Empire Life Emblem Portfolios: Asset Allocation Update

Update from the Asset Allocation Oversight Team

April 11, 2014

Summary of Asset Allocation Decisions

Asset Class	Current Asset Allocation Positioning
Fixed Income	Underweight
Canadian Equity	Underweight
U.S. Equity	Overweight
International Equity	Neutral

	Neutral Allocation*				Target Allocation – April 11, 2014			
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%	77.0%	10.0%	8.0%	5.0%
Conservative	65.0%	25.0%	5.0%	5.0%	60.0%	22.5%	12.5%	5.0%
Balanced	50.0%	35.0%	7.5%	7.5%	44.0%	33.5%	15.0%	7.5%
Moderate Growth	35.0%	45.0%	10.0%	10.0%	30.0%	44.0%	16.0%	10.0%
Growth	20.0%	60.0%	10.0%	10.0%	15.0%	59.0%	16.0%	10.0%
Aggressive Growth	-	75.0%	12.5%	12.5%	-	70.0%	17.5%	12.5%

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

Rationale

The strong start to 2014 for equity markets (aside from Japan), combined with a recent increase in volatility, had led to the following three observations:

1) Despite some short-term softness in economic growth due to a colder-than-usual winter, we expect continued improvements in economic data for the balance of 2014. Continued growth, albeit slow, alongside low bond yields, will likely result in further unwinding of quantitative easing by the U.S. Federal Reserve. **We believe we remain in an equity-friendly environment and have maintained our underweight allocation to fixed income.**

2) U.S. equities (as measured by the S&P 500 Index) are now up approximately 180% from their March 2009 lows. Recent market weakness and volatility has centred-around higher beta areas of the U.S. market, including bio-technology and internet-related stocks. **As a result, we are taking a two-pronged approach: Reducing our U.S. equity overweight position, and at the security level we are rotating into what we believe to be more defensive U.S. stocks.**

3) In a sharp reversal from 2013, commodity stocks have rebounded so far in 2014. In the first quarter, the energy and materials sectors were the top performing areas of the Canadian market, with each sector rising by 9.7%. While not a done-deal, the probability for U.S. approval of the Keystone Pipeline has increased marginally. In addition, geopolitical tension around Russia/Ukraine has provided further support to energy prices, particularly natural gas. We believe both of these events are supportive for high-quality, attractively valued Canadian energy stocks. **As a result, and building on the trade outlined in our last update, we have further narrowed our underweight position to Canadian equities, through investments in high quality small cap stocks.**

Empire Life Investments

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