



Annual Management Report of Fund Performance | As at December 31, 2016

# EMPIRE LIFE MUTUAL FUNDS<sup>®</sup>

**Empire Life Monthly Income Mutual Fund**

This annual management report of fund performance contains financial highlights, but does not contain either the complete interim or annual financial statements of the investment fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling the toll-free number 1 855 823-6883, by writing to us at 165 University Avenue, 9th Floor, Toronto, Ontario M5H 3B8 or by visiting our website at [www.empirelifeinvestments.ca](http://www.empirelifeinvestments.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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# Empire Life Monthly Income Mutual Fund

Annual Management Report of Fund Performance

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## Management Discussion of Fund Performance

### Investment objectives and strategies

Empire Life Monthly Income Mutual Fund (the "Fund") seeks a consistent level of income. The Fund invests primarily in debt and income-generating Canadian equity securities through a value-oriented approach to security selection.

### Risk

The overall level of risk of investing remains as discussed in the Simplified Prospectus. Any changes as a result of operations during the period have not affected the overall risk of the Fund. The Fund is suitable for the investor who seeks long-term growth and income, has a low to medium tolerance for risk and wishes to diversify their portfolio through fixed income and equity securities to potentially reduce volatility.

### Result of operations

For the twelve-month period ending December 31, 2016 (the "Period"), Empire Life Monthly Income Fund (the "Fund"), Series A, returned 6.91%. The net returns of other series of this Fund are provided under the section titled "Past Performance". The series have different returns due to the expenses charged to each series.

The Fund's broad-based benchmark, the S&P/TSX Composite Index, broadly representative of the Canadian market, returned 21.08% for the same Period. The Fund underperformed its broad-based benchmark due to defensive positioning among equities, as well as exposure to fixed income securities, which underperformed Canadian equity markets in general. The Fund's mandate is to invest in a diversified target asset mix of equity securities (55%) and fixed-income securities and cash (45%). Fund returns are reported net of all management fees and expenses for all series, unlike the returns of the Fund's benchmark, which are based on the performance of an index that does not pay fees or incur expenses.

The Fund's blended benchmark returned 12.17% for the Period. The blended benchmark is composed of 55% S&P/TSX 60 Total Return Index and 45% FTSE TMX Canada Universe Bond Index. In the portfolio manager's view, this comparison more closely reflects the market sectors in which the Fund invests, to provide a more useful comparative for the performance of the Fund.

The Fund underperformed its blended benchmark over the Period. Equity sector allocation detracted from the Fund's performance. The Fund's equity sector weightings and security selection in both the Financials and Materials sectors were the most significant detractors from performance. The Fund's foreign positions also detracted from performance as a result of negative currency effects. Equity security selection in the Energy, Industrials, Information Technology, Consumer Staples and Health Care sectors contributed to the Fund's relative performance. In the Health Care sector, the Fund's lack of position in Valeant Pharmaceuticals International Inc. significantly contributed to performance. In the fixed income portion of the Fund, the overweight position in corporate and high yield bonds was favourable. Also contributing to relative performance was the tactical duration management by the portfolio manager.

Despite a challenging start to the Period, Canadian equities were very resilient over 2016. The Canadian equity market fell roughly 10% in the first six weeks of the Period on news of weaker Chinese economic growth, as well as in response to weak commodity and oil prices. Canadian equities then rebounded in response to a rally in base metal prices. Gold prices peaked in July 2016, but gave back much of those gains over the remainder of 2016. After July, however, Energy-related stocks rose in response to the recovering price of oil, as the Organization of the Petroleum Exporting Countries ("OPEC") – as well as a number of other oil-producing countries – pledged to cut production, which drove the price of oil higher. The election of Donald Trump as U.S. President late in the Period was widely seen as having the potential to lead to better economic growth and higher inflation. Cyclical stocks surged and outperformed their more defensive counterparts.

The gains in the Energy sector positively impacted other industries as well. Fear regarding the potential for impaired loans from Energy companies fell, while Industrials firms that supply Energy companies got a boost. As such, the Materials, Energy, Financials and Industrials sectors all posted strong gains in 2016. The S&P/TSX 60 Total Return Index rose more than 20% over 2016, and was the one of the strongest-performing indices in the developed markets. Propelled by rising oil prices, the Canadian dollar appreciated by 3.1% against its U.S. counterpart, which made it the strongest-performing currency among Group of Ten countries.

