public life insurance companies are allowed to petition the Minister of Finance to remove ownership restrictions 24 months after demutualization. However, in Quebec, a private bill in the National Assembly could be used to amend and remove the 10% individual ownership limit. Therefore, IAG is not constrained by a two-year waiting period before a majority owner could assume control. Possible suitors would find the company's small size, multi-channel distribution network and dominance of the universal life market to be especially attractive features.

In 1999, Industrial-Alliance provided a 13.6% return on shareholders' equity and is working diligently throughout Canada to expand operations and grow sales of individual life insurance policies. In addition to the tremendous potential of the universal life and wealth management businesses, IAG is a highly desirable acquisition target to any purchaser looking for a captive sales force and significant Quebec market presence. For all of these fundamental reasons, IAG is definitely one of our value favourites.

UPDATES

Industrial-Alliance completed its first successful quarter as a publicly traded company since its demutualization this past February. Financial results were quite positive and profitability and growth were better than general expectations. Earnings increased significantly from the corresponding quarter in 1999; they rose from \$0.29 to \$0.54 per share. The implied return on common equity was 13.23%, compared to 8.04% for the similar period last year. More importantly, Individual Insurance, Individual Annuities and Group Pensions all contributed to profitability. Group Insurance was the notable exception and this segment recorded its first losses after several years of profitable operations. Management is making a concerted effort to adjust contract renewal rates in order to return the division to profitability as quickly as possible.

The Industrial-Alliance sales force generated solid revenue growth across all business lines. Insurance and annuities premiums grew 18.3% from the first quarter of 1999, life and health insurance premiums increased 13.9%, and revenue from savings and retirement plans was up 25.2%. Individual insurance sales were up 9.3% to \$27 million and Industrial-Alliance ranked second in terms of new policy sales in Canada. Individual annuity sales were particularly strong during the RRSP season; several new products were offered and premiums totaled \$265.9 million, up 53.0% from 1999. Finally, assets under management reached \$13.4 billion by the end of the quarter, an increase of 9.1%. With impressive growth figures such as these, it will be difficult for Industrial-Alliance to remain relatively under-followed by the investment community and undervalued by the capital markets.

Industrial-Alliance's share price has shown good appreciation since the initial public offering but the company is still cheap when compared to its peers. The company has one of the best disclosure policies in the industry and management seems to have recognized the importance of building shareholder value. Finally, Industrial-Alliance is still quite attractive as a takeover candidate. The company has solid fundamentals, an excellent distribution network and an established presence in Quebec. Industrial-Alliance remains one of our top value favourites and we expect the discount to its peers to shrink as profitability and growth continues.

ABC Funds
June 7, 2000

We purchased Industrial-Alliance as a fundamentally undervalued, small capitalization life insurance company when it demutualized in February of this year. We believed in the company and continued to purchase the publicly traded shares for an average cost of approximately \$16. At this price Industrial-Alliance was deeply discounted and, along with other recently demutualized life insurance companies, it performed quite well. As Industrial-Alliance increased in price, we reviewed the company's solid quarterly financial results and raised our target price three times.

While we continued to favour the company, as it broke through \$30 we believed that Industrial-Alliance was becoming fairly valued. Unfortunately, liquidity was limited, which hampered our ability to divest our holdings without significantly weakening the share price. Fortunately, an opportunity to realize our gains suddenly presented itself. There was increasing speculation that Industrial-Alliance was to be included in the TSE 300, TSE 200 and S&P/TSE Canadian MidCap indices and in fact, on Tuesday September 19, this was finally confirmed. The stock rose substantially due to index buying and we were able to liquidate our entire position at over \$33 per share.

We do not wish to imply that the solid financial performance and share price appreciation will not continue. However, we had made a substantial gain from our holding of Industrial-Alliance and we seized the opportunity to raise capital. Our investment mandate ensures that we have the discipline to reallocate our capital from fully valued investments to other opportunities with greater upside potential.

ABC Funds
September 22, 2000