Empire Life Emblem Portfolios: Asset Allocation Update

Update from the Asset Allocation Oversight Team

July 8, 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%	9.5%	10.0%	5%
Conservative	65.0%	25.0%	5.0%	5.0%	60.0%	19.5% (-1.5%)	14.5% (+1.5%)	6.0%
Balanced	50.0%	35.0%	7.5%	7.5%	47.0%	26.5% (-2%)	20.0% (+2.0%)	6.5%
Moderate Growth	35.0%	45.0%	10.0%	10.0%	31.5%	38.0% (-2%)	23.5% (+2.0%)	7.0%
Growth	20.0%	60.0%	10.0%	10.0%	15.5%	50.5% (-1%)	26.0% (+1.0%)	8.0%
Aggressive Growth	-	75.0%	12.5%	12.5%	-	63.0% (-2%)	28.0% (+2.0%)	9.0%

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

Rationale

Key takeaway: increased U.S. equities, decreased Canadian equities.

Tactical View:

- The Canadian stock market has lagged other major developed equity markets this year, particularly when currency translation effects are included. As at July 7, 2015 year to date performance is about 2% for the S&P/TSX Composite, and about 13% for both the S&P 500 and MSCI EAFE indices (in Canadian dollar terms). We do not see this trend reversing in the near term, and we may instead see the performance differential widen further.
- A major factor behind relative market performance stems from the low oil price environment. While oil prices recovered somewhat over the spring to about $60 USD per barrel, the past week has seen it drop closer to the $50 USD mark. Recent turmoil in Europe, and plunging stock markets in China have ignited oil demand concerns, while a potential Iranian nuclear deal could lead to new supply entering an already saturated market.
- Low oil prices have already impacted Canadian economic growth this year. A 1% (annualized) decline in the first quarter of 2015 was followed by another decline in April. There is a real possibility that Canada is already in a mild recession. The Bank of Canada's January interest rate cut took many market participants by surprise. Given current market dynamics, another potential cut within the next few meetings is likely to be less surprising. Further Canadian dollar depreciation in anticipation of this move is expected. The exchange rate against the U.S. dollar has declined to $0.78 twice this year before bouncing back. As it threatens to break below that level again, perhaps the third time's the charm.
- Given near term headwinds at home, in Europe and China, we view U.S. equities to be the most attractive asset class at the moment. It is backed by arguably the strongest economy, a diversified stock market that is not expensive in our view, and a currency that has represented a safe haven asset during bouts of market volatility.
- As a result, our underweight target allocation to Canadian equities and our overweight target allocation to U.S. equities have been tactically widened.

Our medium to longer term outlook towards Canadian equities remains cautiously optimistic, given opportunities to invest in high quality companies at attractive valuations.

Empire Life Investments

Important Information

Empire Life Investments Inc. is the Portfolio Manager of the Empire Life segregated funds. Empire Life Investments Inc. is a wholly-owned subsidiary of The Empire Life Insurance Company.

Empire Life Emblem GIF Portfolios currently invest primarily in units of Empire Life Mutual Funds.

A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value.**

Policies are issued by The Empire Life Insurance Company.

Empire Life Investments Inc. is the Manager of the Empire Life Emblem Portfolios and Empire Life Mutual Funds (the "Portfolios" or "Funds"). The units of the Portfolios and 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.

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.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.