At the beginning of 2016, bond yields dropped sharply. Without exception, 10-year interest rates fell in all Group of Ten countries during the first three quarters of 2016. This was driven by weak economic data, the U.K.'s vote to leave the European Union ("Brexit"), the repeated postponement of the U.S. Federal Reserve Board's ("Fed's") first interest rate hike of 2016, as well as the easy monetary policies of major global central banks. Bond prices rose and the U.S. 10-year yield hit a historic low in July 2016. Yield curves flattened all the way into the fourth quarter of 2016. The U.S. election in November completely changed this fixed-income market dynamic. Donald Trump's election victory drove heightened market expectations regarding economic growth and long-term inflation. In December, the Fed raised its central interest rate for only the second time in a

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decade and forecasted a faster pace of tightening in 2017. Bond yields climbed steeply, with the Canadian 10-year government bond yield rising to 1.72% from 0.95% in the last quarter of 2016, despite there being almost no expectation of a Bank of Canada interest rate hike in 2017.

During the Period, the portfolio manager maintained a largely neutral duration with respect to the Fund's bond portfolio. The Fund maintained an overweight position in corporate bonds with maturities of five years and under, as well as a high-yield position of about 5%. The portfolio manager shifted some exposure to fixed-income securities in response to the increasingly attractive bond valuations that arose after the U.S. election. The portfolio manager also increased the Fund's Canadian equity position and largely eliminated its foreign equity exposure, most of which consisted of U.S. equities. Exchange traded funds were used by the portfolio manager to gain exposure to U.S. small-capitalization equities.

### Recent developments

At the end of the Period, oil prices were about 100% higher than their February 2016 low, with OPEC's late-Period decision to cut oil production adding to this momentum. The Chinese economy grew at close to 6.5% in 2016, and the portfolio manager believes it is likely to do the same in 2017 as a result of the government refocusing on infrastructure investment. The global economy is poised to accelerate in 2017, and commodity prices are likely to benefit as a result. Some of the drivers behind the rally – such as a low interest rate environment, a weaker Canadian currency, demand from a stronger U.S. economy and the Canadian federal government's fiscal plans for infrastructure spending – are likely to remain in place in 2017. Other drivers – such as earnings growth, particularly in the Materials, Energy, Industrials and Consumer Discretionary sectors, and insurance companies – should provide support to financial markets. The portfolio manager believes the Canadian economy should continue to recover from lower commodity prices and lost exports. The portfolio manager is cautiously optimistic regarding Canadian equities, while remaining alert to continued macroeconomic and geopolitical risks.

The portfolio manager believes sovereign bond markets may be oversold, as the 10-year Treasury bill yield was hovering at the top of the 1.5%-3.0% range at the end of the Period. The portfolio manager believes a rise in equity market volatility caused by economic uncertainties or geopolitical shocks could trigger a flight to safety that would benefit sovereign bonds. Major global central banks, such as the European Central Bank, the Bank of England and the Bank of Japan, are likely to maintain their accommodative monetary policies in 2017. The continuous, large-scale asset-purchase programs by global central banks should encourage international investors to search for yield abroad, especially in the U.S. That is likely to be another factor preventing a sustained rise in long-term Treasury yields. In Canada, monetary policy may still diverge from the Fed as a result of continued relative weakness in the Canadian economy. As such, the portfolio manager believes the Bank of Canada is likely to maintain its conservative stance in 2017.

The Fund's focus continues to be on investing in what the portfolio manager believes are high-quality, reasonably valued companies, as well as on capital preservation. The bond portfolio is conservatively structured with good liquidity. As such, it is well positioned to capitalize on relative value and yield enhancement opportunities.

### Future Accounting Changes

#### IFRS 9 *Financial Instruments*

In July 2014, the International Accounting Standards Board published the complete version of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model and new hedge accounting guidance. The Manager is currently evaluating the impact of IFRS 9 on the Fund's financial statements.

