



Interim Management Report of Fund Performance | As at June 30, 2017

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

**Empire Life Monthly Income Mutual Fund**

This interim 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 Monthly Income Mutual Fund

## Interim Management Report of Fund Performance

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### Management Discussion of Fund Performance

#### Result of operations

For the six-month period ending June 30, 2017 (the "Period"), Empire Life Monthly Income Mutual Fund (the "Fund"), Series A, returned 0.90%. 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 broad-based benchmark, the S&P/TSX Composite Total Return Index, broadly representative of the Canadian equity market, returned 0.74% for the same Period. The Fund outperformed its broad-based benchmark due to the slight outperformance from equities, as well as exposure to fixed income securities, which outperformed Canadian equity markets in general. The Fund's mandate is to invest in a diversified target asset mix of equity securities (55%) and fixed-income securities and cash (45%). 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.

The Fund's blended benchmark returned 1.41% for the Period. The blended benchmark is composed of 55% S&P/TSX 60 Total Return Index and 45% FTSE TMX Canada Universe Bond Index. In the portfolio manager's view, this comparison more closely reflects the market sectors in which the Fund invests, to provide a more useful comparative for the performance of the Fund.

The Fund underperformed its blended benchmark over the Period. In the equity portion of the Fund, stock selection in the Industrials, Consumer Staples and Health Care sectors detracted from performance. Underweight positions in the Financials and Telecommunication Services sector also detracted from performance, as did negative currency effects from its foreign holdings.

In its equity component, sector allocation contributed to the Fund's performance, particularly its overweight positions in the Industrials and Health Care sectors. Stock selection in the Energy, Materials and Financials sectors also contributed to performance. In the fixed-income portion of the Fund, an overweight position in corporate bonds and tactical duration management contributed to performance.

Although Canada was the fastest-growing of the developed economies during the Period, the Canadian equity market was the weakest-performing market in the developed world. The S&P/TSX 60 Total Return Index posted a return of 0.62% over the Period.

Canada's fairly robust economy was evident in job growth, household spending, business investment and manufacturing activities. Canada's gross domestic product figure, a measure of economic strength, was strong the past three quarters in a row, which was its best run since 2004, and positive figures were posted in a majority of industries. However, equity market sentiment was subdued as investors appeared to be more focused on risks such as declining energy prices, the elevated housing market, growing consumer debt and the uncertainties in international trade that could stem from a renegotiation of the North American Free Trade Agreement.

After a brief surge, oil prices sagged as oil markets have been oversupplied. Companies in the U.S. Energy sector more than doubled the number of active drilling rigs from a year ago, and the decision by the Organization of the Petroleum Exporting Countries ("OPEC") to extend its production cuts into 2018 did not lift sentiment. Oil prices erased all their gains since late 2016 and, by the end of June, the West Texas Intermediate oil price had lost more than 20% from its February high.

The Canadian dollar had a weak start to the Period, and was driven down primarily by low oil prices in the first five months of 2017. In June, the Canadian dollar gained more than 4% after the Bank of Canada ("BoC") signalled that it may raise interest rates for the first time since 2010.

The Canadian Financials sector was challenged by fallout from Home Capital Group Inc.'s problems, Moody's ratings downgrade of the six biggest Canadian banks and falling bond yields through the second quarter of 2017.

Another reason for this Period's underperformance relative to the rest of the developed world is that Canada was the best-performing developed market in 2016, when Canadian equities rose more than 20%. There were some signs of profit taking and capital flowing into other markets.

The benchmark Canadian 10-year government bond yield, which had risen sharply following the U.S. election, fluctuated in a trading range until the end of the first quarter of 2017. Yields then declined from April until early June, primarily because of the lack of inflation, the Trump administration's inability to implement its economic stimulus policy and investors' continued hunt for yield. In response to the June policy shift at the BoC, yields then made a sharp turnaround, reversing most of the previous declines. The FTSE TMX Canada Universe Bond Index rose 2.36% over the Period.

The U.S. Federal Reserve Board ("Fed") raised interest rates twice during the Period. Its projection points to another increase later this year and three more in 2018. The Fed is also planning to reduce its balance sheet as soon as September. Encouraged by the solid economic recovery, the European Central Bank removed the easing bias on interest rates from its forward guidance, and is expected to announce monetary policy tightening measures in September.

