

# 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

Emblem Portfolio	Neutral Allocation*				Target Allocation – April 11, 2014			
	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 Emblem Portfolios: Asset Allocation Update

---

## Important Information

Empire Life Investments Inc. is the Manager of the Empire Life Emblem Portfolios and Empire Life Mutual Funds (the "Portfolios" or "Funds"). The units of the Portfolios and Funds are available only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such units.

This document includes forward-looking information that is based on the opinions and views of Empire Life Investments Inc. as of the date stated and is subject to change without notice. This information should not be considered a recommendation to buy or sell nor should they be relied upon as investment, tax or legal advice. Information contained in this report has been obtained from third party sources believed to be reliable, but accuracy cannot be guaranteed. Empire Life Investments Inc. and its affiliates does not warrant or make any representations regarding the use or the results of the information contained herein in terms of its correctness, accuracy, timeliness, reliability, or otherwise, and does not accept any responsibility for any loss or damage that results from its use.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

®Registered trademark of **The Empire Life Insurance Company** – used under license.