The case for Empire Life Global Dividend Growth GIF

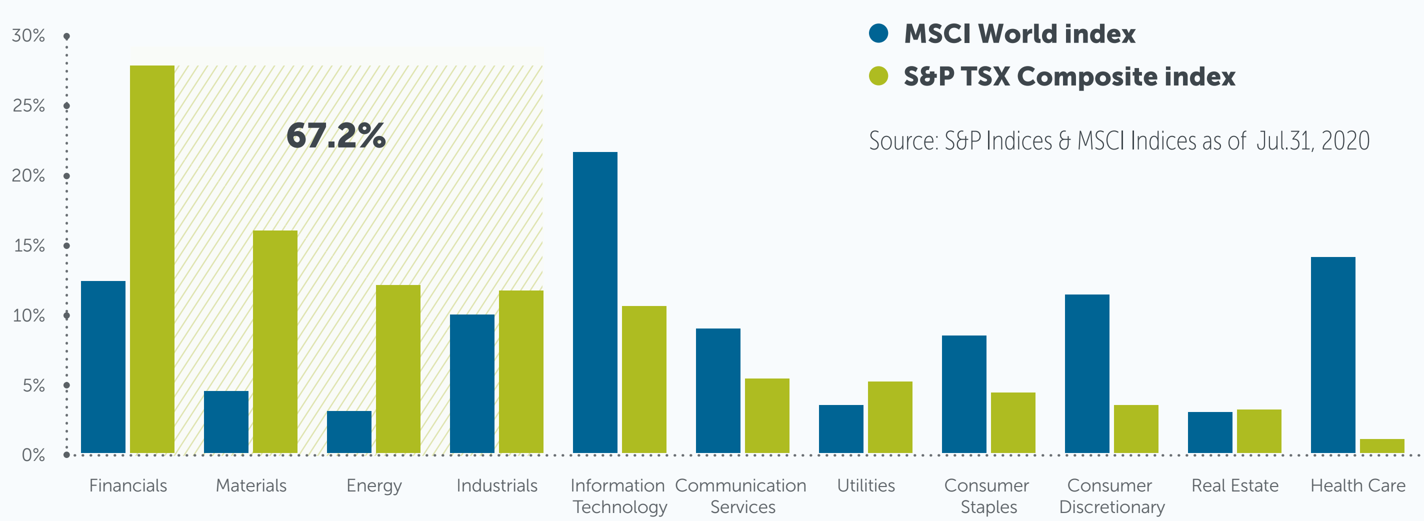
The global spread of the COVID-19 outbreak, along with the lockdown of most economic activities, brought the global economy to an abrupt halt, pushing it into a recession. Central banks and governments around the world rushed to ease the economic impact. Drastic interventions seemed to have stabilized the financial markets, and equity markets staged a robust recovery since late March. However, the extent and breadth of the damage caused by sharp declines in economic activity and massive job losses may have a long-lasting impact. The COVID-19 outbreak will transform the way the world operates for the foreseeable future. How should investors position their portfolios in a new financial era with fiscal and monetary policies that previously we would have considered unthinkable?

Overcoming home country bias

For Canadians, “home country bias” refers to the tendency to favour Canadian companies over those in other countries. This kind of bias is common around the world and not unique to Canada. Canadian investors’ hesitation to invest outside Canada may be driven by a lack of trust in foreign companies that they are not familiar with, or by the belief that they can achieve their investment objectives through a portfolio of Canadian stocks.

In fact, home country bias almost always creates greater uncertainties than investors realize, in terms of economic risks and opportunity costs. This is particularly true for Canadian investors because Canada accounts for only about 2% of global GDP[1] and less than 3% of global capital markets[2].

As represented by the S&P/TSX Composite Index, the Canadian economy and equity markets are skewed toward just a few sectors. The top four sectors (Financials, Energy, Materials and Industrials) account for almost 70% of the total market cap. That means a home-bias investment strategy faces greater concentration risks and limits investment opportunities. Home-bias investors are missing out on some of the best global companies listed elsewhere.