The portfolio manager increased the Fund's allocation to equities at the expense of fixed income during the Period. The portfolio manager took profit from U.S. equities and shifted some foreign exposure to international equities. The Fund's exposure to U.S. small-capitalization equities previously obtained through a position in an exchange-traded fund was replaced by individual securities. The Fund's Canadian equity focus shifted

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slightly from capital appreciation to higher dividend yield, as the portfolio manager added some high-dividend-paying holdings and reduced the Fund's commodities exposure.

Within the Fund's bond portfolio, duration was slightly short compared to that of the benchmark at the end of the Period. The Fund's high-yield position was trimmed to around 4%, but the Fund had an overweight position in corporate bonds with maturities of five years and under. Corporate bond maturities were at the shorter end of the yield curve, while the Fund's provincial and government bond maturities were at the longer end of the curve.

### Recent developments

The portfolio manager believes negative sentiment is a big factor driving oil prices, despite the size of current inventories. The portfolio manager expects that low prices should slow high-cost oil production, while OPEC and Russia appear determined to drain the market's surplus. Demand remains strong as the global economy continues to recover. Oil prices may continue to be volatile in the short term but, over the medium term, the portfolio manager continues to have a constructive outlook for the price of oil.

The BoC's policy has shifted to a tightening bias, a sharp contrast to its stance at the beginning of the Period, when BoC Governor Poloz mentioned the possibility of another interest rate cut. While the move was sudden, the economic fundamentals suggest the shift is warranted.

The Financials sector is generally a beneficiary in a recovering economy when interest rates are increased in a gradual manner. Canadian banks are very profitable, well capitalized and well positioned. The portfolio manager does not believe their profits will be significantly affected by oil price volatility, as Energy-related companies account for only a small percentage of the banks' loan books. Recent policy initiatives to slow down the overheated housing market are beginning to have some effect. Although concerns remain in cities like Toronto and Vancouver, overall loan-to-value ratios remain reasonable, and most mortgages are backed by government insurance that insulates banks from potential defaults. Overall, the portfolio manager expects higher interest rates to be positive for banks and insurance companies, as well as supporting companies that offer defined benefit retirement plans.

Central bank monetary policies may become more restrictive than they were at the peak of the period of widespread stimulus measures, but they still remain accommodative. The portfolio manager believes monetary policy is not yet at the point of becoming a challenge.

Normally, a rising interest rate cycle is accompanied by higher financial market volatility. Instead, both bond and equity volatilities have been trending lower. Lower volatility encourages complacency, which means investors may misprice risk. Any rise in equity market volatility caused by economic uncertainties or geopolitical shocks could trigger a flight to safety that would benefit sovereign bonds.

The Fund's equity focus continues to be on what the portfolio manager believes are high-quality, reasonably valued companies with what the portfolio manager believes to be strong and sustainable dividends. The bond portfolio is conservatively structured with good liquidity. As such, it should be well positioned to capitalize on relative value and yield enhancement opportunities.

### Future Accounting Changes

#### IFRS 9 *Financial Instruments*

In July 2014 the IASB published the complete version of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model and new hedge accounting guidance. The Manager is in the process of assessing the impact of IFRS 9. Based on the latest available information, the Manager does not expect any major changes to the Funds' Financial Statements other than a few additional disclosures, if necessary.

### 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 \$82,285 of total expenses otherwise payable by the Fund, as compared to \$99,068 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.

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### Series description

The Fund offers the following series: A, T6, T8, F and I. Series A, 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 unaudited interim financial statements for the period.

