



Annual Management Report of Fund Performance | As at December 31, 2017

# EMPIRE LIFE MUTUAL FUNDS<sup>®</sup>

**Empire Life Dividend Growth Mutual Fund**

This annual management report of fund performance contains financial highlights, but does not contain either the complete interim or annual financial statements of the investment fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling the toll-free number 1 855 823-6883, by writing to us at 165 University Avenue, 9th Floor, Toronto, Ontario M5H 3B8 or by visiting our website at [www.empirelifeinvestments.ca](http://www.empirelifeinvestments.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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# Empire Life Dividend Growth Mutual Fund

## Annual Management Report of Fund Performance

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### Management Discussion of Fund Performance

#### Investment objectives and strategies

Empire Life Dividend Growth Mutual Fund (the "Fund") seeks a balance of dividend income and moderate capital appreciation. The Fund invests primarily in the dividend-yielding equity securities of mid- and large-cap Canadian corporations through a value-oriented approach to stock selection.

#### Risk

The overall level of risk of investing remains as discussed in the Simplified Prospectus. Any changes as a result of operations during the period have not affected the overall risk of the Fund. The Fund is suitable for the investor who seeks income and modest long-term capital growth, who has a medium tolerance for risk and is comfortable with the risks associated with equity investments.

#### Result of operations

For the twelve-month period ending December 31, 2017 (the "Period"), Empire Life Dividend Growth Fund (the "Fund"), Series A, returned 6.0%. The net returns of other series of this Fund are provided under the section titled "Past Performance." The series have different returns due to the expenses charged to each series. The Fund's benchmark, the S&P/TSX Composite Index, broadly representative of the Canadian market, returned 9.1% for the same Period. Fund returns are reported net of all management fees and expenses for all series, unlike the returns of the Fund's benchmark, which are based on the performance of an index that does not pay fees or incur expenses.

Effective April 1, 2017, the Fund's benchmark changed from the S&P/TSX 60 Index to the S&P/TSX Composite Index, to better reflect the higher degree of diversification inherent in the Fund's Canadian equity investments.

The Fund underperformed its benchmark over the Period. Stock selection in the Energy sector was the largest detractor from performance. Two of the Fund's holdings were impacted by the difficult Canadian natural gas pricing environment, while an oil-related stock was affected by an unpopular acquisition at a time when oil prices were declining.

Security selection in the Materials, Industrials, Financials and information Technology sectors contributed to the Fund's performance, as did geographic allocation outside of Canada, primarily in the U.S.

During the Period, Canadian equities experienced contrasting performance between the first and second halves of the year. In the first half of 2017, Canadian equity performance was flat, as measured by the S&P/TSX Composite Index's gain of only 0.7%. This was largely a result of the Energy sector's double-digit performance decline, which was impacted by declining oil prices. West Texas Intermediate ("WTI") oil lost over 20% from its February high to its June low. U.S. oil companies increased oil production, more than doubling the number of active drilling rigs from the previous year. Global crude inventories remained stubbornly high, despite an Organization of the Petroleum Exporting Countries agreement to extend oil production cuts.

The Canadian economy performed well over the first half of the year and was one of the world's fastest-growing developed economies. This prompted the Bank of Canada ("BoC") to raise interest rates twice over the summer, moves that were not anticipated by the market earlier in the year. BoC Governor Poloz described the moves as reversing the emergency stimulus applied in 2016 after Alberta's wildfires. The interest rate increases factored into a rise in the Canadian dollar versus the U.S. dollar.