### Related party transactions

Empire Life Investments Inc. is the Manager, Trustee and Portfolio Manager of the Fund. The Manager is a wholly-owned subsidiary of The Empire Life Insurance Company.

The Manager provides or arranges for the provision of all the management and administrative services for the day-to-day operations of the Fund, including providing or arranging the provision of investment advice, record keeping and other administrative services, some of which are provided by an affiliate of the Manager. In consideration of the management and administrative services, the Fund pays the Manager a monthly management fee calculated as a percentage of daily net asset value of each series of the Fund. The rates for each series are disclosed under "*Management fees*".

During the Period, the Manager absorbed \$99,068 of total expenses otherwise payable by the Fund, as compared to \$83,662\* for the year ended December 31, 2015. The amount of expenses waived or absorbed is determined annually on a series by series basis at the discretion of the Manager and the Manager can terminate the waiver or absorption at any time.

\* The expenses absorbed by the Manager for the year ended December 31, 2015 of \$83,662 have been revised from the \$73,170 reported in the Annual Management Report of Fund Performance for the year ended December 31, 2015. This revision has been made to conform with the presentation used in the Fund's 2016 Annual Financial Statements, where Management fee rebates have been reclassified from Management fee expense to Expenses absorbed by Manager.

# Empire Life Monthly Income Mutual Fund

## Annual Management Report of Fund Performance

### Series description

The Fund offers the following series: A, T6, T8, F and I. Series A, T6 and T8 units are available to all investors. Series T6 and T8 are designed for investors seeking regular monthly cash flows from a Fund. Series F units are only available to investors who have a fee-based account with their dealer and whose dealer has signed an agreement with Empire Life Investments Inc. Management fees are payable by the Funds on all series except series I. Series I units are available to institutional investors who meet a minimum investment threshold and who have entered into a Series I agreement. The management fee for Series I units is negotiated between Empire Life Investments Inc. and the investor and is payable directly to Empire Life Investments Inc. by the investor.

### Financial highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period and each of the other periods as shown below. This information is derived from the Fund's audited annual financial statements for the period.

#### The Fund's net assets per unit<sup>(1)</sup>

	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>Series A Units</b>					
Net Assets, beginning of period	\$ 9.97	\$ 10.46	\$ 10.18	\$ 9.81	\$ 10.00 *
<b>Increase (decrease) from operations:</b>					
Total revenue	0.28	0.30	0.31	0.32	0.35
Total expenses	(0.32)	(0.24)	(0.24)	(0.23)	(0.20)
Realized gains (losses)	0.30	0.09	0.18	0.18	(0.16)
Unrealized gains (losses)	0.42	(0.17)	0.39	0.73	0.46
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.68</b>	<b>\$ (0.02)</b>	<b>\$ 0.64</b>	<b>\$ 1.00</b>	<b>\$ 0.45</b>
<b>Distributions:</b>					
From income	(0.00)	(0.52)	(0.51)	(0.58)	(0.50)
From dividends	(0.50)	(0.00)	(0.00)	(0.00)	(0.00)
From capital gains	–	–	–	–	–
Return of capital	–	–	–	–	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (0.50)</b>	<b>\$ (0.52)</b>	<b>\$ (0.51)</b>	<b>\$ (0.58)</b>	<b>\$ (0.50)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 10.14</b>	<b>\$ 9.97</b>	<b>\$ 10.46</b>	<b>\$ 10.18</b>	<b>\$ 9.80</b>

	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>Series T6 Units</b>					
Net Assets, beginning of period	\$ 9.28	\$ 9.98	\$ 9.92	\$ 9.62	\$ 10.00 *
<b>Increase (decrease) from operations:</b>					
Total revenue	0.26	0.28	0.30	0.31	0.34
Total expenses	(0.31)	(0.23)	(0.23)	(0.22)	(0.20)
Realized gains (losses)	0.31	0.08	0.18	0.17	(0.17)
Unrealized gains (losses)	0.38	(0.17)	0.41	0.67	0.45
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.64</b>	<b>\$ (0.04)</b>	<b>\$ 0.66</b>	<b>\$ 0.93</b>	<b>\$ 0.42</b>
<b>Distributions:</b>					
From income	(0.00)	(0.07)	(0.03)	(0.05)	(0.09)
From dividends	–	–	–	–	–
From capital gains	(0.00)	(0.05)	(0.08)	(0.00)	(0.00)
Return of capital	(0.56)	(0.60)	(0.59)	(0.58)	(0.60)
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (0.56)</b>	<b>\$ (0.72)</b>	<b>\$ (0.70)</b>	<b>\$ (0.63)</b>	<b>\$ (0.69)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 9.35</b>	<b>\$ 9.28</b>	<b>\$ 9.98</b>	<b>\$ 9.92</b>	<b>\$ 9.61</b>

