

THE BEN GRAHAM CENTRE FOR VALUE INVESTING

Seminar on Value Investing and the Search for Value

July 18, 2014

Presented by:

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Senior Vice President & Chief Investment Officer

Empire Life Investment

WHAT DIFFERENTIATES A VALUE INVESTOR?



WHY IS BALANCING RISK AND RETURN IMPORTANT?

Example

The Risk Return tradeoff is asymmetrical

Investor Invests	\$100
Portfolio declines	30%
Investor's Investment	<hr/> \$70
Portfolio appreciates	30%
Investor's Investment	<hr/> \$91

WHY IS BALANCING RISK AND RETURN IMPORTANT?

Example

The Risk Return tradeoff is asymmetrical

Investor Invests	\$100
Portfolio appreciates	30%
Investor's Investment	<hr/> \$130
Portfolio declines	30%
Investor's Investment	<hr/> \$91

WHY IS BALANCING RISK AND RETURN IMPORTANT?

Example

The Risk Return tradeoff is asymmetrical

In both cases the investor's Portfolio needs to appreciate 43% to recover the absolute dollars lost. This is a delta of 13%.

The bottom line is that protecting the downside is a critical component to total return and building wealth.

An aerial photograph of a fishing boat's net, showing a line of red floats extending across the deep blue ocean. The sky is filled with soft, white clouds, and the sun is visible, creating a bright glow. The net is a thin line with small red floats attached at regular intervals. The overall scene is serene and captures a moment of maritime activity.

INVESTMENT TEAM AND APPROACH

EMPIRE LIFE INVESTMENT TEAM

Equities	<p>Lieh Wang, CFA Nessim Mansoor, CA, CFA Virginia Wai-Ping, CFA Jane Halliday, CFA Amber Sinha, MBA, CFA Diane Burke Nicholas Smart, CFA</p>	<p>Sr. Portfolio Manager, Canadian Equities Portfolio Manager, Canadian Equities Portfolio Manager, Equities Sr. Portfolio Manager, Foreign Equities Portfolio Manager, Foreign Equities Manager, Equity Trading Research Analyst</p>
	<p>Gaelen Morphet, CFA</p>	<p>Senior Vice President & Chief Investment Officer</p>
Fixed Income	<p>Geoff Johnston, CFA Mark Vallee, CFA Michael Shook, CFA Paul Pathak Patrick McGrath, CGA, CFA Ron Costoff</p>	<p>Sr. Portfolio Manager Sr. Portfolio Manager Portfolio Manager Director, Fixed Income Director, Private Placements Director, Mortgages</p>



