



Empire Life Multi-Strategy GIFs

QUARTERLY COMMENTARY

DAVE PATERSON, CFA

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Market Overview

The first half of 2023 delivered much stronger gains than expected at the start of the year. Many equity markets around the world posted double-digit returns, despite central banks' continued commitment to raising interest rates in their fight against stubbornly high inflation. The second quarter began with markets reeling over worries that the regional banking system in the U.S. was in trouble after the March failure of Silicon Valley Bank (SVB) and other smaller institutions. Some investors were concerned that more failures were on the horizon. Fortunately, the regional and other U.S. banks remained relatively stable throughout the quarter.

World Equities (\$CAD)	3 month	1 year	3 year	5 year	10 year
NASDAQ 100 TR	12.82	36.57	14.13	17.80	21.95
Nikkei 225 Average TR	6.72	24.00	4.60	4.87	9.73
S&P 500 TR	6.32	22.68	13.50	12.44	15.45
MSCI World GR	4.62	22.21	11.64	9.76	12.61
MSCI Japan GR	4.08	21.68	5.07	3.64	8.01
MSCI ACWI GR	3.98	20.16	10.44	8.77	11.82
MSCI Pacific GR	1.23	16.96	5.24	3.42	7.64
S&P/TSX Composite TR	1.10	10.43	12.42	7.62	8.43
MSCI EAFE GR	0.93	22.49	8.43	5.02	8.34
MSCI Europe GR	0.84	25.76	10.30	5.95	8.75
MSCI EM GR	-1.21	4.86	1.73	1.44	5.70
MSCI Pacific Ex Japan GR	-3.95	8.68	5.62	2.89	6.85
MSCI China GR	-11.66	-14.54	-10.99	-5.02	5.59

Source: Morningstar Research Inc., as of June 30, 2023.

U.S. equities extended their rally, delivering strong gains led by the resurgence of mega-cap growth stocks. The tech-heavy NASDAQ 100 rose by nearly 13% in the quarter, surging even higher after chipmaker NVIDIA announced strong earnings and very optimistic guidance on the expected strength of AI. The S&P 500 was also strong, gaining 6.3%

to close the quarter at a 14-month high. The headline number was a bit deceiving, however as returns were heavily concentrated in a handful of mega-cap technology stocks, while most other segments of the equity market saw timid returns. Canadian markets were positive but failed to keep up with the U.S., as the S&P TSX ended the quarter up 1.1%.

Internationally, Japanese stocks accelerated throughout the quarter driving the Nikkei 225 Index higher by 6.7% in Canadian dollar terms. These gains have come amid ongoing expectations of corporate governance reforms and structural shifts in the Japanese economy. Tensions between the U.S. and China, and a slowing Chinese economy were key drivers of the underperformance of Emerging Markets stocks. China, which combined with Taiwan makes up approximately 45% of the MSCI Emerging Markets Index, struggled. The MSCI China Index was down 11.7%, weighing on the Emerging Markets Index, which fell 1.3%.

It was a mixed quarter for the bond markets as investors began to accept that rates aren't coming down anytime soon. Both U.S. and Canadian bonds ended the quarter in negative territory as yields moved higher. Central banks continued raising rates with the U.S. Federal Reserve taking a pause at their June meeting after ten consecutive hikes. The Bank of Canada paused after their January meeting but hiked again in June. As short-term yields grinded higher, the U.S. 2-year bond yield skyrocketed and is now flirting with the cycle peak that occurred right before the failure of SVB. Longer-term yields have risen too, but not nearly as much, which reflects investors' skepticism in the sustainability of high interest rates.

Global Fixed Income Indexes (Local Currency)	3 month	1 year	3 year	5 year	10 year
Bloomberg Global High Yield TR USD	2.02	10.50	1.36	1.92	3.52
FTSE Canada LT Bond	0.64	5.90	-7.51	-0.26	2.77
FTSE Canada All Corp Bond	0.18	4.24	-1.88	1.55	2.70
FTSE Canada Real Return Bond	-0.04	3.44	-2.55	0.54	2.26
FTSE Canada Universe Bond	-0.69	3.15	-3.75	0.65	2.06
FTSE Canada ST Bond	-0.80	1.37	-0.95	1.11	1.42
Bloomberg US Agg Bond TR USD	-0.84	-0.94	-3.96	0.77	1.52
FTSE Canada All Government Bond	-0.98	2.77	-4.41	0.33	1.83
Bloomberg Gbl Agg Ex USD TR USD	-2.16	-1.83	-5.87	-2.65	-0.90

Source: Morningstar Research Inc., as of June 30, 2023.