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

|  | For the 6 months<br>ended June 30,<br>2017 | For the year ended<br>December 31,<br>2016 | For the year ended<br>December 31,<br>2015 | For the year ended<br>December 31,<br>2014 | For the year ended<br>December 31,<br>2013 |
|--|--|--|--|--|--|
| <b>Series A Units</b>  |  |  |  |  |  |
| Net Assets, beginning of period                                | \$ 10.14                                   | \$ 9.97                                    | \$ 10.46                                   | \$ 10.18                                   | \$ 9.81                                    |
| <b>Increase (decrease) from operations:</b>                    |  |  |  |  |  |
| Total revenue  | 0.14                                       | 0.28                                       | 0.30                                       | 0.31                                       | 0.32                                       |
| Total expenses   | (0.11)                                     | (0.32)                                     | (0.24)                                     | (0.24)                                     | (0.23)                                     |
| Realized gains (losses)  | 0.20                                       | 0.30                                       | 0.09                                       | 0.18                                       | 0.18                                       |
| Unrealized gains (losses)                                      | (0.13)                                     | 0.42                                       | (0.17)                                     | 0.39                                       | 0.73                                       |
| <b>Total increase (decrease) from operations<sup>(2)</sup></b> | <b>\$ 0.10</b>                             | <b>\$ 0.68</b>                             | <b>\$ (0.02)</b>                           | <b>\$ 0.64</b>                             | <b>\$ 1.00</b>                             |
| <b>Distributions:</b>  |  |  |  |  |  |
| From income  | (0.03)                                     | –  | (0.52)                                     | (0.51)                                     | (0.58)                                     |
| From dividends   | (0.10)                                     | (0.50)                                     | –  | –  | –  |
| From capital gains   | –  | –  | –  | –  | –  |
| Return of capital  | (0.13)                                     | –  | –  | –  | –  |
| <b>Total annual distributions<sup>(3)</sup></b>                | <b>\$ (0.26)</b>                           | <b>\$ (0.50)</b>                           | <b>\$ (0.52)</b>                           | <b>\$ (0.51)</b>                           | <b>\$ (0.58)</b>                           |
| <b>Net Assets, end of period<sup>(4)</sup></b>                 | <b>\$ 9.98</b>                             | <b>\$ 10.14</b>                            | <b>\$ 9.97</b>                             | <b>\$ 10.46</b>                            | <b>\$ 10.18</b>                            |

|  | For the 6 months<br>ended June 30,<br>2017 | For the year ended<br>December 31,<br>2016 | For the year ended<br>December 31,<br>2015 | For the year ended<br>December 31,<br>2014 | For the year ended<br>December 31,<br>2013 |
|--|--|--|--|--|--|
| <b>Series T6 Units</b>   |  |  |  |  |  |
| Net Assets, beginning of period                                | \$ 9.35                                    | \$ 9.28                                    | \$ 9.98                                    | \$ 9.92                                    | \$ 9.62                                    |
| <b>Increase (decrease) from operations:</b>                    |  |  |  |  |  |
| Total revenue  | 0.13                                       | 0.26                                       | 0.28                                       | 0.30                                       | 0.31                                       |
| Total expenses   | (0.10)                                     | (0.31)                                     | (0.23)                                     | (0.23)                                     | (0.22)                                     |
| Realized gains (losses)  | 0.19                                       | 0.31                                       | 0.08                                       | 0.18                                       | 0.17                                       |
| Unrealized gains (losses)                                      | (0.14)                                     | 0.38                                       | (0.17)                                     | 0.41                                       | 0.67                                       |
| <b>Total increase (decrease) from operations<sup>(2)</sup></b> | <b>\$ 0.08</b>                             | <b>\$ 0.64</b>                             | <b>\$ (0.04)</b>                           | <b>\$ 0.66</b>                             | <b>\$ 0.93</b>                             |
| <b>Distributions:</b>  |  |  |  |  |  |
| From income  | –  | –  | (0.07)                                     | (0.03)                                     | (0.05)                                     |
| From dividends   | –  | –  | –  | –  | –  |
| From capital gains   | –  | –  | (0.05)                                     | (0.08)                                     | –  |
| Return of capital  | (0.28)                                     | (0.56)                                     | (0.60)                                     | (0.59)                                     | (0.58)                                     |
| <b>Total annual distributions<sup>(3)</sup></b>                | <b>\$ (0.28)</b>                           | <b>\$ (0.56)</b>                           | <b>\$ (0.72)</b>                           | <b>\$ (0.70)</b>                           | <b>\$ (0.63)</b>                           |
| <b>Net Assets, end of period<sup>(4)</sup></b>                 | <b>\$ 9.15</b>                             | <b>\$ 9.35</b>                             | <b>\$ 9.28</b>                             | <b>\$ 9.98</b>                             | <b>\$ 9.92</b>                             |