# Empire Life Monthly Income Mutual Fund

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Series T8 Units	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>Net Assets, beginning of period</b>	\$ 8.47	\$ 9.29	\$ 9.42	\$ 9.37	\$ 10.00 *
<b>Increase (decrease) from operations:</b>					
Total revenue	0.23	0.26	0.28	0.30	0.35
Total expenses	(0.27)	(0.21)	(0.22)	(0.22)	(0.20)
Realized gains (losses)	0.23	0.09	0.14	0.16	(0.14)
Unrealized gains (losses)	0.38	(0.15)	0.31	0.73	0.45
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.57</b>	<b>\$ (0.01)</b>	<b>\$ 0.51</b>	<b>\$ 0.97</b>	<b>\$ 0.46</b>
<b>Distributions:</b>					
From income	(0.00)	(0.05)	(0.03)	(0.11)	(0.12)
From dividends	—	—	—	—	—
From capital gains	(0.00)	(0.05)	(0.07)	(0.00)	(0.00)
Return of capital	(0.68)	(0.74)	(0.75)	(0.75)	(0.80)
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (0.68)</b>	<b>\$ (0.84)</b>	<b>\$ (0.85)</b>	<b>\$ (0.86)</b>	<b>\$ (0.92)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 8.36</b>	<b>\$ 8.47</b>	<b>\$ 9.29</b>	<b>\$ 9.42</b>	<b>\$ 9.37</b>

Series F Units	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013†
<b>Net Assets, beginning of period</b>	\$ 10.28	\$ 10.68	\$ 10.29	\$ 10.00 *
<b>Increase (decrease) from operations:</b>				
Total revenue	0.29	0.30	0.32	0.31
Total expenses	(0.24)	(0.14)	(0.13)	(0.13)
Realized gains (losses)	0.36	0.09	0.17	0.19
Unrealized gains (losses)	0.36	(0.19)	0.18	0.82
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.77</b>	<b>\$ 0.06</b>	<b>\$ 0.54</b>	<b>\$ 1.19</b>
<b>Distributions:</b>				
From income	(0.00)	(0.53)	(0.51)	(0.57)
From dividends	(0.51)	(0.00)	(0.00)	(0.00)
From capital gains	—	—	—	—
Return of capital	(0.00)	(0.00)	(0.00)	(0.16)
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (0.51)</b>	<b>\$ (0.53)</b>	<b>\$ (0.51)</b>	<b>\$ (0.73)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 10.57</b>	<b>\$ 10.28</b>	<b>\$ 10.68</b>	<b>\$ 10.29</b>

Series I Units	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>Net Assets, beginning of period</b>	\$ 10.95	\$ 11.31	\$ 10.78	\$ 10.34	\$ 10.00 *
<b>Increase (decrease) from operations:</b>					
Total revenue	0.31	0.32	0.33	0.34	0.35
Total expenses	(0.19)	(0.02)	(0.02)	(0.02)	(0.00)
Realized gains (losses)	0.48	0.03	0.23	0.18	(0.20)
Unrealized gains (losses)	0.42	(0.25)	0.53	0.74	0.41
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 1.02</b>	<b>\$ 0.08</b>	<b>\$ 1.07</b>	<b>\$ 1.24</b>	<b>\$ 0.56</b>
<b>Distributions:</b>					
From income	(0.00)	(0.56)	(0.54)	(0.80)	(0.20)
From dividends	(0.55)	(0.00)	(0.00)	(0.00)	(0.00)
From capital gains	(0.00)	(0.07)	(0.00)	(0.00)	(0.00)
Return of capital	—	—	—	—	—
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ (0.55)</b>	<b>\$ (0.63)</b>	<b>\$ (0.54)</b>	<b>\$ (0.80)</b>	<b>\$ (0.20)</b>
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$ 11.38</b>	<b>\$ 10.95</b>	<b>\$ 11.31</b>	<b>\$ 10.78</b>	<b>\$ 10.33</b>

