glc asset management

U.S. Large Cap Growth Equity

London Capital Management

Q4 2018

Benefit from a portfolio that offers large-cap stocks in some of America's best companies

What's the strategy?

The U.S. Large Cap Growth Equity (London Capital) portfolio strategy invests primarily in large-cap U.S. stocks with above-average growth potential to achieve long-term capital appreciation.

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 growth attributes. Fundamental factor-analysis underpin stock selection and portfolio construction to isolate and capitalize on key drivers of market performance.

It's a systematic method designed to deliver strong, long-term, risk-adjusted returns through a transparent and repeatable process.

Why invest in this portfolio strategy?

Ideal for investors seeking exposure to a wide spectrum of growth opportunities in U.S. equities.

This growth-style portfolio strategy focuses on some of America's strongest and most established companies that can deliver strong earnings growth and returns over the long-term. An emphasis is placed on companies that exhibit accelerating revenue and earnings growth.

The portfolio is well diversified across sectors and offers a portfolio of companies with higher growth potential than the broad market.

This is a diversified U.S. equity portfolio that tends to have lower volatility than a U.S. small- or mid-cap portfolio.

Typical portfolio characteristics

Here is what you can expect to see from the U.S. Large Cap Growth Equity (London Capital) portfolio strategy when compared to its peers, or its U.S. benchmark, the S&P 500 Index:

- Stronger growth and growth momentum attributes versus the S&P 500 Index
- Higher expected earnings growth than the benchmark and above average return on equity versus the benchmark
- Good diversification through an average of 50-100 holdings

Strategy snapshot

Asset class
Equity

Inception date
1983

Assets in mandate
$724.5 million

Benchmark
S&P 500 Index

Investment team
London Capital Management

Portfolio manager(s)
Brenda Nicholls,
Vice-President, Equities

Martin Rose,
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

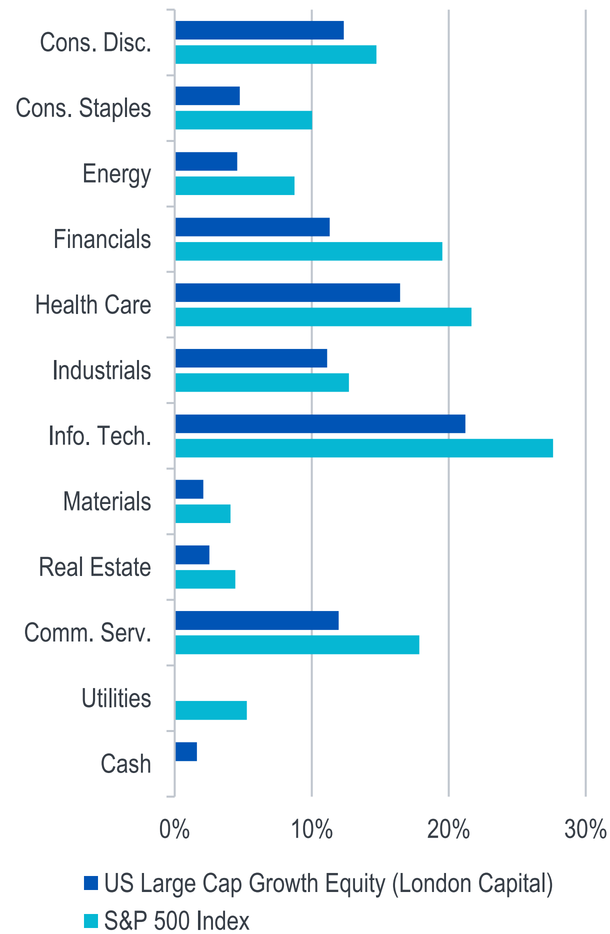
Key attributes	Portfolio[1]	Index[2]
Market Cap.	127.6	201.2
P/E Curr. Yr. Median	19.3	15.4
P/B Curr. Yr.	6.0	4.8
Qtly. Earn. Mom.	6.9	7.3
Annual Earn. Mom.	37.6	31.1
Sales Geo. Growth 5Y	10.1	6.7
ROE Trail. 12	34.2	25.1
Div. Yield	1.5	2.2
# of Equity Holdings	70	505

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Facebook Inc.	Communication Services	3.1
Mastercard Inc Cl A	Information Technology	3.1
The Progressive Corp.	Financials	2.9
The Boeing Co.	Industrials	2.9
Adobe Inc.	Information Technology	2.9
S&P Global Inc.	Financials	2.8
Comcast Corp. Class A	Communication Services	2.6
Hp Inc.	Information Technology	2.6
Southwest Airlines Co.	Industrials	2.5
Unitedhealth Group Inc.	Health Care	2.3
Total		**27.6**

Source: GLC, Bloomberg, S&P | 1. Fund: LL U.S. Equity Fund (LCM) | 2. Index: S&P 500 Index

Sector Allocation %



Portfolio manager's quarterly commentary

As at December 31, 2018

Market review

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. The S&P 500 narrowly averted entering 'bear market' territory in December, with a peak-to-trough decline of 19.78%. The index finished the quarter down 13% in U.S. dollar terms (-8.2% in Canadian dollar returns, total return), the worst quarterly return since 2011, and pushed the index into the red for 2018. In December, the U.S. Federal Reserve hiked interest rates for the fourth time in 2018, which acted as additional headwind for equity valuations. Bond yields generally moved lower, and the defensive Utilities sector was the only one to post a positive return, up 0.5% for the quarter (price return). Information Technology was the biggest detractor, showing signs of weakness following a sustained period of outperformance. The five FAANG stocks (Facebook, Amazon, Apple, Netflix and Google) experienced drawdowns on average of 36%. The tech-heavy Nasdaq Index entered 'bear market' territory in December. Energy was the worst performing sector, weighed down by a collapse in oil prices during the quarter (U.S. WTI oil prices were down 38%). From a style perspective, value outperformed growth.

Portfolio performance

The fund underperformed the S&P 500 in the fourth quarter as investors searched for refuge, primarily in defensive areas of the market. An underweight position in the Consumer Staples and Utilities sectors contributed to the fund lagging behind its S&P 500 benchmark. Align Technology holdings within the Health Care sector detracted performance through outsized negative alpha as a subpar earnings report triggered investor fears of slowing rates of future growth. Nvidia Corp and Micron Technologies continued to be challenging underperformers in the Technology sector as concerns regarding future revenue growth and earnings raised questions around the price investors are willing to pay for those earnings. Despite the market downturn in December, Burlington Store and Autozone Inc posted positive returns to be the quarter’s bright spots.

Portfolio activity

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Positioning & outlook

Economic growth in the U.S. continues to decelerate from its unsustainably strong performance of the second quarter. Ongoing trade and tariff tensions continue to weigh on market sentiment. The Federal Reserve raised rates once again in the fourth quarter while the market tried to adjust to normalizing monetary policy and shrinking central bank liquidity. Slowing global growth, particularly in China, is also weighing on the market. A flattening yield curve and ongoing political acrimony, particularly now that the Democrats have taken charge in the House, round out the list of top concerns. On the bright side, expectations for revenues and earnings have been reset, as have market multiples. In context of historical averages, the market has corrected mostly in price, if not in time. We believe an ongoing focus on quality companies with solid growth potential should prove to be the long-term winning strategy, in spite of bouts of market indigestion, such as we’ve experienced this recent quarter.
When compared to the S&P 500 index, the fund is overweight in the Consumer Discretionary and Industrials sectors while being underweight in the Utilities and Consumer Staples sectors.