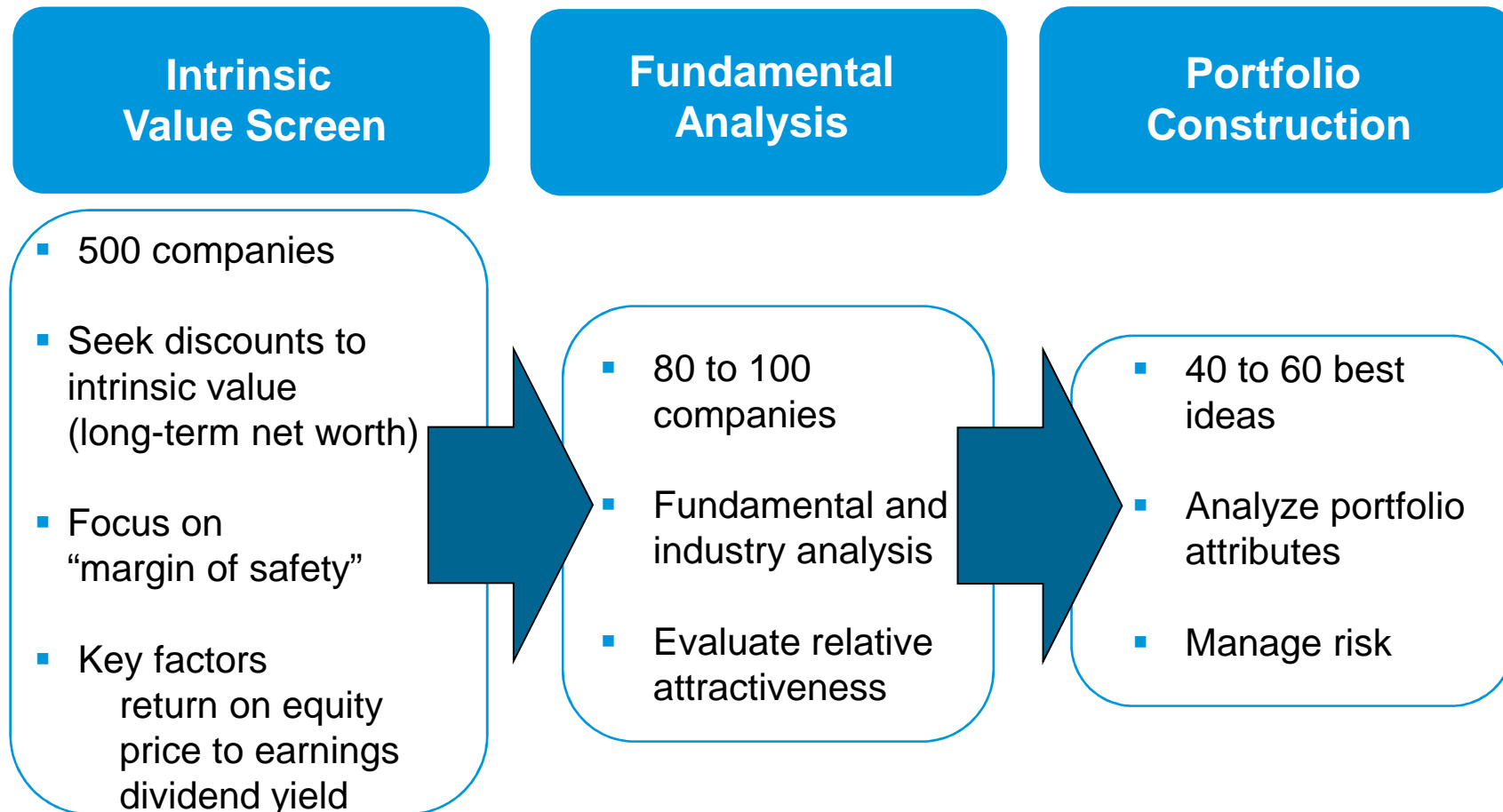
Investment Team and Approach

Empire Life Investment Team Philosophy

Philosophy	<ul style="list-style-type: none">• We believe that we can outperform by focusing on high-quality, attractively valued securities over the long term
Style	<ul style="list-style-type: none">• Value oriented
Approach	<ul style="list-style-type: none">• Bottom-up security selection• Fundamental analysis• Team oriented• Manage downside risks• Long term (3 to 5 years)• Disciplined