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### Ratios and supplemental data

Series A Units	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>Total Net Asset Value</b>	\$ 9,951,568	\$ 10,435,039	\$ 9,627,621	\$ 2,925,931	\$ 1,991,639
<b>Number of units outstanding</b>	981,305	1,046,915	920,200	287,394	203,077
Management expense ratio <sup>(5)</sup>	2.11%	2.10%	2.09%	2.10%	2.10%
Management expense ratio before waivers or absorptions	2.70%	2.72%	3.91%	8.07%	14.34%
Trading expense ratio <sup>(6)</sup>	0.15%	0.15%	0.14%	0.17%	0.13%
Portfolio turnover rate <sup>(7)</sup>	154.70%	146.51%	126.95%	113.87%	56.98%
<b>Net Asset Value per unit</b>	<b>\$ 10.14</b>	<b>\$ 9.97</b>	<b>\$ 10.46</b>	<b>\$ 10.18</b>	<b>\$ 9.81</b>

Series T6 Units	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>Total Net Asset Value</b>	\$ 1,429,693	\$ 1,283,867	\$ 1,028,846	\$ 478,500	\$ 494,657
<b>Number of units outstanding</b>	152,951	138,318	103,120	48,259	51,438
Management expense ratio <sup>(5)</sup>	2.11%	2.10%	2.10%	2.10%	2.10%
Management expense ratio before waivers or absorptions	2.43%	2.47%	3.02%	5.01%	9.68%
Trading expense ratio <sup>(6)</sup>	0.15%	0.15%	0.14%	0.17%	0.13%
Portfolio turnover rate <sup>(7)</sup>	154.70%	146.51%	126.95%	113.87%	56.98%
<b>Net Asset Value per unit</b>	<b>\$ 9.35</b>	<b>\$ 9.28</b>	<b>\$ 9.98</b>	<b>\$ 9.92</b>	<b>\$ 9.62</b>

Series T8 Units	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>Total Net Asset Value</b>	\$ 172,872	\$ 201,739	\$ 187,153	\$ 46,308	\$ 10,095
<b>Number of units outstanding</b>	20,689	23,812	20,154	4,918	1,076
Management expense ratio <sup>(5)</sup>	2.11%	2.10%	2.09%	2.10%	2.10%
Management expense ratio before waivers or absorptions	3.04%	2.82%	4.00%	7.78%	88.21%
Trading expense ratio <sup>(6)</sup>	0.15%	0.15%	0.14%	0.17%	0.13%
Portfolio turnover rate <sup>(7)</sup>	154.70%	146.51%	126.95%	113.87%	56.98%
<b>Net Asset Value per unit</b>	<b>\$ 8.36</b>	<b>\$ 8.47</b>	<b>\$ 9.29</b>	<b>\$ 9.42</b>	<b>\$ 9.38</b>

Series F Units	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Total Net Asset Value</b>	\$ 2,919,346	\$ 2,805,661	\$ 2,439,105	\$ 646,676
<b>Number of units outstanding</b>	276,218	272,857	228,317	62,838
Management expense ratio <sup>(5)</sup>	1.10%	1.10%	1.10%	1.10%
Management expense ratio before waivers or absorptions	1.41%	1.41%	1.63%	3.24%
Trading expense ratio <sup>(6)</sup>	0.15%	0.15%	0.14%	0.17%
Portfolio turnover rate <sup>(7)</sup>	154.70%	146.51%	126.95%	113.87%
<b>Net Asset Value per unit</b>	<b>\$ 10.57</b>	<b>\$ 10.28</b>	<b>\$ 10.68</b>	<b>\$ 10.29</b>

