



Empire Life Multi-Strategy GIFs

QUARTERLY COMMENTARY

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Market Overview

The market decline that started in the first quarter of the year continued, with almost all equity and bond markets ending the second quarter sharply lower. Inflation continued to rise, while central banks narrowed their focus to corralling runaway inflation. In the last few weeks of the quarter, investor attention shifted from soaring prices to the prospect of a slowing economy, resulting from the central bank rate hikes. After the dust had settled on the first half of 2022, numbers showed it was the worst first half for investors in decades.

World Equities (\$CAD)	3 month	YTD	1 year	3 year	5 year	10 year
MSCI China Index GR	6.9	-9.3	-28.8	-0.9	2.2	8.2
MSCI Emerging Markets Index GR	-8.4	-15.7	-21.9	0.5	2.4	5.9
MSCI Pacific Index GR	-8.9	-15.2	-18.7	1.7	3.0	8.3
MSCI Europe Index GR	-11.4	-18.7	-13.6	1.4	2.6	8.6
MSCI EAFE Index GR	-11.5	-17.5	-13.9	1.1	2.6	8.4
MSCI Japan Index GR	-11.8	-18.4	-16.3	0.9	2.0	8.4
MSCI All Country World Index GR	-12.8	-18.3	-11.8	6.2	7.4	11.9
S&P/TSX Composite TR	-13.2	-9.9	-3.9	8.0	7.6	8.2
MSCI World Index GR	-13.3	-18.6	-10.4	7.1	8.1	12.7
S&P 500 Index TR	-13.4	-18.3	-6.9	10.1	11.2	15.6
NASDAQ 100 Index TR USD	-19.8	-27.7	-17.1	14.9	16.2	20.1

Source: Morningstar Research Inc., as of June 30, 2022

China was the only major market that ended the quarter in positive territory as investors reacted to the easing of COVID-19 lockdowns across the country and looser financial conditions. In contrast, many western countries were heading in the opposite direction with central banks aggressively raising interest rates to reign in decades high levels of inflation.

Bond Index Name	3 month	YTD	1 year	3 year	5 year	10 year
FTSE Canada ST Bond	-1.5	-4.4	-4.8	0.0	0.9	1.4
Bloomberg US Agg Bond TR USD	-4.7	-10.3	-10.3	-0.9	0.9	1.5
FTSE Canada All Corp Bond	-4.8	-11.0	-10.1	-1.1	1.0	2.5
FTSE Canada Universe Bond	-5.7	-12.2	-11.4	-2.3	0.2	1.7
FTSE Canada All Government Bond	-6.0	-12.7	-11.9	-2.7	-0.1	1.4
FTSE Canada Real Return Bond	-8.9	-17.4	-12.3	-1.9	0.7	0.9
Bloomberg Gbl Agg Ex US TR USD	-11.0	-16.5	-18.8	-5.1	-1.8	-1.1
FTSE Canada LT Bond	-11.8	-22.1	-19.7	-5.8	-1.0	1.9
Bloomberg Global High Yield	-11.9	-16.9	-17.8	-2.6	0.1	3.6

Source: Morningstar Research Inc., as of June 30, 2022

Market volatility increased sharply, punishing growth stocks and other companies that traded at higher valuation levels. The tech-heavy NASDAQ 100 Index was down nearly 20% in Canadian dollar terms and the S&P 500 also faced headwinds, ending the quarter down 13.4%.

As investors digested the sharp increase in rates, concerns that aggressive central bank tightening could lead to a slowing economy or perhaps even a recession began to emerge. This led to some weakness in the first quarter winners and more cyclical parts of the market, specifically energy.

With bond yields moving higher, bond prices were sharply lower over the quarter, as prices tend to move in the opposite direction of rates. Short-term bonds, which tend to have a lower sensitivity to interest rates, ended the quarter lower, but outpaced the broader bond market. In contrast, long-term bonds trailed significantly because of their higher sensitivity to interest rates. High yield bonds were also lower on concerns that higher rates and a slowing economy may make it more difficult for some lower quality companies to service their outstanding debt.