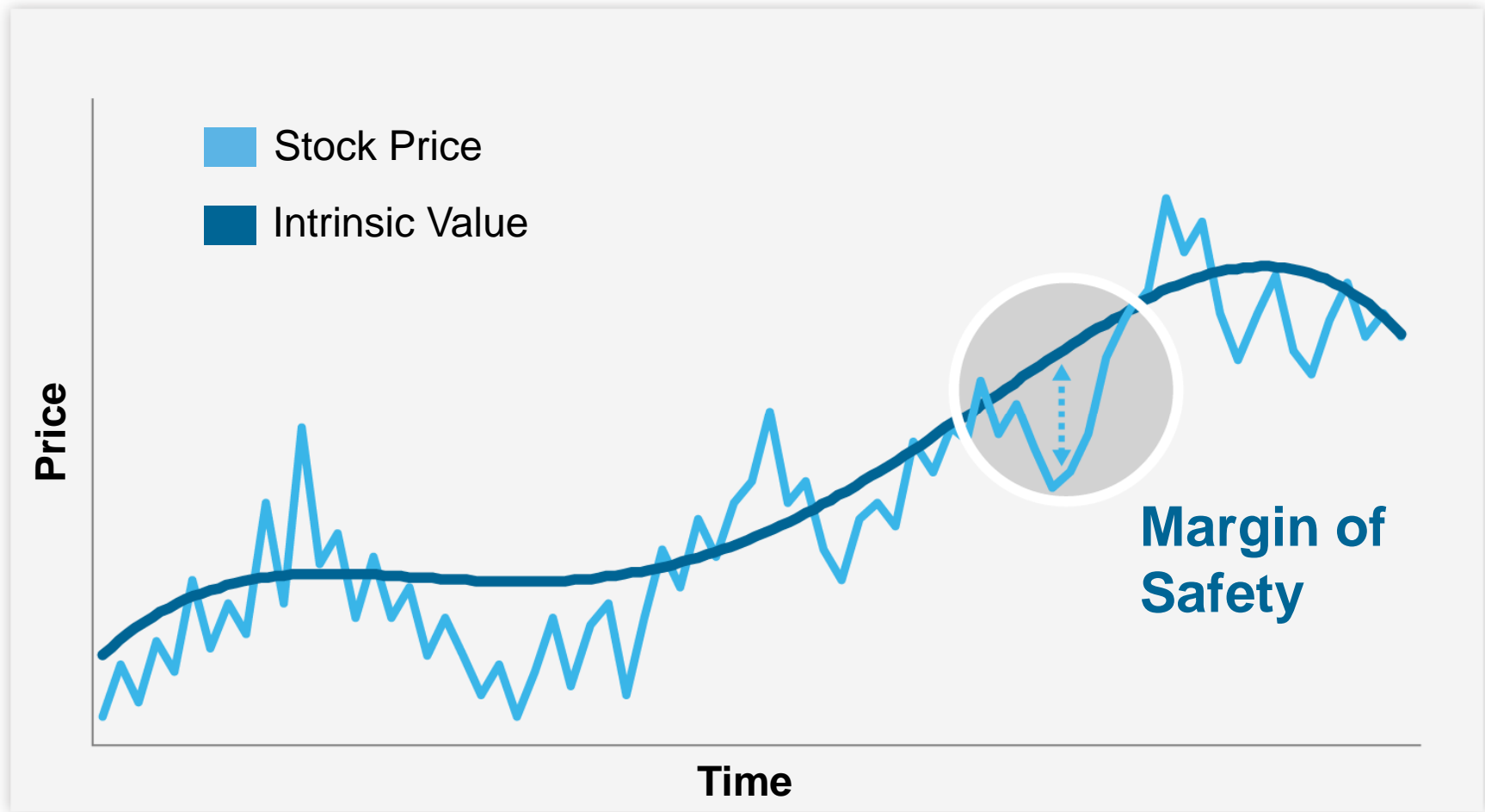
EQUITY INVESTMENT PROCESS

Equity Investment Process



INVESTMENT TEAM AND APPROACH

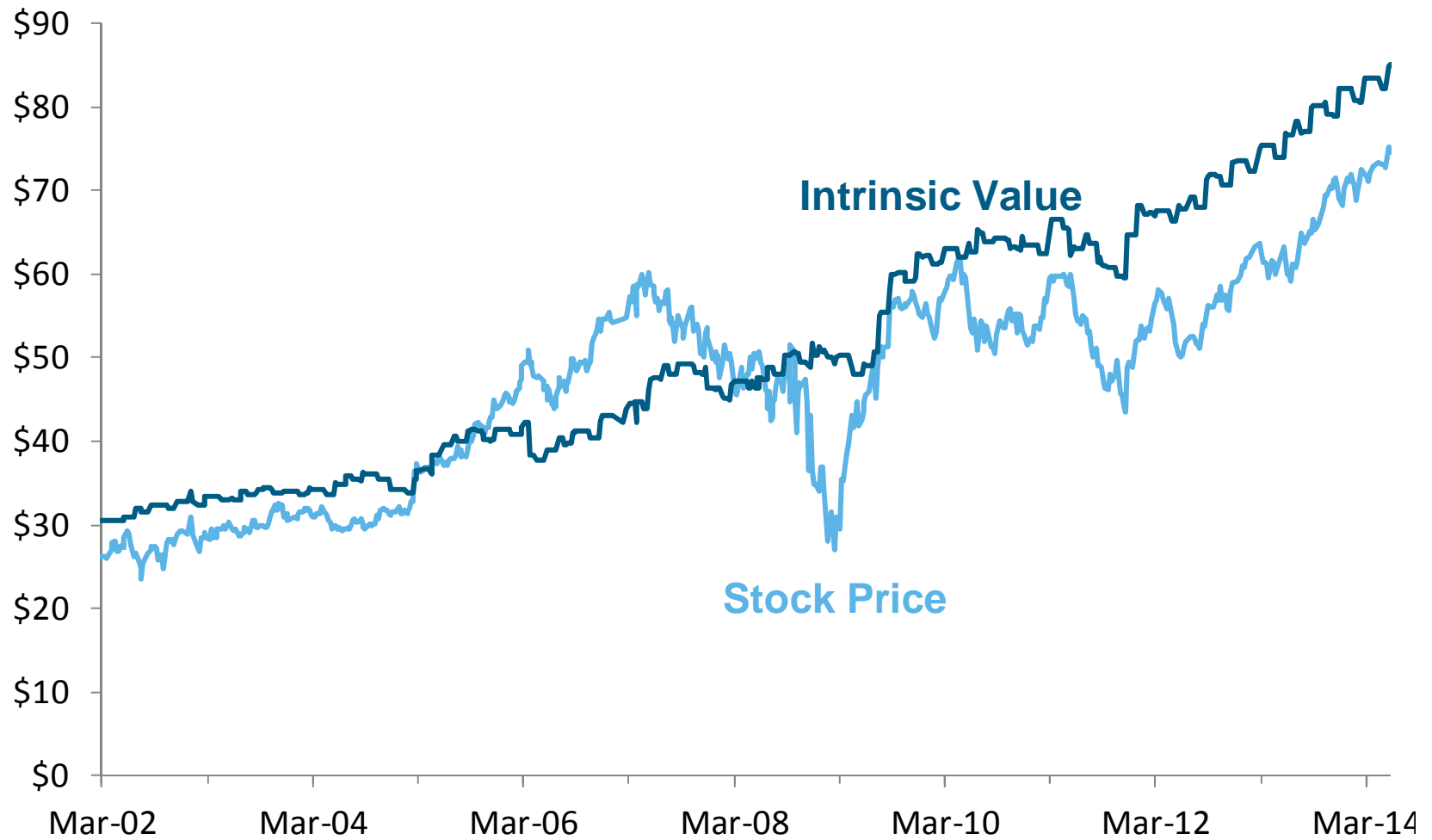
Value Investing – The Picture