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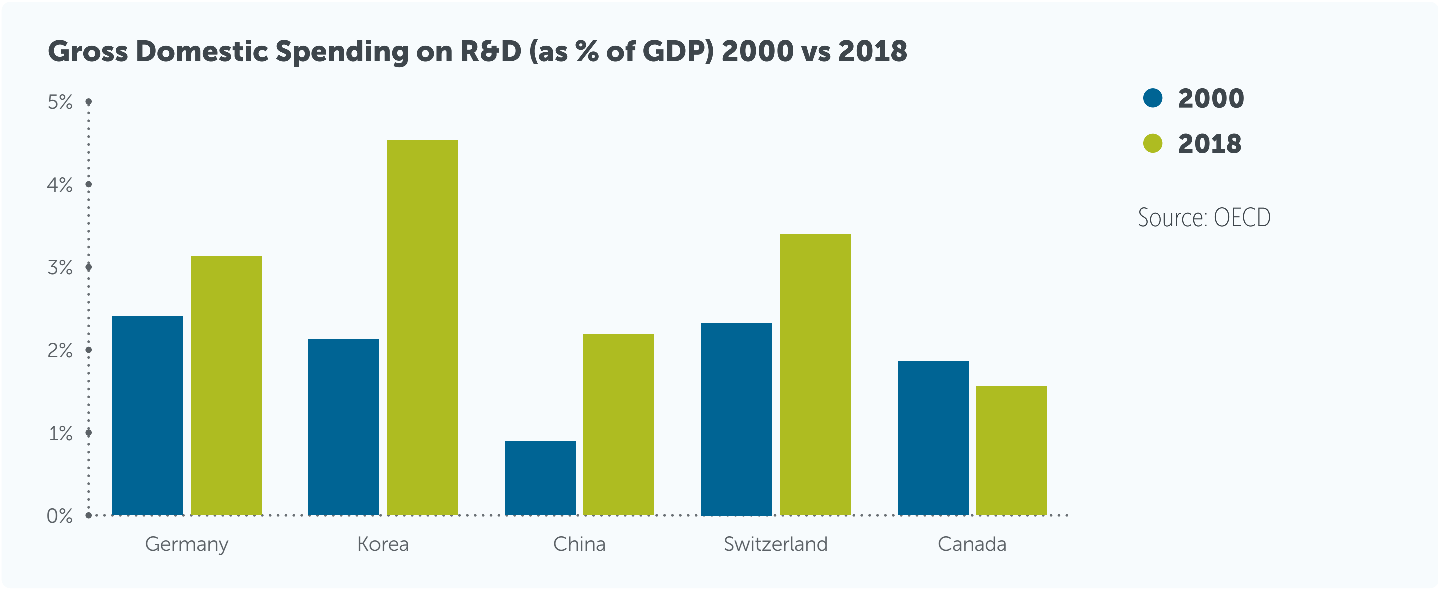
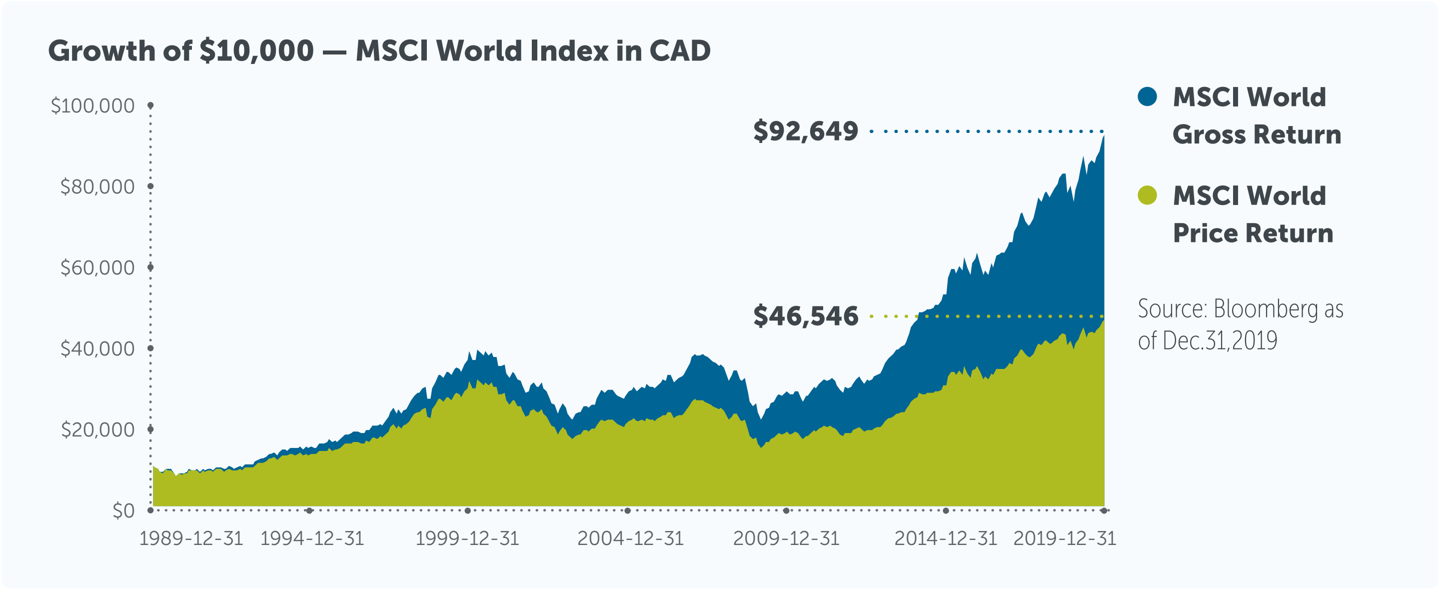
Along with many countries around the world, the global COVID-19 pandemic and a severe oil shock has driven the Canadian economy into a recession. But over the past decades, Canada has been struggling with other chronic economic headwinds, including low productivity. Canada has one of the worst productivity profiles among developed countries[3], partially as a result of low investments in productivity-enhancing research and development (R&D). Canada's R&D expenditure as a percentage of GDP has been declining since 2000, while the other major Organization for Economic Co-operation and Development Countries (OECD) countries have benefited from a positive relationship between R&D expenditure and economic growth[4]:



