EMPIRE LIFE
EMBLEM AGGRESSIVE GROWTH PORTFOLIO

Empire Life Investments®

Series A as of December 31, 2017

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	**-0.3**	**3.4**	**6.8**	**6.8**	**6.5**	**10.3**		**9.3**

*Inception date: January 9, 2012

The amazing global equity rally we saw in 2017 continued in the fourth quarter, supported by a softening of headline political risks, relatively stable economies and positive earnings results, particularly in the U.S. On the political front, rhetoric between the U.S. and North Korea calmed, despite another ballistic missile test by the latter nation; negotiations between the U.K. and E.U. hit an important milestone; and U.S. lawmakers succeeded in passing a significant tax reform package. The S&P 500 Index turned in a very strong performance, advancing 7.2%, in Canadian dollar terms, over the quarter. On the way to this result, the Index reached 23 new all-time closing highs. For the year, the Index advanced 13.8%. International equities, as represented by the MSCI EAFE Index, gained 4.8%, in Canadian dollar terms, over the quarter, and 17.4% for the year. The S&P/TSX Composite Index also fared well, with a gain of 4.5% for the quarter and 9.1% for the year.

All eleven sectors of the S&P/TSX Composite delivered positive total returns over quarter. Of the Index's big three sectors (Financials, Energy and Materials), Energy's 0.7% quarterly gain held back the Index's overall performance. A perfect storm for Canadian energy transpired over the quarter: new Canadian oil supply, combined with transportation bottlenecks, caused Canadian oil prices to plummet relative to the U.S. West Texas Intermediate oil price. On the positive side, Financials and Materials delivered stronger returns. Banks generally benefited from a rising-interest-rate environment and produced strong earnings results, and in Materials, performance was supported by higher nitrogen and potash prices. The portfolios generally maintained an overweight Canadian equity target relative to its neutral asset mix.

U.S. equity performance was also broad based, with all sectors producing positive total returns. The more cyclically oriented sectors – Consumer Discretionary, Information Technology, Financials and Materials – all outperformed the broad market. The biggest news for U.S. equities came at the end of the quarter with the passing of a major tax reform bill. The corporate tax rate will be reduced from 35% to 21%, which will boost after-tax profit margins on current projects, and will likely increase the number of projects that meet corporate after tax hurdle rates, potentially increasing economic activity. Additionally, the tax system will shift from a worldwide to a territorial tax system that will likely facilitate the repatriation of overseas corporate profits and potentially lead to further capital expenditures. Risks for U.S. equities are now related to elevated valuations, low levels of fear (as evidenced by record lows on the VIX Index) and a divergence between hard and soft economic data (actions vs. sentiment). The portfolios generally maintained US equity target weights relatively in line with its neutral asset mix.

International equity performance over the quarter was led by Japan, with a 14.9% gain for the Nikkei 225 Index, in Canadian dollar terms. Japanese corporate earnings have been good, and the market was undervalued compared to other developed markets. Japanese retailers have done well in capitalizing on increased tourism from China. In Europe, Brexit negotiations hit a major milestone in December; however, talks leading up to that point faced many setbacks that were likely a factor in the U.K. stock market's lagging performance. The European Central Bank (ECB) announced a reduction in its monthly net asset purchases to 30 billion euros starting in January 2018, and cited a significant improvement in its growth outlook at its December rate-setting meeting. Regional risks involve the unwinding of the ECB's asset purchase program, which may be more complicated than in the U.S., because corporate bonds are a part of the mix in the ECB program. Additionally, the rebound of nationalism and ultra-right-wing support in Germany raise political risks that seemingly had been quelled following the 2017 French presidential election. The portfolios generally maintained an underweight international equity target relative to its neutral asset mix.