For illustrative purposes only

VALUE INVESTING IN ACTION

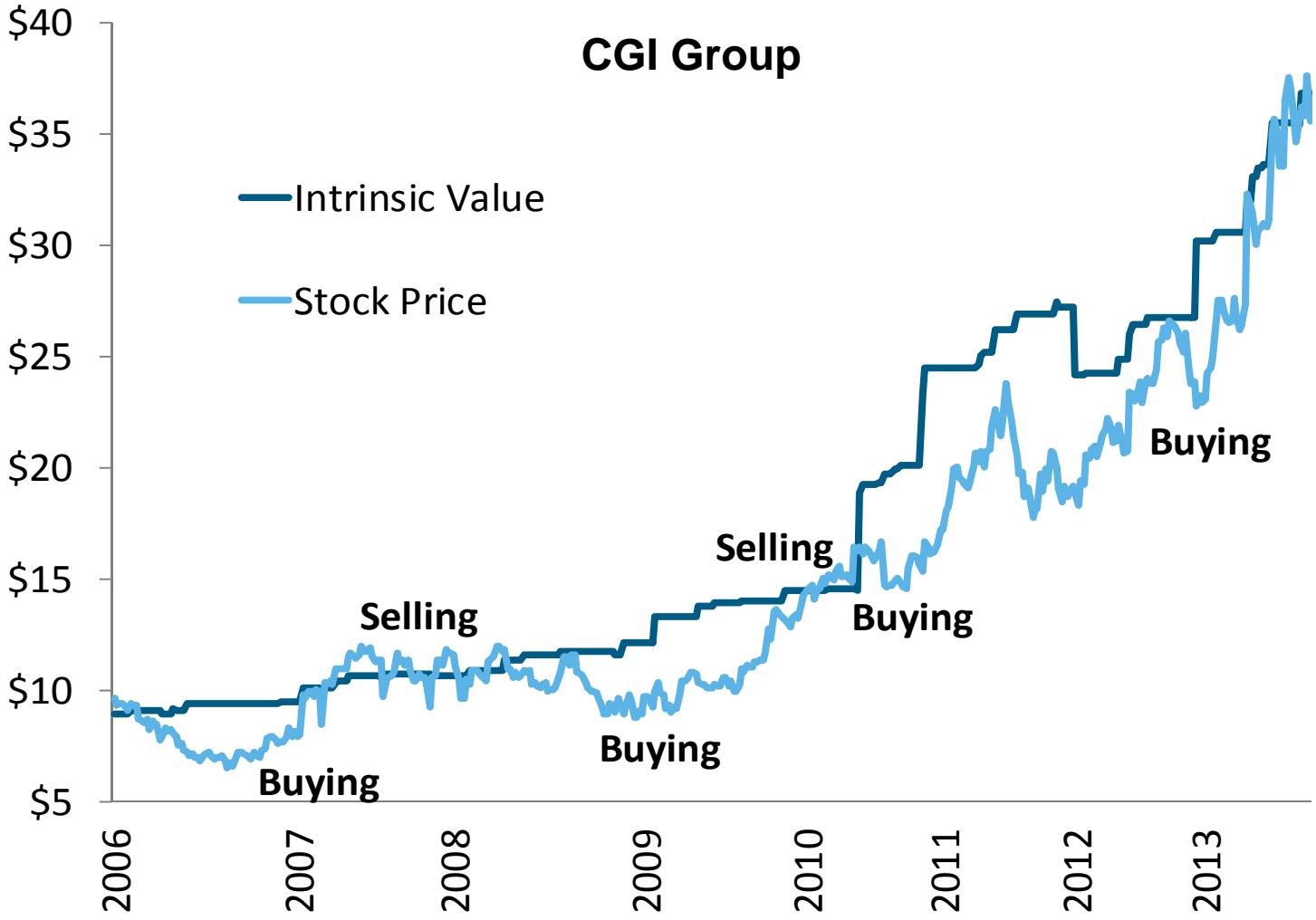
Royal Bank of Canada



Source: Stock Price - CPMS (March 2002 – May 2014)

