A diverse portfolio designed to smooth the ride through Canadian market cycles

What's the strategy?

The Canadian Low Volatility Equity (London Capital) portfolio offers a diversified portfolio of Canadian stocks with lower volatility characteristics. The portfolio is designed to offer a better risk-adjusted return than the market to reduce drawdown experiences over market cycles.

What's the approach?

The portfolio managers pursue a proprietary and systematic approach, benefiting from quantitative-driven analysis to identify stocks with the most attractive combination of stock attributes. Fundamental factor-analysis underpins stock selection and portfolio construction to isolate and capitalize on key drivers of market performance.

The portfolio is well diversified across Canadian sectors, and is a pure Canadian concentrated portfolio of low beta, high-quality stocks.

Why invest in this portfolio strategy?

Ideal for investors seeking exposure to a portfolio of high-quality Canadian companies, yet with the goal to preserve capital in down markets.

This purely Canadian portfolio can offer better risk-adjusted return than the broad Canadian market and reduce drawdown experiences over market cycles – a distinct benefit given the highly cyclical nature of the Canadian market.

Typical portfolio characteristics

Here is what you can expect to see from the Canadian Low Volatility Equity (London Capital) portfolio strategy when compared to its benchmark, the S&P/TSX Composite Index:

- Less volatility, as reflected by a lower standard deviation than the market
- Lower drawdown experience over various market cycles
- Higher running yield than the benchmark
- Valuations in line with the broader market
- Broad sector exposure
- A concentrated pure Canadian portfolio with 30 to 50 low beta, high-quality stocks

Strategy snapshot

Asset class
Equity

Inception date
2016

Assets in mandate
$28.4 million

Benchmark
S&P/TSX Composite Index

Investment team
London Capital Management

Portfolio manager(s)
Robert Lee,
Vice-President, Equities

Pei Li,
Manager, 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

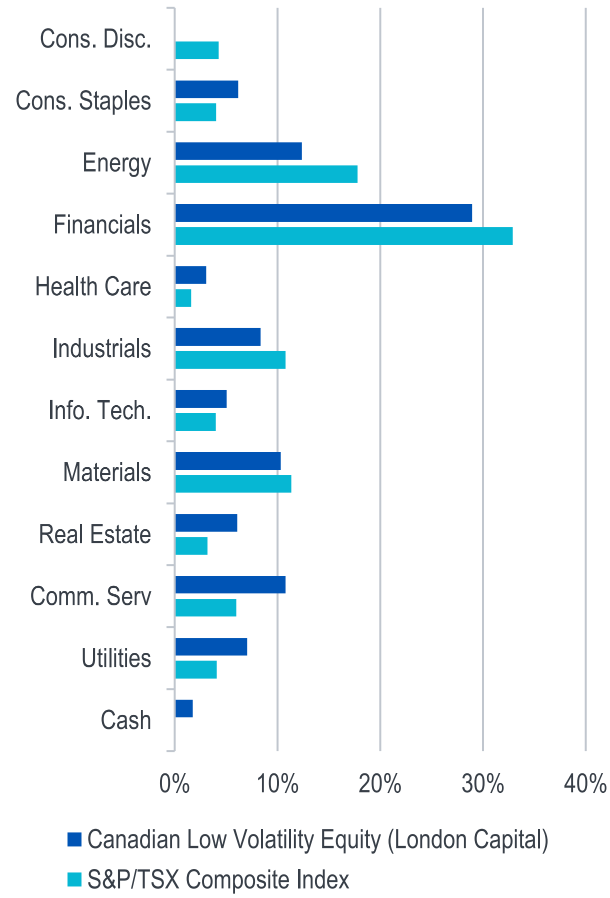
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Sharpe Ratio	-0.1	-1.0
Stand. Dev. (Annualized Returns)	8.4	10.5
Max. Drawdown	-10.0	-16.8
ROE Trail. 12	12.3	13.0
Div. Yield	3.5	3.6
Market Cap.	31.0	44.7
# of Equity Holdings	31	241

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Winpak Ltd	Materials	5.3
CGI Group Inc	Information Technology	5.1
BCE Inc	Communication Services	4.9
Intact Financial Corp	Financials	4.9
Toronto-Dominion Bank	Financials	4.8
Onex Corp	Financials	4.7
Bank of Montreal	Financials	4.6
Royal Bank of Canada	Financials	4.6
Parkland Fuel Corporation	Energy	4.5
Transcanada Corp	Energy	4.5
Total		**48.0**

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL Canadian Low Volatility Fund (LCM) | 2. Index: S&P/TSX Composite Index | 3. Annualized

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

In spite of double-digit negative returns in the Canadian equity market, this fund significantly mitigated the drawdown by outperforming the S&P/TSX Composite by more than 5% on a gross return basis during a volatile quarter across North American markets. The fund also outperformed the S&P/TSX Composite index benchmark as expected by approximately 9% on a gross return basis for the year. Q4 performance was driven by both good sector allocation and strong stock selection, avoiding those stocks hit hardest by the risk-off tone of the markets. In particular, sector overweights in the stronger performing Communication Services, Consumer Staples and Utilities sectors, and an underweight in the poorly performing Energy sector, helped contribute positively to the fund's results. Strong selection and an overweight position in lower beta, more defensive Energy stocks, such as TransCanada and Enbridge Income, contributed positively. Within Utilities, an overweight position in Emera helped stock gains on the back of a better-than-expected Q3 result. Quebecor holdings within Communication Services helped too – the stock was up ~10%, driven by a bottom line that exceeded expectations. Additionally, strong selection within the Health Care also provided a partial positive offset compared to the benchmark.

Portfolio activity

The fund's focus is on finding low-volatility stocks through a highly disciplined investment process designed to outperform over the long term. This rigorous back-testing process tends to result in a selection of high-quality, mature large-cap stocks. The portfolio activity during any given quarter is an outcome of this disciplined stock selection and risk-mitigating process.

As such, we added Osisko Gold Royalties to our existing gold weight within the Materials sector (gold companies are known to perform well during risk-off market conditions as investors flock to the safe-haven qualities of gold bullion). We also created a new position in the Forest Products space via Stella-Jones. During a brief period during the quarter, we held Inter Pipeline (Energy sector) based on the company's early quarter performance and its volatility ranking compared to the fund's other holdings. As the markets shifted significantly during the quarter, Canadian Imperial Bank of Commerce within Financials became more attractive and was added to the fund. Lastly, by adding Morneau Shepell to the Industrials sector portion of the portfolio, we believe we'll add positively to the low-volatility complexion of the fund.

We closed a Utilities sector position in Boralex. As the information technology sector significantly destabilized with sharp repricing, Descartes Systems was sold from the Information Technology sector and NFI Group was eliminated from Industrials.

Positioning & outlook

It is for these difficult to navigate times with large intraday high to low swings and declining asset prices that the Canadian Low Volatility Equity mandate was designed to outperform and deliver significant risk-mitigating value to investors. While it's difficult to predict what 2019 will bring, at this point in time, it's reasonable to expect volatility will remain elevated as the market attempts to discount global trade, a tightening Fed, political gridlock and slowing growth. Regardless of the outcome, we'll continue to remain disciplined to our process of selecting the best portfolio of risk-adjusted low-volatility stocks. It is this focus on low-volatility stock metrics and risk mitigation that leads us to currently overweight positions in Communication Services, Utilities, Real Estate, Consumer Staples, Health Care and Information Technology sectors where we are finding attractive stocks with good risk-adjusted return outlooks, and hold an underweight position in Energy, Consumer Discretionary, Financials, Industrials and Materials sectors where we are currently finding fewer attractive stock opportunities.