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| Series T8 Units  | For the 6 months<br>ended June 30,<br>2017 | For the year ended<br>December 31,<br>2016 | For the year ended<br>December 31,<br>2015 | For the year ended<br>December 31,<br>2014 | For the year ended<br>December 31,<br>2013 |
|--|--|--|--|--|--|
| <b>Net Assets, beginning of period</b>                         | \$ 8.36                                    | \$ 8.47                                    | \$ 9.29                                    | \$ 9.42                                    | \$ 9.37                                    |
| <b>Increase (decrease) from operations:</b>                    |  |  |  |  |  |
| Total revenue  | 0.11                                       | 0.23                                       | 0.26                                       | 0.28                                       | 0.30                                       |
| Total expenses   | (0.09)                                     | (0.27)                                     | (0.21)                                     | (0.22)                                     | (0.22)                                     |
| Realized gains (losses)  | 0.18                                       | 0.23                                       | 0.09                                       | 0.14                                       | 0.16                                       |
| Unrealized gains (losses)                                      | (0.16)                                     | 0.38                                       | (0.15)                                     | 0.31                                       | 0.73                                       |
| <b>Total increase (decrease) from operations<sup>(2)</sup></b> | <b>\$ 0.04</b>                             | <b>\$ 0.57</b>                             | <b>\$ (0.01)</b>                           | <b>\$ 0.51</b>                             | <b>\$ 0.97</b>                             |
| <b>Distributions:</b>  |  |  |  |  |  |
| From income  | —  | —  | (0.05)                                     | (0.03)                                     | (0.11)                                     |
| From dividends   | —  | —  | —  | —  | —  |
| From capital gains   | —  | —  | (0.05)                                     | (0.07)                                     | —  |
| Return of capital  | (0.33)                                     | (0.68)                                     | (0.74)                                     | (0.75)                                     | (0.75)                                     |
| <b>Total annual distributions<sup>(3)</sup></b>                | <b>\$ (0.33)</b>                           | <b>\$ (0.68)</b>                           | <b>\$ (0.84)</b>                           | <b>\$ (0.85)</b>                           | <b>\$ (0.86)</b>                           |
| <b>Net Assets, end of period<sup>(4)</sup></b>                 | <b>\$ 8.10</b>                             | <b>\$ 8.36</b>                             | <b>\$ 8.47</b>                             | <b>\$ 9.29</b>                             | <b>\$ 9.42</b>                             |

| Series F Units   | For the 6 months<br>ended June 30,<br>2017 | For the year ended<br>December 31,<br>2016 | For the year ended<br>December 31,<br>2015 | For the year ended<br>December 31,<br>2014 | For the year ended<br>December 31,<br>2013† |
|--|--|--|--|--|---|
| <b>Net Assets, beginning of period</b>                         | \$ 10.57                                   | \$ 10.28                                   | \$ 10.68                                   | \$ 10.29                                   | \$ 10.00 *                                  |
| <b>Increase (decrease) from operations:</b>                    |  |  |  |  |   |
| Total revenue  | 0.15                                       | 0.29                                       | 0.30                                       | 0.32                                       | 0.31  |
| Total expenses   | (0.06)                                     | (0.24)                                     | (0.14)                                     | (0.13)                                     | (0.13)                                      |
| Realized gains (losses)  | 0.21                                       | 0.36                                       | 0.09                                       | 0.17                                       | 0.19  |
| Unrealized gains (losses)                                      | (0.14)                                     | 0.36                                       | (0.19)                                     | 0.18                                       | 0.82  |
| <b>Total increase (decrease) from operations<sup>(2)</sup></b> | <b>\$ 0.16</b>                             | <b>\$ 0.77</b>                             | <b>\$ 0.06</b>                             | <b>\$ 0.54</b>                             | <b>\$ 1.19</b>                              |
| <b>Distributions:</b>  |  |  |  |  |   |
| From income  | (0.03)                                     | —  | (0.53)                                     | (0.51)                                     | (0.57)                                      |
| From dividends   | (0.11)                                     | (0.51)                                     | —  | —  | —   |
| From capital gains   | —  | —  | —  | —  | —   |
| Return of capital  | (0.13)                                     | —  | —  | —  | (0.16)                                      |
| <b>Total annual distributions<sup>(3)</sup></b>                | <b>\$ (0.27)</b>                           | <b>\$ (0.51)</b>                           | <b>\$ (0.53)</b>                           | <b>\$ (0.51)</b>                           | <b>\$ (0.73)</b>                            |
| <b>Net Assets, end of period<sup>(4)</sup></b>                 | <b>\$ 10.45</b>                            | <b>\$ 10.57</b>                            | <b>\$ 10.28</b>                            | <b>\$ 10.68</b>                            | <b>\$ 10.29</b>                             |