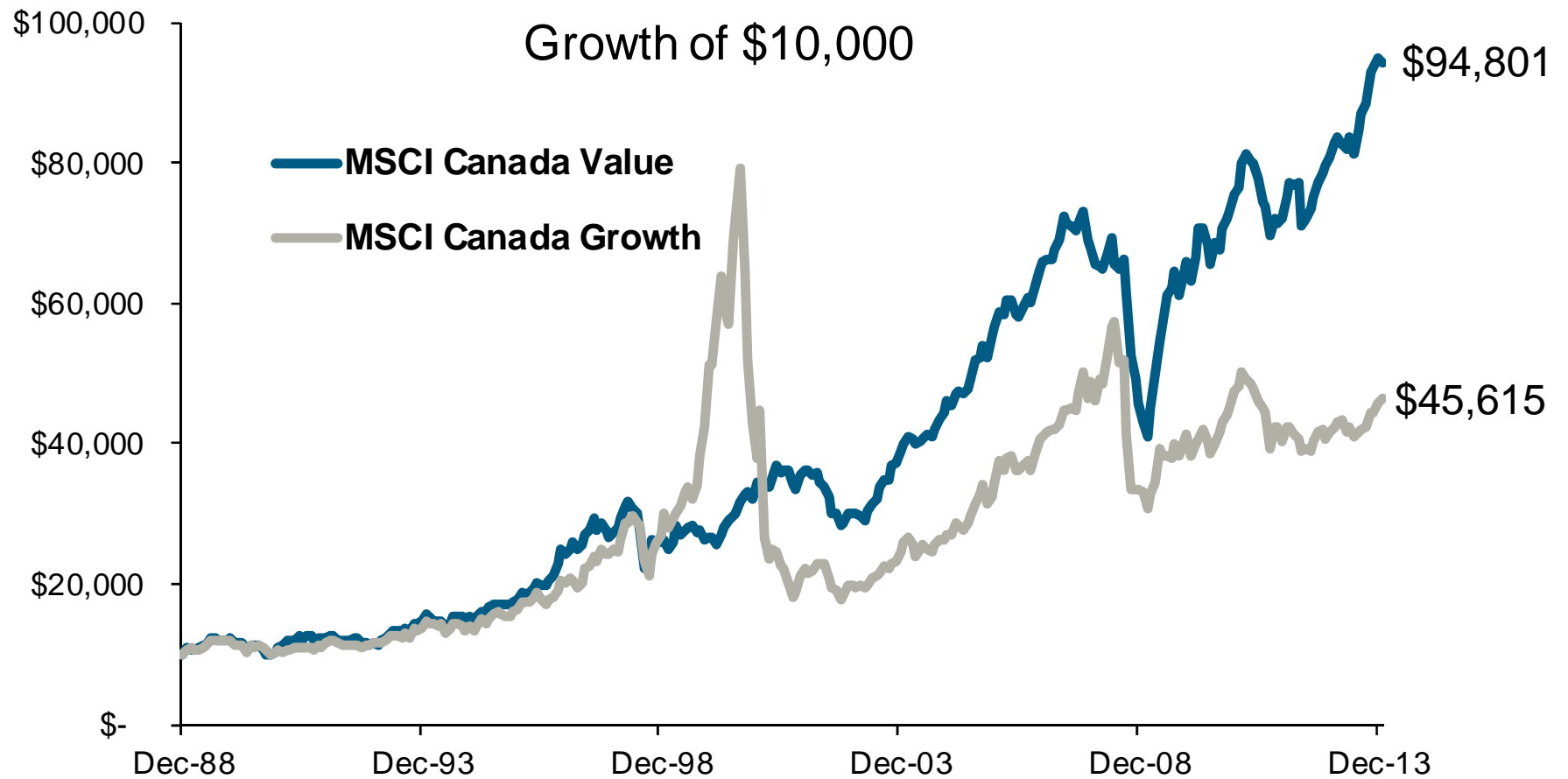
INVESTMENT TEAM AND APPROACH

INTRINSIC VALUE MODEL AT WORK



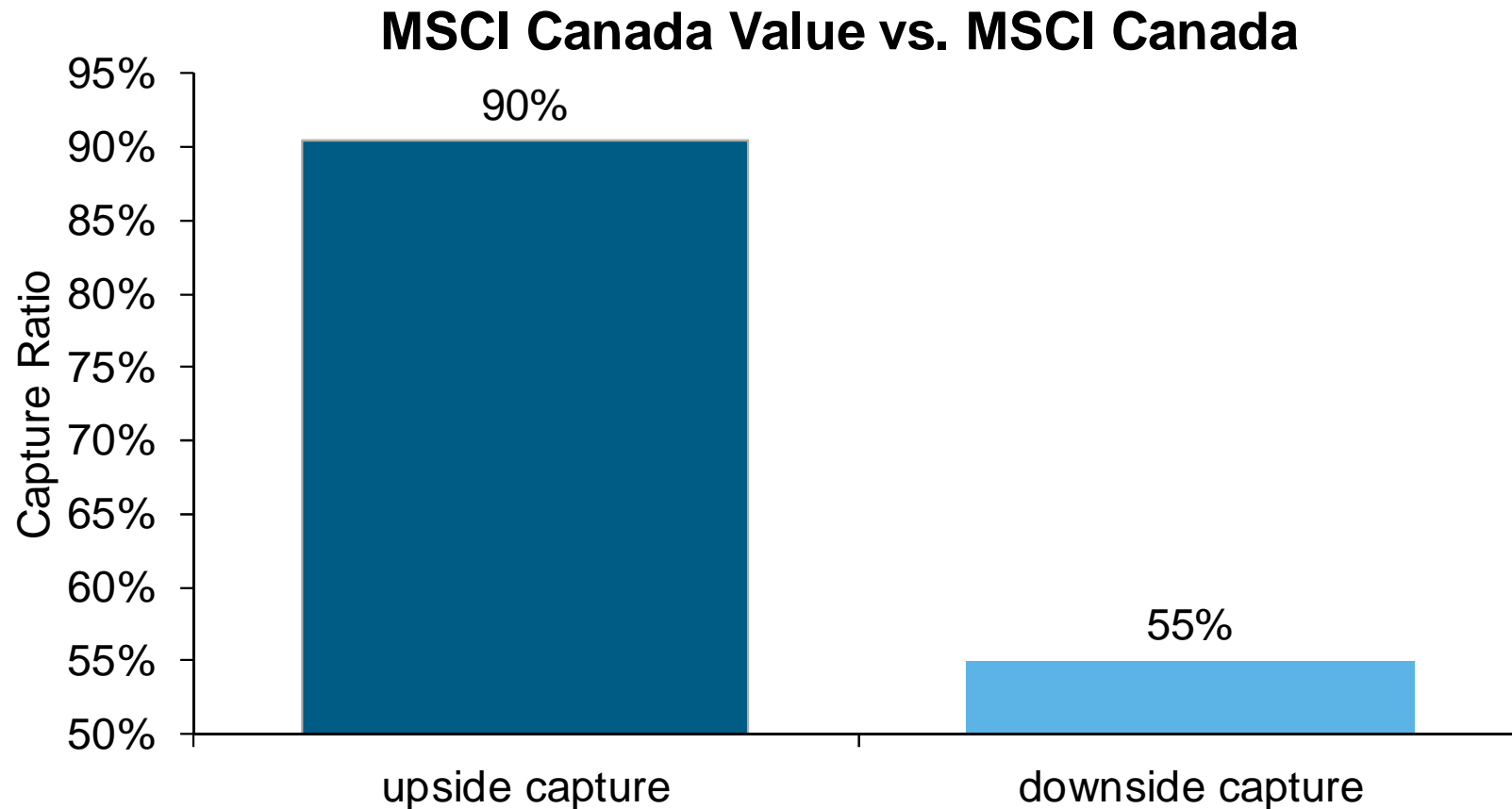
THE CASE FOR VALUE

Superior Long Term Performance



