

EMPIRE LIFE MULTI-STRATEGY GIFs SEGREGATED FUNDS

Empire Life
Guaranteed
Investment
Funds

Featuring

DAVE PATERSON, CFA

Portfolio Manager, Empire Life Investments

February 2021



Tell us about your background and investment industry experience.

I have worked in the investment industry since 1994. In 2002, I started a research firm that specialized in providing mutual fund, ETF, and hedge fund research and analysis to advisors. My analytical approach is a blend of quantitative analysis and qualitative manager research. To help with this, I created a fund valuation model to screen the fund universe and identify funds

that have similar characteristics to funds that have delivered strong outperformance in the past. Once I have identified those funds, I conduct a qualitative analysis to better understand the investment managers and the process they used to generate those returns.

In addition, I created a portfolio optimization model that helps me build optimized portfolios that deliver an effective balance between risk and return for investors.

What are the Empire Life Multi-Strategy GIFs?

They are a suite of segregated funds that provide exposure to exchange traded funds (ETFs) and actively managed investments from third-party managers within one investment solution. Instant diversification through multiple investment approaches may reduce risk to provide more consistent returns while tactical management takes advantage of market opportunities.

Provides focus with core equity exposure:

- Empire Life Multi-Strategy Canadian Equity GIF
- Empire Life Multi-Strategy Global Equity GIF
- Empire Life Multi-Strategy U.S. Equity GIF

Provides diversification with global balanced portfolios:

- Empire Life Multi-Strategy Global Conservative Portfolio GIF
- Empire Life Multi-Strategy Global Balanced Portfolio GIF
- Empire Life Multi-Strategy Global Moderate Growth Portfolio GIF

Provides growth-focused exposure:

- Empire Life Multi-Strategy Global Growth GIF
- Empire Life Multi-Strategy Global Growth Balanced Portfolio GIF

Each Empire Life Multi-Strategy GIF has three investment approaches



Insurance & Investments

Simple. Fast. Easy.®



What is your investment philosophy?

For the original six core focused segregated funds, my investment philosophy can be summed up in five words: **Minimize risk to maximize returns**. I believe in protecting investors' capital in turbulent markets while still participating in the upside when markets rally. The best way to achieve this is through a disciplined portfolio construction approach that optimizes risk and balances return.

For the two new growth-focused solutions, the main objective is to **maximize returns** by investing in strategies and managers that are focused on companies exhibiting strong growth characteristics. There exists some risk mitigation in practice but it is not the overriding emphasis. The new growth solutions are meant to complement an existing value or core focused portfolio.

What is your investment process?

A well-built portfolio is better than the sum of its individual parts. It is not simply a collection of the "best funds". Instead, it is a mix of high-quality funds that work well together, providing diversification across investment styles, geographies, and industry sectors.

To build portfolios, I use a multi-step approach that incorporates both quantitative and qualitative analysis.

1. The first step is a **quantitative analysis** to identify funds that have delivered returns that are better and / or different than what is available from a broad market index ETF. To find these, I run a series of screens on historic return patterns, comparing them to the most appropriate benchmark. In addition, I compare how an investment has performed in different market environments, focusing on the funds that have been the most consistent performers. This helps narrow the focus to those funds that may have the most potential to deliver above average returns.
2. The next step is a **qualitative analysis** of the investment management team, the investment process including idea generation, buy and sell criteria, and risk management. This helps me determine if their historic returns can be duplicated and separates the managers who are lucky from those who are skilled.
3. The **portfolio construction process** I use is based on the work of Dr. Harry Markowitz, who won a Nobel Prize in Economic Sciences in 1990 for his modern portfolio theory. The premise of his theory is to find the optimal/right mix of the investments that provides the highest level of expected return for each unit of risk.

Each Multi-Strategy GIF has a forward-looking return target, an estimate of expected volatility, and a

historic return stream on which to measure the correlation. Correlation is an important aspect of this approach because it measures the similarity in the return pattern of two investments. In a perfect world, I could combine investments that had dramatically different return patterns or correlation, which would then maximize the diversification benefit.

I then plug my return and volatility estimates into the model to find the combination of investments that maximizes return and minimizes risk.

Empire Life Multi-Strategy GIFs



Once this mix is determined, I subject the Multi-Strategy GIFs to several "stress tests" including Monte Carlo analysis and scenario analysis. If the results are dramatically different than expectations, I investigate to understand the discrepancy and then re-work and re-test until there is a match between expectations and the stress tests.

4. I **monitor** the Multi-Strategy GIFs on an ongoing basis and if there is something that does not meet expectations, I conduct a detailed review to understand why the anomaly occurred. If necessary, tactical changes are made to improve the risk/reward outlook.

When/how are the tactical changes made?

Each Multi-Strategy GIF has a "target asset mix" and, depending on market performance and opportunities, the asset mix may be tilted to better position them. There are two types of tilts.

