



Empire Life®

Small Cap Investing with Portfolio Manager Dean Wilkinson

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The following is a summary of the views expressed by Dean Wilkinson, CFA, during a conference call on March 30th, 2011:

Small Cap Advantage

- On March 1st, 2011 Dean Wilkinson took over as lead manager of the Empire Life Small Cap Equity Fund, bringing key advantages to investors of the Fund. Prior to joining Empire Life, Dean was a Research Analyst covering North American Real Estate equities and was responsible for researching and ultimately making investment recommendations among primarily small cap companies.
- Dean was also the Chief Operating Officer (COO) for a small cap TSX listed Real Estate Investment Trust. As COO of a small cap company, he has direct executive management and merger and acquisition experience in the small cap space, along with an in-depth understanding of the distinct factors affecting small cap companies such as liquidity and access to capital. Dean's analytical, executive management, and portfolio management experience gives him a unique perspective and ability to add value in the small cap arena.
- Small cap investors can now benefit from Empire Life's proprietary intrinsic value methodology and team approach. With the exception of a screen targeting small cap stocks, the process is very similar to the proven process utilized in our large cap funds to build portfolios of quality investments trading at attractive valuations.

Recent Adjustments

Since March 1st, Dean has expressed comfort with the majority of the Fund's investments. However, some adjustments have been undertaken to improve the long term risk/return profile of the Fund:

- Reduced the number of illiquid holdings - Dean eliminated a position in Winpak without suffering significant liquidity costs by leveraging his investment banking knowledge
- Reduced exposure to Real Estate Investment Trusts due to their sensitivity to rising interest rate pressures and valuations
- Reduced the number of companies where the margin of safety was no longer attractive, particularly in the Technology sector
- Increased holdings within the Energy and Materials sectors, including gold & precious metals, which reflects Dean's longer term outlook on the underlying commodities

Market Outlook

- The extreme valuation discounts following the 2008 market sell-off have largely been exploited, so Dean does not expect the very lofty returns of 2009 and 2010 to continue.
- Nevertheless, Dean believes that the Canadian small cap market should turn in attractive returns in 2011, and he expects the market to modestly outperform large cap stocks based on current versus historical valuations.
- Small cap investors should also expect heightened volatility, not only relative to large cap stocks, but also compared to historical small cap volatility. Given its larger exposure towards the energy and materials sectors, the Canadian small cap market is more susceptible to the price swings of the underlying commodities - which have been amplified recently by increased speculation as well as geopolitical events.

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