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

Strategy snapshot

Asset class
Equity

Inception date
1985

Assets in mandate
$4,152.4 million

Benchmark
S&P/TSX Composite Index

Investment team
GWL Investment Management

Portfolio manager(s)
Clayton Bittner,
Vice-President, Equities

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
- Portico Investment Management
- Portfolio Solutions Group

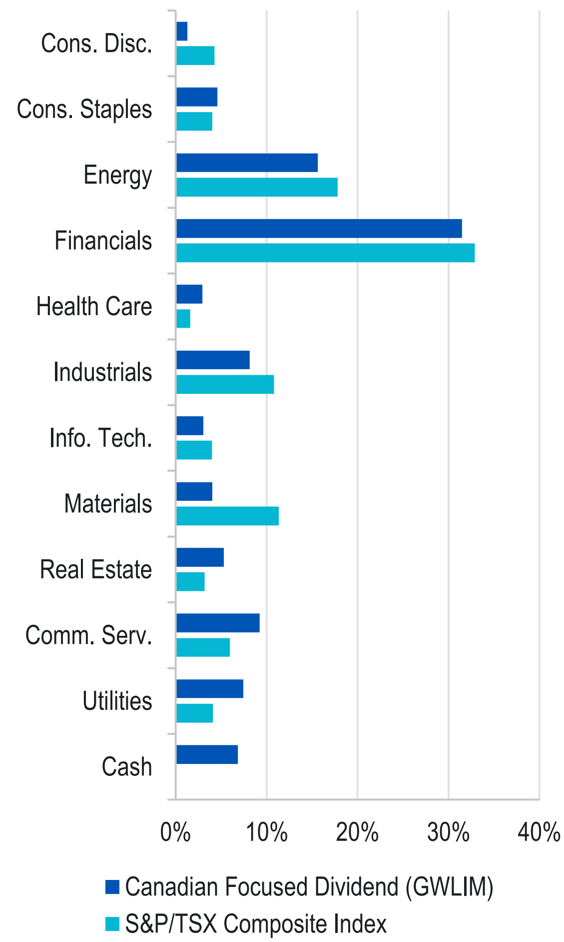
Each division has a distinct investment approach that offers deep expertise within specialized areas of portfolio management, bringing unique perspectives to navigating capital markets through varying cycles.

As at December 31, 2018

Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	70.8	44.7
P/E Curr. Yr. Median	12.9	13.6
P/B Curr. Yr.	1.9	2.0
Div. Yield	4.1	3.6
Annual Div. Mom.	10.4	9.3
Payout Ratio Curr. Yr. Median	44.1	32.4
ROE Trail. 12	13.6	13.0
# of Equity Holdings	75	241
U.S. Equity Weight	8.3	-

Sector Allocation %



Major equity holdings %

Security	Sector	Portfolio Weight[1]
Royal Bank of Canada	Financials	6.1
Toronto-Dominion Bank	Financials	6.0
Bank of Nova Scotia	Financials	4.9
Enbridge Inc	Energy	3.8
Bank of Montreal	Financials	2.8
Manulife Financial Corp	Financials	2.8
Telus Corporation	Communication Services	2.5
Canadian National Railway Co	Industrials	2.3
Rogers Communications Inc	Communication Services	2.3
Suncor Energy Inc	Energy	2.2
Total		**35.7**

Source: GLC, Bloomberg, S&P │1. Fund: LL Canadian Dividend Equity Fund (GWLIM) │2. Index: S&P/TSX Composite Index

Portfolio manager's quarterly commentary

As at December 31, 2018

Market review

The S&P/TSX Composite Index posted a double digit negative return in the fourth quarter, down 10.11% (total return). Concerns of slowing global growth and continued trade tensions between the U.S. and China resulted in a sharp selloff for global equities during the quarter. Volatility was elevated as investors embraced a risk-off stance. The U.S., Mexico and Canada reached a tentative agreement on a revised NAFTA (now called USMCA) but sentiment toward Canadian equities remained depressed. Eight of the 11 sectors finished in the red, with Financials, Energy and Industrials being the main detractors. Share prices for Canadian bank stocks tumbled despite solid company fundamentals and generally healthy quarterly earnings. Oil prices collapsed during the quarter (US WTI oil prices were down 38%) causing continued pressure for Canadian exploration and production (E&P) companies. Canadian heavy oil differentials narrowed significantly but this provided little relief for the sector. The Health Care sector was the worst performing sector, dragged down by weakness from cannabis stocks. The Materials sector was one bright spot, as a flight-to-safety saw gold companies produce strong share price gains. Elsewhere, Communication Services and Consumer Staples were the only other two sectors to finish with positive returns.

Portfolio performance

The fund notably outperformed the S&P/TSX Composite index on a gross return basis for the quarter and remained comfortably ahead of its benchmark for the year. Performance was driven primarily by favorable sector tilts and currency gains. Stock selection was generally good except for the Materials sector, where the large gold weighting in the index benefitted from a late quarter rally. The fund is naturally less exposed to gold stocks given their limited yields and therefore the fund did not benefit from the gold stock rally. The fund's defensive stance with respect to sector allocation, stock selection and cash position was the primary driver of relative outperformance versus the index in Q4.

Portfolio activity

In general, the fund's weightings in defensive sectors rose and cyclical weightings decreased, due more to market movements rather than specific fund changes. The fund has been positioned defensively, reflecting our macro views and valuation concerns. The changes made were primarily stock specific. We eliminated our holdings of Cineplex and enhanced our existing position in Shaw Communications. We reduced our Keyera position and proceeds were used to add to Parkland Fuel, which serves as a partial hedge against ongoing Canadian energy issues. We eliminated our position in Maxar Technologies, as the defense company struggles through a business transition with an elevated debt load. We reallocated weights from Goldcorp into Franco Nevada to maintain gold exposure. We took profits in the banks ahead of earnings, although trough level valuations keep us at a relative overweight in the group. Given the strength in utilities in Q4, we took profits in select names and reallocated into weaker names, such as Northland Power and Brookfield Infrastructure. As a result of eliminating select positions, the fund's cash level increased throughout the quarter.

Positioning & outlook

Heading into 2018, while valuations were elevated, there remained a very bullish investor psychology. What caught people off guard, as is almost always the case, was the rapid breakdown in market internals (psychology) as the year progressed – reaching a fever pitch into year end. Whether it was the latent effects of higher interest rates and inflation, shrinking Fed liquidity, or geopolitical disputes that caused the shift is debatable, but what is clear is that this is end of cycle behavior. So now what? Many stocks are off 20% or more with markets showing some of the worst performance in a decade. Are there opportunities? Absolutely; however, if we now assume that inflation has peaked and the Fed must pause its tightening, the composition of market drivers will likely change too. Key mistakes here could be buying deep cyclicals too early or buying defensives too late. Plus, while short term valuations may appear attractive, full-cycle valuations remain elevated. None of this is easy. This is why we prefer to have a long-term philosophy and a view that does not get swayed by increasingly violent short-term market gyrations. Our previous inclination was to add to defensive names on weakness and sell cyclical strength. While we still broadly ascribe to this view, the massive damage to the markets in Q4 has the potential to drive a sizeable rally on the slightest positive news. In the new year, tactical trading in cyclicals and continued profit taking in defensives may prove prudent.

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