Empire Life Emblem Portfolios: Asset Allocation Update

Update from the Asset Allocation Oversight Team

March 5, 2015

Summary of Asset Allocation Decisions

Asset Class	Current Asset Allocation Positioning
Fixed Income	Underweight
Canadian Equity	Underweight
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%	77.5% (-2.0%)	6.5%	12.0%	4.0% (+2.0%)
Conservative	65.0%	25.0%	5.0%	5.0%	62.0% (-2.0%)	20.0%	14.0%	4.0% (+2.0%)
Balanced	50.0%	35.0%	7.5%	7.5%	49.0% (-1.0%)	27.0%	19.5%	4.5% (+1.0%)
Moderate Growth	35.0%	45.0%	10.0%	10.0%	33.5% (-1.0%)	38.0%	23.5%	5.0% (+1.0%)
Growth	20.0%	60.0%	10.0%	10.0%	17.5% (-2.0%)	49.0%	27.5%	6.0% (+2.0%)
Aggressive Growth	-	75.0%	12.5%	12.5%	-	63.0% (-2.0%)	29.0%	8.0% (+2.0%)

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

Rationale

Key Takeaway: Tactically increased international equity, reduced fixed income.

In our January update we referenced a number of global risks to start 2015; an anti-austerity movement in Greece; a weakening euro; and mixed economic data points coming out of the U.S.

So where are we now? The Canadian economy and equity markets face uncertainties surrounding commodity prices. The Canadian dollar is expected to remain weak in part because of low interest rates and cheaper oil prices. It may take several more months for the oil slump's negative effects to play out in the Canadian economy. However, financial conditions in Canada have eased since January in response to the Bank of Canada's recent monetary policy actions.

The U.S. economy has been doing better than most major developed economies and is expected to continue to strengthen. The strong U.S. dollar is a challenge for U.S. exporters, but this is countered by the low oil price, which is a net positive for the overall economy. The February jobs report was stronger than expected and the unemployment rate dipped to 5.5%; which fuelled speculation that the U.S. Federal Reserve could lift interest rates as early as this spring/summer and impose pressure on fixed income markets in North America.

Overseas, government bond yields are hovering near record lows, as investors position themselves for the European Central Banks's (ECB) €60B-a-month asset purchase programme. New economic forecasts in Europe have shown a more optimistic view when compared to late 2014. The ECB revised up its staff projections for gross domestic product growth over the next three years and said it expected inflation to rebound to 1.5% in 2016. Company earnings revisions are beginning to favour European markets, benefiting from the central bank's monetary easing, weakening euro and low energy costs.

As a result, we have tactically put some cash to work in international equity markets, increasing the international equity target allocation to a less underweight position relative to the long term strategic asset mix.

Empire Life Investments

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