| Series I Units   | For the 6 months<br>ended June 30,<br>2017 | For the year ended<br>December 31,<br>2016 | For the year ended<br>December 31,<br>2015 | For the year ended<br>December 31,<br>2014 | For the year ended<br>December 31,<br>2013 |
|--|--|--|--|--|--|
| <b>Net Assets, beginning of period</b>                         | \$ 11.38                                   | \$ 10.95                                   | \$ 11.31                                   | \$ 10.78                                   | \$ 10.34                                   |
| <b>Increase (decrease) from operations:</b>                    |  |  |  |  |  |
| Total revenue  | 0.16                                       | 0.31                                       | 0.32                                       | 0.33                                       | 0.34                                       |
| Total expenses   | (0.01)                                     | (0.19)                                     | (0.02)                                     | (0.02)                                     | (0.02)                                     |
| Realized gains (losses)  | 0.24                                       | 0.48                                       | 0.03                                       | 0.23                                       | 0.18                                       |
| Unrealized gains (losses)                                      | (0.20)                                     | 0.42                                       | (0.25)                                     | 0.53                                       | 0.74                                       |
| <b>Total increase (decrease) from operations<sup>(2)</sup></b> | <b>\$ 0.19</b>                             | <b>\$ 1.02</b>                             | <b>\$ 0.08</b>                             | <b>\$ 1.07</b>                             | <b>\$ 1.24</b>                             |
| <b>Distributions:</b>  |  |  |  |  |  |
| From income  | (0.03)                                     | —  | (0.56)                                     | (0.54)                                     | (0.80)                                     |
| From dividends   | (0.13)                                     | (0.55)                                     | —  | —  | —  |
| From capital gains   | —  | —  | (0.07)                                     | —  | —  |
| Return of capital  | (0.12)                                     | —  | —  | —  | —  |
| <b>Total annual distributions<sup>(3)</sup></b>                | <b>\$ (0.28)</b>                           | <b>\$ (0.55)</b>                           | <b>\$ (0.63)</b>                           | <b>\$ (0.54)</b>                           | <b>\$ (0.80)</b>                           |
| <b>Net Assets, end of period<sup>(4)</sup></b>                 | <b>\$ 11.32</b>                            | <b>\$ 11.38</b>                            | <b>\$ 10.95</b>                            | <b>\$ 11.31</b>                            | <b>\$ 10.78</b>                            |

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### Ratios and supplemental data

| Series A Units   | For the 6 months ended June 30, 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>                           | \$ 10,095,076                        | \$ 9,951,568                         | \$ 10,435,039                        | \$ 9,627,621                         | \$ 2,925,931                         |
| <b>Number of units outstanding</b>                     | 1,011,544                            | 981,305                              | 1,046,915                            | 920,200                              | 287,394                              |
| Management expense ratio <sup>(5)</sup>                | 2.12%                                | 2.11%                                | 2.10%                                | 2.09%                                | 2.10%                                |
| Management expense ratio before waivers or absorptions | 2.74%                                | 2.70%                                | 2.72%                                | 3.91%                                | 8.07%                                |
| Trading expense ratio <sup>(6)</sup>                   | 0.18%                                | 0.15%                                | 0.15%                                | 0.14%                                | 0.17%                                |
| Portfolio turnover rate <sup>(7)</sup>                 | 65.55%                               | 154.70%                              | 146.51%                              | 126.95%                              | 113.87%                              |
| <b>Net Asset Value per unit</b>                        | <b>\$ 9.98</b>                       | <b>\$ 10.14</b>                      | <b>\$ 9.97</b>                       | <b>\$ 10.46</b>                      | <b>\$ 10.18</b>                      |

| Series T6 Units  | For the 6 months ended June 30, 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>                           | \$ 1,461,931                         | \$ 1,429,693                         | \$ 1,283,867                         | \$ 1,028,846                         | \$ 478,500                           |
| <b>Number of units outstanding</b>                     | 159,732                              | 152,951                              | 138,318                              | 103,120                              | 48,259                               |
| Management expense ratio <sup>(5)</sup>                | 2.12%                                | 2.11%                                | 2.10%                                | 2.10%                                | 2.10%                                |
| Management expense ratio before waivers or absorptions | 3.81%                                | 2.43%                                | 2.47%                                | 3.02%                                | 5.01%                                |
| Trading expense ratio <sup>(6)</sup>                   | 0.18%                                | 0.15%                                | 0.15%                                | 0.14%                                | 0.17%                                |
| Portfolio turnover rate <sup>(7)</sup>                 | 65.55%                               | 154.70%                              | 146.51%                              | 126.95%                              | 113.87%                              |
| <b>Net Asset Value per unit</b>                        | <b>\$ 9.15</b>                       | <b>\$ 9.35</b>                       | <b>\$ 9.28</b>                       | <b>\$ 9.98</b>                       | <b>\$ 9.92</b>                       |