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Series I Units	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>Total Net Asset Value</b>	\$ 6,244,602	\$ 3,162,005	\$ 1,287,137	\$ 1,169,813	\$ 1,026,037
<b>Number of units outstanding</b>	548,799	288,831	113,772	108,546	99,258
Management expense ratio <sup>(5)</sup>	–	–	–	–	–
Management expense ratio before waivers or absorptions	0.20%	0.33%	1.21%	3.23%	5.01% **
Trading expense ratio <sup>(6)</sup>	0.15%	0.15%	0.14%	0.17%	0.13% **
Portfolio turnover rate <sup>(7)</sup>	154.70%	146.51%	126.95%	113.87%	56.98%
<b>Net Asset Value per unit</b>	<b>\$ 11.38</b>	<b>\$ 10.95</b>	<b>\$ 11.31</b>	<b>\$ 10.78</b>	<b>\$ 10.34</b>

\* Initial offering price.

\*\* Annualized.

† From January 15, 2013 to December 31, 2013.

- (1) This information is derived from the Fund's interim and annual audited financial statements. The 2016, 2015, 2014 and 2013 numbers are determined using International Financial Reporting Standards (IFRS), while the 2012 numbers are determined using previous Canadian generally accepted accounting principles (CGAAP). Closing amounts for 2012 may therefore vary slightly from opening balances for 2013. The term Net Asset Value per Unit used under CGAAP has been changed under IFRS to Net Assets Attributable to Holders of Redeemable Units per Unit.
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (3) Distributions were paid in cash or reinvested in additional units of the Fund, or both.
- (4) This is not a reconciliation of the beginning and ending Net Assets per unit.
- (5) The management expense ratio (MER) is based on total expenses (excluding withholding tax and other transaction costs) as an annualized percentage of daily average net asset value during the Period.
- (6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the Period.
- (7) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. Portfolio turnover rate is calculated based on the lesser of the cumulative cost of purchases or cumulative proceeds of sales divided by the average market value of the portfolio, excluding short-term investments.

## Management fees

The management fee for Series A, T6, T8 and F units is an annualized rate calculated as a percentage of net assets of the applicable series of the Fund and accrued daily and paid monthly to Empire Life Investments Inc. The management fee for Series I units is negotiated and paid directly by the investor, not by the Fund.

The Fund's management fees were used by Empire Life Investments Inc. to pay for the costs of the overall business and affairs of the Fund including activities related to making units of the Fund available to investors, and providing or arranging for the provision of investment advisory services and marketing services to the Fund.

	As percentage of management fees		
	Management fee rates	Dealer compensation	General administration, investment advice and profit
Series A	1.80%	48.75	51.25%
Series T6	1.80%	59.19%	40.81%
Series T8	1.80%	35.09%	64.91%
Series F	0.80%	-	100.00%



# Empire Life Monthly Income Mutual Fund

## Annual Management Report of Fund Performance

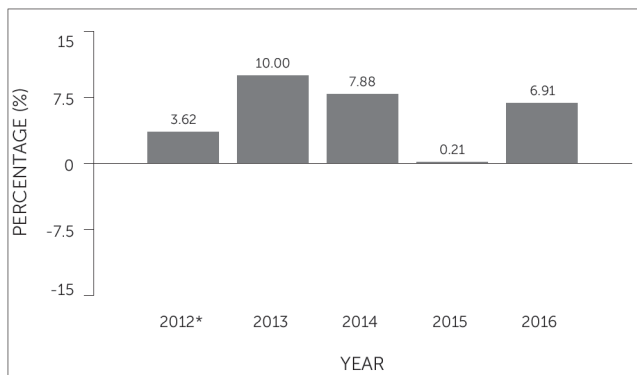
### Past performance

The indicated rates of return assume reinvestment of all distributions. They do not take into account sales, redemption, distribution or optional sales charges that would have reduced returns. The past performance of the Fund is not necessarily an indication of how it will perform in the future.

