



Empire Life Multi-Strategy GIFs

QUARTERLY COMMENTARY

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Market Overview

2022 is certainly off to an interesting start with volatility rising in both equity and fixed income markets around the world. Inflation remains stubbornly high and central banks are now turning their attention towards fighting it. The market rally that started in March 2020 faced real headwinds in the first quarter as most equity markets ended in negative territory.

World Equities (\$CAD)	3 month	YTD	1 year	3 year	5 year	10 year
S&P/TSX Composite Index TR	3.82	3.82	20.19	14.15	10.34	9.08
MSCI Pacific Ex-Japan Index GR	2.63	2.63	3.29	4.60	5.44	8.54
MSCI Pacific Index GR	-4.08	-4.08	-3.36	4.86	5.27	9.00
S&P 500 Index TR	-5.66	-5.66	14.93	16.29	14.48	17.22
MSCI World Index GR	-6.10	-6.10	9.92	12.99	11.54	14.00
MSCI All Country World Index GR	-6.32	-6.32	7.07	11.76	10.74	13.06
MSCI EAFE Index GR	-6.84	-6.84	1.01	5.89	5.83	9.18
MSCI Japan Index GR	-7.49	-7.49	-6.72	4.85	5.09	9.20
MSCI Emerging Markets Index GR	-7.96	-7.96	-11.63	2.97	4.97	6.07
MSCI Europe Index GR	-8.27	-8.27	3.47	6.45	6.15	9.31
Nikkei 225 Average Index TR	-8.51	-8.51	-12.07	5.80	6.87	10.92
NASDAQ 100 Index TR USD	-9.92	-9.92	13.43	24.48	21.80	22.38
MSCI China Index GR	-21.21	-21.21	-42.22	-4.31	3.94	8.79

Morningstar Research Inc., as of March 31, 2022

Central banks have ramped up their hawkish comments throughout the quarter, pushing bond yields and interest rates sharply higher and bond prices lower. In Canada, the benchmark Government of Canada 10-year bond rose nearly 100 basis points, to close on March 31 yielding 2.40%. It was a similar story in the U.S., where the 10-year bond index started the year at 1.51%, and closed on March 31 yielding 2%.

Bond Index Name	3 month	1 year	3 year	5 year	10 year
FTSE Canada ST Bond	-2.98	-3.31	0.84	1.12	1.66
FTSE Canada All Corp Bond	-6.45	-4.36	1.39	2.16	3.21
FTSE Canada Universe Bond	-6.97	-4.52	0.45	1.58	2.55
Bloomberg US Agg Bond TR USD	-6.98	-4.75	-0.57	0.81	4.55
FTSE Canada All Government Bond	-7.16	-4.58	0.10	1.36	2.30
Bloomberg Gbl Agg Ex USD TR USD	-7.20	-8.46	-2.40	-0.05	2.32
FTSE Canada Real Return Bond	-9.33	-0.38	2.36	2.83	2.08
FTSE Canada LT Bond	-11.73	-5.62	-0.20	2.30	3.57

Source: Morningstar Research Inc., as of March 31, 2022.

In isolation, sharply rising bond yields and record-setting levels of inflation would certainly cause many investors to start to get a little bit nervous. This is especially true with many equity markets, particularly those with strong growth tilts trading near the upper end of their valuation ranges. But factor in a highly transmissible COVID-19 variant pushing case counts around the world to record levels, and the growing conflict between Russia and Ukraine, you have a perfect storm to push uncertainty and volatility sharply higher.

In November, Omicron was first identified as a variant of concern and by mid-January, global cases were hitting more than 25 million per week, according to the World Health Organization (WHO). This record number of cases saw increasing restrictions in many parts of the world. This continued to weigh on the global supply chain, resulting in continued shortages of many goods, keeping inflation stubbornly high.

On the geopolitical front, Russia launched an attack on neighboring Ukraine in late February. As the conflict continues to rage, it has created an unimaginable humanitarian crisis, resulting in millions of Ukrainians fleeing their homeland in search of safe harbour. In addition, there has been economic fallout as global sanctions against Russia have driven the price of energy and other commodities to near-record levels with no end in sight. This has created further price pressures in Europe with sharp rises in the price of gasoline and food. In many parts of the world, food insecurity is becoming a serious problem, with many yet unknown consequences.

