glc asset management

Mid Cap Canadian Equity
GWL Investment Management

Q4 2018

Add diversity and opportunity to your Canadian equity exposure

What's the strategy?

The Mid Cap Canadian Equity (GWLIM) portfolio strategy invests primarily in mid-sized Canadian companies, and to a lesser extent, smaller capitalization Canadian companies with the potential for high growth and long-term capital appreciation.

What's the approach?

It follows a growth-oriented management style that 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, such as having superior management, the flexibility of a small- or mid-cap company to adapt to changing economic conditions, and a competitive product or service advantage relative to industry peers. To a moderate degree, the portfolio manager can invest in U.S. stocks.

Why invest in this portfolio strategy?

Ideal for investors seeking to diversify their Canadian equity exposure with a portfolio of mid- and small-sized Canadian growth equities.

This portfolio can be an excellent diversifier from other core and mainstream Canadian equity portfolios. It tends to hold fewer “big banks” and has a broader opportunity set relative to large-cap Canadian equity portfolios. The Mid Cap Canadian equity (GWLIM) portfolio strategy offers a portfolio of companies with higher growth potential and the opportunity to participate in strong price appreciation at earlier stages of the investment lifecycle, as many mid-cap companies graduate into large-cap companies.

Typical portfolio characteristics

Here is what you can expect to see from the Mid Cap Canadian equity strategy:

- Smaller average cap size than the broad market
- Stronger growth and growth momentum metrics than the broad Canadian market index, the S&P/TSX Composite Index
- The portfolio is well diversified across sectors with exposure to at least 8 of the 11 sectors and an average of 50-90 holdings
- higher volatility than a large-cap core Canadian equity portfolio, but with greater opportunity for growth
- Flexibility to hold up to 30% U.S. mid- to small-cap holdings, which provides the opportunity to add diversification and seek out attractive opportunities often not available in the Canadian market

Strategy snapshot

Asset class
Equity

Inception date
1997

Assets in mandate
$951.6 million

Benchmark
S&P/TSX Completion Index

Investment team
GWL Investment Management

Portfolio manager(s)
Bryan Shearer
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

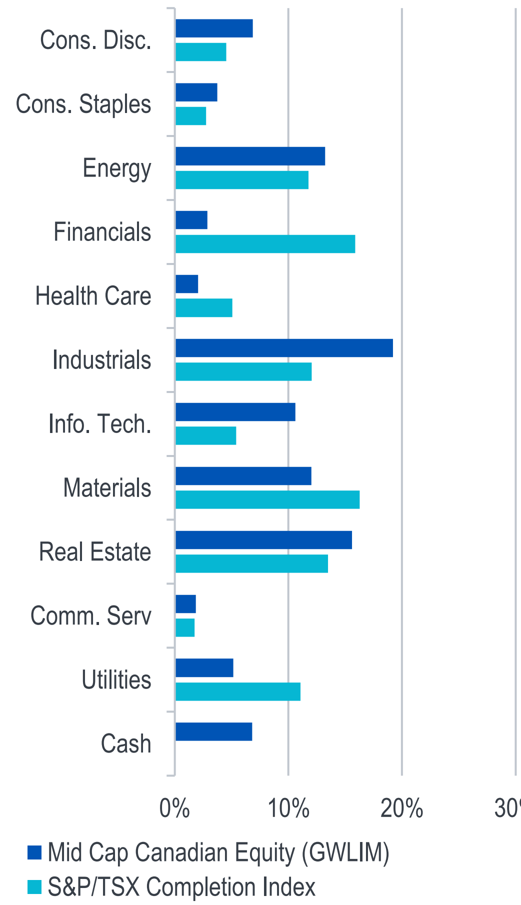
Each division has a distinct investment approach that offers deep expertise within specialized areas of portfolio management, bringing unique perspectives to navigating capital markets through varying cycles.

As at December 31, 2018

Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap. (Cdn Holdings)	2.0	6.9
Market Cap. (US Holdings)[3]	5.9	5.0
P/E Curr. Yr. Median	17.0	16.9
P/B Curr. Yr.	1.8	1.5
EPS Curr. Yr. Median Rev 3M	-7.4	-2.1
Qtly. Earn. Mom.	2.2	-2.8
Div. Yield	3.1	3.7
# of Equity Holdings	56	181
U.S. Equity Weight	11.9	-

Sector Allocation %



Major equity holdings %

Security	Sector	Portfolio Weight[1]
Boyd Group Income Fund	Industrials	6.2
Kinaxis Inc	Information Technology	6.0
Killam Apartment Real Estate Invst Trust	Real Estate	3.7
Morguard Corp	Real Estate	3.5
Aritzia Inc.	Consumer Discretionary	3.3
Winpak Ltd	Materials	3.1
Boralex Inc. Class A	Utilities	3.1
Cyrusone Inc. REIT	Real Estate	2.9
Morneau Shepell Inc.	Industrials	2.9
Industrial Alliance Insur & Finance Serv	Financials	2.9
Total		**37.6**

Source: GLC, Bloomberg, S&P | 1. Fund: LL Mid Cap Canadian Equity Fund (GWLIM) | 2. Index: S&P/TSX Completion Index 3. S&P 400

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.

Small-cap stocks trailed their large-cap counterparts overall. The S&P/TSX Small Cap Index was down 14.4% (total return) for the quarter. The relative underperformance of small cap stocks was largely due to the index's larger exposure to the challenged Energy sector.

Portfolio performance

The fund underperformed the S&P/TSX Completion Index on a gross return basis over the quarter but remained comfortably ahead of its benchmark for the year. Allocation and selection in Materials were a drag on relative performance as gold stocks moved significantly higher into year end, and packaging stocks struggled along with the market. The fund had a few negative stock specific impacts in Zayo Holdings and Kinaxis Inc which underperformed in the quarter, however we fully expect these investments to recover in 2019. The fund benefitted from allocation and stock selection in the Health Care sector, stock selection in the Consumer Discretionary sector, and Cash.

Portfolio activity

In anticipation of further market weakness, we eliminated a few smaller market capitalization names where we felt the value of the company was at risk of significant deterioration as a result of a decline in the underlying assets of the company. As such, we eliminated our holdings in Conifex Timber and Galaxy Digital Holdings.

Positioning & outlook

We remain cautiously optimistic that the US economy continues to trend in a positive direction, however recent actions by the current U.S. administration have made it increasingly difficult to predict short term outcomes. The markets have reacted in a negative way, with many long only investors choosing to avoid the uncertainty of political interference and simply sit on the sidelines, compounding the negative impacts of short sellers and computer-generated trading. In Canada, we are more cautious on growth expectations as it appears to us that the Canadian government has not addressed economic issues such as the strength of the Canadian Energy sector, leading to a lack of confidence in the sector as a whole. While we do believe these effects have the potential to be short term in nature, impacts in the market have been amplified. We continue to hold higher than normal cash levels and continue to seek to insulate the effects of external factors on the Fund as much as possible. On the plus side, many well run companies that exhibit our required characteristics have much improved valuations, opening up the possibility of entering back into these names when we get more comfort with the overall market.
The fund's key overweight's relative to the S&P/TSX Completion Index remain Technology, Industrials, and Communications sectors, while its key under weights are in the Financials, Utilities, and Health Care sectors. The fund's US exposure is 12%.