An easy way for Canadians to overcome their home bias is to reallocate a portion of their portfolio they are comfortable with into a global mandate that invests in other geographical regions. And, by diversifying into a global dividend mandate, investors may potentially increase returns while lowering volatility.

Why a dividend-focused strategy?

To take global investing to the next level, Canadian investors new to global investing may want to consider global dividend investments. Dividends are an important source of investment returns, and have played a significant role in the returns investors have received. In fact, 56% of the total return of the MSCI World Index can be attributed to the dividend factor (reinvested dividends and the power of compounding) over the last three decades:



A dividend mandate typically has a portfolio-level dividend yield higher than that of the market. A mandate with a high dividend yield usually displays broader value characteristics. Companies committed to paying dividends normally weigh business investments more carefully. Having a strong capital discipline, they are less likely to invest in projects that do not add value for shareholders. Higher dividend-paying companies are typically larger businesses in more mature and less volatile industries. They tend to be less growth-oriented in their business strategies; therefore, these businesses have more predictable earnings streams and tend to exhibit lower valuation and stock price volatility.

The characteristics typically associated with dividend investing – value, strong capital discipline, high quality and low volatility – are all factors that have been shown to reward investors over the long term.

With interest rates still at historic lows, investors should no longer focus exclusively on the bond market for income-generating solutions. A dividend-focused strategy, however, can also provide investors with income – and also the potential for capital appreciation. But selectivity really matters: not all global dividend mandates are created equal.

Why Empire Life Global Dividend Growth GIF?

Empire Life Global Dividend Growth GIF employs a disciplined investment process that reflects Empire Life's value-oriented investment philosophy that focuses on high-quality, attractively valued companies with secular tailwinds. Using a fundamental, bottom-up approach enables the portfolio manager to find outstanding businesses with a competitive advantage, strong returns, robust balance sheets and well-aligned management teams. To drive the value approach further the portfolio manager invests in companies trading at prices below what they believe is their intrinsic value.

Another key aspect is that the portfolio managers target companies with the potential to grow their dividends. This involves investing in businesses that not only pay attractive dividends but also grow dividend streams over time by maintaining modest payout ratios.

The Fund is positioned to offer diversification from both a geographic and sector perspective with a targeted dividend yield higher than that of its benchmark.

Results

Empire Life Global Dividend Growth Class A has provided a strong track record of performance while providing downside protection and superior upside capture.

	Return					
Funds	**YTD**	**1 year**	**2 years**	**3 years**	**5 years**	**10 years**
Empire Life Global Dividend Growth Class A	-3.04	3.62	2.77	6.96	4.70	8.15
Canada Insurance Global Equity	-1.64	3.51	2.02	4.62	3.52	7.40

	3 years	
Funds	**Down Capture ratio**	**Up Capture ratio**
Empire Life Global Dividend Growth Class A	98.97	111.93
Canada Insurance Global Equity	100	100

With its outperformance in absolute and risk-adjusted returns, the Empire Life Global Dividend Growth Class A has a **four-star rating from Morningstar Rating**™*, as at July 2020.

[1] The World Bank 2018: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=CA-1W

[2] Country weightings in MSCI All Country World Index as of Dec.31, 2019 https://www.msci.com/acwi

[3] Fraser Institute https://www.fraserinstitute.org/article/canadas-economic-woes

[4] OECD https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm

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.

Morningstar Rating is for Class A shares only; other classes may have different performance characteristics. Class A units only available to existing clients.

To find out more about how the Empire Life Global Dividend Growth GIF can fit into your portfolio, contact your advisor or visit empire.ca

The Empire Life Insurance Company
259 King Street East, Kingston, ON K7L 3A8

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empire.ca   info@empire.ca   1 877 548-1881

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