Tactical Update December 20, 2022

Key Takeaways

- · Tactically moving to a more defensive positioning
- Increased bonds, decreased equities (all portfolios except Emblem Aggressive Growth, which has no bond component)
- Emblem Aggressive Growth increased US equities, decreased international equities

Rationale:

We are choosing to adopt a more cautious posture and see increasingly attractive relative value in fixed income. As such, we have reduced our equity targets in the various Emblem funds and increased our fixed income targets.

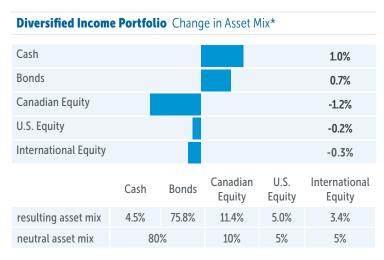
The change was made for two reasons that are generally related.

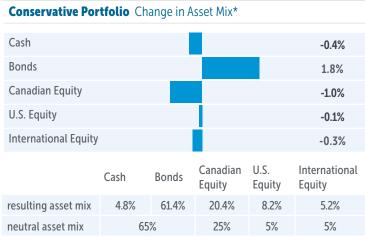
- 1. First, there is real risk of a recession in the coming year. It appears that the US Federal Reserve (the "Fed") is going to be increasing rates for some period of time but the rate of increase is likely to moderate. The Fed continues to express its intention to keep rates in restrictive territory for some time even as the economy is showing signs of cooling down.
 - We may be approaching a point where the Fed "breaks something" and the market, particularly the fixed income market, will anticipate that as evidence starts to build. We also enter 2023 with the highest bond yields in more than a decade. This suggests that 2023 will not be nearly as difficult for bonds, especially government bonds, as 2022 has been.
- 2. Equity markets meanwhile, are likely going to have to contend with pressure on earnings. As companies are less able to pass along higher prices but experience continued wage pressure (and still some input cost pressures) margins are likely to be under pressure.
 - In addition, while we're not overly worried about a deep credit cycle since companies have termed out their debt, the increase in interest rates is going to continue to bleed into higher interest expense for companies as they refinance or borrow in the normal course of business.
 - Consumers of course are impacted by rising interest costs, high energy costs and declining home values. This is not a great combination.

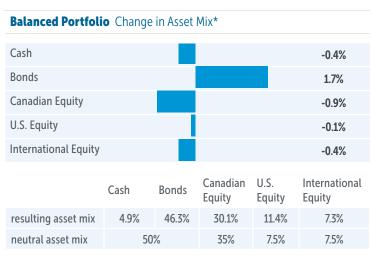
This all suggests equity earnings are likely to be challenged and, rhetoric aside, market estimates, investor behavior and valuations do not appear to reflect this while relatively high bond yields provide an alternative for an increasing portion of balanced portfolios.



Empire Life Emblem Portfolios: Asset Allocation Update









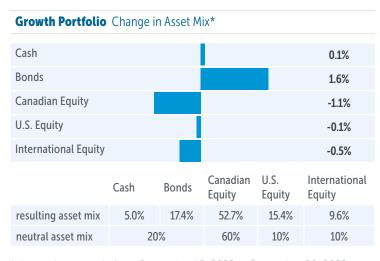
45%

10%

10%

35%

neutral asset mix



Aggressive Growth Portfolio Change in Asset Mix* Cash 0.5% Bonds 0.0% Canadian Equity -0.4% U.S. Equity 1.9% International Equity -2.0% Canadian U.S. International Cash **Bonds** Equity Equity Equity resulting asset mix 5.5% 0% 59.4% 22.5% 12.6% 12.5% 0% 12.5% neutral asset mix 75%



^{*}change in asset mix from December 15, 2022 to December 20, 2022

Empire Life Emblem Portfolios: Asset Allocation Update

Important Information

Empire Life Investments Inc. is the Portfolio Manager of the Empire Life segregated funds. Empire Life Investments Inc. is a wholly-owned subsidiary of The Empire Life Insurance Company.

Empire Life Emblem GIF Portfolios currently invest primarily in units of Empire Life Mutual Funds.

A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value.**

Policies are issued by The Empire Life Insurance Company.

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Empire Life Emblem Global Portfolios: Asset Allocation Update

Tactical Update December 20, 2022

Key Takeaways

- Tactically moving to a more defensive positioning
- Increased bonds, decreased international equities (all portfolios except Emblem Global Aggressive Growth, which has no bond component)
- Emblem Global Aggressive Growth increased US equities, decreased international equities

Rationale:

We are choosing to adopt a more cautious posture and see increasingly attractive relative value in fixed income. As such, we have reduced our equity targets in the various Emblem funds and increased our fixed income targets.

The change was made for two reasons that are generally related.

- 1. First, there is real risk of a recession in the coming year. It appears that the US Federal Reserve (the "Fed") is going to be increasing rates for some period of time but the rate of increase is likely to moderate. The Fed continues to express its intention to keep rates in restrictive territory for some time even as the economy is showing signs of cooling down.
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 - In addition, while we're not overly worried about a deep credit cycle since companies have termed out their debt, the increase in interest rates is going to continue to bleed into higher interest expense for companies as they refinance or borrow in the normal course of business.
 - Consumers of course are impacted by rising interest costs, high energy costs and declining home values. This is not a great combination.

This all suggests equity earnings are likely to be challenged and, rhetoric aside, market estimates, investor behavior and valuations do not appear to reflect this while relatively high bond yields provide an alternative for an increasing portion of balanced portfolios.



Empire Life Emblem Global Portfolios: Asset Allocation Update

Global Conservative Portfolio Global Balanced Portfolio Change in Asset Mix* Change in Asset Mix* 0.3% Cash Cash Bonds 1.8% Bonds **Canadian Equity** -0.5% Canadian Equity U.S. Equity -0.2% U.S. Equity International Equity -1.3% International Equity -2.1% Canadian U.S. International Canadian U.S. International Cash **Bonds** Cash Bonds Equity Equity Equity Equity Equity Equity 3.7% 13.3% 9.0% 6.7% 22.8% 16.2% resulting asset mix 6.1% 68% resulting asset mix 6.8% 47% neutral asset mix 70% 30% 50% 50% neutral asset mix **Global Moderate Growth Portfolio Global Aggressive Growth Portfolio** Change in Asset Mix* Change in Asset Mix* Cash 0.4% Cash **Bonds** 0.7% **Bonds Canadian Equity** 0.6% Canadian Equity -0.2% U.S. Equity 0.5% U.S. Equity International Equity -2.1% International Equity International U.S. International U.S. Canadian Canadian Cash **Bonds** Cash Bonds

Equity

24.3%

30%

29%

6.0%

resulting asset mix

neutral asset mix

Equity

8.2%

Equity

32.7%

70%



0.8%

0.9%

0.4%

0.0%

-0.1%

0.0%

1.4%

-1.0%

Equity

39.2%

Equity

9.0%

4.9%

0%

resulting asset mix

neutral asset mix

0%

Equity

47.0%

100%

^{*}change in asset mix from December 15, 2022 to December 20, 2022

Empire Life Emblem Global Portfolios: Asset Allocation Update

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