The second half of 2017 saw fortunes reverse for Canadian equities, with the S&P/TSX Composite Index gaining 8.3%. This fell slightly short of U.S. and international market performance, but it at least kept pace. Equity markets were buoyed by the increasing prospects of U.S. tax reform and generally positive global economic growth. The Canadian economy started showing signs of slowing, with gross domestic product growing at an annualized pace of 2.3% in the third quarter (including negative growth in August), compared to 4.9% the previous quarter. A rebound in WTI oil prices of about 40% from its June lows helped Canada's Energy sector post respectable gains. These gains, however, were muted as Canadian oil and natural gas prices fell far short of U.S. prices. Transportation bottlenecks and oversupply were key factors behind the significant pricing discount on Canadian oil. Canadian banks delivered strong earnings results, including record full-year profits for Canada's largest bank. Commodity prices experienced a strong rebound in the second half as well.

Exposure to U.S. equities was increased from approximately 14% at the beginning of the Period to about 21% at the end, based on individual investment opportunities. Relative to the benchmark, the Fund held overweight allocations to the Industrials, Consumer Discretionary and Consumer Staples sectors, and underweight exposures to stocks in the Financials, Telecommunication Services and Information Technology sectors. The underweight positioning in the Financials sector reflects the portfolio manager's desire for diversification, as that one sector alone represented over one-third of the benchmark, while the other 10 sectors averaged a 6.5% weighting. At the end of the Period, the Fund's asset mix was 75% Canadian equities, 16% U.S. equities, 5% international equities and 4% in short-term investments.

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### Recent developments

The portfolio manager has a positive view of the Fund's medium-term outlook. The passing of the U.S. tax reform bill should have a meaningful impact on earnings and potentially increase economic activity in the coming Period. The corporate tax rate is slated to be reduced from 35% to 21%, which will boost after-tax profit margins on current projects and may increase the number of projects that meet corporate after-tax hurdle rates. This should directly affect U.S.-domiciled companies, but also Canadian companies with U.S. operations. Additionally, the U.S. tax system will shift from a worldwide to a territorial tax system that will facilitate the repatriation of overseas corporate profits and potentially lead to further capital expenditures.

The issues facing Canadian oil prices should be transitory as temporary pipeline shutdowns are fixed, as additional crude-by-rail capacity becomes available and as a new source of Canadian oil supply gets digested into the marketplace. Issues surrounding Canadian natural gas pricing may be more structural in nature, requiring more patience to see resolution.

The increasing interest rate environment, which is typically a challenge for dividend-oriented strategies, is addressed by the portfolio manager's focus on companies that can grow cash flow so they are better positioned to increase dividends. This strategy is typically less sensitive to interest rate changes than strategies that are more focused on higher dividend yields.

### Future Accounting Policy Changes

#### 1) IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Manager has reviewed the Fund's financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018:

- The Fund's cash that is currently classified as loans and receivables will satisfy the conditions for the similar amortized cost classification under the new standard and hence there will be no change to the accounting for these assets.
- The Fund's investments that are currently classified as fair value through profit and loss ("FVTPL") will continue to have the same classification under the new standard and hence there will be no change to the accounting for these assets.
- The Fund's receivables that are currently classified as loans and receivables will satisfy the conditions for the similar amortized cost classification under the new standard and hence there will be no change to the accounting for these assets.
- There will be no impact on the Fund's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVTPL and the Fund does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.
- The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost. Based on the assessments undertaken to date and the characteristics of the Fund's financial instruments, the impact of the new impairment model will not have a significant impact on the Fund's Financial Statements.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Fund's disclosures about its financial instruments in the year of adoption of the new standard.

#### 2) IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue which is effective on January 1, 2018. This will replace IAS 18 Revenue which covers contracts for goods and services and IAS 11 Construction Contracts which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Manager has completed an analysis of IFRS 15 and has assessed that there are no material impacts to the Fund's Financial Statements.

### Independent Review Committee ("IRC")

While there were no changes in the composition of the IRC during the applicable period, Mr. Paul Batho, former Chair of the IRC, did not seek re-appointment following the expiry of his term of office effective January 2, 2018. At its meeting on October 18, 2017, the IRC appointed Joanne Vézina as Chair of the IRC effective January 2, 2018.

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### Related party transactions

Empire Life Investments Inc. is the Manager, Trustee and Portfolio Manager of the Fund. The Manager is a wholly-owned subsidiary of The Empire Life Insurance Company.

