Focused on quality, consistent dividend income and long-term dividend growth potential

What’s the strategy?
The Canadian Focused Dividend (GWLIM) portfolio strategy invests mainly in Canadian stocks with attractive dividend yields and strong potential for dividend growth along with the ability to achieve long-term capital appreciation.

What’s the approach?
It blends top-down macro-analysis with bottom-up fundamental stock research. The portfolio manager seeks to identify industry risks, competitive opportunities and macro trends to influence sector allocations. This is done alongside disciplined fundamental research to identify companies that are positioned to deliver strong results. To a limited degree, the portfolio manager can invest in U.S. stocks.

Why invest in this portfolio strategy?
Ideal for investors seeking exposure to Canadian equities, with a bias towards companies that have history of paying and growing their dividends over time.

This income-focused portfolio is well diversified across sectors. It offers a portfolio of dividend-paying stocks with a focus on positive return generation in up markets and capital preservation in down markets. When compared to its benchmark, the S&P/TSX Composite index, the portfolio has historically had a lower volatility, a higher dividend yield, and an attractive valuation measure.

The portfolio has the flexibility to hold U.S. stocks, which provides the opportunity to add diversification and seek out attractive opportunities often not available in the Canadian market.

This is a diversified Canadian equity portfolio that tends to have an attractive risk/return profile versus most Canadian equity strategies.

Typical portfolio characteristics
Here is what you can expect to see from the GWLIM dividend equity strategy when compared to its peers, or its Canadian benchmark:

- An attractive price per earnings (i.e. valuation)
- Exposure to at least 8 of the 11 sectors
- An average of 50-80 holdings
- 0%-30% foreign holdings

About GLC
GLC Asset Management Group Ltd. (GLC) is a leading investment management firm that manages more than $50 billion in assets.

GLC has 5 investment management divisions:
- GWL Investment Management
- London Capital Management
- Laketon Investment Management
- Portco Investment Management
- Portfolio Solutions Group

Each division has a distinct investment approach that offers deep expertise within specialized areas of portfolio management, bringing unique perspectives to navigating capital markets through varying cycles.
Portfolio manager’s quarterly commentary
As at September 30, 2018

Market review
The S&P/TSX Composite posted a modest negative return in the third quarter, down 0.57% (total return). The index started the quarter strongly, building upon solid momentum from the prior quarter. Sentiment toward Canadian equities, however, waned on the back of trade uncertainty in August and September. NAFTA (now USMCA) talks dragged into quarter end, with Canada seeking to join the US and Mexico in a new deal. Commodity stocks were the main source of weakness for the S&P/TSX Composite Index. Soft gold and copper prices weighed on the Materials sector while a shift in oil price momentum and rising Western Canadian Select (WCS) differentials were headwinds for the Energy sector. The Financials sector was the main contributor to index returns with bank stocks benefitting from rising interest rates and robust quarterly financial results. The Health Care sector led gains on an absolute basis, up 31% largely due to outsized returns from cannabis stocks.
Portfolio performance

The fund outperformed the S&P/TSX Composite index on a gross return basis for the quarter. Performance was driven by a balance of favorable sector tilts and positive stock selection. An underweight allocation and good stock selection in the Materials sector benefited the fund. The fund is naturally less exposed to weakness in gold stocks given their limited yield. The fund’s Financial and Technology sectors also contributed favorably to the quarter. This partly reflects a positive currency impact from our US holdings in the quarter. A bounce in the Health Care sector also helped after a more sluggish Q2.

Portfolio activity

We reduced exposure to the Consumer Discretionary sector while adding to Consumer Staples. Energy exposure was reduced, Health Care was increased early in the quarter, and profits were taken in the Real Estate sector. In general, these moves reflect modest de-risking of the fund.

Positioning & outlook

We are in one of the longest economic cycles in history, with most economic indicators at historical peak levels. The key question is - how does it play out from here? On the positive side, economies and earnings remain strong, however market volatility returned as we entered 2018. This instability may continue given ongoing concerns such as more aggressive tightening by the U.S. Federal Reserve (through either future rate hikes or its balance sheet reduction program), upcoming U.S. midterm elections, escalating trade tensions, an unexpected increase in inflation, or a sharp rise in interest rates. Although we can't be certain of the timing, we believe that a temporary bout of inflation or rising interest rates will be one of the factors to end this cycle, which will initially impact interest sensitive names. While a greater dividend-growth focus can mitigate some of the risks, we believe buying into this weakness and maintaining a healthy yield will ultimately better prepare us for the next stage of the cycle. Therefore, our approach is to selectively add to lagging, less-cyclical sectors, while selling strength in cyclical sectors where possible.

Relative to the index we are overweight the Utilities, Real Estate, Communications, Consumer Staples and Health Care sectors, we are neutral Financials. We are underweight the Materials, Energy, Industrials, Consumer Discretionary and Technology sectors.