For the core suite, I use a **defensive tilt** when I am cautious and looking for protection against a significant selloff. Within the Multi-Strategy Equity GIFs (Canadian, U.S. and Global), this may involve focusing on higher

quality, less volatile funds. Within the Multi-Strategy Global Portfolio GIFs (Conservative, Balanced and Moderate), it typically involves a more defensive positioning within the equity portion possibly combined with a slight tilt away from equities towards fixed income.

For the new growth-focused solutions, I focus on maximizing returns but do not sacrifice quality. Leaning towards larger cap securities that have shown consistent earnings growth and price momentum make these solutions a good complement to more defensive strategies.

I may move to an **opportunistic tilt** by making a minor shift in the asset mix. This will typically happen after there is a major selloff in a region or area of the market. I consider several factors, such as valuation levels, relative strength, market sentiment, and other fundamentals. A tactical tilt will only happen if there is a high probability the Multi-Strategy GIF will be stronger and there will be a tangible benefit for the investor.

Why is it important for investors to consider this investment approach?

The investment process has the goal of maximizing the return for the level of risk because investors should be adequately compensated for the risks they are accepting when investing. What this means is that investors may experience a smoother ride while still realizing a reasonable level of return over the long-term which may help investors stay invested in periods of market stress.

How do the Multi-Strategy GIFs mitigate risk and increase diversification?

A key focus of my construction process is to understand and manage risk. At the core of Multi-Strategy GIFs are basic market cap weighted indices which create a solid foundation by providing basic exposure to the broader market. Next, I layer on various "smart beta" strategies, which give exposure to different investment styles and approaches. These investments are weighted using different metrics including fundamentals, dividends or factor approaches. Finally, I use high quality, active managers who provide the potential to generate alpha and protect capital.

The combination of these different styles and approaches, particularly when combined with our current Empire Life fund lineup, affords a truly diversified investment solution for investors.

What are the benefits of the Empire Life Multi-Strategy GIFs?

- **Diversification:** History has shown that exposure across investment styles, geographies, and industry sectors helps provide more consistent returns.
- **Tactical management:** Ongoing tactical shifts take advantage of market opportunities.
- **Focus on Risk Management:** An effective balance between risk and return may mean a smoother ride, making it easier to stay invested.
- **Built for Downside Protection:** Designed and positioned to help protect capital in down markets.
- **Expert Oversight:** Ongoing monitoring and due diligence to ensure portfolios are doing what they are designed to do.
- **Complementary:** May be used in conjunction with our value-oriented Empire Life Guaranteed Investment Funds to provide a more effective investment diversification.
- **Choice:** Investment solutions ranging from capital protection to growth based on desired level of risk.

How do the Multi-Strategy GIFs compare to the other Empire Life GIF investment options?

The Multi-Strategy GIFs are designed to be building blocks for a well-diversified portfolio and can be used as standalone funds within an investor's portfolio. Or they can be a complement to our value-oriented Empire Life GIF Funds by providing exposure to different investment styles and approaches.

What is your outlook for the Multi-Strategy GIFs?

Looking ahead, I remain cautiously optimistic on the outlook for the equity markets. In this environment, I am somewhat defensive, and have positioned the equity portion with a greater emphasis on more conservative holdings.

With this positioning, I would expect that the Core Multi-Strategy GIFs will trail the markets in a sharply rising environment but provide some downside protection in a sharply falling market. Where the growth GIFs will tend to move with a rising market but still provide some downside protection. Over the long-term, I expect to see strong risk adjusted returns with levels of volatility that are below that of the broader equity markets.

The Empire Life Insurance Company

259 King Street East,
Kingston, ON K7L 3A8

The Empire Life Insurance Company (Empire Life) is a proud Canadian company that has been in business since 1923. We offer individual and group life and health insurance, investment and retirement products, including mutual funds through our wholly-owned subsidiary Empire Life Investments Inc.

Our mission is to make it simple, fast and easy for Canadians to get the products and services they need to build wealth, generate income, and achieve financial security.

Follow us on social media @EmpireLife or visit empire.ca for more information, including current ratings and financial results.

Segregated Fund contracts are issued by The Empire Life Insurance Company ("Empire Life"). A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value. Past performance is no guarantee of future results.** Please read the information folder, contract and fund facts before investing.

This document includes forward-looking information that is based on the opinions and views of Empire Life as of the date stated and is subject to change without notice. The information contained herein is for general purposes only and is not intended to be comprehensive investment advice. We strongly recommend that investors seek professional advice prior to making any investment decisions. Empire Life and its affiliates assume no responsibility for any reliance on or misuse or omissions of the information contained herein.

® Registered trademark of **The Empire Life Insurance Company**.



Please contact your Empire Life sales representative for more information.

Insurance & Investments – Simple. Fast. Easy.®
empire.ca info@empire.ca 1 877 548-1881

INV-2614-EN-12/21