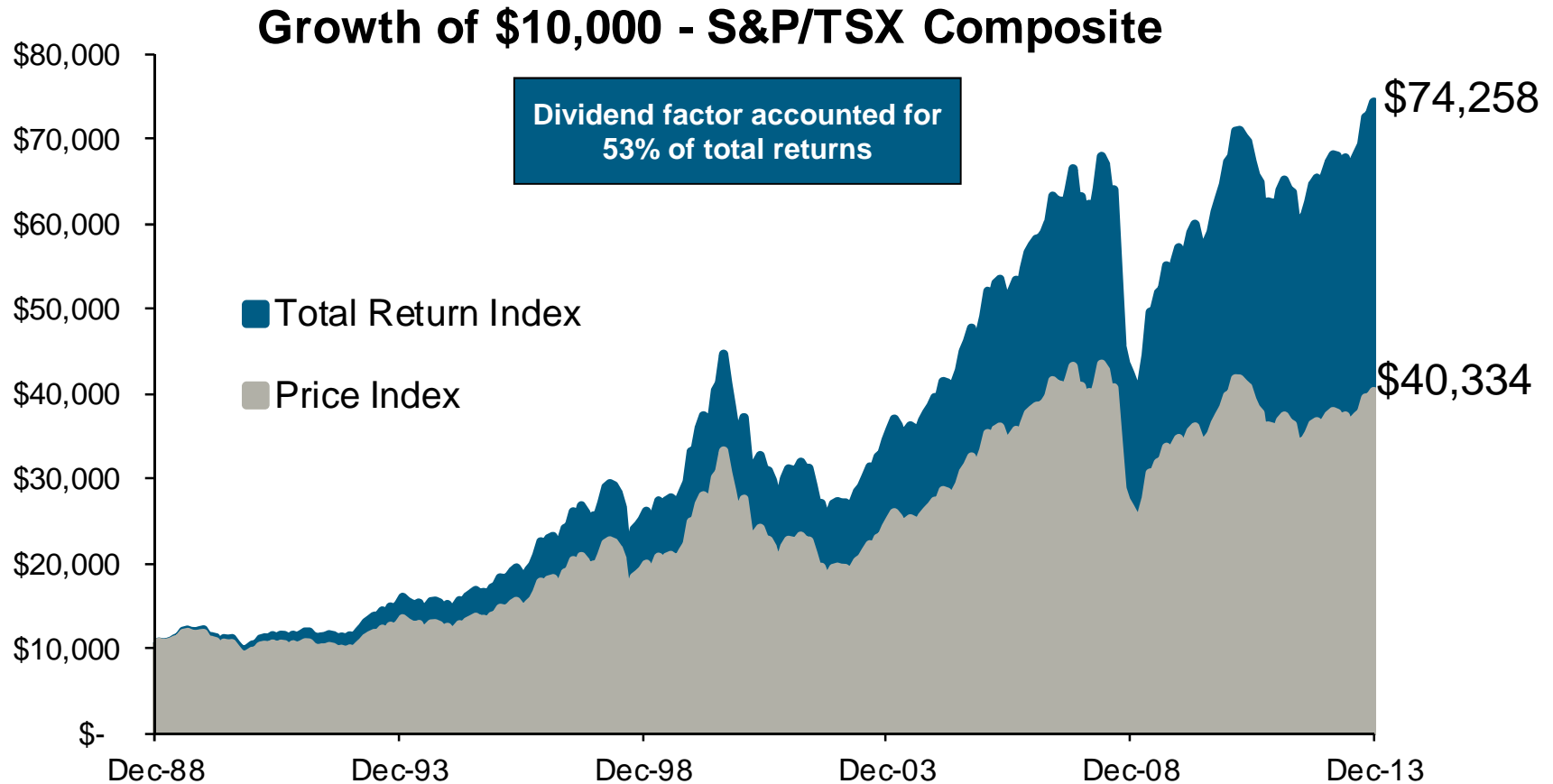
THE CASE FOR VALUE

Upside Participation, Downside Protection



THE CASE FOR DIVIDENDS

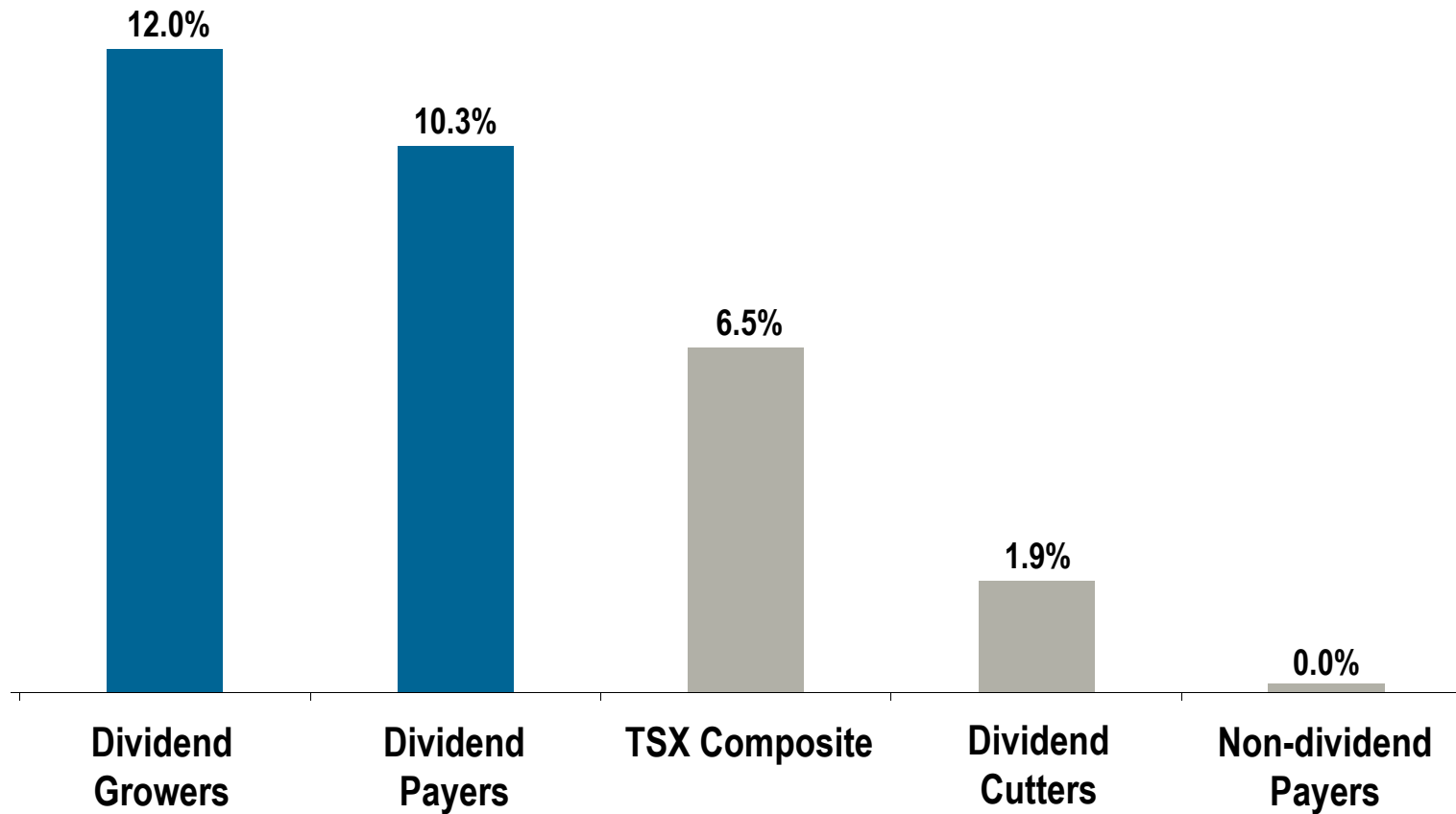
Significant Impact on Total Returns



