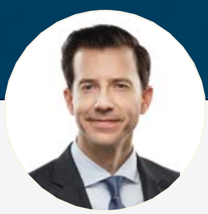
EMPIRE LIFE DIVIDEND GROWTH FUND UPDATE

March 31, 2022



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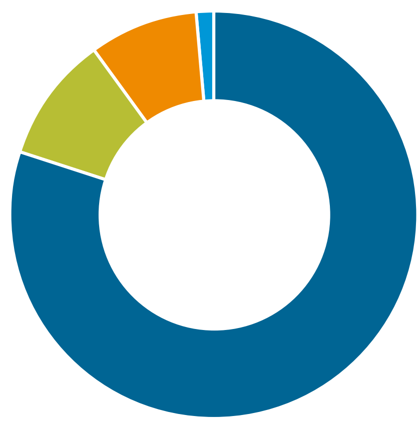
Impact of Russia-Ukraine conflict on fund positioning

The Russian invasion of Ukraine has caused immeasurable heartbreak and hardship for the Ukrainian people. We hope for a peaceful resolution to the war as soon as possible.

Over the last five weeks since the start of the Russian-Ukraine conflict, the most notable change made to the fund was a reduction in international equity exposure (composed primarily of the UK and Continental Europe) and an increase in Canadian equity exposure. Today, Canadian equities make up over 80% of the fund (up from ~75% prior to the Russian-Ukraine conflict) with a higher weight in the materials sector and energy producers. The segregated fund's overall energy exposure remains relatively unchanged at roughly ~15.5% but with a slightly higher tilt to producers. The fund's exposure to U.S. equities remains unchanged at ~10%, and international equities comprise ~8.5% of the fund (down from ~14%).

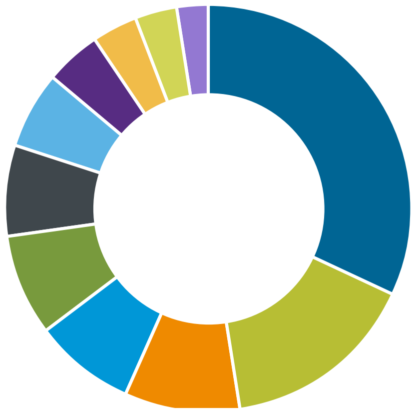
Asset allocation



Canadian Equity	80.21%
U.S. Equity	10.01%
International Equity	8.47%
Cash and Equivalents	1.30%

As at March 31, 2022

Equity sector breakdown



Financials	32.02%
Energy	15.56%
Communication Services	9.24%
Consumer Staples	8.09%
Industrials	8.00%
Materials	7.17%
Consumer Discretionary	6.11%
Health Care	4.50%
Utilities	3.51%
Information Technology	3.50%
Real Estate	2.32%

As at March 31, 2022

Investment approach

The approach we have taken with Empire Life Dividend Growth is to opportunistically leverage the fund's ability to invest up to 30% outside of Canada. We've done this for two reasons:

- First, the U.S. and International markets offer a vast opportunity set of attractively valued high-quality companies through the economic cycle and therefore enhance the fund's return opportunities.
- Second, taking a longer-term view the cyclical nature of Canada's economy and equity markets justify a reasonable level of diversification outside of Canada.

While investing outside of Canada will continue to be an important part of the fund's long-term approach, the Russia-Ukraine conflict makes Canada a relatively attractive place to invest at this point in the commodity inflation cycle, especially compared to Europe.

Managing for downside risk

The conflict has introduced downside risk to global economic growth, largely because of the greater supply-chain challenges and higher commodity costs. Russia is a relatively small economy but it is a commodity superpower.[1] With much of Russia's commodities no longer available to global markets, as a result of the conflict, commodity prices have skyrocketed. Further exacerbating the situation is that Ukraine is a major exporter of agricultural commodities in particular wheat and corn. Canada is one of the best positioned countries (as net exporters of many of these commodities). According to Bloomberg, expectations for Canada's economic growth in 2022 have improved since Russia invaded Ukraine. The U.S. will probably see a modest headwind to economic growth as a result of higher energy prices and inflation. On the other end of the spectrum, Europe is likely to see the largest headwind to economic growth considering its proximity to Russia and its reliance on imports of commodities, in particular natural gas from Russia.

Continued supply pressure furthers inflation concerns

The supply shock for many commodities as a result of the Russia-Ukraine conflict has the potential to be long-lasting in nature. As long as President Vladimir Putin stays in power, various financial and trade restrictions will likely remain in place on Russia, which in turn will prevent many countries/companies from directly purchasing commodities from Russia. Basically, these restrictions – in addition to sanctions and countries seeking to reduce their dependence on Russian commodities – will result in a structurally lower supply for many commodities and therefore result in prolonged elevated prices.

The war in Europe is inflationary so there is likely further upside risk to interest rates which we anticipate to be supportive of Canadian banks and Canadian life insurance companies which collectively make up roughly 27% of the fund today. Moreover, the relatively attractive outlook for Canada's economy compared to the U.S. and Europe should be supportive of these domestically focused businesses.

[1] Oil, natural gas, potash, nitrogen, urea, wheat, palladium, platinum from Russia is 25%, 12%, 19%, 21%, 16%, 17%, 22%, and 16% of global exports, respectively. (Source: World Bank, Statistics Canada, World Steel Association, USDA, USGS, OEC, IFA, BP Statistical Review of World Energy, Refintiv and CIBC World Markets Inc).

Potential support from dividend growth and currency strength

The dividend yield of the fund is over 3% today. This is supported mostly by defensive growth companies with strong pricing power which positions them well to pass on any inflationary pressures and steadily increase their dividends. And because a major source of today's inflation is linked to commodities this provides a natural hedge for many of the fund's Canadian-focused companies with exposure to energy and other commodities.

There are notable currency implications of the Russia-Ukraine conflict. Since Russia invaded Ukraine, the Canadian dollar has proven very strong relative to most major currencies, in particular the Euro and Japanese Yen. As a result, Canadian dollar returns of the fund's non-Canadian stocks have been eroded over this time period. Usually, in times of uncertainty, the Canadian dollar will underperform especially relative to safe-haven currencies like the U.S. dollar and Japanese Yen, and therefore act as a tailwind for Canadian dollar returns. However, because of the commodity supply shock caused by the war in Europe, the Canadian dollar has remained very strong and is anticipated to remain strong for the foreseeable future.

Outlook

In summary, the non-Canadian businesses held in the fund continue to be well positioned with defensive growth attributes, little to no exposure to Eastern Europe and Russia and strong pricing power to counter inflationary headwinds. In a lot of cases, valuations of these holdings have fallen to compelling levels which bode well for returns over the long run. While the fund continues to take advantage of a large pool of high quality attractively valued companies outside of Canada – and therefore also offers some regional diversification – a more favourable backdrop for commodities warrants greater exposure to Canada today.

Contact us to find out more about Empire Life Dividend Growth!

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