| Series T8 Units  | For the 6 months ended June 30, 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>                           | \$ 181,569                           | \$ 172,872                           | \$ 201,739                           | \$ 187,153                           | \$ 46,308                            |
| <b>Number of units outstanding</b>                     | 22,421                               | 20,689                               | 23,812                               | 20,154                               | 4,918                                |
| Management expense ratio <sup>(5)</sup>                | 2.12%                                | 2.11%                                | 2.10%                                | 2.09%                                | 2.10%                                |
| Management expense ratio before waivers or absorptions | 15.77%                               | 3.04%                                | 2.82%                                | 4.00%                                | 7.78%                                |
| Trading expense ratio <sup>(6)</sup>                   | 0.18%                                | 0.15%                                | 0.15%                                | 0.14%                                | 0.17%                                |
| Portfolio turnover rate <sup>(7)</sup>                 | 65.55%                               | 154.70%                              | 146.51%                              | 126.95%                              | 113.87%                              |
| <b>Net Asset Value per unit</b>                        | <b>\$ 8.10</b>                       | <b>\$ 8.36</b>                       | <b>\$ 8.47</b>                       | <b>\$ 9.29</b>                       | <b>\$ 9.42</b>                       |

| Series F Units   | For the 6 months ended June 30, 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>                           | \$ 2,541,154                         | \$ 2,919,346                         | \$ 2,805,661                         | \$ 2,439,105                         | \$ 646,676                            |
| <b>Number of units outstanding</b>                     | 243,080                              | 276,218                              | 272,857                              | 228,317                              | 62,838                                |
| Management expense ratio <sup>(5)</sup>                | 1.11%                                | 1.10%                                | 1.10%                                | 1.10%                                | 1.10% **                              |
| Management expense ratio before waivers or absorptions | 2.04%                                | 1.41%                                | 1.41%                                | 1.63%                                | 3.24% **                              |
| Trading expense ratio <sup>(6)</sup>                   | 0.18%                                | 0.15%                                | 0.15%                                | 0.14%                                | 0.17% **                              |
| Portfolio turnover rate <sup>(7)</sup>                 | 65.55%                               | 154.70%                              | 146.51%                              | 126.95%                              | 113.87%                               |
| <b>Net Asset Value per unit</b>                        | <b>\$ 10.45</b>                      | <b>\$ 10.57</b>                      | <b>\$ 10.28</b>                      | <b>\$ 10.68</b>                      | <b>\$ 10.29</b>                       |

# Empire Life Monthly Income Mutual Fund

## Interim Management Report of Fund Performance

| Series I Units   | For the 6 months ended June 30, 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>                           | \$ 8,674,673                         | \$ 6,244,602                         | \$ 3,162,005                         | \$ 1,287,137                         | \$ 1,169,813                         |
| <b>Number of units outstanding</b>                     | 766,477                              | 548,799                              | 288,831                              | 113,772                              | 108,546                              |
| Management expense ratio <sup>(5)</sup>                | –                                    | –                                    | –                                    | –                                    | –                                    |
| Management expense ratio before waivers or absorptions | 0.40%                                | 0.20%                                | 0.33%                                | 1.21%                                | 3.23%                                |
| Trading expense ratio <sup>(6)</sup>                   | 0.18%                                | 0.15%                                | 0.15%                                | 0.14%                                | 0.17%                                |
| Portfolio turnover rate <sup>(7)</sup>                 | 65.55%                               | 154.70%                              | 146.51%                              | 126.95%                              | 113.87%                              |
| <b>Net Asset Value per unit</b>                        | <b>\$ 11.32</b>                      | <b>\$ 11.38</b>                      | <b>\$ 10.95</b>                      | <b>\$ 11.31</b>                      | <b>\$ 10.78</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  | 1.80%                            | 76.05%              | 23.95%   |
| Series T6 | 1.80%                            | 64.50%              | 35.50%   |
| Series T8 | 1.80%                            | 195.66%             | -95.66%  |
| Series F  | 0.80%                            | -                   | 100.00%  |



