

EMPIRE LIFE ASSET ALLOCATION GIF COMMENTARY

January 27, 2023



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While it was a challenging environment for both equities and fixed income in 2022, the Empire Life Asset Allocation GIF performed relatively well during this time period, significantly outperforming its peers.

Empire Life Asset Allocation GIF¹ long-term performance versus peers

Performance	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr	15 yr
Empire Life Asset Allocation GIF - Class A	4.4%	3.2%	-6.3%	2.2%	2.1%	5.4%	2.9%
Tactical Balanced Category Average	4.3%	1.9%	-11.5%	1.0%	1.2%	3.6%	2.0%
Quartile Rank	1	1	1	2	1	1	1

Source: Morningstar Research Inc., as at December 31, 2022. Class A units. Class A units are only available to existing clients. ¹This is the marketing name for the fund. The fund's legal name excludes "Empire Life" and "GIF" and includes "Fund" at the end of its name.

In addition, the fund won the FundGrade A+ award for the period ending December 31, 2022, which recognizes it as a top-performing fund in its category from a risk-adjusted return standpoint over the short, medium and long term.¹ The Empire Life Asset Allocation GIF is one of Empire Life's more diversified funds by asset class. With multiple managers involved, this award is a testament to the Empire Life investment team's depth of investment expertise across multiple asset classes.

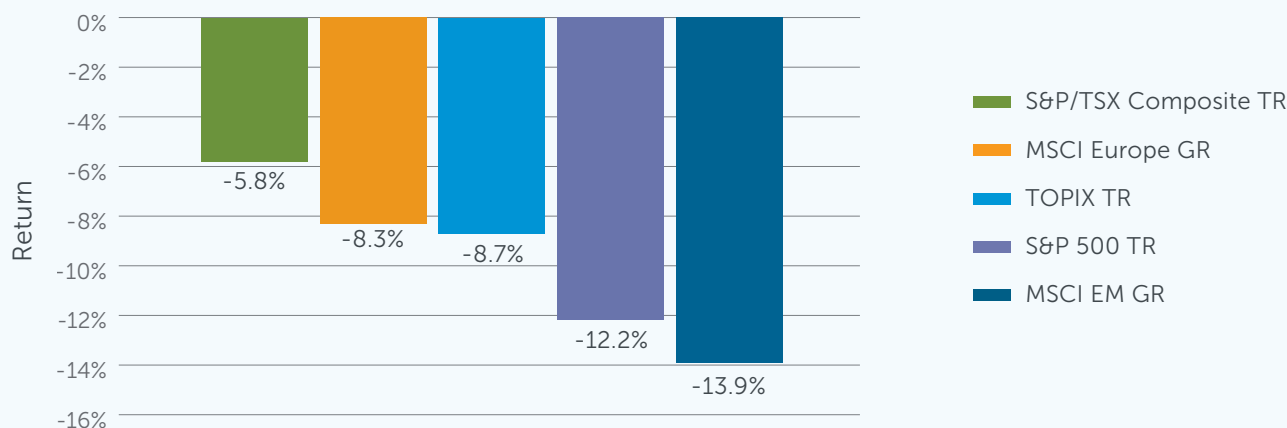
FUNDGRADE A+[®]
ACHIEVED FOR THE YEAR 2022

Equity market detractors

The following factors drove significant weakness in equity markets in 2022:

1. Aggressive tightening by central banks globally to address a rapid increase in inflation
2. The Russia/Ukraine conflict
3. Uncertainty surrounding China's zero COVID policy
4. Markets rallied substantially in 2020 and 2021, fueled by significant levels of COVID-19 related monetary and fiscal stimulus.

Index returns in calendar 2022



Source: Morningstar Research Inc., as at December 31, 2022 (all returns in CAD).

The outperformance of the Empire Life Asset Allocation GIF in 2022 compared to peers was attributable to a few factors. First, the fund maintained a conservative positioning with its equity allocation at the lower end of its intended 55-65% range. Second, the fund was consistently overweight Canadian equities in 2022. Canadian equities outperformed last year due to Canada’s commodity-based markets and elevated commodity prices. Also, the rising rate

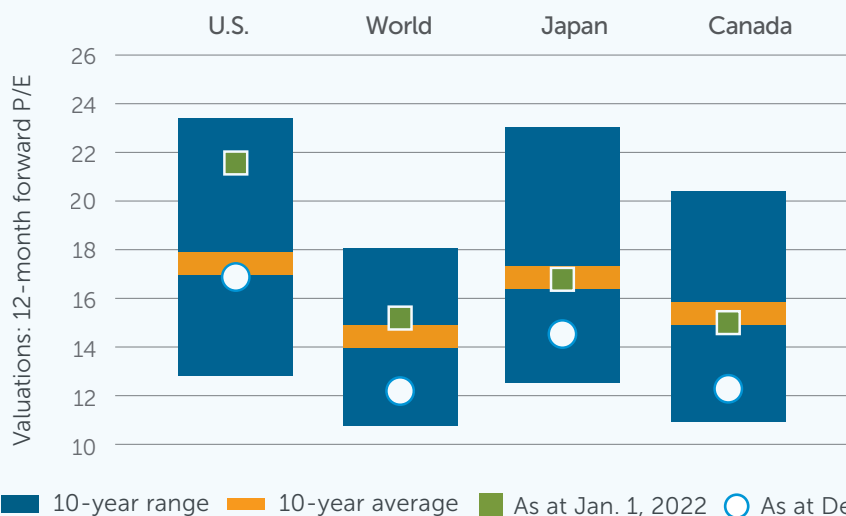
environment in 2022 had a disproportionately negative impact on the share price of growth companies, which are underrepresented in Canadian equity market indexes. Lastly, the fund’s fixed income allocation maintained a short duration (or a low level of interest rate sensitivity) which lessened the negative impact of rapidly rising interest rates.

