EMPIRE LIFE
EMBLEM AGGRESSIVE GROWTH PORTFOLIO

Empire Life Investments®

Series A as of March 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	**1.1**	**2.0**	**2.0**	**13.0**	**6.9**	**9.5**		**9.8**

*Inception date: January 9, 2012

Performance

The first quarter of 2017 ended with investors feeling bullish: world economies are recovering, global earnings growth remains robust, balance sheets are cash rich, and monetary conditions in most countries remain very accommodative. With yields on bonds and cash alternatives continuing to be decidedly unattractive, equity returns continued their ascent. Investors shrugged off both Brexit and a failed attempt at U.S. health care reform, suggesting the market may be more resilient to geopolitical factors than had been anticipated. International stocks led the way during the first quarter and returned 6.4% (as measured by the MSCI EAFE Index, in Canadian dollar terms). U.S. equities (as measured by the S&P 500 Index, in Canadian dollar terms) also performed strongly, up 5.3% for the quarter, continuing a record-setting rally for U.S. stocks in the wake of Trump's November election. Canadian stocks, as measured by the S&P/TSX Composite Index, ended the first quarter up 2.4%, driven higher by rising prices for resources, including gold. Gold rebounded from lows at the end of the fourth quarter, with fears of inflation, as well as political and economic instability, often on the minds of many market participants around the world over the past three months.

The Empire Life Emblem Aggressive Growth Portfolio (Series A) (the "Fund") increased 2.0% over the quarter, and compares to a 3.2% gain for the Fund's blended benchmark (30% S&P/TSX Composite, 30% S&P/TSX 60, 12.5% S&P 500, 12.5% MSCI EAFE, and 15% S&P/TSX Small Cap).

Positioning & Rationale

The Empire Life Emblem Aggressive Growth Portfolio generally maintained its target asset mix of 100% invested in equity securities during the quarter.

Investors are perhaps cautious as to what an "America First" theme will mean for Canadian companies. As a result, the Canadian equity market likely does not carry with it the same degree of built-in expectations as in the U.S. As long as oil prices do not significantly decline, Canadian stocks may offer a more attractive near-term risk-adjusted opportunity. The Portfolio's allocation to Canadian equities was increased during the quarter.

After just two rate hikes in nearly a decade, the U.S. Federal Reserve raised rates again at its March meeting. President Trump is trying to boost the U.S. economy through deregulation, tax cuts and health care reform. However, the failure to repeal Obamacare highlights that policy execution risks must remain top of mind. Investors will now be turning their attention to the impending first-quarter earnings season to justify lofty valuations for equities. U.S. stocks are trading at 21 times last year's earnings – quite high by historical standards. At this level, a closer examination of potential negative catalysts becomes increasingly important. The Portfolio's allocation to U.S. equities was tactically decreased during the quarter.

Eurozone factory growth accelerated in March, as an improving global economy boosted export demand in the region's biggest economies (Germany, France and Italy). However, the euro dipped and bond yields hit multi-week lows in late March, after easing inflation in Spain and Germany led investors to pull back on expectations of when the European Central Bank might tighten monetary policy. Potential uncertainty leading up to elections in the key markets of France and Germany remained top of mind early in 2017. In this environment, the Portfolio remained underweight in international equities.