# Empire Life Monthly Income Mutual Fund

## Interim Management Report of Fund Performance

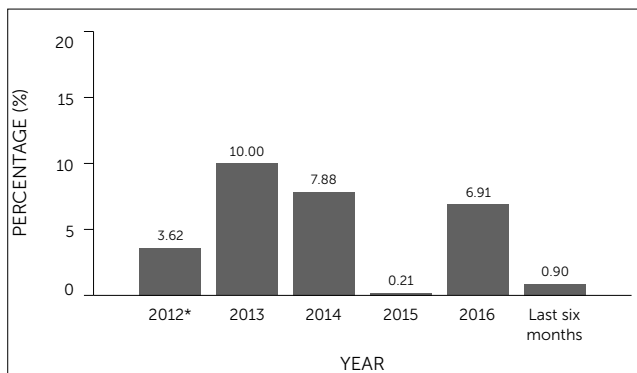
### Past performance

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

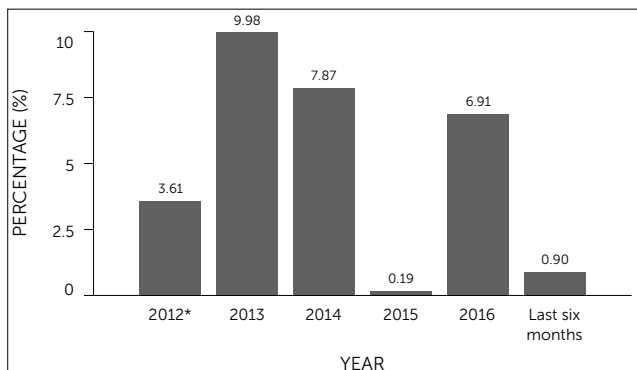
The following bar charts show the annual performance for each series of the Fund and illustrate how that series' performance has varied from year to year. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have increased or decreased by the 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**



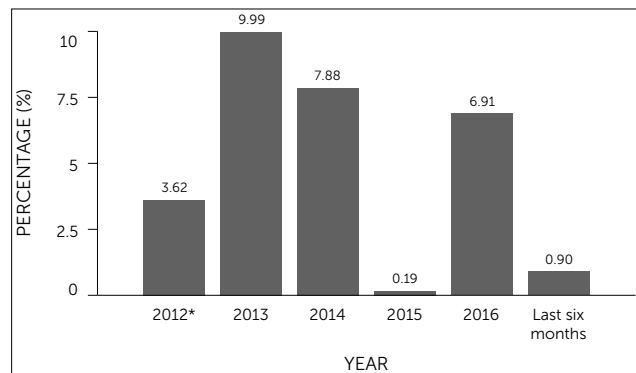
\*From January 9, 2012 to December 31, 2012 (not annualized)

**Series T6**



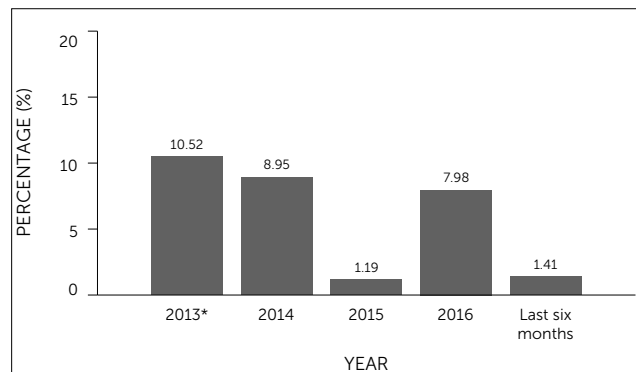
\*From January 9, 2012 to December 31, 2012 (not annualized)

**Series T8**



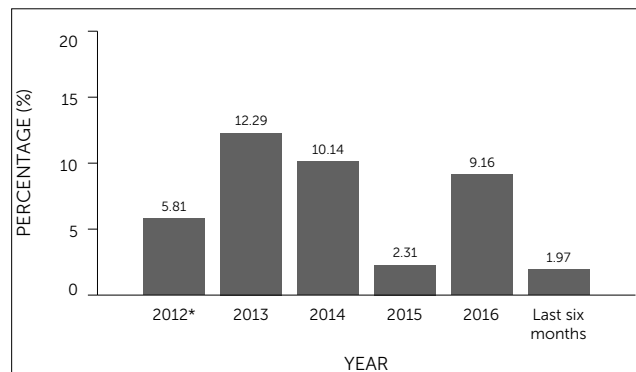
\*From January 9, 2012 to December 31, 2012 (not annualized)