Typically, when equity markets become volatile, fixed income markets tend to rise as investors flock to the safety of bonds. That didn't hold up this time around because the upward pressure on bond yields negated any safe-haven flows, resulting in downward pressure on bond prices. Meaning there were very few places for investors to hide.

Multi-Strategy GIF Performance

Each of the Empire Life Multi-Strategy GIFs ended the quarter in negative territory, except for the **Empire Life Multi-Strategy Canadian Equity GIF** which gained 1.9%. The Fund's return was driven by positive contributions from the **Horizons S&P/TSX 60 ETF**, which benefitted from healthy exposure to energy and materials, and the value tilted **Beutel Goodman North American Focused Equity Fund**.

The **Empire Life Multi-Strategy Global Growth GIF** was the weakest performer in the quarter, falling 11.2%. The Fund invests only in high growth ETFs and funds, which struggled in the face of rising bond yields. Growth stocks will often see most of their gains expected well into the future, making them "long duration" equities. Longer-duration investments tend to be more sensitive to rising interest rates, and the Fund is no exception. Over the quarter, the MSCI World Growth Index fell 10.6% in Canadian dollar terms. In comparison, the MSCI World Value Index was down 1.6%.

Throughout the quarter, adjustments were made to the Empire Life Multi-Strategy Canadian Equity GIF and the **Empire Life Multi-Strategy U.S. Equity GIF**. The change mainly involves the addition of more high-quality, differentiated actively managed strategies into the Funds, including ETFs from Dynamic Funds and T. Rowe Price. The expectation is these actively managed strategies can help to provide an additional return over the long-term because of their strong management teams and disciplined investment processes. In the next few weeks, additional active strategies will be added to our other Multi-Strategy equity GIFs.

Returns for Class K (75/75) units at March 31, 2022	MER	Inception Date	3 month	YTD	1 year	Inception
Empire Life Multi-Strategy Canadian Equity GIF	2.73	Oct. 23, 2019	1.85	1.85	13.23	9.77
Empire Life Multi-Strategy US Equity GIF	2.86	Oct. 23, 2019	-6.66	-6.66	6.61	9.25
Empire Life Multi-Strategy Global Equity GIF	2.83	Oct. 23, 2019	-7.44	-7.44	2.44	5.43
Empire Life Multi-Strategy Global Conservative Portfolio GIF	2.39	Oct. 23, 2019	-5.62	-5.62	-2.66	0.29
Empire Life Multi-Strategy Global Balanced Portfolio GIF	2.55	Oct. 23, 2019	-6.45	-6.45	-1.32	1.35
Empire Life Multi-Strategy Global Moderate Growth Portfolio GIF	2.61	Oct. 23, 2019	-6.69	-6.69	0.50	3.21
Empire Life Multi-Strategy Global Growth GIF	2.96	Jan. 18, 2021	-11.19	-11.19	1.15	-0.27
Empire Life Multi-Strategy Global Growth Balanced Portfolio GIF	2.58	Jan. 18, 2021	-8.66	-8.66	-0.94	-2.13

Source: Morningstar Research Inc., as of March 31, 2022.

Outlook and Positioning

There are many challenges on the horizon including rising interest rates, stubbornly high inflation, the Russia-Ukraine war, and of course, the ongoing pandemic. One thing they all share is that they create much uncertainty, which leads to multiple potential outcomes for both equity and fixed income investors.

In this type of environment, it is important is to be diversified across different asset classes, geographies, and investment styles. This diversification can help build portfolio resiliency which can help in a wider range of circumstances. The Empire Life Multi-Strategy GIFs are very well diversified by design with an eye on managing overall portfolio risk, making them well-positioned for this type of uncertain environment.

Within the equity funds, the portfolios are tilted towards more defensive strategies including low volatility, high-quality, and value. For the fixed income portion of the Funds, the emphasis is on higher quality corporate bonds, which tend to be less sensitive to interest rates, which should help in a rising yield environment. We also maintain exposure to non-Canadian bonds for additional diversification.

Over the next few months, we will look for opportunities to incorporate additional actively managed strategies into the Funds, which would be expected to help better navigate the challenging environment. In the interim, we continue to monitor and adjust the portfolios, tilting them towards the areas of opportunity and away from areas of concern, all the while staying true to the Multi-Strategy philosophy.

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