The Manager provides or arranges for the provision of all the management and administrative services for the day-to-day operations of the Fund, including providing or arranging the provision of investment advice, record keeping and other administrative services, some of which are provided by an affiliate of the Manager. In consideration of the management and administrative services, the Fund pays the Manager a monthly management fee calculated as a percentage of daily net asset value of each series of the Fund. The rates for each series are disclosed under "Management fees".

During the Period, the Manager absorbed \$130,090 of total expenses otherwise payable by the Fund, as compared to \$96,262 for the year ended December 31, 2016. The amount of expenses waived or absorbed is determined annually on a series by series basis at the discretion of the Manager and the Manager can terminate the waiver or absorption at any time.

### Series description

The Fund offers the following series: A, T6, T8, F and I. Series A, Series T6 and T8 units are available to all investors. Series T6 and T8 are designed for investors seeking regular monthly cash flows from a Fund. Series F units are only available to investors who have a fee-based account with their dealer and whose dealer has signed an agreement with Empire Life Investments Inc. Management fees are payable by the Funds on all series except series I. Series I units are available to institutional investors who meet a minimum investment threshold and who have entered into a Series I agreement. The management fee for Series I units is negotiated between Empire Life Investments Inc. and the investor and is payable directly to Empire Life Investments Inc. by the investor.

### Financial highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period and each of the other periods as shown below. This information is derived from the Fund's audited annual financial statements for the period.

#### The Fund's net assets per unit<sup>(1)</sup>

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Series A Units</b>					
<b>Net Assets, beginning of period</b>	\$ 14.17	\$ 12.33	\$ 12.82	\$ 12.25	\$ 10.36
<b>Increase (decrease) from operations:</b>					
Total revenue	0.42	0.39	0.41	0.41	0.39
Total expenses	(0.31)	(0.29)	(0.32)	(0.33)	(0.28)
Realized gains (losses)	0.79	0.50	(0.08)	0.23	0.17
Unrealized gains (losses)	(0.05)	1.49	(0.26)	0.47	2.08
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.85</b>	<b>\$ 2.09</b>	<b>\$ (0.25)</b>	<b>\$ 0.78</b>	<b>\$ 2.36</b>
<b>Distributions:</b>					
From income	–	–	(0.01)	(0.01)	(0.07)
From dividends	(0.10)	(0.02)	–	–	–
From capital gains	(0.46)	(0.17)	(0.29)	(0.41)	(0.09)
Return of capital	–	–	–	–	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (0.56)</b>	<b>\$ (0.19)</b>	<b>\$ (0.30)</b>	<b>\$ (0.42)</b>	<b>\$ (0.16)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 14.43</b>	<b>\$ 14.17</b>	<b>\$ 12.33</b>	<b>\$ 12.82</b>	<b>\$ 12.25</b>

# Empire Life Dividend Growth Mutual Fund

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Series T6 Units	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Net Assets, beginning of period</b>	\$ 11.31	\$ 10.32	\$ 11.16	\$ 10.94	\$ 9.79
<b>Increase (decrease) from operations:</b>					
Total revenue	0.33	0.32	0.35	0.35	0.36
Total expenses	(0.24)	(0.24)	(0.28)	(0.29)	(0.26)
Realized gains (losses)	0.62	0.41	(0.08)	0.11	0.30
Unrealized gains (losses)	(0.05)	1.20	(0.26)	0.13	1.39
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.66</b>	<b>\$ 1.69</b>	<b>\$ (0.27)</b>	<b>\$ 0.30</b>	<b>\$ 1.79</b>
<b>Distributions:</b>					
From income	–	–	(0.00)	–	(0.06)
From dividends	(0.08)	(0.07)	–	–	–
From capital gains	(0.37)	–	–	–	(0.08)
Return of capital	(0.68)	(0.62)	(0.67)	(0.66)	(0.59)
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (1.13)</b>	<b>\$ (0.69)</b>	<b>\$ (0.67)</b>	<b>\$ (0.66)</b>	<b>\$ (0.73)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 10.84</b>	<b>\$ 11.31</b>	<b>\$ 10.32</b>	<b>\$ 11.16</b>	<b>\$ 10.94</b>

