EMPIRE LIFE
EMBLEM AGGRESSIVE GROWTH PORTFOLIO

Empire Life Investments®

Series A as of September 30, 2018

PORTFOLIO MANAGER

Empire Life Investment Team

COMPOUND ANNUAL RETURNS — Series A (%)

	1 mo	3 mo	YTD	1 yr	3 yr	5 yr	10 yr	Inception*
Fund Return	**-0.8**	**0.5**	**-0.2**	**3.2**	**6.9**	**7.9**		**8.2**

*Inception date: January 9, 2012

The third quarter of 2018 was a quarter of contrasts across the equity markets. The gap between "winners" and "losers" continued to widen across global markets in the third quarter. In Canadian dollar terms, the S&P 500 Index rose by 5.9%, by far outperforming the Canadian S&P/TSX Composite and the MSCI EAFE Index, which fell by 0.6% and 0.3%, respectively. Year-to-date, the gap between the returns on the S&P 500 Index and the S&P/TSX Composite and MSCI EAFE Indexes has stretched to over 10%. Over the quarter, U.S. equities continued to benefit from an increase in corporate earnings, tax cuts and expanding price-to-earnings ratios. Canadian equities were hurt by persisting weakness in the Energy sector and a double-digit drop in the Materials sector. Equity returns outside of North America suffered from weakening currencies, Brexit worries, escalating trade barriers and potential contagion from economic collapse in some of the emerging markets. On the fixed-income side, the Canadian benchmark FTSE TMX Canada Universe Bond Index declined by 0.5%, largely due to an increase in long-term interest rates.

The Emblem Aggressive Growth Portfolio (Series A) advanced 0.5% in the third quarter of 2018. An overweight allocation to U.S. equities compared to other regions contributed to relative performance.

South of the border, the S&P 500 Index saw gains across all sectors, with the exception of Energy and Materials, which both saw modest declines. Industrials, Health Care, Information Technology and a newly formed Communications Services sector all recorded strong gains in the third quarter and drove much of the overall return. Investors largely brushed off fears about the potential negative impact on U.S. companies of the escalating trade war, and focused instead on strong earnings and the continued benefits of corporate tax cuts. The S&P 500 Index's price-to-earnings multiple increased in the quarter, highlighting investors' continued confidence in the market. The Emblem Portfolios generally maintained their tactical positioning in U.S. equities over the quarter, with a continued emphasis on high-quality, cash-generative companies.

The Canadian S&P/TSX Composite Index also saw declines in the Energy and Materials sectors, but that's where the similarities between the two indexes end. An almost 13% quarterly decline in the Materials sector, dragged down by gold and silver producers, has reduced its weighting in the Index and knocked it out of the top three largest sectors. The trio of Materials, Energy and Financials has historically been a staple of Canadian equity market. The Energy sector continued to suffer from a pricing discount to U.S. oil, and gave up all the gains it achieved in the previous quarter. The Financials sector continued to be the Index's stalwart, with a positive return of 3.8% helping offset some of the declines in the Energy and Materials sectors. The Health Care sector gained 31.4% for the quarter, fuelled by marijuana producers, but it only makes up less than 2% of the overall Index, and the cannabis subsector remains highly speculative. Although the portfolio management team remains positive on Canadian equities, the Emblem Portfolios made an incremental tactical shift away from Canadian equities in the quarter, based on relative value opportunities.

The MSCI EAFE Index had another muted quarter, decreasing slightly in Canadian dollar terms. The Financials and Industrials sectors, the two most influential sectors in the Index, declined 2.2% and 1.2%, respectively. Energy and Health Care were the only sectors to make quarterly gains, but their combined weight makes up only about 18% of the overall Index. Economic and political worries persisted in Europe, highlighted by uncertainty about Brexit and economic collapse in Turkey. The Emblem Portfolios tactically increased exposure to international equities over the quarter, positioning the funds to take advantage of attractive tactical opportunities in the near term in our defensively oriented portfolio of high-quality international equities. We believe the political headline risks are largely reflected in valuations, and as these issues subside, we expect the region's equity performance to catch up to that of the U.S.