Empire Life Emblem Portfolios: Asset Allocation Update

Update from the Asset Allocation Oversight Team

April 28, 2016

Summary of Asset Allocation Decisions

Asset Class	Current Asset Allocation Positioning
Fixed Income	Neutral
Canadian Equity	Neutral
U.S. Equity	Overweight
International Equity	Underweight

	Neutral Allocation*				Current Target Allocation (change from prev.)			
Emblem Portfolio	Fixed Income	Canadian Equity	U.S. Equity	International Equity	Fixed Income	Canadian Equity	U.S. Equity	International Equity
Diversified Income	80.0%	10.0%	5.0%	5.0%	78.5%	14.5% (+6.5%)	4.0% (-4.5%)	3.0% (-2.0%)
Conservative	65.0%	25.0%	5.0%	5.0%	65.5% (+1.0%)	25.0% (+9.0%)	6.5% (-8.0%)	3.0% (-2.0%)
Balanced	50.0%	35.0%	7.5%	7.5%	52.0% (+2.5%)	36.0% (+11.0%)	8.5% (-11.5%)	3.5% (-2.0%)
Moderate Growth	35.0%	45.0%	10.0%	10.0%	36.0% (+1.5%)	46.0% (+10.0%)	14.0% (-9.5%)	4.0% (-2.0%)
Growth	20.0%	60.0%	10.0%	10.0%	20.0% (+1.0%)	61.0% (+12.0%)	15.0% (-10.0%)	4.0% (-3.0%)
Aggressive Growth	-	75.0%	12.5%	12.5%	-	72.0% (+12.0%)	22.0% (-9.0%)	6.0% (-3.0%)

*Neutral allocation is based on the Fund's respective long-term strategic asset allocation

Rationale

Key takeaway: Tactically Increased Canadian Equity, Decreased Global Equity

Tactical View:

Markets conditions have staged a reversal from that prevailing just two and a half months ago, with bond yields, oil prices, and the Canadian dollar all seeing meaningful rallies. We believe the epicentre of this change has been the U.S. Federal Reserve (the "Fed"). With the Fed backing down from its more aggressive rate increase stance, markets have rallied right across the world, and the U.S. dollar has dramatically retrenched. The U.S. dollar's decline has been good for commodity prices. Coupled with some earlier supply reductions in the U.S. and talks of freezing production globally, oil prices have rebounded about seventy percent from their February lows.

In our opinion, further market development depends on the Fed's next move. Market consensus is that they will not increase rates until December of this year. This gives the stock market a basis to move higher. Despite the U.S. stock markets above average valuation, earnings in the most recent quarter continued to beat expectations. That is not to say there will not be volatility along the way. Britain's vote to exit from the European Union comes up in June, the U.S. presidential election in November, and China's growth trajectory may weigh heavily on markets. Whatever obstacles remain in its path, the Fed will likely work to outmanoeuver a slowing economy and this underpins the markets.

Economic data from both the U.S. and Canada continues to improve; they are not strong, but they are going in the right direction. It's not smooth sailing yet in the U.S. but manufacturing, housing, employment, and wages are all looking better. If the U.S. dollar stays low and oil stabilizes near current levels, Canada has a fair chance of continuing its outperformance against the rest of the world.

As a result, target allocations to Canadian equities have been tactically increased, while target allocations to global equities, particularly U.S. equities, have been tactically decreased. Additionally, target allocations to cash (a component of fixed income) have been raised in response to potential near term risks.

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