Series T8 Units	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Net Assets, beginning of period</b>	\$ 10.20	\$ 9.48	\$ 10.48	\$ 10.51	\$ 9.56
<b>Increase (decrease) from operations:</b>					
Total revenue	0.30	0.29	0.33	0.35	0.34
Total expenses	(0.23)	(0.23)	(0.26)	(0.28)	(0.25)
Realized gains (losses)	0.55	0.36	(0.09)	0.11	0.36
Unrealized gains (losses)	–	1.06	(0.29)	0.26	1.62
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.62</b>	<b>\$ 1.48</b>	<b>\$ (0.31)</b>	<b>\$ 0.44</b>	<b>\$ 2.07</b>
<b>Distributions:</b>					
From income	–	–	(0.02)	(0.02)	(0.02)
From dividends	(0.07)	(0.05)	–	–	–
From capital gains	(0.33)	–	–	–	(0.08)
Return of capital	(0.82)	(0.76)	(0.84)	(0.84)	(0.77)
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (1.22)</b>	<b>\$ (0.81)</b>	<b>\$ (0.86)</b>	<b>\$ (0.86)</b>	<b>\$ (0.87)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 9.56</b>	<b>\$ 10.20</b>	<b>\$ 9.48</b>	<b>\$ 10.48</b>	<b>\$ 10.51</b>

Series F Units	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013†
<b>Net Assets, beginning of period</b>	\$ 13.44	\$ 11.69	\$ 12.32	\$ 11.75	\$ 10.00
<b>Increase (decrease) from operations:</b>					
Total revenue	0.41	0.37	0.39	0.39	0.36
Total expenses	(0.17)	(0.17)	(0.19)	(0.19)	(0.16)
Realized gains (losses)	0.76	0.57	(0.22)	(0.17)	(67.07)
Unrealized gains (losses)	(0.07)	1.49	(0.19)	0.03	68.82
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.93</b>	<b>\$ 2.26</b>	<b>\$ (0.21)</b>	<b>\$ 0.06</b>	<b>\$ 1.95</b>
<b>Distributions:</b>					
From income	–	–	(0.29)	(0.11)	(0.13)
From dividends	(0.11)	(0.07)	–	–	–
From capital gains	(0.48)	(0.17)	(0.28)	(0.39)	(0.09)
Return of capital	–	–	–	–	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (0.59)</b>	<b>\$ (0.24)</b>	<b>\$ (0.57)</b>	<b>\$ (0.50)</b>	<b>\$ (0.22)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 13.77</b>	<b>\$ 13.44</b>	<b>\$ 11.69</b>	<b>\$ 12.32</b>	<b>\$ 11.75</b>

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Series I Units	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Net Assets, beginning of period</b>	\$ 14.13	\$ 12.27	\$ 13.06	\$ 12.41	\$ 10.44
<b>Increase (decrease) from operations:</b>					
Total revenue	0.43	0.39	0.42	0.41	0.39
Total expenses	(0.02)	(0.04)	(0.05)	(0.07)	(0.05)
Realized gains (losses)	0.80	0.52	(0.05)	0.43	1.98
Unrealized gains (losses)	(0.16)	1.49	(0.25)	0.49	(0.01)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 1.05</b>	<b>\$ 2.36</b>	<b>\$ 0.07</b>	<b>\$ 1.26</b>	<b>\$ 2.31</b>
<b>Distributions:</b>					
From income	–	–	(0.58)	(0.21)	(0.25)
From dividends	(0.13)	(0.12)	–	–	–
From capital gains	(0.44)	(0.18)	(0.29)	(0.41)	(0.10)
Return of capital	–	–	–	–	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (0.57)</b>	<b>\$ (0.30)</b>	<b>\$ (0.87)</b>	<b>\$ (0.62)</b>	<b>\$ (0.35)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 14.70</b>	<b>\$ 14.13</b>	<b>\$ 12.27</b>	<b>\$ 13.06</b>	<b>\$ 12.41</b>

