

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	0.6	1.5	1.5	3.5	3.7			3.7

*Inception date: January 20, 2014

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. Canadian bonds, as measured by the FTSE TMX Canada Universe Bond Index, rebounded from a weak fourth quarter, posting a gain of 1.2% for the first quarter. Overall, monetary policy remains very accommodative.

The Empire Life Emblem Diversified Income Portfolio (Series A) (the “Fund”) increased 1.5% over the quarter, and compares to a 1.8% gain for the Fund’s blended benchmark (80% FTSE TMX Canada Universe Bond Index, 5% S&P/TSX Composite, 5% S&P/TSX 60, 5% S&P 500, and 5% MSCI EAFE).

Positioning & Rationale

On a tactical basis, Empire Life Emblem Diversified Income Portfolio (the Portfolio) maintained its target allocation to fixed-income securities, including cash (75%), and its allocation to equity securities (25%), relative to its strategic asset-mix benchmark.

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.

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	0.6	1.5	1.5	3.5	3.7			3.7

*Inception date: January 20, 2014

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.

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.