### Year-by-year returns

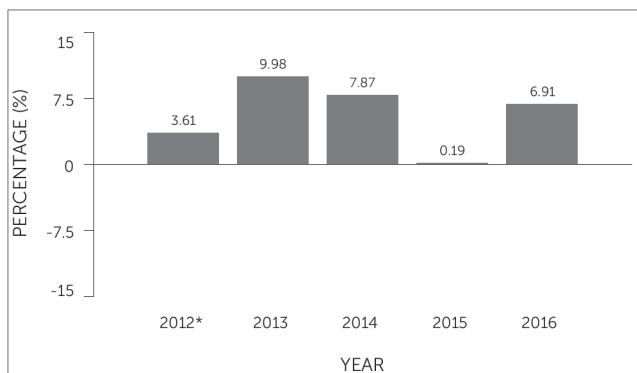
The following bar charts show the annual performance for each series of the Fund and illustrate how that series' performance has varied from year to year. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have increased or decreased by the end of the period. For the first year of a series, the percentage shown is the actual return of the series from its commencement of operations.

Series A



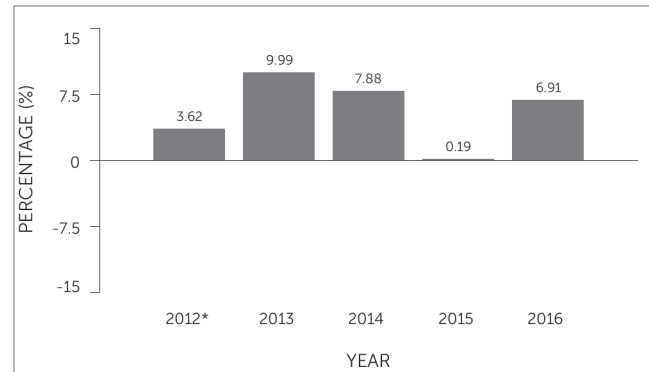
\*From January 9, 2012 to December 31, 2012 (not annualized)

Series T6



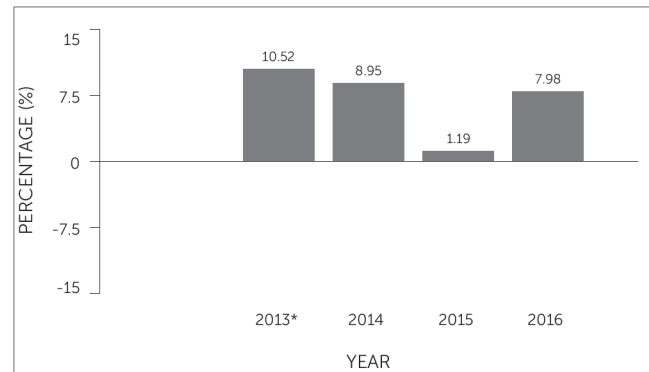
\*From January 9, 2012 to December 31, 2012 (not annualized)

Series T8



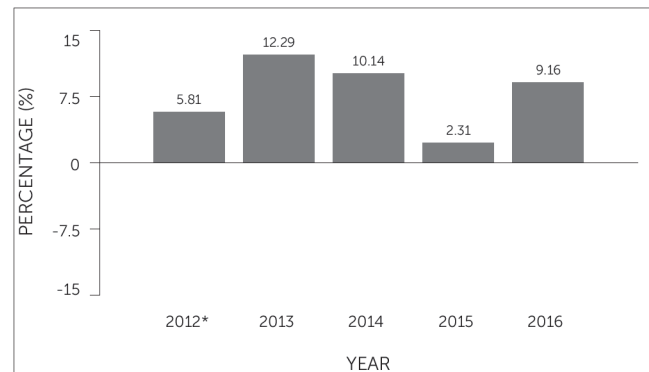
\*From January 9, 2012 to December 31, 2012 (not annualized)

Series F



\*From January 15, 2013 to December 31, 2013 (not annualized)

Series I



\*From January 9, 2012 to December 31, 2012 (not annualized)

### Annual compound returns

The Annual Compound Returns table shows the Fund's historical annual compound returns for each series of the Fund for the periods indicated. The annual compound returns are also compared to a broad based index and the Fund's blended index, as described below.

