Empire Life Emblem Portfolios: Asset Allocation Update

Update from the Asset Allocation Oversight Team

January 19, 2017

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%	74.5%	16.5% (+0.5%)	7.0% (-0.5%)	2.5%
Conservative	65.0%	25.0%	5.0%	5.0%	64.0% (+1.0%)	24.0%	9.0% (-1.5%)	3.0% (+0.5%)
Balanced	50.0%	35.0%	7.5%	7.5%	50.0% (+1.0%)	35.0% (+0.5%)	11.0% (-2.0%)	4.0% (+0.5%)
Moderate Growth	35.0%	45.0%	10.0%	10.0%	34.0% (+2.0%)	48.0% (+1.0%)	13.5% (-3.5%)	4.5% (+0.5%)
Growth	20.0%	60.0%	10.0%	10.0%	18.5% (+2.0%)	61.5% (+2.0%)	15.0% (-5.0%)	5.0% (+1.0%)
Aggressive Growth	-	75.0%	12.5%	12.5%	-	72.0% (+4.0%)	20.0% (-6.0%)	8.0% (+2.0%)

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

Rationale

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

Tactical View:

Since a U.S. pre-election market low on November 4, 2016, the S&P 500 index surged about 9% to date. This very strong gain was primarily fueled by optimism that a Trump presidency in the U.S. would translate into a positive growth environment from tax reform, regulatory reform, and increased Fiscal spending. Market participants viewed this as a positive and refreshing change from ultra-accommodative monetary policy, whose efficacy has increasingly come into question.

Analysis into the S&P 500's recent advance shows that a significant level of future U.S. economic growth may already be accounted for. Among sectors leading the U.S. market since the election are Financials, Energy, Industrials, and Materials, all of which will likely benefit more in a pro-growth environment; while the defensive Consumer Staples, Utilities, and Health Care sectors are among the laggards. The trade weighted U.S. dollar also gained meaningfully since the election.

The S&P/TSX Composite Index also gained since the November 2016 low, but trailed that of the S&P 500 by 2.3%. Investors are perhaps cautious as to what an "America First" theme will mean for Canadian companies. As a result, the Canadian equity market likely does not carry with it the same degree of built-in expectations as in the U.S. As long as oil prices do not significantly decline, we believe the more attractive near term risk-adjusted opportunity is in Canada.

As a result, target allocations to Canadian dividend-oriented equities have been tactically increased, while target allocations to U.S. equities have been tactically decreased. Additionally, cash levels will be managed higher through inflow accumulation - thereby providing more protection should equities market enthusiasm temporarily dampen.

Empire Life Investments

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