

Empire Life Mutual Funds

2016 IRC Annual Report to Unitholders (For the year ended December 31, 2016)

Funds covered by this report:

Empire Life Emblem Diversified Income Portfolio
Empire Life Emblem Conservative Portfolio
Empire Life Emblem Balanced Portfolio
Empire Life Emblem Moderate Growth Portfolio
Empire Life Emblem Growth Portfolio
Empire Life Emblem Aggressive Growth Portfolio
Empire Life Small Cap Equity Mutual Fund
Empire Life Canadian Equity Mutual Fund
Empire Life Dividend Growth Mutual Fund
Empire Life Monthly Income Mutual Fund
Empire Life Money Market Mutual Fund



Dear Unitholder:

The Independent Review Committee (“IRC”) of the Empire Life Mutual Funds listed on the front cover of this report (collectively, the “Funds” and individually, a “Fund”), managed by Empire Life Investments Inc. (“Empire Life Investments” or the “Manager”), is pleased to provide its annual report for the period beginning January 1, 2016 and ending December 31, 2016, the financial year-end for the Funds (the “applicable period”), as required by National Instrument 81-107, *Independent Review Committee for Investment Funds* (“NI 81-107”).

The members of the IRC, whose identities are listed in this report, bring to their duties a range of professional experience and skills. The mandate of the IRC is to review conflict of interest matters identified and referred to the IRC by the Manager and to give its approval or recommendation, depending on the conflict of interest matter. A “conflict of interest matter” is a situation where a reasonable person would consider the Manager or an entity related to the Manager to have an interest that may conflict with the Manager’s ability to act in good faith and in the best interests of the Funds. In each instance where a conflict of interest matter is identified and referred to the IRC, the IRC’s focus is on the question of whether the Manager’s proposed action achieves a fair and reasonable result for the Funds.

On an annual basis, the IRC reviews and assesses the adequacy and effectiveness of the policies and procedures relating to conflict of interest matters in respect of the Funds, and also conducts a self-assessment of the IRC’s independence, compensation and effectiveness.

The IRC looks forward to continuing to work effectively with the Manager and serving in the best interests of the Funds.

Paul Batho

Chair of the Independent Review Committee
For Empire Life Mutual Funds
January 25, 2017

MEMBERS OF THE IRC	DATE OF INITIAL APPOINTMENT
Paul Robert Batho Chair of the IRC Unionville, Ontario	January 4, 2012
G. Edward McCraney Woodbridge, Ontario	January 4, 2012
Catherine Butt London, Ontario	January 4, 2012
Joanne Vézina Verdun, Quebec	June 18, 2012

The IRC was established on January 4, 2012. There were no changes in the composition of the IRC during the applicable period. Paul Batho is also a member of the BlackRock Funds IRC. Joanne Vézina is also a member of the Manulife Investment Funds IRC.

HOLDINGS OF SECURITIES:

(a) Funds

As at December 31, 2016, no member of the IRC beneficially owned, directly or indirectly, any units of any series of the Funds covered by this report.

(b) Manager

As at December 31, 2016, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of the Manager or its indirect parent company, E-L Financial Corporation Limited.

(c) Service providers

As at December 31, 2016, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of any entity, corporate or otherwise, that provides services to the Funds or the Manager of the Funds.

IRC COMPENSATION AND INDEMNITIES

The aggregate compensation, and expenses incurred, paid by the Funds to the IRC for the applicable period was \$74,881.33. This amount was allocated among the Funds in a manner that is considered by Empire Life Investments to be fair and reasonable to the Funds.

During the applicable period, no indemnities were paid to the IRC by any of the Funds.

As at the date of this report, each member of the IRC receives an annual retainer of \$16,000 (\$24,000 for the Chair) and \$1,200 for each meeting of the IRC that the member attends in excess of four meetings per year, plus expenses for each meeting.

The IRC reviews its compensation on an annual basis, giving consideration to the following:

- The best interests of the Funds;
- The number and complexity of the Funds for which the IRC acts;
- The time commitment required from each member of the IRC;
- The Manager's recommendations about IRC compensation and expenses, if made; and
- The compensation paid to IRCs of comparable fund complexes.