# Empire Life Monthly Income Mutual Fund

## Annual Management Report of Fund Performance

	1 Year	3 Years	5 Years	Since Inception*	Inception Date
Series A units <sup>1</sup>	6.9%	4.9%	N/A	5.7%	January 9, 2012
Series I units <sup>1</sup>	9.2%	7.1%	N/A	7.9%	January 9, 2012
Series T6 units <sup>1</sup>	6.9%	4.9%	N/A	5.7%	January 9, 2012
Series T8 units <sup>1</sup>	6.9%	4.9%	N/A	5.7%	January 9, 2012
Series F units <sup>1</sup>	8.0%	6.0%	N/A	7.2%	January 15, 2013
S&P/TSX Composite TR Index <sup>2</sup>	21.1%	7.1%		8.2%	(5 year return)
Blended Benchmark <sup>3</sup>	12.2%	6.5%		6.5%	(5 year return)

(1) Net of all fees and expenses paid by the Fund.

(2) The S&P/TSX Composite Index is broadly representative of the Canadian equity market. The S&P/TSX Composite Index tracks the performance of some of the largest and most widely held stocks listed on the Toronto Stock Exchange.

(3) The blended index is composed of 55% S&P/TSX 60 Index and 45% FTSE TMX Canada Universe Bond Index.

### Summary of investment portfolio

The summary of investment portfolio may have changed since December 31, 2016, due to ongoing portfolio transactions of the Fund. Quarterly updates are available within 60 days after quarter-end, except for December 31st, the Fund's fiscal year-end, when they are available within 90 days.

Top 25 Holdings	Percentage of Net Asset Value (%)
Cash & Cash Equivalents	5.2
Royal Bank of Canada 0.450% Jan 3, 2017*	5.1
Government of Canada 1.500% Jun 1, 2026*	3.9
Bank of Nova Scotia	3.3
SPDR S&P 500 ETF Trust	2.9
Royal Bank of Canada	2.9
Toronto-Dominion Bank	2.7
Suncor Energy Inc.	2.2
TransCanada Corporation	2.2
Canadian National Railway Company	2.0
Government of Canada 0.500% Nov 1, 2018*	1.8
Government of Canada 3.500% Dec 1, 2045*	1.7
PrairieSky Royalty Limited	1.7
iShares Russell 2000 ETF	1.5
Pembina Pipeline Corporation	1.3
Sun Life Financial Inc.	1.3
ARC Resources Limited	1.2
Province of Ontario 2.900% Dec 2, 2046*	1.1
BCE Inc.	1.1
Province of Ontario 2.800% Jun 2, 2048*	1.1
SPDR S&P Bank ETF	1.0
Agrium Inc.	1.0
Parkland Fuel Corporation	1.0
Government of Canada 1.500% Jun 1, 2023*	0.9
Province of Quebec 3.500% Dec 1, 2045*	0.9
	<b>51.0</b>

\* Debt instruments

### Portfolio by Category

Asset Type	Percentage of Net Asset Value (%)
Equities	50.4
Fixed Income	45.2
Cash & Cash Equivalents	5.2
Short Term	5.1
Other Net Assets (Liabilities)	(5.9)
	<b>100.0</b>

Sector	Percentage of Net Asset Value (%)
Canadian Corporate Bonds	25.2
Energy	12.1
Financials	11.0
Government Bonds	9.1
Provincial Bonds	7.9
Industrials	6.3
Exchange Traded Funds	5.4
Cash & Cash Equivalents	5.2
Term Deposit Receipts	5.1
Materials	4.5
Consumer Staples	3.3
Consumer Discretionary	2.9
U.S. Corporate Bonds	2.6
Health Care	1.5
Real Estate	1.4
Telecommunication Services	1.3
Information Technology	0.7
Municipal Bonds	0.4
Other Net Assets (Liabilities)	(5.9)
	<b>100.0</b>

Country	Percentage of Net Asset Value (%)
Canada	89.2
United States	10.4
Cash & Cash Equivalents	5.2
France	0.3
United Kingdom	0.3
Denmark	0.3
Netherlands	0.1
Jersey	0.1
Other Net Assets (Liabilities)	(5.9)
	<b>100.0</b>

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#### A NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement.

Forward-looking statements are the opinions and views of Empire Life Investments Inc. Inc. based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors and are subject to change without notice. Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and avoid placing undue reliance on forward-looking statements. The Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

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