EMPIRE LIFE ASSET ALLOCATION GIF COMMENTARY

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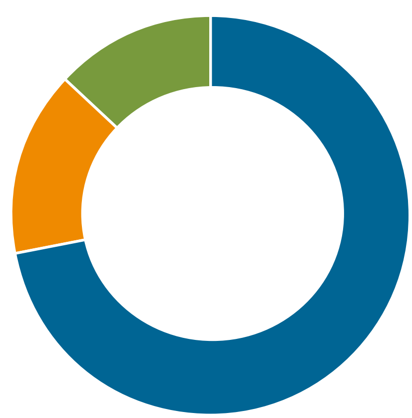
This commentary provides an update on the positioning of the Empire Life Asset Allocation GIF highlighting some examples of how the segregated fund has tactically taken advantage of what have been some extremely volatile markets over the past two years.

Equity Overview

Empire Life Asset Allocation GIF has been overweight Canadian equities for the past year - and continues to be - as a result of our constructive view on global economic growth, which we expect to remain above historical levels in 2022. We expect this environment of robust global economic growth to continue to be a tailwind for equities generally but in particular Canadian equities that are skewed to economically driven sectors such as energy, financials, and materials. Also, Canadian equity valuations are relatively attractive when compared to ten-year averages.[1] This is especially noteworthy considering that Canadian equities, as represented by the S&P/TSX Composite Index, are composed of less cyclical sectors today versus ten years ago. Moreover, technology and more defensive sectors make up a larger part of the index today. Within the fund's equity portion today,[2] Canada makes up nearly 74% while U.S. and international equities make up approximately 15% and 12% respectively.

Equity breakdown

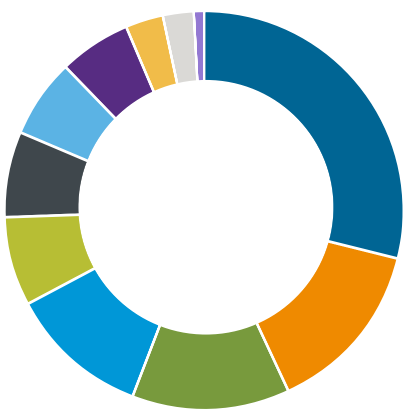


Canadian Equity	72.15%
U.S. Equity	15.03%
International Equity	12.81%

as at December 31, 2021

During the COVID-19 related market sell-off in early 2020, we tactically increased the fund's equity weight slightly above 65% (versus the fund's targeted range of 55% to 65%) after taking advantage of some very compelling valuations across the entire equity market particularly in financials and energy. In the context of the sharp rally in equity markets over the past year, we have taken a more conservative stance today reflected in a reduction in the equity weight to roughly 58% today and a material lowering of beta in the fund's Canadian equity allocation. As an example, energy was approximately 30% of Canadian equities at the start of 2021 and today is ~16%. Moreover, we have shifted the fund's energy exposure into more defensive areas including pipelines where we are seeing relatively better value. While we still have a constructive view on oil prices today, taking a longer-term view we believe that the risk/reward is much less favourable compared to a year ago.

Equity sector breakdown



Financials	29.14%
Industrials	14.16%
Energy	12.63%
Information Technology	11.32%
Consumer Discretionary	7.46%
Materials	6.82%
Consumer Staples	6.50%
Communication Services	5.65%
Health Care	3.14%
Utilities	2.38%
Real Estate	0.80%

as at December 31, 2021

Today, financials make up ~34.5% of the fund's Canadian equities which is down from nearly 40% at the start of 2021; and Canadian banks comprise nearly two-thirds of financials within the Canadian equity allocation. We have selectively trimmed some of the fund's Canadian banks after material outperformance over the past year which has contributed to a lowering of beta within the fund's Canadian equities exposure. We continue to believe that Canadian banks are well-positioned due to:

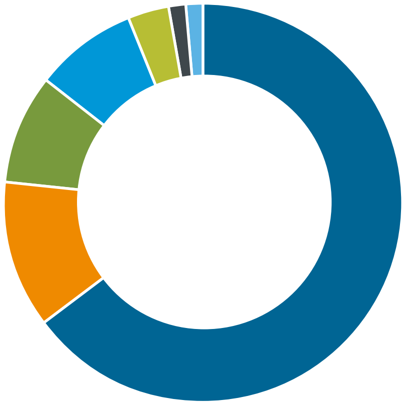
1. Record high capital levels
2. Related to the record high capital levels, capacity for capital returns to shareholders
3. A material unwinding of loan losses provisions built up through the COVID-19 crisis as credit issues never transpired as expected
4. Stronger personal balance sheets today versus prior to the onset of COVID-19 because of government support and a reduction in consumer spending
5. Our expectation that we are in a rising interest rate environment.

While we expect Canadian bank stocks to generate attractive total returns going forward, we anticipate that these returns will be less versus the year-ago period.

Fixed Income overview

The fixed income allocation was 37% of the fund on December 31, 2021 and had a low duration of fewer than four years consistent with our view that there is upside risk to interest rates. The bond sleeve is skewed to corporate bonds where we are seeing attractive value - as of December 31, 2021, corporate bonds made up 83% of the fund's bond exposure. And as of December 31, 2021, the bond portion's weighted average yield was 2.5% and with 82% of corporate bonds investment-grade credit risk is very low. In helping facilitate our tactical shift to corporate bonds we have leveraged our team's internal fixed income expertise by increasing the fund's exposure to the Empire Strategic Corporate Bond fund which today makes up 8.5% of the Empire Asset Allocation Fund.

Fixed Income breakdown



Investment Grade Corporate	64.77%
High Yield Corporate	11.92%
Federal Government	8.96%
Provincial Government	8.27%
Preferred Shares	3.58%
Convertible	1.32%
Floating Rate	1.19%

as at December 31, 2021

Outlook

In summary, we feel very good about how the Empire Life Asset Allocation GIF is positioned. In 2020, we took advantage of substantial equity market weakness due to COVID-19 by increasing the equity weight slightly above the fund's targeted range. In addition, within the Canadian equity allocation, the fund shifted capital to more economically geared sectors including energy and financials. Today, we are taking a more conservative stance considering the strong rally in equity markets over the past year by tactically reducing the fund's equity weight and by reducing beta within Canadian equities.

As always, thank you for your continued support.

Contact us to find out more about the Empire Life Asset Allocation GIF!

[1] The S&P/TSX Composite Index forward price-to-earnings multiple was ~14.3x as of January 31, 2022 below the ten year average of ~15.3x (source: Bloomberg)

[2] As of January 27, 2012 energy, financials, and materials GICS sectors made up 73.1% of the S&P/TSX Composite Index versus 59.8% as of January 28, 2022. And information technology, utilities, communication services, and consumer staples GICS sectors made up ~11% of the index as of January 27, 2012 versus 21.2% as of January 28, 2022. (source: Bloomberg)

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