Empire Life Emblem Portfolios: Asset Allocation Update

Update from the Asset Allocation Oversight Team

June 12, 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%	75.5% (-2.0%)	9.5% (+1.0%)	10.0%	5% (+1.0%)
Conservative	65.0%	25.0%	5.0%	5.0%	60.0% (-2.0%)	21.0%	13.0%	6.0% (+2.0%)
Balanced	50.0%	35.0%	7.5%	7.5%	47.0% (-2.0%)	28.5%	18.0%	6.5% (+2.0%)
Moderate Growth	35.0%	45.0%	10.0%	10.0%	31.5% (-2.0%)	40.0%	21.5%	7.0% (+2.0%)
Growth	20.0%	60.0%	10.0%	10.0%	15.5% (-2.0%)	51.5%	25.0%	8.0% (+2.0%)
Aggressive Growth	-	75.0%	12.5%	12.5%	-	65.0% (-1.0%)	26.0%	9.0% (+1.0%)

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

Rationale

Key takeaway: decreased fixed income; increased International equities.

The Canadian bond market has experienced an extremely volatile year so far. The recent rise in yields has hurt bond prices, resulting in negative short term returns. For example, the FTSE TMX Canada Universe Bond Index declined by -1.5% over the past three months as at the end of May (however, it is still positive +3% year-to-date).

A main factor driving bond yields this year has been the European economic saga. Earlier in the year, European deflationary threats and the announcement of an aggressive quantitative easing program drove yields down to very low levels. Recently, however, economic data in Europe has surprised on the upside, causing German 10yr bund yields to rise by a massive 90 basis points since April, from 0.07% to 0.98% in recent days. In North America, the economic data has been somewhat mixed. However, a strong U.S. payroll report last Friday means the probability remains high that the U.S. Federal Reserve (the "Fed") will begin hiking rates later this year. The potential of flat to modestly negative bond market performance over the near term has incrementally shifted our bias towards overweighting equities.

As a result, we have tactically widened our underweight target allocation to fixed income.

The European economy appears to have responded to the European Central Bank's aggressive growth policies. While flirting with mild deflation in the first quarter of 2015, consumer inflation rebounded back into positive territory in May. Economic growth, while still at moderate levels for the region as a whole, has shown better breadth among its member nations. The Italian economy grew for the first time in over a year, and both France and Spain contributed meaningfully to the region's growth. European equities reacted negatively to the positive economic developments on fears that stimulus may be cut short. In our view, this provided an attractive opportunity to add to an asset class with improving fundamentals.

With both Europe and Japan, a key policy strategy is currency devaluation to promote exports. For foreigners investing in these regions, the currency impact may be negative. However, since the Canadian dollar has also fallen against its major trading partners due to declining oil prices, the currency impact to Canadian based investors has been less of an issue

As a result we have tactically narrowed our underweight target allocation to international equities.

Empire Life Investments

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