



Empire Life Multi-Strategy GIFs

QUARTERLY COMMENTARY

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Market Overview

Equity markets ended a challenging year by rewarding investors with solid gains in the fourth quarter. International equities were the main driver delivering double digit returns. The MSCI EAFE Index rose by nearly 16% in the fourth quarter but still ended the year down 7.8%. European equities were the strongest performers as the MSCI Europe Index surged 17.8%, led by strength in the financials, materials, and energy sectors. A milder winter, falling energy prices, and a more positive economic outlook boosted sentiment in the region. Asian stocks were also strong, boosted by China, where the government eased its zero-Covid Policy, increasing the MSCI China Index to 12.5%.

World Equities (\$CAD)	3 month	1 year	3 year	5 year	10 year
MSCI Europe Index GR	17.76	-8.31	3.43	4.10	8.49
MSCI EAFE Index GR	15.77	-7.76	2.83	3.64	8.45
MSCI Pacific Ex Japan GR	14.14	0.98	3.20	3.90	7.18
MSCI Pacific Index GR	12.57	-6.44	1.72	2.83	8.45
MSCI China Index GR	12.48	-21.58	-6.40	-3.59	7.56
MSCI Japan Index GR	11.69	-10.22	0.84	2.18	9.21
Nikkei 225 Average TR	9.04	-13.25	0.20	3.17	10.45
MSCI World Index GR	8.36	-11.75	7.00	8.37	12.86
MSCI ACWI GR	8.35	-12.00	6.03	7.42	11.93
MSCI Emerging Markets Index GR	8.27	-13.90	-0.90	0.53	5.00
S&P 500 Index TR	6.07	-12.16	9.25	11.15	16.08
S&P/TSX Composite TR	5.96	-5.84	7.54	6.85	7.74
NASDAQ 100 TR	-1.43	-27.47	10.28	14.13	20.09

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

Closer to home, North American equities made significant headway, recouping some of 2022's losses in part to a strong rally in November. In Canadian dollar terms, the S&P 500 Index finished the quarter up 6.1%, in near lock step with its Canadian counterpart, the S&P/TSX Composite Index.

Markets were volatile throughout Q4 as inflation appeared to have peaked. Investors began anticipating a “pivot”, which would see global central banks not only stop raising interest rates, but also begin cutting them, causing equities to rally. Central bank officials would then effectively pour cold water on the idea, reaffirming their commitment to taming inflation and reinforcing that talk of any potential cuts was premature, causing markets to give back the gains.

Global Fixed Income Indexes (Local Currency)	3 month	1 year	3 year	5 year	10 year
Bloomberg Global High Yield TR USD	6.47	-12.71	-1.92	0.38	2.99
Bloomberg Gbl Agg Ex USD TR USD	5.32	-18.70	-5.94	-3.07	-1.64
FTSE Canada Real Return Bond	2.81	-14.32	-0.46	1.26	1.10
FTSE Canada All Corp Bond	1.00	-9.87	-1.12	1.10	2.36
FTSE Canada ST Bond	0.67	-4.04	0.03	1.01	1.35
Bloomberg US Agg Bond TR USD	0.46	-13.01	-2.71	0.02	1.06
FTSE Canada Universe Bond	0.10	-11.69	-2.20	0.27	1.63
FTSE Canada All Government Bond	-0.21	-12.34	-2.58	-0.02	1.37
FTSE Canada LT Bond	-1.01	-21.76	-5.80	-1.12	1.72

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

Fixed income markets ended the year on a mixed note, as central banks continued to raise their key policy rates to help quell inflation. The U.S. Federal Reserve raised rates twice during the quarter, bringing its Fed Funds rate to 4.5%. The Bank of Canada ended the year with its overnight rate at 4.25%, more than 400 basis points higher than where it started the year.

2022 was a unique year, with both equities and fixed income falling sharply. Historically, when volatility is high in the equity markets, bonds have often rallied, acting as a counterweight in a diversified portfolio. That didn't happen this time around. With global Central Banks shifting their attention to the inflation fight, rates were raised aggressively more than negating any potential safe haven flows. Looking ahead, as clarity begins to emerge on the rate outlook, it is widely expected that this historic relationship with fixed income will return, helping protect against equity market risk.