**Series F**



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

**Series I**



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

# Empire Life Monthly Income Mutual Fund

## Interim Management Report of Fund Performance

### Summary of investment portfolio

The summary of investment portfolio may have changed since June 30, 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 (%) |
|--|-----------------------------------|
| Cash & Cash Equivalents  | 4.0                               |
| Bank of Nova Scotia  | 3.1                               |
| Royal Bank of Canada   | 3.1                               |
| Toronto-Dominion Bank  | 2.6                               |
| Government of Canada 0.750% May 1, 2019*                           | 2.5                               |
| Canadian National Railway Company                                  | 2.2                               |
| Government of Canada 1.000% Jun 1, 2027*                           | 2.2                               |
| TransCanada Corporation  | 1.8                               |
| Suncor Energy Inc.   | 1.8                               |
| Gildan Activewear Inc.   | 1.3                               |
| Pembina Pipeline Corporation                                       | 1.2                               |
| MacDonald Dettwiler & Associates Limited                           | 1.2                               |
| Province of Ontario 2.800% Jun 2, 2048*                            | 1.2                               |
| Province of Ontario 2.900% Dec 2, 2046*                            | 1.1                               |
| Sun Life Financial Inc.  | 1.0                               |
| Cineplex Inc.  | 1.0                               |
| Agrium Inc.  | 1.0                               |
| Parkland Fuel Corporation  | 1.0                               |
| Canada Housing Trust 1.250% Dec 15, 2020*                          | 0.9                               |
| EnerCare Inc.  | 0.9                               |
| Canada Housing Trust 2.350% Dec 15, 2018*                          | 0.9                               |
| TORC Oil & Gas Limited   | 0.9                               |
| Pure Multi-Family Real Estate Investment Trust Limited Partnership | 0.9                               |
| PrairieSky Royalty Limited   | 0.9                               |
| Wajax Corporation  | 0.9                               |
|  | <b>39.6</b>                       |

\* Debt instruments

### Portfolio by Category

| Asset Type                     | Percentage of Net Asset Value (%) |
|--------------------------------|-----------------------------------|
| Equities                       | 54.6                              |
| Fixed Income                   | 41.8                              |
| Cash & Cash Equivalents        | 4.0                               |
| Other Net Assets (Liabilities) | (0.4)                             |
|                                | <b>100.0</b>                      |

| Sector                         | Percentage of Net Asset Value (%) |
|--------------------------------|-----------------------------------|
| Corporate Bonds                | 22.4                              |
| Financials                     | 11.7                              |
| Energy                         | 11.1                              |
| Industrials                    | 10.1                              |
| Government Bonds               | 9.1                               |
| Provincial Bonds               | 7.7                               |
| Consumer Discretionary         | 4.7                               |
| Materials                      | 4.1                               |
| Cash & Cash Equivalents        | 4.0                               |
| Consumer Staples               | 3.9                               |
| U.S. Corporate Bonds           | 2.5                               |
| Real Estate                    | 2.4                               |
| Utilities                      | 2.2                               |
| Information Technology         | 2.1                               |
| Health Care                    | 1.9                               |
| Telecommunication Services     | 0.4                               |
| Municipal Bonds                | 0.1                               |
| Other Net Assets (Liabilities) | (0.4)                             |
|                                | <b>100.0</b>                      |

| Country                        | Percentage of Net Asset Value (%) |
|--------------------------------|-----------------------------------|
| Canada                         | 85.9                              |
| United States                  | 5.7                               |
| Cash & Cash Equivalents        | 4.0                               |
| United Kingdom                 | 1.2                               |
| Netherlands                    | 1.1                               |
| Japan                          | 0.9                               |
| France                         | 0.6                               |
| Spain                          | 0.5                               |
| Denmark                        | 0.5                               |
| Other Net Assets (Liabilities) | (0.4)                             |
|                                | <b>100.0</b>                      |

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Empire Life Investments Inc.  
165 University Ave, 9th Floor  
Toronto, ON  
M5H 3B8

[www.empirelifeinvestments.ca](http://www.empirelifeinvestments.ca)

#### 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. 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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