Multi-Strategy GIF Performance

The Empire Multi-Strategy GIFs had a strong second quarter, with all posting positive returns. The strongest performing fund was once again the **Empire Life Multi-Strategy Global Growth GIF**, which has now delivered a 19.2% return year to date. Like in Q1, it benefitted from the growth investment style which handily outperformed value. According to Morningstar, the MSCI World Growth Index surged 8.0% this quarter while the MSCI World Value Index ended with a modest 1.0%.

Empire Life Multi-Strategy Global Equity GIF rose by 1.5% driven by the technology and communications sectors. Materials and defensive stocks muted gains over Q2. The two strongest performing holdings were the Vanguard S&P 500 ETF, and the iShares MSCI USA Quality ETF. Both made the most of their quality growth tilts. The largest headwind in the quarter was the Guardian Fundamental Global Equity Fund, which struggled as many of its financial holdings failed to keep pace with the broader market.

For the second straight quarter, each of the underlying holdings within our portfolio of funds delivered positive returns. Our fixed income holdings outperformed the FTSE Canada Universe Bond Index, because of our higher exposure to short-term corporate bonds.

Empire Life Multi-Strategy	Category	3 month	1 year	2 year	3 year	Inception	Inception Date
Canadian Equity GIF	Canadian equity	0.69	7.90	1.20	9.34	5.43	23-Oct-19
Quartile rank		2	2	3	4	-	
# of funds in the category		609	608	606	604	-	
US Equity GIF	US equity	3.82	13.45	0.86	6.16	6.11	23-Oct-19
Quartile rank		3	4	4	4	-	
# of funds in the category		755	752	730	722	-	
Global Equity GIF	Global equity	1.52	14.22	-0.39	4.36	3.76	23-Oct-19
Quartile rank		3	2	3	4	-	
# of funds in the category		1034	997	978	927	-	
Global Conservative Portfolio GIF	Global fixed income balanced	0.04	4.70	-3.28	-0.75	-0.44	23-Oct-19
Quartile rank		2	2	2	4	-	
# of funds in the category		346	331	331	310	-	
Global Balanced Portfolio GIF	Global neutral balanced	0.46	7.53	-2.64	0.36	0.43	23-Oct-19
Quartile rank		3	2	3	4	-	
# of funds in the category		876	827	831	770	-	
Global Moderate Growth Portfolio GIF	Global equity balanced	0.93	10.30	-1.66	2.12	1.88	23-Oct-19
Quartile rank		2	2	3	4	-	
# of funds in the category		960	941	913	885	-	
Global Growth GIF	Global equity	6.43	21.22	-1.92	-	0.76	18-Jan-21
Quartile rank		1	1	4	-	-	
# of funds in the category		1034	997	978	-	-	
Global Growth Balanced Portfolio GIF	Global neutral balanced	3.04	11.26	-3.31	-	-1.51	18-Jan-21
Quartile rank		1	1	4	-	-	
# of funds in the category		876	827	831	-	-	

Source: Morningstar Research Inc., as of June 30, 2023. Returns based on Class K (75/75).

Outlook and Positioning

Inflation appears to have peaked and is well below the highs seen in 2022. There is still some distance to the 2% target and central banks are not ready to let their guard down just yet. Signs of a slowdown are showing, and even with inflation falling, central banks have been vocal about their intentions to keep interest rates higher for longer. This is expected to weigh on economic activity and lead to a less friendly macroeconomic environment.

Within our portfolio of funds, we are keeping our asset mix in line with our longer-term strategic targets. Bonds are now more attractive than they have been in over a decade, offering yields not seen since before the Global Financial Crisis. We continue to overweight our exposure to core Canadian bonds for two reasons. First are the attractive yields offered. Second, bonds have historically held their value quite well in rocky market environments, helping to provide protection against equity market selloffs. This wasn't the case in 2022, but with the rate hike cycle for several central banks being

closer to the end than the beginning, bonds are even more likely to be an excellent ballast in the portfolios. We have exposure to global active bonds and high yield bonds, but the exposure is well below our strategic target weights. As the economy shows signs of strength, we expect to increase our holdings in these areas of the bond market.

Much uncertainty remains on the horizon. In this type of environment, it is often better to have a well-diversified portfolio with exposure to a mix of asset classes, geographies, and investment styles. By design, the Empire Life Multi-Strategy GIFs are very well diversified helping improve the resiliency of each portfolio, allowing them to deliver in a wide range of market environments.

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259 King Street East, Kingston, ON K7L 3A8

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

