Empire Life Emblem Portfolios: Asset Allocation Update

Update from the Asset Allocation Oversight Team

June 2, 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 – June 2, 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%	9.0%	9.0%	5.0%
Conservative	65.0%	25.0%	5.0%	5.0%	62.0%	22.5%	10.5%	5.0%
Balanced	50.0%	35.0%	7.5%	7.5%	48.0%	32.0%	12.5%	7.5%
Moderate Growth	35.0%	45.0%	10.0%	10.0%	33.0%	43.0%	14.0%	10.0%
Growth	20.0%	60.0%	10.0%	10.0%	18.0%	57.0%	15.0%	10.0%
Aggressive Growth	-	75.0%	12.5%	12.5%	-	71.5%	16.0%	12.5%

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

Rationale

The benchmark U.S. 10 year Treasury bond recently saw its yield drop below its 3-month trading range, and at the time of writing, is at a level not seen since last summer. Slower economic growth may be driving bond yields lower, as U.S. GDP in the first quarter shrank for the first time in three years. Although this decline in economic activity may be transitory due to the harsh winter, the bond market may be reacting to data currently at hand. Market anticipation of the European Central Bank (ECB) enacting some form of quantitative easing (QE) at its June meeting may also be putting downward pressure of bond yields globally. Lastly, a meaningful yield premium offered by U.S. Treasuries relative to comparable German Bunds may be increasing demand for U.S Treasuries, resulting in lower yields.

Market expectations for the first interest rate increase by the U.S. Federal Reserve have now been pushed out to the latter part of 2015. With potentially lower interest rate risk over the near term, we have tactically increased our fixed income target allocation in the relevant portfolios, resulting in a narrower underweight position. Additionally, duration was modestly increased in the fixed income component to capture more performance should yields drift lower.

Funding the above mentioned fixed income investment was a reduction in equities. With equities providing healthy returns on a year to date basis, and caution signals to growth coming from the bond market, we believe taking profits from outperforming asset classes to be a prudent decision. Specifically, Canadian and U.S. equity target allocations were reduced, representing the top performing equity regions of the year. Target allocations to international equities were maintained, as European equities may benefit from a potential QE plan by the ECB. We remain overweight in equities overall, with an underweight allocation to Canadian equities, overweight allocation to U.S. equities, and neutral allocation to international equities.

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