

Fixed Income: The Federal Reserve (the Fed) continued its gradual tightening path by raising its benchmark rate on March 15th, 2017. Despite a reflationary outlook, the U.S. yield curve flattened, with the front end of policy-sensitive short-term yields going up and the ten-year Treasury yield trading in a tight range during the quarter. In Canada, the yield curve remained more stable; the Bank of Canada is broadly expected to be on hold this year, and no further near-term easing was on the horizon, given positive economic developments. Credit spreads tightened following a rally in global risk assets. The Canadian bond markets registered broad-based positive returns across the term and credit spectrum. The FTSE TMX Canadian Universe Bond Index finished the quarter with a 1.2% gain. We have positioned the fixed-income portfolio defensively for a steepening yield curve, because further Fed rate hikes are expected amid continued gains for U.S. economic data, notably the labour market. The bond portfolio's overweight in corporate bonds was tilted toward short-term issues. The overall duration is slightly shorter than that of the benchmark index.

U.S. Equity: In the first quarter, Wall Street's bull market turned eight years old. Supported by solid economic data, optimism following last year's election remained high. The markets had been pricing in good news about fiscal stimulus, and expected growth and inflation to accelerate. However, heady pro-growth expectations were tempered when the Trump administration failed to push legislation to repeal Obamacare through Congress. The health care reform setback raised questions about the potential for tax reform and infrastructure spending. The Fed raised rates for the second time in four months; the move was well-telegraphed and generally priced in. U.S. stocks closed out the quarter on a cautious note, after string of historical highs. The S&P 500 TR Index gained 6.1% (5.2% in Canadian dollar terms). Energy and Telecommunication Services led the S&P 500 Index down, while Information Technology and Health Care eked out the largest gains. We remain bullish on the U.S. economy and equities over the long term. Over the short term, we characterize our view as cautious. We continue to focus on high-quality businesses that are trading at attractive valuations

as a way to manage the volatility and strive to control downside risk, because we continue to believe that the U.S. economy is relatively better positioned in case of an unexpected global economic stress.

Canadian Equity: Very little of substance was changed by the 2017 federal budget. The economic and capital market outlook will largely continue along the pre-budget trajectory of revival seen over the past few months. The oil market continues to normalize despite the signs of oil inventories requiring additional time to settle. Other commodity prices are also positioned to benefit from a broad-based and stable global economic recovery. Canadian banks have continued to grow their revenue and earnings. The Canadian dollar remained remarkably resilient as the Bank of Canada became more neutral in its policy stance. The S&P/TSX Composite TR Index advanced another 2.4% in the first three months of 2017, posting its fifth consecutive quarterly gain. Our overall view on Canadian equities remains positive, based on an improving underlying economy and solid company fundamentals, but we expect increased volatility in the markets as a result of an elevated equity market valuation and ongoing geopolitical uncertainties.

International Equity: The Eurozone seems to show signs of exiting both economic and political crises. There are mounting evidences that the economic recovery has taken hold. The Dutch elections in March marginalized far-right candidates. Political populism appears to be halted, at least for now. European equities staged a strong rally in the quarter as market participants played down fears regarding the forthcoming French elections and fallout from Brexit, driving the Euro Stoxx GR Index up by 7.2% (8.1% in Canadian dollar terms). In general, European equities appear relatively attractive from a valuation perspective. But we believe the valuations of high-quality European companies are in line with those of their U.S. counter parts. The lower valuation is largely attributable to the low-quality European companies. As a result, we believe the upside potential is tilted toward European equities, while the opportunity for downside protection might be in U.S. equities.

Investment Performance – March 31, 2017



Funds	1 mth	3 mths	6 mths	YTD	1 yr	2 yrs	3 yrs	5 yrs	Since Inception	Inception Date
Money Market Fund Series A	0.00%	0.00%	0.00%	0.00%	0.04%	0.06%	0.13%	0.25%	0.25%	9-Jan-12
Monthly Income Fund Series A	0.6%	1.3%	1.3%	1.3%	8.4%	2.4%	4.1%	5.7%	5.7%	9-Jan-12
Canadian Equity Fund Series A	1.4%	1.3%	5.6%	1.3%	11.8%	5.7%	7.2%	9.0%	8.9%	9-Jan-12
Dividend Growth Fund Series A	0.5%	0.9%	7.8%	0.9%	17.2%	6.6%	6.5%	9.2%	9.1%	9-Jan-12
Small Cap Equity Fund Series A	1.8%	4.4%	4.3%	4.4%	17.2%	7.1%	4.6%	5.2%	4.8%	9-Jan-12
Diversified Income Portfolio Series A	0.6%	1.5%	-0.1%	1.5%	3.5%	0.9%	3.7%		3.8%	20-Jan-14
Cons. Portfolio Series A	0.6%	1.4%	0.6%	1.4%	4.5%	1.0%	3.6%	4.8%	5.0%	9-Jan-12
Balanced Portfolio Series A	0.7%	1.4%	1.6%	1.4%	5.8%	1.8%	4.4%	6.0%	6.1%	9-Jan-12
Mod. Growth Portfolio Series A	0.9%	1.6%	3.3%	1.6%	8.3%	3.0%	5.5%	7.2%	7.4%	9-Jan-12
Growth Portfolio Fund Series A	1.0%	1.6%	4.8%	1.6%	10.5%	4.2%	6.3%	8.4%	8.5%	9-Jan-12
Agg. Growth Portfolio Series A	1.1%	2.0%	6.5%	2.0%	13.0%	5.0%	6.9%	9.5%	9.8%	9-Jan-12

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.