Grow your portfolio with some of America's best companies

What's the strategy?

The U.S. Mid Cap (London Capital) portfolio strategy invests mainly in small to mid-cap U.S. publicly-traded companies 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 attributes. The portfolio manager seeks the flexibility of a small- or mid-cap company (ranging in size between US$1 and US$10 billion in market capitalization) to adapt to changing economic conditions, and a competitive product or service advantage relative to industry peers. Fundamental factor-analysis underpins 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 to diversify their U.S. equity holdings with a portfolio of mid-sized U.S. companies.

This portfolio can be an excellent diversifier from other core and large-cap U.S. portfolio strategies, and tends to hold stocks not typically held within large-cap U.S. portfolios.

It 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.

Mid-cap companies tend to have smaller overseas exposure than their large-cap peers, allowing them to perform better when the U.S. economy is outperforming its global peers.

Typical portfolio characteristics

Here is what you can expect to see from the U.S. Mid Cap (London Capital) portfolio strategy compared to core U.S. equity funds or a broad U.S. benchmark like the S&P 500 Index:

- Smaller average cap size than the S&P 500 Index, but generally in line with the S&P 400 Index
- Well diversified across sectors with an average of 50-100 holdings
- Stronger growth and growth momentum attributes than the S&P 400 Index
- Higher volatility than a core U.S. equity portfolio, but with greater opportunity for growth

Strategy snapshot

Asset class
Equity

Inception date
2000

Assets in mandate
$131.9 million

Benchmark
S&P Mid Cap 400 Index

Investment team
London Capital Management

Portfolio manager(s)
Brenda Nicholls
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

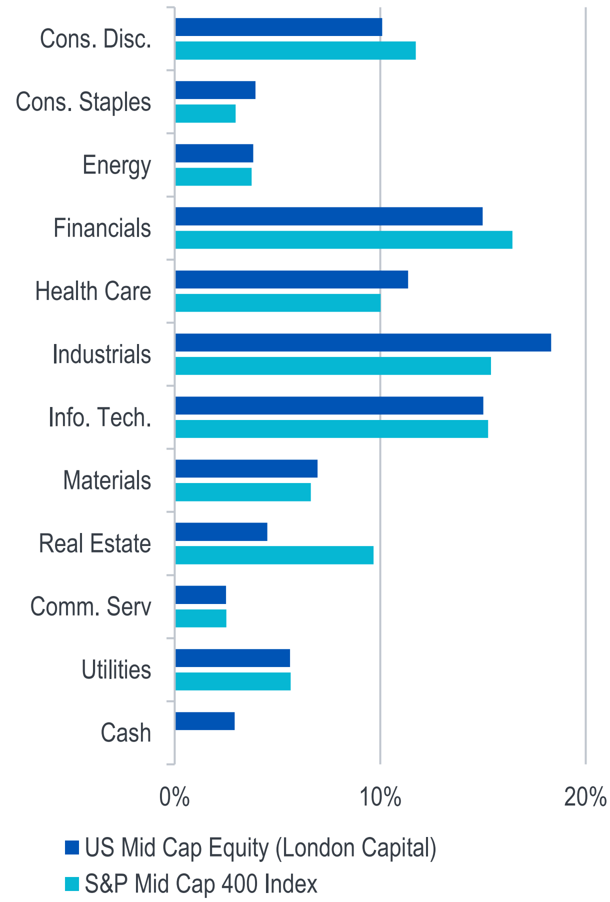
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	6.1	5.0
P/E Curr. Yr. Median	17.0	14.8
P/B Curr. Yr.	4.1	2.6
Qtly. Earn. Mom.	6.5	5.7
Annual Earn. Mom.	40.2	32.1
Sales Geo. Growth 5Y	9.2	7.7
ROE Trail. 12	29.8	16.1
Div. Yield	2.0	2.3
# of Equity Holdings	70	400

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Fair Issac Corp.	Information Technology	3.0
Factset Research Systems Inc.	Financials	2.7
The Toro Co	Industrials	2.6
Graco Inc.	Industrials	2.6
Old Dominion Freight Line Inc.	Industrials	2.6
UGI Corp.	Utilities	2.6
Chemed Corp.	Health Care	2.6
Maximus Inc.	Information Technology	2.5
Pool Corp.	Consumer Discretionary	2.5
Reinsurance Group of America	Financials	2.5
Total		**26.3**

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL U.S. Mid Cap Fund (LCM) | 2. Index: S&P Mid Cap 400 Index

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.

U.S. small caps and mid caps underperformed relative to their large cap counterparts with small caps suffering most. Small caps had been outperforming on a YTD basis previously, but were hit hardest during the broad risk-off environment that defined much of the fourth quarter. The S&P 400 returned -17.3% USD during the quarter.

Portfolio performance

The fund outperformed the benchmark S&P 400 over the quarter with stock selection in the Industrials and Energy sectors contributing to performance. Steel Dynamics in Materials, and Thor Industries and Penn National Gaming in Consumer Discretionary detracted from overall performance as a negative offset.

Portfolio activity

We pursue a highly disciplined investment process for this fund that seeks out mid-cap equity stocks in the U.S. that feature an attractive combination of growth attributes. The fund’s position became marginally more defensive during the quarter. We added holdings to the Utilities and Consumer Staples sectors, still taking care to focus on more growth-focused candidates within the groups. We added Able One Inc. cable company to Communication Services and reduced our position in Consumer Discretionary, specifically the Homebuilding sub-group, in retailer Carter’s Inc. Our banking weight within the Financials sectors came down as marginal costs of deposits are negatively impacting profit margins in that arena.

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 400 Index, the fund is overweight in the Health Care, Industrials and Consumer Staples sectors and underweight in Real Estate and Consumer Discretionary.