



Empire Life Multi-Strategy GIFs

QUARTERLY COMMENTARY

As of December 31, 2023

Q4 Review

Both fixed income and equity markets surged in the fourth quarter, rewarding investors with a strong rally. The S&P/TSX Composite Total Return Index rose 8.1%, while the FTSE Canada Universe Bond Index gained 8.3%, as investor sentiment shifted to the “soft landing scenario” as the most likely outcome in the new year.

Equities

Equity markets ended the year on a high note with markets delivering impressive gains in the quarter. October was mostly negative, however, markets surged higher in both November and December, thanks largely to falling bond yields and expectations that central bank rates hikes were coming sooner rather than later.

World Equity Indexes	3 month	YTD	1 year	3 year	5 year	10 year
NASDAQ 100 TR CAD	11.76	51.01	51.01	11.46	21.81	20.49
Nikkei 225 Average TR CAD	8.63	19.29	19.29	-0.63	6.78	8.71
S&P 500 TR CAD	8.93	22.92	22.92	11.28	14.88	14.48
MSCI World GR CAD	8.78	21.09	21.09	9.04	12.58	11.57
MSCI Japan GR CAD	5.55	17.55	17.55	2.20	6.56	7.64
MSCI ACWI GR CAD	8.40	19.53	19.53	7.48	11.48	10.85
MSCI Pacific GR CAD	6.58	12.50	12.50	2.40	6.10	7.20
S&P/TSX Composite TR CAD	8.10	11.76	11.76	9.60	11.30	7.62
MSCI EAFE GR CAD	7.74	15.68	15.68	5.74	7.93	7.07
MSCI Europe GR CAD	8.36	17.43	17.43	7.69	8.98	7.03
MSCI EM GR CAD	5.27	7.31	7.31	-3.61	3.35	5.30
MSCI Pacific Ex Japan GR CAD	8.67	3.68	3.68	2.84	5.10	6.29
MSCI China GR CAD	-6.58	-13.43	-13.43	-17.38	-3.34	3.24

Source: Morningstar Research Inc. as of December 31, 2023. The figures shown represent returns for the period specified. Returns under 1 year are simple rates of return, all others are annual compound rates of return.

Following the last policy meeting of the year, investors took US Fed Chair Jerome Powell's comments, or in some cases, lack thereof, as a sign that, not only were rate hikes done, but that cuts could be imminent. This caused investors to adjust their portfolios for a soft-landing scenario. From a style and factor perspective, growth stocks outpaced more value focused strategies in the quarter. The MSCI World Growth GR Index CAD gained 10.6%, compared to 8.8% for the MSCI World GR Index CAD and 6.8% for the MSCI World Value GR Index CAD.

Quality, momentum, and size outperformed the broader market. The MSCI World Quality GR Index CAD jumped 9.8%, while the MSCI World SMID Cap GR Index CAD and MSCI World Momentum GR Index CAD were both up 9.4%. On the other hand, low volatility was the weakest performing factor, gaining a modest 4.2%.

Fixed Income

Fixed income moved in tandem with equities in the fourth quarter, delivering strong gains across the board. Foreign bonds ended the quarter on a positive note but trailed their Canadian counterparts.

Global Fixed Income Indexes (local currency unless otherwise noted)	3 month	YTD	1 year	3 year	5 year	10 year
Bloomberg Global High Yield TR USD	8.56	14.05	14.05	0.18	3.91	3.62
FTSE Canada LT Bond	14.82	9.52	9.52	-6.48	0.63	3.31
FTSE Canada All Corp Bond	7.63	8.38	8.38	-1.23	2.51	3.10
FTSE Canada Real Return Bond	10.50	2.00	2.00	-3.82	1.67	2.73
FTSE Canada Universe Bond	8.27	6.69	6.69	-2.80	1.30	2.42
FTSE Canada ST Bond	4.11	5.02	5.02	-0.06	1.62	1.68
Bloomberg US Agg Bond TR USD	6.82	5.53	5.53	-3.32	1.10	1.81
FTSE Canada All Government Bond	8.49	6.12	6.12	-3.36	0.86	2.18
Bloomberg Gbl Agg Ex USD TR USD	9.21	5.72	5.72	-7.21	-1.56	-0.79

Source: Morningstar Research Inc. as of December 31, 2023. The figures shown represent returns for the period specified. Returns under 1 year are simple rates of return, all others are annual compound rates of return.

As with equities, the bond market responded optimistically to the December rate announcement. Bonds rallied as yields fell on expectations that central bank rate cuts were likely to occur in the near future. In this environment, it was the more rate sensitive areas of the bond markets that rallied, with long bonds meaningfully outpacing short bonds, and government bonds outpacing corporate bonds.

Government of Canada bond yields closed off the year by moving lower across the yield curve. In December, the yield on the two-year bond moved from 4.20% to 3.88%, the five-year bond moved from 3.64% to 3.17% and 10-year bonds fell by 46 basis points to end the quarter at 3.10%.

