Empire Life Emblem Portfolios™: Asset Allocation Update

Update from the Asset Allocation Oversight Team

March 7, 2013

Summary of Asset Allocation Decisions

Asset Class	Direction of Changes
Fixed Income	Underweight
Canadian Equity	Underweight
U.S. Equity	Overweight
International Equity	Neutral

	Neutral Allocation*				Target Allocation – March 7, 2013			
Emblem Portfolio	Fixed Income	CDN Equity	U.S. Equity	International Equity	Fixed Income	CDN Equity	U.S. Equity	International Equity
Conservative	65.0%	25.0%	5.0%	5.0%	60.0%	22.5%	12.5%	5.0%
Balanced	50.0%	35.0%	7.5%	7.5%	47.5%	30.0%	15.0%	7.5%
Moderate Growth	35.0%	45.0%	10.0%	10.0%	32.5%	40.0%	17.5%	10.0%
Growth	20.0%	60.0%	10.0%	10.0%	17.5%	55.0%	17.5%	10.0%
Aggressive Growth	--	75.0%	12.5%	12.5%	--	70.0%	20.0%	10.0%

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

Rationale

- Continued global growth, albeit slow, combined with the coordinated monetary stimulus efforts from central banks has created a supportive environment for risk assets. Even with the strong recent performance of equity markets, we believe valuations remain reasonable and in many cases price-earnings multiples[1] of key global indices are below long-term averages.
- While there still appears to be no immediate catalyst for interest rate increases, the sensitivity of bond prices to changes in interest rates has been on the rise. Investor sentiment has moved decidedly towards the "risk-on" camp to start the year. Fund flows in the Canadian fixed income category turned negative during January and February after being a top selling category during last year's RRSP season. While it's too early to call this the start of the "Great Rotation", it is a development that we will be monitoring closely. We've maintained an underweight allocation, relative to the Portfolio's benchmark, to fixed income securities, and have increased our cash weighting within this segment of the Portfolios.
- While oil prices have risen in recent weeks, most commodity prices have been roughly flat over the past year. This has resulted in underperformance of resource-centric Canadian equities relative to other major developed markets. We have maintained an underweight allocation.
- US equities have performed well on the back of strong corporate earnings and an accommodative Federal Reserve. Approximately 70% of S&P 500 companies beat earnings expectations during the most recent reporting period. Unemployment has dropped to 7.7% and investors have shrugged off the potential impact of $85B in spending cuts (at least temporarily) on a slowly growing economy. The US market continues to offer broadly-diversified investment opportunities and we believe the strong US currency may also provide a tailwind. We have increased our allocation to US equities.
- We are maintaining a neutral allocation to international equity markets. While European stocks are close to their highest level since 2008, official data has confirmed that the eurozone ended 2012 in its second recession since 2009. Recent inconclusive election results in Italy have also contributed to declining sentiment. In Japan, investors and consumers are embracing the new leadership of Shinzo Abe and his aggressive growth-oriented economic policies. Japanese equities have reached a 4-year high but from a Canadian-investor's standpoint, this is offset by a rapidly declining yen.

[1] Price-earnings multiples is a valuation ratio of a company's current share price compared to its per-share earnings

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