## Ratios and supplemental data

Series A Units	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Total Net Asset Value</b>	\$ 14,631,183	\$ 14,017,812	\$ 11,886,042	\$ 8,888,451	\$ 2,368,374
<b>Number of units outstanding</b>	1,013,788	989,596	964,345	693,397	193,354
Management expense ratio <sup>(5)</sup>	2.16%	2.15%	2.15%	2.14%	2.15%
Management expense ratio before waivers or absorptions	2.42%	2.61%	2.70%	3.93%	10.05%
Trading expense ratio <sup>(6)</sup>	0.09%	0.23%	0.30%	0.37%	0.26%
Portfolio turnover rate <sup>(7)</sup>	37.51%	102.13%	165.78%	171.80%	107.12%
<b>Net Asset Value per unit</b>	<b>\$ 14.43</b>	<b>\$ 14.17</b>	<b>\$ 12.33</b>	<b>\$ 12.82</b>	<b>\$ 12.25</b>

Series T6 Units	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Total Net Asset Value</b>	\$ 1,691,744	\$ 1,672,164	\$ 1,523,998	\$ 1,219,930	\$ 262,152
<b>Number of units outstanding</b>	156,075	147,814	147,674	109,354	23,955
Management expense ratio <sup>(5)</sup>	2.16%	2.15%	2.15%	2.14%	2.15%
Management expense ratio before waivers or absorptions	3.50%	2.42%	2.53%	3.32%	5.34%
Trading expense ratio <sup>(6)</sup>	0.09%	0.23%	0.30%	0.37%	0.26%
Portfolio turnover rate <sup>(7)</sup>	37.51%	102.13%	165.78%	171.80%	107.12%
<b>Net Asset Value per unit</b>	<b>\$ 10.84</b>	<b>\$ 11.31</b>	<b>\$ 10.32</b>	<b>\$ 11.16</b>	<b>\$ 10.94</b>

Series T8 Units	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Total Net Asset Value</b>	\$ 1,015,911	\$ 1,020,262	\$ 1,021,624	\$ 532,734	\$ 47,583
<b>Number of units outstanding</b>	106,299	100,069	107,725	50,819	4,528
Management expense ratio <sup>(5)</sup>	2.16%	2.15%	2.15%	2.13%	2.15%
Management expense ratio before waivers or absorptions	4.48%	2.67%	2.69%	3.66%	9.00%
Trading expense ratio <sup>(6)</sup>	0.09%	0.23%	0.30%	0.37%	0.26%
Portfolio turnover rate <sup>(7)</sup>	37.51%	102.13%	165.78%	171.80%	107.12%
<b>Net Asset Value per unit</b>	<b>\$ 9.56</b>	<b>\$ 10.20</b>	<b>\$ 9.48</b>	<b>\$ 10.48</b>	<b>\$ 10.51</b>

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Series F Units	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013†
<b>Total Net Asset Value</b>	\$ 3,405,600	\$ 2,085,832	\$ 1,521,755	\$ 605,081	\$ 11,990
<b>Number of units outstanding</b>	247,356	155,231	130,145	49,122	1,020
Management expense ratio <sup>(5)</sup>	1.15%	1.15%	1.15%	1.14%	1.15% **
Management expense ratio before waivers or absorptions	2.14%	1.32%	1.46%	2.06%	10.09% **
Trading expense ratio <sup>(6)</sup>	0.09%	0.23%	0.30%	0.37%	0.26%
Portfolio turnover rate <sup>(7)</sup>	37.51%	102.13%	165.78%	171.80%	107.12%
<b>Net Asset Value per unit</b>	<b>\$ 13.77</b>	<b>\$ 13.44</b>	<b>\$ 11.69</b>	<b>\$ 12.32</b>	<b>\$ 11.75</b>