Cautious optimism for 2023

Looking ahead to 2023, there are a few reasons to be cautiously optimistic. Inflation is cooling, which provides increased visibility on the end of central bank tightening. Also, China is finally taking the right approach with COVID-19 (in our view), focusing on vaccinations and the re-opening of its economy. There may be some

speed bumps in the coming weeks from an initial wave of infections in China, but the market is likely to look through this to a sharp acceleration in economic growth in the back half of 2023. And finally, equity valuations declined significantly last year to much more reasonable levels.

Equity valuations at more reasonable levels



The U.S. is represented by the S&P 500 index. Canada is represented by the S&P/TSX Composite Index. Japan is represented by the Nikkei 225 Index. The world is represented by the MSCI World Excluding U.S. Index.

Source: Bloomberg as at December 30, 2022

Forward price-to-earnings (forward P/E)

Forward P/E is a version of the price-to-earnings (P/E) ratio used to value a company by measuring its current share price relative to its earnings per share (EPS). Forward P/E uses forecasted earnings for the P/E calculation. While the earnings used in this formula are just an estimate and not as reliable as current or historical earnings data, there are still benefits to estimated P/E analysis.

On the negative side of the ledger, factors that warrant caution include:

1. The Russia/Ukraine conflict continues to pose a material risk
2. Consensus estimates for corporate earnings face further downside risk
3. Excluding China, GDP growth is expected to slow materially in 2023 for most major developed countries
4. The effects of higher interest rates will increasingly weigh on the consumer and businesses in 2023
5. Inflation might prove longer lasting than expected exacerbated by China's re-opening and therefore result in more central bank tightening.

While there are signs of stabilization in certain areas, we believe that the factors mentioned above argue for a conservative positioning heading into 2023. As a result, the equity weight of the fund is roughly 57% today. Moreover, the fund remains overweight Canadian equities.

In 2023, we expect Canada's commodity-based markets to disproportionately benefit from the re-opening of China's economy. This is in the context of some very favourable pre-existing supply-side constraints across several commodities, including oil, copper and potash, to name a few. In addition, valuation levels for the big six Canadian banks are at roughly a 10% discount to ten-year averages. Higher interest rates will weigh on the Canadian consumer in 2023 and overall sentiment around Canadian banks. So while we anticipate some near-term volatility in the share prices of the Canadian banks taking a longer view and assuming a mild recession scenario, bank stocks should perform relatively well in 2023. Lastly, valuations for Canadian equities are well below ten-year averages and down significantly from the start of 2022. While the fixed income allocation maintains a relatively lower duration than the benchmark, the fund started to opportunistically increase duration last year and will potentially continue to do so - considering how far along we are in the rate tightening cycle, the heightened risk of economic contraction associated with this, and the forward path of interest rates.

Equity and fixed income overview

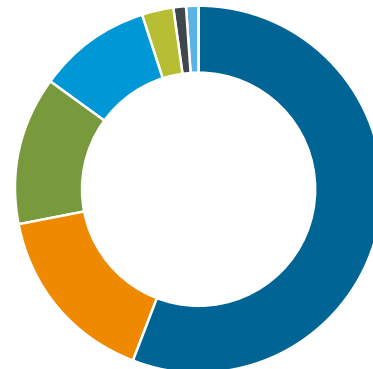
Sector (% Equities)



● Financials	25%
● Energy	15%
● Industrials	12%
● Information technology	12%
● Materials	7%
● Consumer staples	7%
● Communication services	7%
● Consumer discretionary	6%
● Health care	4%
● Utilities	3%
● Real Estate	2%

As at December 31, 2022

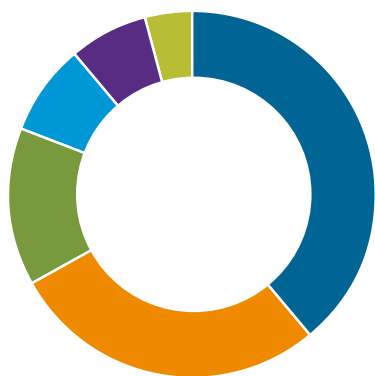
Sector (% Fixed Income)



● Investment Grade Corporate	56%
● Federal Government	16%
● Provincial Government	13%
● High Yield Corporate	10%
● Floating Rate	3%
● Preferred Shares	1%
● Convertible	1%

As at December 31, 2022

Asset allocation



● Canadian Equities	39%
● Canadian Bonds	28%
● U.S. Equities	14%
● U.S. Bonds	8%
● Cash and Cash Equivalents	7%
● International Equities	4%

As at December 31, 2022

Outlook

In summary, we believe a conservative stance is appropriate for now. However, we continue to monitor forward-looking indicators to inform our view on portfolio positioning. Our team approach to running the Empire Life Asset Allocation GIF continues to serve our unit holders well as we leverage our team’s depth of expertise across a wide variety of asset classes and regions.

> Contact us to find out more about the Empire Life Asset Allocation GIF!

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