Taking a socially responsible approach to finding Canadian growth opportunities

What's the strategy?

The SRI Canadian Equity (GWLIM) portfolio strategy invests primarily in medium- to large-cap Canadian stocks with an emphasis on companies showing accelerating revenue and earnings growth, as well as meeting defined environmental sustainability, social responsibility and corporate governance (ESG) criteria.

What's the approach?

It follows a growth-oriented management style that blends top-down macro-analysis with bottom-up fundamental stock research.

All holdings pass specific exclusionary screening criteria related to a company's environmental sustainability, social responsibility and corporate governance (ESG) performance as well as the company's involvement in certain industries, such as manufacturing or distributing tobacco or liquor products, weapons, gaming or pornography.

Within well-defined risk parameters, the portfolio manager seeks out companies across the market cap spectrum, and will take meaningful positions in specific/select companies when opportunities present. To a limited degree, the portfolio manager can invest in U.S. stocks.

Why invest in this portfolio strategy?

Ideal for investors seeking Canadian equity exposure and a meaningful way of ensuring that investment dollars promote a higher level of environmental sustainability, social responsibility and corporate governance, while benefiting from expert investment analysis and the opportunity for strong growth potential over the long-term.

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.

Typical portfolio characteristics

Here is what you can expect to see from the SRI Canadian Equity (GWLIM) portfolio strategy when compared to its peers, or its Canadian benchmark, the S&P/TSX Composite Index:

- All holdings pass screening criteria developed for GLC and Sustainalytics
- Exposure to at least 8 of the 11 sectors, an average of 50-80 holdings, and 0%-30% foreign holdings
- Higher return on equity and stronger growth momentum than its benchmark, the S&P/TSX Composite Index
- Outperformance in rising market conditions and defensive positioning in down market conditions

Strategy snapshot

Asset class
Equity

Inception date
2000

Assets in mandate
$131.9 million

Benchmark
S&P/TSX Composite Index

Investment team
GWL Investment Management

Portfolio manager(s)
Dylan Fricker,
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.

Portfolio attributes

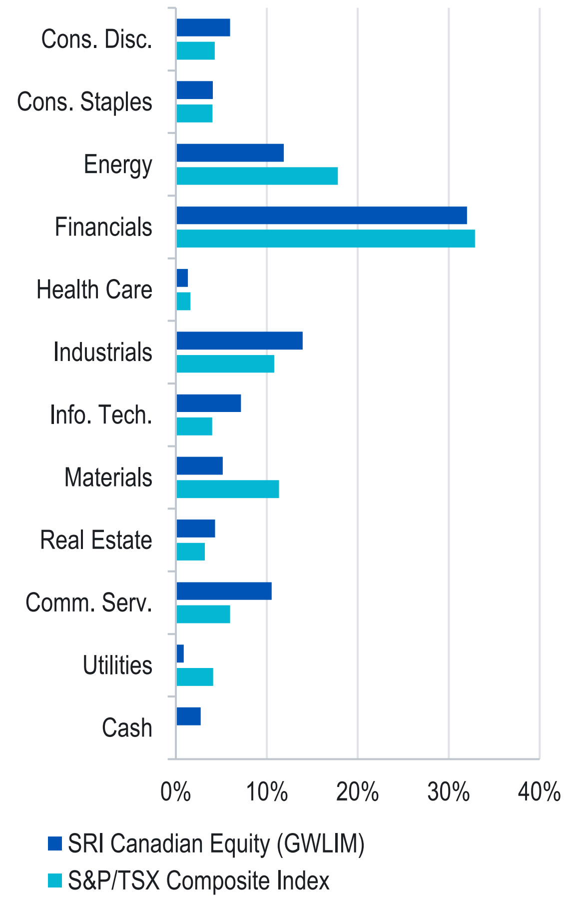
Key attributes	Portfolio[1]	Index[2]
Market Cap.	51.5	44.7
P/E Curr. Yr. Median	13.8	13.6
P/B Curr. Yr.	2.0	2.0
EPS Curr. Yr. Median Rev 3M	2.7	1.8
Qtly. Earn. Mom.	4.4	1.7
Qtly. Sales Mom.	3.7	3.7
Div. Yield	3.0	3.6
# of Equity Holdings	55	241
U.S. Equity Weight	10.6	-

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Toronto-Dominion Bank	Financials	7.9
Royal Bank of Canada	Financials	7.7
Bank of Nova Scotia	Financials	4.8
Canadian National Railway Co	Industrials	3.7
Suncor Energy Inc	Energy	3.6
Boyd Group Income Fund	Industrials	3.2
Bank of Montreal	Financials	3.1
CGI Group Inc	Information Technology	2.8
Brookfield Asset Mgmt A Ltd Voting	Financials	2.7
BCE Inc	Communication Services	2.6
Total		**42.1**

As at December 31, 2018

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL SRI Canadian 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 slightly underperformed the S&P/TSX Composite index during the quarter on a gross return basis but remains comfortably ahead of it's benchmark for the year. During this corrective mode in the market, gold stocks posted strong gains – an area where the portfolio was underweight. Stock selection within Consumer Staples and Utilities was also detrimental to performance. On a positive note, the fund was underweighted the struggling Energy sector, which helped the fund's performance. An underweight position in marijuana related stocks within the Health Care sector was also a positive contributor, as was Cash.

Portfolio activity

We eliminated several portfolio holdings given full valuations, general market concerns, and an on-going strategy to de-risk the portfolio – Onex, New Flyer, Colliers and Jamieson were sold out. Additionally, positions in Manulife, Boyd Group, Canadian Natural, Secure Energy Services, Nuvista, and Kinaxis were trimmed. In their place we added a new holding in Aritzia and added to our holding in Enbridge, BCE, CGI Group, Alimentation Couche-Tarde and Loblaws.

Positioning & outlook

We remain cautious on the outlook for Canadian equities for the next several quarters. Overall, we've continued to shift the portfolio to be more defensive given our view that the economy is moving into a late-cycle phase and we are in the midst of a significant correction in global equity markets. We will continue to seek out compelling growth opportunities - ideally at more favourable multiples in the months ahead. At the end of the reporting period, we remain overweight in key growth sectors: Technology, Industrials, Communication Services and Consumer Discretionary, when compared to the S&P/TSX Composite Index. The fund's key underweights are in the Materials, Health Care and Energy sectors.