Series I Units	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Total Net Asset Value</b>	\$ 868,429	\$ 1,026,670	\$ 834,666	\$ 789,593	\$ 723,127
<b>Number of units outstanding</b>	59,064	72,672	68,047	60,443	58,291
Management expense ratio <sup>(5)</sup>	–	–	–	–	–
Management expense ratio before waivers or absorptions	2.49%	0.78%	0.96%	2.80%	7.89%
Trading expense ratio <sup>(6)</sup>	0.09%	0.23%	0.30%	0.37%	0.26%
Portfolio turnover rate <sup>(7)</sup>	37.51%	102.13%	165.78%	171.80%	107.12%
<b>Net Asset Value per unit</b>	<b>\$ 14.70</b>	<b>\$ 14.13</b>	<b>\$ 12.27</b>	<b>\$ 13.06</b>	<b>\$ 12.41</b>

\* Initial offering price.

\*\* Annualized.

† From January 15, 2013 to December 31, 2013.

(1) This information is derived from the Fund's interim and annual audited financial statements. The financial statements are prepared using International Financial Reporting Standards (IFRS).

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

(3) Distributions were paid in cash or reinvested in additional units of the Fund, or both.

(4) This is not a reconciliation of the beginning and ending net assets per unit.

(5) The management expense ratio (MER) is based on total expenses (excluding withholding tax and other transaction costs) as an annualized percentage of daily average net asset value during the Period.

(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the Period.

(7) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. Portfolio turnover rate is calculated based on the lesser of the cumulative cost of purchases or cumulative proceeds of sales divided by the average market value of the portfolio, excluding short-term investments.

## Management fees

The management fee for Series A, T6, T8 and F units is an annualized rate calculated as a percentage of net assets of the applicable series of the Fund and accrued daily and paid monthly to Empire Life Investments Inc. The management fee for Series I units is negotiated and paid directly by the investor, not by the Fund.

The Fund's management fees were used by Empire Life Investments Inc. to pay for the costs of the overall business and affairs of the Fund including activities related to making units of the Fund available to investors, and providing or arranging for the provision of investment advisory services and marketing services to the Fund.

	As percentage of management fees		
	Management fee rates	Dealer compensation	General administration, investment advice and profit
Series A	1.85%	51.95%	48.05%
Series T6	1.85%	44.57%	55.43%
Series T8	1.85%	33.22%	66.78%
Series F	0.85%	0.00%	100.00%



# Empire Life Dividend Growth Mutual Fund

## Annual Management Report of Fund Performance

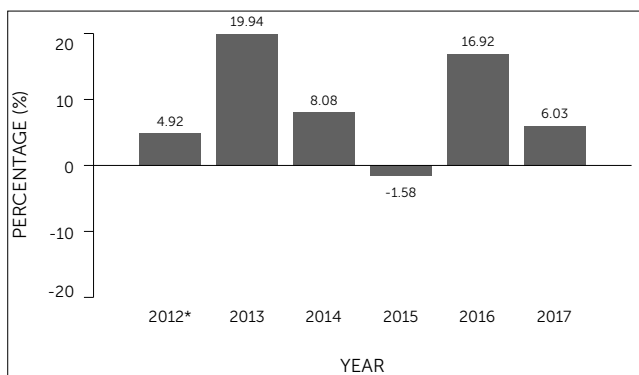
### Past performance

The indicated rates of return assume reinvestment of all distributions. They do not take into account sales, redemption, distribution or optional sales charges that would have reduced returns. The past performance of the Fund is not necessarily an indication of how it will perform in the future.

