glc asset management

U.S. Value Equity Strategy
London Capital Management

Q4 2018

Benefit from a focus on U.S. companies that are attractively priced and poised to grow

What's the strategy?

The U.S. Value Equity (London Capital) portfolio strategy invests in U.S. stocks that are undervalued compared to the overall market and the stock's peer group and/or the company's historical average.

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 value attributes. 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 exposure to high-quality U.S. companies that possess a combination of attributes that are value-oriented and exhibit signs of a strong catalyst for future growth and stock appreciation.

This value-style portfolio offers exposure to U.S. large-cap companies with attractive valuation and attributes that point to improving momentum in fundamentals with the potential to lead to outperformance.

This portfolio benefits from London Capital's proprietary bottom-up quantitative-driven analysis that isolates the portfolio's holdings to only those stocks with the desired combination of attributes. It's a transparent and repeatable approach that capitalizes on key drivers of stock performance.

Typical portfolio characteristics

Here is what you can expect to see from the U.S. Value Equity (London Capital) portfolio strategy when compared to the S&P 500 Value Index or a broad U.S. benchmark like the S&P 500 Index:

- Lower price to earnings ratio (i.e. attractive stock values)
- Strong cash flow to debt ratio (i.e. signs of improving earnings expectations and strong financial stability)
- Equally weighted holdings in a non-benchmark relative portfolio that tends to result in a lower market cap than the S&P 500 Index or S&P 500 Value Index
- Good diversification across the S&P 500 sectors

Strategy snapshot

Asset class
Equity

Inception date
1998

Assets in mandate
$1,138.8 million

Benchmark
S&P 500 Value 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

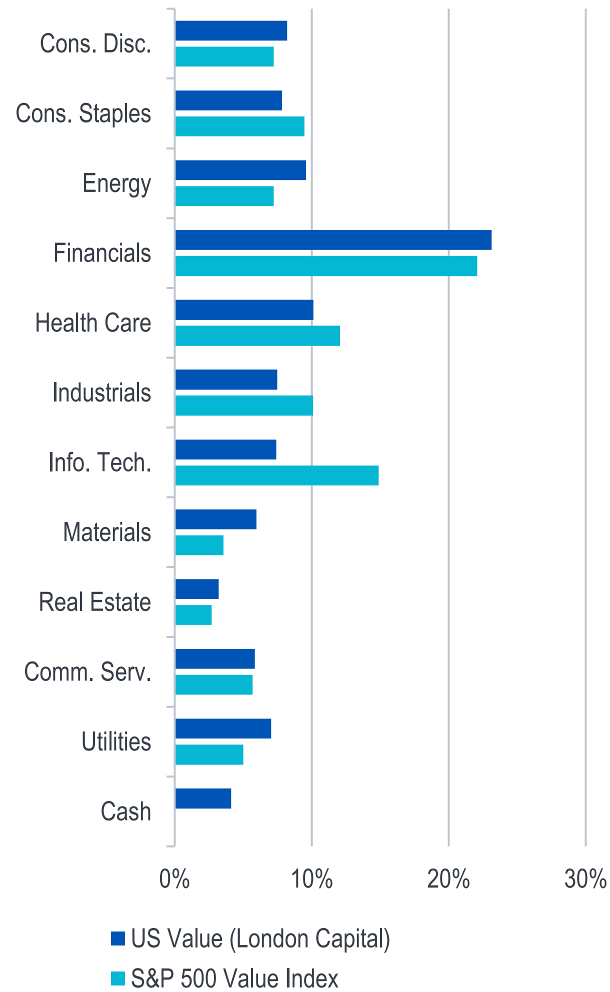
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	71.5	154.4
P/E Curr. Yr. Median	10.3	12.6
P/Cash Flow Trail. 12	7.1	10.9
P/B Curr. Yr.	1.6	2.7
EPS Curr. Yr. Median Rev 3M	1.3	1.4
ROE Trail. 12	18.5	23.0
Cash Flow to Debt	0.1	0.2
Div. Yield	3.5	2.8
# of Equity Holdings	60	384

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Verizon Communication Inc	Communication Services	2.3
Intel Corp.	Information Technology	2.2
Aflac Inc.	Financials	2.2
AT&T Inc.	Communication Services	2.1
Exelon Corp.	Utilities	2.1
General Motors Co.	Consumer Discretionary	2.0
United Continental Holdings Inc	Industrials	2.0
JPMorgan Chase & Co	Financials	2.0
Morgan Stanley	Financials	2.0
PhilliPS 66	Energy	2.0
Total		**20.9**

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL U.S. Value Equity Fund (LCM) | 2. Index: S&P 500 Value 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. The S&P 500 Value index returned 12% in U.S. dollar terms during the quarter.

Portfolio performance

During the fourth quarter of 2018, the fund modestly lagged the S&P 500 Value Index, but the value-style of this fund helped it to slightly outperformed the broad-based S&P 500 index. Sector underweights in the Consumer Staples and Communication Services sectors detracted from performance while an underweight in Energy allocations provided a partial offset. The fund's overweight selection of Brighthouse Financial reduced performance when the stock's value dropped due to company sensitivity toward the risk-off tone of equity market investors and falling interest rates. These factors increased fears the company's longer-term capital return plans would be difficult to achieve. Within the Consumer Staples sector, not owning Proctor and Gamble was a detriment as the stock was up over 10% after the company reported its largest growth in five years driven by top-line revenue. Good stock selection with an overweight position in PulteGroup and General Motors within the Consumer Discretionary sector was a positive performance offset. PulteGroup had a strong quarter after exceeding revenue expectations. General Motors outperformed after management outlined their cost-cutting program and a plan to realign the company for a future with a greater number of purely electric vehicles.

Portfolio activity

We added Invesco Ltd and Brighthouse Financial within our Financials holdings. In the Information Technology sector, we purchased Hewlett Packard and initiated a new Industrials position in Quanta Services. We added Kimco Realty to the Real Estate sector and purchased H&R Block within Consumer Discretionary. Lastly, PPL Corp was purchased in Utilities and Allergan was added to Health Care holdings.

Western Digital and Cisco Systems were sold out the Information Technology sector. Two holdings within Industrials were sold Boeing and Eaton Corp. Positions in American International Group, Travelers Company and Goldman Sachs were all closed from the Financials sector. Lastly, Public Service Enterprise was sold out of Utilities.

Positioning & outlook

Given the significant price declines and apparent re-rating of future risk by the market, it seems reasonable that the opportunity for real value has been created. Therefore, the incentive for long-term investors to shift from a decade of growth bias toward value has materially increased. Better monetary and trade policy could lead to multiple expansion in 2019 and could provide the catalyst for our universe of value stocks to outperform. Although we're in volatile and uncertain times, we remain disciplined in our process to find the best risk-adjusted portfolio of high-quality value stocks. When investor sentiment changes toward value, this fund will be well positioned to benefit! In line with the focus on high-quality value stocks, the fund is currently overweight in the Materials, Utilities, Financials, Consumer Discretionary and Communication Services sectors where we are finding stocks with the most appealing combination of quality and value characteristics. The fund is currently underweight in Real Estate, Industrials, Healthcare and Consumer Staples where we are currently seeing fewer opportunities for strong, risk-adjusted returns.