Fund Review

The Empire Life Multi-Strategy GIFs had a strong quarter, with each delivering positive returns.

Empire Life Multi-Strategy	Category	3 month	1 year	2 year	3 year	Since Inception	Inception Date
Canadian Equity GIF	Canada Insurance Canadian Equity	7.1	8.8	0.9	6.7	5.7	23-Oct-19
Quartile rank		3	2	3	3	-	
# of funds in the category		615	609	608	606	-	
US Equity GIF	Canada Insurance US Equity	6.4	11.8	-1.2	4.3	6.5	23-Oct-19
Quartile rank		4	4	4	4	-	
# of funds in the category		759	755	752	726	-	
Global Equity GIF	Canada Insurance Global Equity	6.9	11.9	-1.0	2.9	4.5	23-Oct-19
Quartile rank		3	2	3	3	-	
# of funds in the category		1051	1037	1000	946	-	
Global Conservative Portfolio GIF	Canada Insurance Global Fixed Income Balanced	6.3	6.7	-2.2	-0.9	0.5	23-Oct-19
Quartile rank		3	3	2	3	-	
# of funds in the category		357	348	333	327	-	
Global Balanced Portfolio GIF	Canada Insurance Global Neutral Balanced	6.6	8.3	-2.1	0.0	1.4	23-Oct-19
Quartile rank		3	3	3	4	-	
# of funds in the category		895	878	833	793	-	
Global Moderate Growth Portfolio GIF	Canada Insurance Global Equity Balanced	6.7	9.9	-1.6	1.3	2.8	23-Oct-19
Quartile rank		3	2	3	4	-	
# of funds in the category		982	971	956	917	-	
Global Growth GIF	Canada Insurance Global Equity	9.0	28.6	-1.4	-	3.2	18-Jan-21
Quartile rank		1	1	3	-	-	
# of funds in the category		1051	1037	1000	-	-	
Global Growth Balanced Portfolio GIF	Canada Insurance Global Neutral Balanced	7.6	16.5	-2.4	-	0.6	18-Jan-21
Quartile rank		1	1	3	-	-	
# of funds in the category		895	878	833	-	-	

Source: Morningstar Research Inc., as of December 31, 2023. Returns based on Class K (75/75). Morningstar quartile rankings show how well a fund has performed compared to all other funds in its peer group. Each fund within a peer group is ranked based on its performance, and these rankings are broken into quarters or quartiles. Within a group, the top 25% (or quarter) of the funds are in the first quartile, the next 25% are in the second quartile, the next group in the third quartile, and the bottom 25% of funds with the poorest relative performance are in the fourth quartile. The point in which half the funds had better performance and half had worse performance is the median. If 100 funds are being compared, there would be four quartiles of twenty-five funds each. The median would be the fiftieth fund. For more details on the calculation of Morningstar star ratings or quartile rankings, please see www.morningstar.ca.

The strongest performing fund was once again the Empire Life Global Growth GIF – K, which gained 9.0%, outpacing the MSCI World Index GR CAD, and its peer group. The fund benefitted from its growth tilt, which outperformed the broader market and the value investment style. Much of the outperformance was driven by the fund's overweight to technology and an underweight in energy.

Our most defensive strategy, the Empire Life Multi-Strategy Global Conservative Portfolio GIF - K, rose by 6.3%, trailing its index and matching its peer group. Both the fixed income and equity sleeves ended the quarter in positive territory but trailed their respective benchmarks. Lower yields pushed bond markets higher. In this environment, more interest rate sensitive strategies outperformed. However, our defensive bond positioning, with lower rate sensitivity, was a headwind to the portfolio.

Furthermore, in a highly risk-on market environment, our underweight to technology combined with our higher than target cash balance served as a headwind to the equity sleeve.

Outlook and Positioning

Heading into the first quarter of 2024, we are maintaining a neutral positioning relative to our long-term target weights.

Within our equity funds, we have reduced our exposure to the more defensive low volatility strategies and shifted exposure to high quality strategies. Despite signs of a slowing economy and increasing geopolitical tensions, quality companies that have a history of strong return on equity generation are expected to provide some downside protection in volatile markets, while providing stronger upside participation than the more defensive low volatility strategies. However, should economic conditions erode further, we will likely increase exposure to low volatility.

Within our balanced funds, we are maintaining an overweight to Canadian bonds. Yields remain very attractive and are offering a reasonable level of interest income. This is expected to provide a higher yield to our balanced portfolios without materially increasing the risk profile.

We continue to maintain a lower exposure to high yield and corporate bonds. If the economy continues to slow, we expect that credit spreads will widen, which would erode returns. However, when we have observed signs that the economy is strengthening, we will reduce our core duration holdings and reallocate back to higher yielding strategies.

The Empire Life Multi-Strategy GIFs are well diversified, which improves the resiliency of the portfolio. We will continue to monitor the health of the economy and geopolitical events to help guide our investment decision making.

We expect this balanced and forward-looking approach will improve the fund's performance in a wide range of market environments.

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