### Year-by-year returns

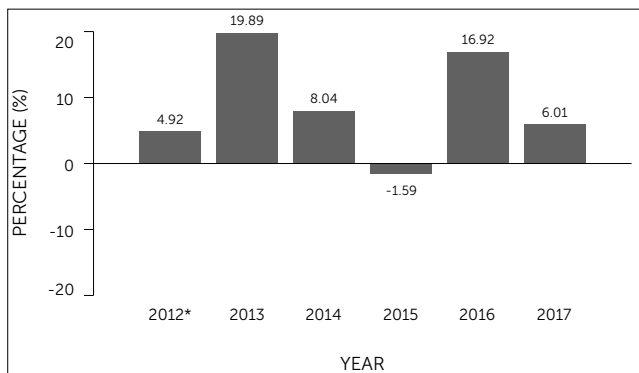
The following bar charts show the annual performance for each series of the Fund and illustrate how that series' performance has varied from year to year. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have increased or decreased by the end of the period. For the first year of a series, the percentage shown is the actual return of the series from its commencement of operations.

Series A



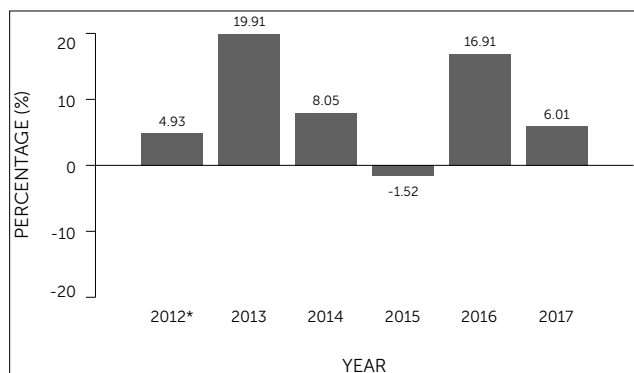
\*From January 9, 2012 to December 31, 2012 (not annualized)

Series T6



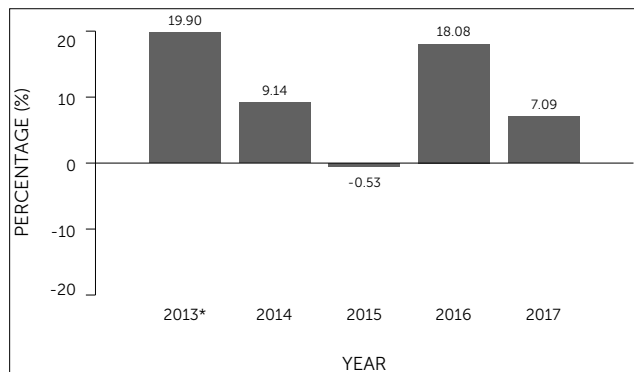
\*From January 9, 2012 to December 31, 2012 (not annualized)

Series T8



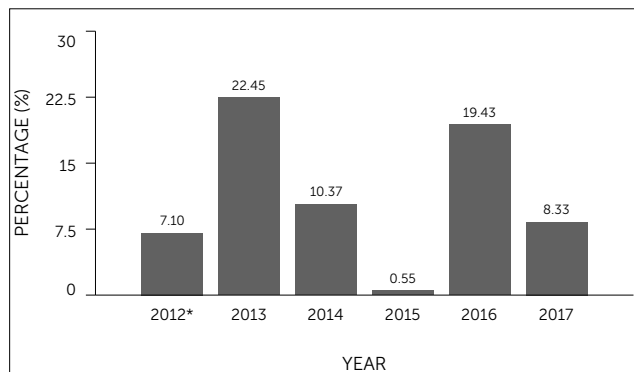
\*From January 9, 2012 to December 31, 2012 (not annualized)

Series F



\*From January 15, 2013 to December 31, 2013 (not annualized)

Series I



\*From January 9, 2012 to December 31, 2012 (not annualized)

### Annual compound returns

The Annual Compound Returns table shows the Fund's historical annual compound returns for each series of the Fund for the periods indicated. The annual compound returns are also compared to a broad based index, as described below.