The IRC reviewed its compensation on October 19, 2016 and concluded that the level of compensation to the IRC should remain unchanged.

CONFLICT OF INTEREST MATTERS

During the applicable period:

- there were no instances in which Empire Life Investments acted in a conflict of interest matter referred to the IRC for which the IRC did not give a positive recommendation; and
- there were no instances in which Empire Life Investments acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its recommendation or approval.

Standing Instructions

The IRC reviews existing standing instructions each year and the Manager's proposal to continue or terminate those standing instructions. As a result of the IRC's reviews during the applicable period, the Manager received positive recommendations or approvals and standing instructions of the IRC with respect to the conflict of interest matters addressed by the following policies and procedures. In each case, the standing instruction requires the Manager to comply with its related policies and procedures and to report on a specified basis to the IRC.

Policy	Description	Associated Conflict of Interest
Accrual of Expenses	Governs the allocation of expenses of the Funds.	Determination of the appropriateness of expenses charged to the funds.
		Ensure that the allocation methodology for expenses at the Series level is reasonable.

Policy	Description	Associated Conflict of Interest
Calculation of Net Asset Value and Valuation of Portfolio Securities	Governs the calculation of a Fund's net asset value including the valuation of securities, and identifying and correcting net asset value errors.	General conflict exists with respect to the valuation of underlying Fund securities.
		Determine an appropriate process to evaluate pricing sources.
		Determine an appropriate process to ensure that portfolio securities are fair valued.
		NAVPU errors – determining materiality thresholds.
		Determine guidelines for the review of pricing variances and their reasonability.
Conflicts of Interest	Governs the processes and restrictions for managing conflicts of interest between the Manager or any person acting on behalf of the Manager, and the Funds or clients of the Manager.	Any conflict of interest matter not covered by a specific policy.
Market Timing / Excessive Trading	Governs frequent trading by unitholders of the Funds.	The evaluation and treatment of excessive trading situations.
Personal Trading	Governs personal trading of access persons.	Use of non-public information.
		Communication of non-public information.
		Trading to or from client accounts.
		Trading in a security which is also traded for a client.
Proxy Voting	Governs the voting of securities held by the Funds.	The evaluation and voting of proxies associated with the underlying securities of the Empire Life Mutual Funds.

Policy	Description	Associated Conflict of Interest
Sales Practices	Governs sales practices in connection with the distribution of the Funds, including the monitoring of marketing and educational practices.	The evaluation of events, direct cost and primary purpose in respect of co-operative marketing.
		Providing business promotional items and engaging in business promotional activities with dealers.
		Determining the appropriateness of providing funding for dealer charitable donation requests.
Trading	Governs best execution, soft dollar arrangements, fairness in allocation of investment opportunities and trades among Funds, and trade error correction.	Monitoring best execution.
		Soft dollar arrangements policies and procedures (negotiating soft dollar arrangements with dealers with whom the manager places portfolio transactions for the funds).
		Fairness in allocation of investment opportunities and trades made among funds.
		Trade error correction.

These Standing Instructions require, among other things, that the Manager follow its policies and procedures to manage potential conflict of interest matters related to these activities.

Recommendations

In a situation where a conflict of interest matter arises that is not covered by the IRC Standing Instructions, the Manager must refer the matter, along with its proposed action, to the IRC for its review and recommendation. During the applicable period, no such matters were raised by the Manager to the attention of the IRC.

Approvals

The Manager is required to refer certain conflict of interest matters together with its proposed action plan to the IRC for its recommendation or approval. During the applicable period, one such matter was raised by the Manager to the attention of the IRC. The Manager presented a proposal to change the service provider for certain fund administration services to the IRC, in accordance with section 5.3 of NI 81-107. The IRC provided a positive recommendation to the Manager's proposal.

Additional Information

Unitholders who would like additional details regarding the activities of the IRC may contact the Manager at irc@empire.ca. Questions for members of the IRC will be appropriately directed to our attention.

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