

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	-0.9	-0.3	-0.8	1.8	3.2	4.9		5.0

*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 Balanced Portfolio (Series A) declined 0.3% in the third quarter of 2018. An overweight allocation (relative to its neutral mix) to equities vs. bonds and further overweight allocation to U.S. equities within the asset class 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.

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	-0.9	-0.3	-0.8	1.8	3.2	4.9		5.0

*Inception date: January 9, 2012

The U.S. Federal Reserve raised the target range for the Federal funds rate by 25 basis points, from 2% percent to 2.25%, at its September 2018 meeting, in line with market expectations. The Bank of Canada left its benchmark interest rate steady at 1.5% on September 5, 2018, in line with market expectations, following a 25-basis-point hike at the previous meeting in July. Long-term rates increased slightly during the quarter, largely offsetting a move in the previous quarter. Overall, long-term rates neared the top of their established trading range over the period. The Emblem Portfolios maintained an underweight position in bonds, focusing on a slightly defensive mix within the asset class.

Disclaimer

This document includes forward-looking information that is based on the opinions and views of Empire Life Investments Inc. as of the date stated and is subject to change without notice. This information should not be considered a recommendation to buy or sell nor should they be relied upon as investment, tax or legal advice. Information contained in this report has been obtained from third party sources believed to be reliable, but accuracy cannot be guaranteed. Empire Life Investments Inc. and its affiliates does not warrant or make any representations regarding the use or the results of the information contained herein in terms of its correctness, accuracy, timeliness, reliability, or otherwise, and does not accept any responsibility for any loss or damage that results from its use.

Empire Life Investments Inc. is the Manager of the Empire Life Mutual Funds (the "Funds"). Units of the Funds are available only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such units.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. You should consult with your investment professional before making any investments.

® Registered trademark of The Empire Life Insurance Company. Empire Life Investments Inc. is a licensed user of this trademark.