# Empire Life Dividend Growth Mutual Fund

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	1 Year	3 Years	5 Years	Since Inception	Inception Date
Series A units <sup>1</sup>	6.0 %	6.9%	9.6%	8.8%	January 9, 2012
Series I units <sup>1</sup>	8.3%	9.2%	12.0 %	11.2%	January 9, 2012
Series T6 units <sup>1</sup>	6.0 %	6.9%	9.6%	8.8%	January 9, 2012
Series T8 units <sup>1</sup>	6.0 %	6.9%	9.6%	8.8%	January 9, 2012
Series F units <sup>1</sup>	7.1%	7.9%	NA	10.6%	January 15, 2013
Benchmark <sup>2,3</sup>	9.8%	7.1%	9.3%	9.1%	(6 year return)

(1) Net of all fees and expenses paid by the Fund.

(2) The S&P/TSX Composite Index is broadly representative of the Canadian equity market. The S&P/TSX Composite Index tracks the performance of some of the largest and most widely held stocks listed on the Toronto Stock Exchange.

(3) Effective April 1, 2017, the Fund's benchmark changed from the S&P/TSX 60 Index, the Fund's benchmark from inception to March 31, 2017, to the S&P/TSX Composite Index, to better reflect the higher degree of diversification inherent in the Fund's Canadian equity investments.

### Summary of investment portfolio

The summary of investment portfolio may have changed since December 31, 2017, due to ongoing portfolio transactions of the Fund. Quarterly updates are available within 60 days after quarter-end, except for December 31st, the Fund's fiscal year-end, when they are available within 90 days.

Top 25 Holdings	Percentage of Net Asset Value (%)
Toronto-Dominion Bank	5.3
Royal Bank of Canada	5.0
Bank of Nova Scotia	4.3
Cash & Cash Equivalents	3.6
Alimentation Couche-Tard Inc. 'B'	3.5
PrairieSky Royalty Limited	3.1
Brookfield Asset Management Inc. 'A'	2.8
Shaw Communications Inc. 'B'	2.8
Keyera Corporation	2.7
Maxar Technologies Limited	2.7
JELD-WEN Holding Inc.	2.7
Manulife Financial Corporation	2.6
Parkland Fuel Corporation	2.5
Enbridge Inc.	2.5
Chemtrade Logistics Income Fund	2.5
Canadian National Railway Company	2.4
Molson Coors Brewing Company	2.4
DowDuPont Inc.	2.4
Canadian Imperial Bank of Commerce	2.1
Hydro One Limited	2.0
Potash Corporation of Saskatchewan Inc.	1.9
Brookfield Property Partners Limited Partnership	1.9
Domino's Pizza Group PLC	1.9
Agrium Inc.	1.8
Zimmer Biomet Holdings Inc.	1.8
	<b>69.2</b>

### Portfolio by Category

Asset Type	Percentage of Net Asset Value (%)
Equities	96.6
Cash & Cash Equivalents	3.6
Other Net Assets (Liabilities)	(0.2)
	<b>100.0</b>

Sector	Percentage of Net Asset Value (%)
Financials	24.8
Energy	19.7
Industrials	12.9
Materials	10.8
Consumer Discretionary	8.9
Consumer Staples	6.0
Utilities	4.8
Real Estate	4.1
Cash & Cash Equivalents	3.6
Health Care	1.8
Telecommunication Services	1.6
Information Technology	1.2
Other Net Assets (Liabilities)	(0.2)
	<b>100.0</b>

Country	Percentage of Net Asset Value (%)
Canada	70.6
United States	16.4
Bermuda	4.7
Cash & Cash Equivalents	3.6
United Kingdom	3.3
Germany	1.6
Other Net Assets (Liabilities)	(0.2)
	<b>100.0</b>

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#### A NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement.

Forward-looking statements are the opinions and views of Empire Life Investments Inc. based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors and are subject to change without notice. Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and avoid placing undue reliance on forward-looking statements. The Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

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