EMPIRE LIFE
EMBLEM DIVERSIFIED INCOME PORTFOLIO

Series A as of June 30, 2019

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	**1.0**	**1.4**	**6.5**	**3.2**	**2.1**	**2.8**		**3.0**

*Inception date: January 20, 2014

The second quarter of 2019 delivered modest-to-respectable gains among asset classes. In Canada, the S&P/TSX Composite Index returned 2.6% while the FTSE Canada Universe Bond Index almost kept pace, returning 2.5%. The S&P 500 Index in the U.S. returned 2.2% (after accounting for a 2.1% U.S. dollar decline against the Canadian dollar) and the MSCI EAFE Index trailed all other asset classes, returning 1.8%. These headline performance numbers, however, understates the wild swings that transpired over the period.

Early in the quarter equity market performance was supported by positive economic growth and strong employment data coming out of the U.S., as well as the U.S. Federal Reserve ("the Fed") continuing to hold interest rates steady. Towards the end of April, year-to-date equity market performance was very strong, resulting in relatively expensive overall valuations. As a result, the Emblem portfolios tactically allocated a portion of the Fund's international equities primarily to U.S. equities. In our view, the U.S. equity market offers an advantage in the current late-cycle environment when seeking a balance between continued growth and defensive characteristics. The fund's U.S. equity investments focus on high quality companies with strong balance sheets, durable competitive advantages, and are highly cash generative.

Not unusual over recent history, geopolitical events had just as much influence on markets as economic and market events. In early May, U.S./China trade negotiations unexpectedly fell apart and prompted the U.S. to increase tariffs on China. The market had expected continued progression towards a resolution, so the surprise breakdown led to a sharp reversal in sentiment. Making matters worse, U.S. president Trump opened up additional trade war fronts - including with Mexico - where he threatened tariffs as a tool to pressure Mexico into better controlling migrants illegally crossing into the U.S.

As the quarter drew to a close, stocks rose despite mounting fears of an economic slowdown, partially thanks to a shift in perceptions the Fed could cut rates as soon as at the end of July. At one point in the quarter, the market priced-in as many as three interest rate cuts by the Fed over the remainder of the year. The market also expects the European Central Bank to cut interest rates to combat risks of not meeting their inflation targets. This leaves the Bank of Canada as an outlier, as overall market expectations are for policy interest rates to hold at current levels to the end of 2019. This was a significant factor in the Canadian dollar's relative strength.

At the end of the quarter, the Emblem portfolios were generally overweight in U.S. equities and to a lesser extent in cash. The positioning is in line with the current environment where valuation driven market risks may be more heightened.