In more normal times, whenever there is a big equity market selloff like we have seen so far this year, bonds, particularly government bonds, will often hold their value very well and in many cases even increase. It is this property that help make bonds an extremely valuable piece of a well diversified portfolio, acting as a hedge against equity market volatility. Unfortunately for investors, that relationship hasn't held up during the first half of the year, with both stock and bond markets experiencing significant drawdowns. This has left investors with very few places to hide from the storm.

This time, rates were already very low because of the massive amounts of liquidity injected into the financial system by the central banks to help mitigate the damage from the COVID 19 lockdowns. Because of the already low rates, central banks had very few options to fight the surging inflation, helping to create this unusual situation of strong positive correlation between equities and bonds. In recent weeks, as things have shown some signs of stabilizing, this historic relationship has started to return to normal, however we are not yet out of the woods.

Inflation and central banks have been the key drivers throughout the quarter, but other factors also contributed. The war in Ukraine continues, which keeps pressure on energy and other commodities. China has so far maintained its zero-COVID policy, meaning lockdowns any time cases reach a certain threshold. These restrictions can create backlogs in manufacturing and movement of goods, prolonging the stresses on the already stretched supply chain. The very tight labour market has seen a lack of workers across not only manufacturing business, but also service businesses. There are signs that both the supply chain and labour market are normalizing, but they are not there yet.

Multi-Strategy GIF Performance

It was a challenging quarter with each of the Multi-Strategy Funds finishing in negative territory. Despite the negative absolute performance, each of the core Multi-Strategy Funds outperformed their respective benchmarks.

Our relative performance in the core equity Funds was helped by our defensive positioning. The Funds benefitted from a higher allocation to low volatility, and actively managed strategies, which performed better than the overall markets. A higher than target cash weight also helped.

The Multi-Strategy Portfolio Funds saw both the equity and fixed income portions outperform their respective benchmarks. Within the fixed income portion, allocations to short-term bonds, and corporate bonds helped drive the outperformance. Both short-term and corporate bonds tend to be less sensitive to interest rates, which can help performance in a rising yield environment.

The **Multi-Strategy Global Growth Fund** trailed the broader global equity market, because of its significant growth tilt. In general, growth companies trailed as interest rates continued to move meaningfully higher.

Returns for Class K (75/75) units at June 30, 2022	MER	Inception Date	3 month	YTD	1 year	Inception
Empire Life Multi-Strategy Canadian Equity GIF	2.78	Oct. 23, 2019	-1.62	-2.31	3.78	7.38
Empire Life Multi-Strategy US Equity GIF	2.90	Oct. 23, 2019	-5.52	-13.40	-2.21	5.55
Empire Life Multi-Strategy Global Equity GIF	2.79	Oct. 23, 2019	-5.89	-13.51	-5.37	2.37
Empire Life Multi-Strategy Global Conservative Portfolio GIF	2.39	Oct. 23, 2019	-4.98	-9.16	-6.87	-1.19
Empire Life Multi-Strategy Global Balanced Portfolio GIF	2.58	Oct. 23, 2019	-5.42	-10.90	-6.71	-0.61
Empire Life Multi-Strategy Global Moderate Growth Portfolio GIF	2.64	Oct. 23, 2019	-5.68	-11.94	-6.04	0.73
Empire Life Multi-Strategy Global Growth GIF	2.97	Jan. 18, 2021	-10.20	-20.81	-10.56	-8.28
Empire Life Multi-Strategy Global Growth Balanced Portfolio GIF	2.61	Jan. 18, 2021	-7.88	-15.28	-8.94	-7.14

Source: Morningstar Research Inc., as of June 30, 2022.

Outlook and Positioning

Looking ahead, there are many challenges including stubbornly high inflation, rising interest rates, new COVID-19 variants, and the potential for slowing economic growth. In addition, all eyes will be on the second quarter earnings reports, as investors look for direction in corporate profits and earnings. If we see signs of a slowdown, further selling is possible. However, if earnings, and more importantly forward guidance is positive, a more stable environment, or perhaps even a market rebound is possible.

Unfortunately, until further clarity emerges, higher than normal volatility would be expected to continue. In this type of environment, it is important 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 potential outcomes. 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. We will continue to monitor and adjust the portfolios based on the market conditions and outlook.

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