# Empire Life Emblem Portfolios: Asset Allocation Update

## Update from the Asset Allocation Oversight Team

April 18, 2017

### Summary of Asset Allocation Decisions

| Asset Class | Current Asset Allocation Positioning |
|---|---|
| Fixed Income | Underweight |
| Canadian Equity | Overweight |
| 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% | 6.5% | 2.5% |
| Conservative | 65.0% | 25.0% | 5.0% | 5.0% | 60.0% (-4.0%) | 27.0% (+3.0%) | 9.0% | 4.0% (+1.0%) |
| Balanced | 50.0% | 35.0% | 7.5% | 7.5% | 45.0% (-5.0%) | 38.0% (+3.0%) | 11.0% | 6.0% (+2.0%) |
| Moderate Growth | 35.0% | 45.0% | 10.0% | 10.0% | 30.0% (-4.0%) | 50.0% (+2.0%) | 12.5% (-1.0%) | 7.5% (+3.0%) |
| Growth | 20.0% | 60.0% | 10.0% | 10.0% | 15.0% (-3.5%) | 62.5% (+1.0%) | 14.0% (-1.0%) | 8.5% (+3.5%) |
| Aggressive Growth | - | 75.0% | 12.5% | 12.5% | - | 70.0% (-2.0%) | 20.0% | 10.0% (+2.0%) |

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

### Rationale

*Key takeaway: Decreased bonds, increased Canadian and international equities*

**Tactical View:**

In our last tactical update, we cited the market's overly optimistic view towards U.S. equities. This resulted in decreased U.S. equity targets in the Emblem Portfolios, and increased targets towards Canadian equities and fixed income. While it did take some time to begin unfolding, U.S. equities did initiate a slight correction, with the S&P 500 declining 0.7% since March 1st. Over the same period, the S&P/TSX Composite gained 1.9%.

Part of the decline in U.S. equities can be attributed to questions surrounding Donald Trump's ability to enact his agenda, highlighted by the failed health care bill to repeal and replace Obamacare. Additionally, his decision to launch a retaliatory military strike against the Syrian government, and send warships in response to North Korea's missile testing, raised concerns over his election promise to put "America first" and focus less on international affairs.

Global politics also raised concerns among market participants. The first round of the French Presidential election comes April 23rd, with a likely runoff vote on May 7th. A just announced snap election in the U.K. is to be held on June 8th, and the German Federal election in late September. These increased uncertainties helped bond markets – the FTSE TMX Canada Universe Bond Index gained 1.9% since March 1st of this year, and the yield on the Canada ten year bond reached its lowest level since mid-November 2016.

Given the bond market's advance, however, we feel that much of the near term risks have already been accounted for. Unless a significant economic downturn emerges – an event we do not anticipate in the current environment – we do not believe bond yields will move meaningfully lower. As a result, we are tactically decreasing target allocations to bonds to capture recent gains.



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Like the move in the bond market, we feel that the recent decline in international equities – MSCI EAFE down 1.7% since the beginning of the month – already encompasses a significant level of prevailing risks. Additionally, the market has been resilient in the face of previous challenges, such as last year's surprising Brexit vote. The macroeconomic situation has stabilized in Europe and we expect growth to only be marginally trailing that of the U.S. Growth rates in European company earnings are at its strongest pace in the past four years, and based on recent meetings with multiple companies, management optimism is positive and business momentum strong. As a result, we have tactically increased target allocations to international equities, thereby reducing or eliminating the underweight positions to the asset class.

Target allocations to Canadian equities have also been tactically increased. Although we don't expect Canadian equities to have another banner year as it did in 2016, we do expect the asset class' performance to outpace bonds. Financial stocks (banks and life insurers) are likely to benefit from a rising bond yield environment, and Energy stocks from a supportive oil price between $50 - $60.

## Important Information





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