

Update from the Fund Managers

Empire Life Elite Equity Fund August 17th, 2009

Lead Fund Manager: Raymond Halley, MBA, CFA

Co-Lead Fund Manager: Jane Halliday, MA, CFA

Current Asset Composition (August 14, 2009):

Empire Life Elite Equity Fund

91% Equities

66% Canadian Equities

20% U.S. Equities

5% International Equities

9% Cash

Strategic Fund Outlook

1. The portfolio is positioned for a mild recovery.
2. Continued redeployment of the cash in view of a positive outlook on equities.
3. Looking to take advantage of the flexibility to capitalize on global opportunities.

Year-to-Date Performance Review

Fund performance this year has been helped by our international investments while the cash position created a drag on performance, in the context of a strong market rally.

International Investments

International investments in the Fund have done well so far in 2009. Two of the top 10 individual contributors to performance year-to-date (as at August 11th, 2009) are international stocks, namely Apple and Prudential Plc.

Cash Position

The Fund started the year in a fairly defensive position with a significant cash position around 20%. Despite having reduced cash levels to around 9% and given the strong rally experienced in equity markets over the past few months, this cash position has been a drag on performance.

Perspectives on Global Markets

- The Fund managers believe that the Canadian market is very much a proxy for global growth since our economy is so closely linked to resources.
- At present, the U.S. and Canadian markets, on an overall market basis, present similar risk adjusted upside potential. With the U.S. market however, currency exposure adds one additional variable to the equation.

Strategy on the Cash Position

We have a specific plan in place for the redeployment of cash, with clearly identified targets for investments. Even in the context of a recovering economy, there can be pull backs in the markets and we will be opportunistic in the redeployment of this cash position.

Participation in Emerging Market Growth Opportunities

A major secular theme often referred to at Empire Life over the past couple of years is centered on the rise of the middle class in emerging markets - particularly China and India - and its associated growth opportunities.



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Update from the Fund Managers

The Fund participates in this important trend in an indirect way.

- The Canadian market is weighted towards sectors strongly exposed to global growth. The Fund managers believe that this represents a relatively lower risk vehicle to participate in this trend without introducing significant currency and country risk issues.
- The Fund also holds individual investments that should strongly participate and benefit from this trend. One such investment is Prudential PLC. Prudential is a European based global insurer. In addition to meeting our main investment criteria for quality, the stock is of particular interest for two key attributes:
 - (1) Prudential has a strong presence in Asia where the penetration of life insurance products is still relatively low and growing.
 - (2) The reserving requirements for European insurance companies are very conservative. The investment in Prudential thus provides the Fund with a lower risk opportunity to participate in the rise of the middle class in Asia.

Theme based stock pick

Theme: Mild Economic Recovery

Investment: Canadian National Railway (CN)

The Fund has investments in the transportation space, namely the rail sector. Our assessment is that the rail business in Canada should be a beneficiary of global growth, even in the context of a mild economic recovery.

Our investment thesis for CN is based on two main criteria;

- (1) The rail business is largely a fixed cost business. As volumes ramp up, much of the incremental revenues flow directly to the bottom line in the form of additional profits.
- (2) The market has not properly assessed the potential for significant higher levels of profitability at CN. Once this profit starts materializing, investors should adjust upward the valuation metrics that they assign to the stock. This should lead to a double whammy in terms of stock performance: First of all the higher level of profitability alone should lead to a higher stock price and, in addition, the higher valuation level assigned to the stock should push this price appreciation up even further.

Why Invest in this Fund?

A main benefit of this Fund resides in its ability to provide a predominantly Canadian equity exposure, while benefiting from the flexibility to include some U.S. and international equity investments.

This benefit has two components:

- (1) Complementary investments to the Canadian segment can be included in areas where high quality opportunities are not readily available in the Canadian market.
- (2) A larger universe base exists from which to pick the most attractive investment opportunities.

This allows for a greater level of optimization to portfolio asset composition.

Suitable Client Profile

The Fund presents an attractive option for clients who wish to maintain a predominantly Canadian equity exposure but wish to enhance this exposure with some U.S. and international investments.

The geographic allocation shifts are handled within the portfolio, eliminating the need for the client and his/her financial advisor to constantly assess the relative attractiveness of each geographical market.



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