Multi-Strategy GIF Performance

The Empire Life Multi-Strategy GIFs followed equity markets higher in the quarter, led by the **Empire Life Multi-Strategy Global Equity GIF**, which gained 8.8%. The Fund benefitted from its exposure to the Guardian Fundamental Global Equity Fund, a high conviction, quality focused global equity offering which rose by 12.5% on the quarter. Our overweight to target allocation to non-North American equities was another key contributor to our outperformance.

The **Empire Life Multi-Strategy Global Conservative Portfolio GIF** rose by 3.2% in the quarter but ended the year down 10.3%. By design, the Fund has a very defensive asset mix, with 70% invested in fixed income and 30% invested in equities. The equity allocation is invested in the Empire Life Multi-Strategy Global Equity GIF, which had a strong quarter, outpacing its benchmark. The fixed income holdings also delivered decent returns, with short-term bonds and exposure to corporate bonds and non-investment grade securities boosting gains.

With further upward pressure on interest rates, the **Empire Life Multi-Strategy Global Growth GIF** struggled as growth strategies were out of favour. Its overweight allocations to consumer discretionary and technology stocks weighed as the Fund delivered a 1.8% gain.

Returns for Class K (75/75) units at Dec. 31, 2022	Category	3 month	1 year	3 year	Inception	Inception Date
Empire Life Multi-Strategy Canadian Equity GIF	Canadian equity	5.5	-6.5	3.8	4.8	23-Oct-19
Quartile rank		1	3	4	-	
# of funds in the category		605	604	595	-	
Empire Life Multi-Strategy US Equity GIF	US equity	6.2	-12.8	3.6	5.0	23-Oct-19
Quartile rank		2	2	3	-	
# of funds in the category		755	752	715	-	
Empire Life Multi-Strategy Global Equity GIF	Global equity	8.8	-12.5	1.1	2.3	23-Oct-19
Quartile rank		2	3	4	-	
# of funds in the category		999	997	881	-	
Empire Life Multi-Strategy Global Conservative Portfolio GIF	Global fixed income balanced	3.2	-10.3	-1.8	-1.4	23-Oct-19
Quartile rank		1	2	3	-	
# of funds in the category		331	331	293	-	
Empire Life Multi-Strategy Global Balanced Portfolio GIF	Global neutral balanced	5.0	-11.5	-1.3	-0.7	23-Oct-19
Quartile rank		1	3	4	-	
# of funds in the category		855	843	750	-	
Empire Life Multi-Strategy Global Moderate Growth Portfolio GIF	Global equity balanced	6.6	-11.9	-0.3	0.6	23-Oct-19
Quartile rank		1	3	4	-	
# of funds in the category		941	941	861	-	
Empire Life Multi-Strategy Global Growth GIF	Global neutral balanced	1.8	-24.4	-	-7.8	18-Jan-21
Quartile rank		4	4	-	-	
# of funds in the category		999	997	-	-	
Empire Life Multi-Strategy Global Growth Balanced Portfolio GIF	Global equity	1.4	-18.3	-	-6.7	18-Jan-21
Quartile rank		4	4	-	-	
# of funds in the category		855	843	-	-	

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

Outlook and Positioning

There are many challenges on the horizon. The combination of the war in Ukraine, a wounded supply chain, and a resilient labour market have converged to cause the highest inflation in decades. Recent indicators show that it is likely inflation has peaked, but further central bank tightening is expected in the near term. Further, the impact of the massive rate hikes is now just starting to impact the broader economy, and many expect we will see an economic slowdown in 2023. Until we begin to see a change in policy from central banks, both equity and bond markets are expected to remain volatile. In this uncertain environment, the Empire Life Multi-Strategy GIFs are maintaining a more defensive positioning. We have healthy exposure to low volatility, dividends, and high-quality securities. Each of these

strategies would be expected to outperform in a slowing economic environment. Within our Portfolio Funds, we maintain our equity weights roughly in line with the long-term strategic targets. The outlook for fixed income is much improved over previous years with yields now higher than they have been since 2008. It is widely expected that central banks are closer to the end of their tightening than the beginning, which means that some of the recent upward pressure on yields may abate.

In periods of high volatility and uncertainty, well-diversified portfolios that invest in a mix of asset classes, geographies, and investment styles are typically better positioned because they offer the potential resiliency for a broader range of possible outcomes. The Empire Life Multi-Strategy GIFs are 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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