THE CASE FOR DIVIDENDS

Superior Long Term Performance

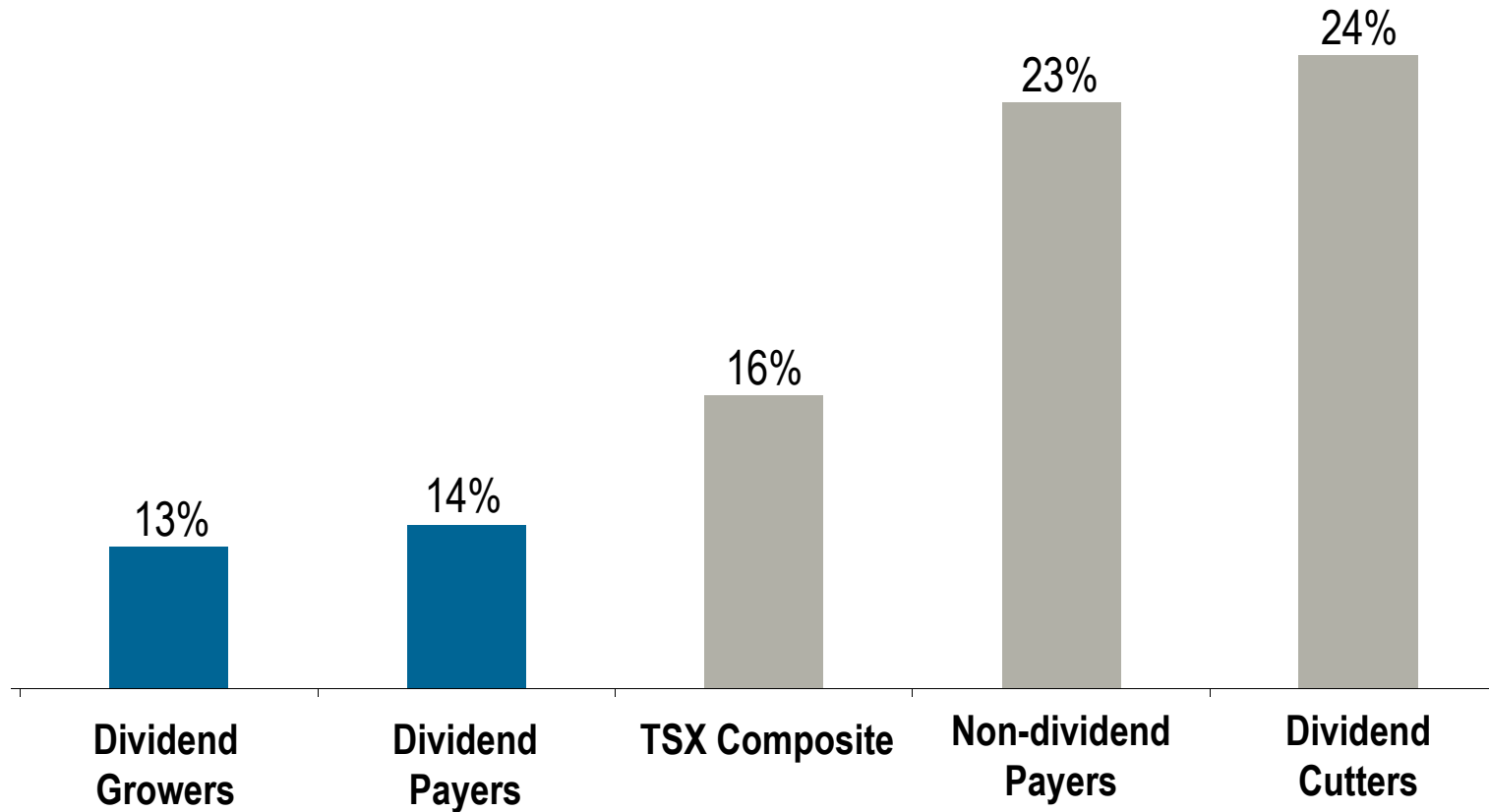
Annualized Total Portfolio Returns



THE CASE FOR DIVIDENDS

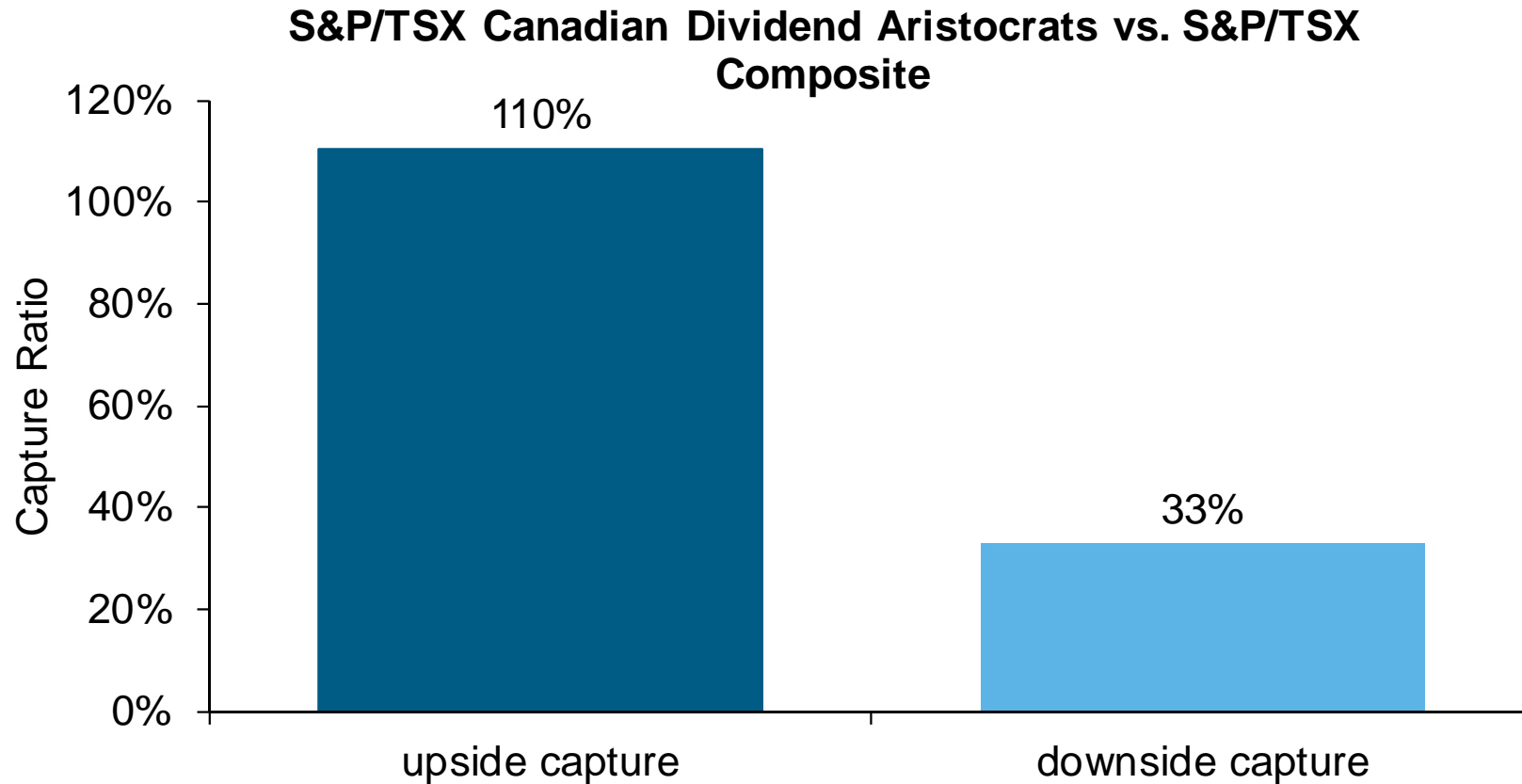
Superior Long Term Risk Management

Annualized Volatility



THE CASE FOR DIVIDENDS

Upside Participation, Downside Protection





Thank You!

Disclaimer

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