EMPIRE LIFE
EMBLEM BALANCED PORTFOLIO

Empire Life Investments®

Series A as of September 30, 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	**1.3**	**0.2**	**1.7**	**1.9**	**3.6**	**5.7**		**5.6**

*Inception date: January 9, 2012

The third quarter of 2017 offered investors plenty of negative headline news, such as heightened military tensions between North Korea and the United States, monster hurricanes devastating the Caribbean and US gulf coast, and continued terrorist attacks in Europe. Investors largely shrugged off these events, however, and supported equity markets higher, perhaps reflecting a dangerous level of complacency. In fact, the CBOE Volatility Index (or VIX - a commonly used fear gauge), hit all time new lows in the quarter, and the S&P 500 reached multiple record highs to close the quarter with a 4.5% gain. For Canadians, however, a sharp rise in the Canadian dollar eroded much of that advance, resulting in a 0.5% gain. International equities also faced a currency headwind over the quarter, leading the MSCI EAFE index to gain 1.4% in Canadian dollar terms. Closer to home, the S&P/TSX Composite index rallied 3.7% in the quarter to lead the other equity regions, while the FTSE TMX Canada Universe Bond Index retreated 1.8% in a rising interest rate and equity friendly environment.

In this environment, the Emblem Balanced Portfolio (Series A) advanced 0.17% in the third quarter of 2017. An overweight allocation (relative to its neutral mix) to Canadian equities contributed to relative performance, as did an underweight allocation to Canadian government bonds.

The Bank of Canada ("BOC") increased interest rates by 25 basis points twice over the quarter (in July and September). This is in stark contrast to the beginning of the year when market did not factor-in any rate increase in 2017. These moves lifted the Canada 10-year bond yield sharply higher (and prices lower). Towards the end of the quarter, BOC governor Poloz commented that they will proceed cautiously on any further rate moves, given the sharp rise in the Canadian dollar and high debt levels of Canadians. Given the generally positive sentiment among investors, corporate bonds outperformed government bonds. Target allocations to fixed income remained underweight relative to its neutral asset mix.

Canadian equities generally trended lower over the quarter, but bounced back in September. One factor was the recovery in oil prices from a $44 (US dollars per barrel) quarterly low to $52 by the end of the quarter. Not surprisingly, Energy was the top sector performer with a 6.6% gain, followed by Consumer Discretionary and Financials. Canada's major banks delivered another strong earnings season, largely on strength in domestic banking and wealth management. NAFTA negotiations soured towards the end of the quarter with the US Commerce Department's decision to impose a hefty duty on C-Series jets made by Canada's Bombardier Inc. Target allocation to Canadian equities were increased early in the quarter.

The S&P 500 closed the quarter at an all-time new high and made an additional 15 new closing highs during the quarter. Investors largely brushed off geopolitical risks and economic disruptions caused by several hurricanes, and perhaps concentrated on a strong earnings season, in which 73% of S&P 500 companies reported positive earnings surprises and 70% reported positive sales surprises. Valuations ticked higher with the index's P/E ratio rising from 20.96 to 21.49 over the quarter, which compares to a ten-year average of about 17. Information Technology led sector gainers, and was followed by Telecom Services and Materials. Target allocations to US equities were reduced early in the quarter on valuation concerns.

It was a relatively stable quarter in international equities. The European Central Bank maintained very low interest rates and continued its 60 billion euro per month bond purchase program. Although the European economic recovery was better than the ECB expected over the first half of the year, inflation remains below target and justifies their continued program of monetary accommodation. Stock markets were buoyed by continued monetary support, encouraging economic and earnings growth, and much of 2017's political drama in the rear view mirror. Target allocations to international equities were increased early in the quarter to reduce the asset class' underweight positioning relative to its neutral asset mix.