

# Empire Life Emblem Portfolios: Asset Allocation Update

Update from the Asset Allocation Oversight Team

July 24, 2017

## Summary of Asset Allocation Decisions

Asset Class	Current Asset Allocation Positioning
Fixed Income	Underweight
Canadian Equity	Overweight
U.S. Equity	Neutral
International Equity	Underweight

Emblem Portfolio	Neutral Allocation*				Current Target Allocation (change from prev.)			
	Fixed Income	Canadian Equity	U.S. Equity	International Equity	Fixed Income	Canadian Equity	U.S. Equity	International Equity
Diversified Income	80.0%	10.0%	5.0%	5.0%	74.5%	16.5%	5.5% (-1.0%)	3.5% (+1.0%)
Conservative	65.0%	25.0%	5.0%	5.0%	60.0%	28.0% (+1.0%)	7.5% (-1.5%)	4.5% (+0.5%)
Balanced	50.0%	35.0%	7.5%	7.5%	45.0%	40.5% (+2.5%)	8.0% (-3.0%)	6.5% (+0.5%)
Moderate Growth	35.0%	45.0%	10.0%	10.0%	30.0%	52.0% (+2.0%)	10.0% (-2.5%)	8.0% (+0.5%)
Growth	20.0%	60.0%	10.0%	10.0%	15.0%	65.5% (+3.0%)	11.0% (-3.0%)	8.5%
Aggressive Growth	-	75.0%	12.5%	12.5%	-	76.0% (+6.0%)	14.0% (-6.0%)	10.0%

\*Neutral allocation is based on the Fund's respective long-term strategic asset allocation

## Rationale

*Key takeaway: Increased Canadian Equities, Decreased U.S. Equities*

### Tactical View:

In our last tactical update on April 18 of this year, target allocations to international and Canadian equities generally increased, while target allocations to fixed income generally decreased. Since then international equities have been the top performing asset class. Unfortunately, Canadian equities lagged behind fixed income, with a continued decline in crude oil prices being a driving factor.

So long as oil demand does not materially decline, we believe oil prices below \$50 (USD per barrel) is not sustainable. Many producers are unlikely to be profitable at these levels, which would lead to a decrease in supply and a rebound in oil prices. We believe oil price equilibrium to be closer to \$60, given the current economic cycle. Over the past month, oil prices have in fact shown some resilience rising from \$42 to \$47. As a result target allocations to Canadian equities have been tactically increased.

Part of this allocation includes a re-introduction to small cap Canadian equities in most portfolios (Diversified Income and Conservative portfolios being the two exceptions). This area of the market was particularly affected by the oil price decline, and we believe it provides an opportunity to re-initiate a strategic position. Small cap equities represent a key portion of the Canadian equity market and opens further opportunities for non-risk averse investors. It also complements the large cap Canadian equity portion of the Portfolios, which tends to be more conservatively managed.

U.S. equity target allocations have been tactically decreased. We remain constructive towards the asset class's longer term prospects due to structural factors such as innovation and demographics, however, current valuation concerns and a softening of the trade weighted U.S. dollar leads us to incrementally seek value in other markets for the time being. Over the last two weeks, U.S. equities have continued to decline on U.S. dollar weakness against the Canadian dollar, while Canadian equities have stabilized.

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