Investing in companies that participate in infrastructure opportunities around the world

What's the strategy?

The Global Infrastructure Equity (London Capital) portfolio strategy invests in domestic and global securities that directly or indirectly benefit from the development, maintenance, service and management of infrastructure with the aim of achieving long-term capital appreciation. This strategy focuses on attractive income-yielding stocks whose dividend income could enhance portfolio returns, primarily within 3 major sectors – energy, industrials and utilities.

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 holdings are equally weighted, making the portfolio non-benchmark relative.

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?

The Global Infrastructure Equity (London Capital) portfolio is ideal for investors seeking exposure to global infrastructure opportunities with longer term growth potential.

This unique portfolio offers:

- the opportunity to benefit from global infrastructure spending and opportunities through infrastructure-related companies
- broad diversification across all major regions of the world, with emphasis on developed countries, but with exposure to emerging countries
- exposure to dividend-paying equities, focused around three major sectors (energy, industrials, utilities)
- a low correlation to other asset classes and the potential to reduce volatility when it is added to a diversified equity portfolio
- access to leading companies from around the world
- a highly liquid investment vehicle

Typical portfolio characteristics

Here is what you can expect to see from the Global Infrastructure Equity (London Capital) portfolio strategy when compared to its peers, or its benchmark, the S&P Global Infrastructure Index:

- Lower price per earnings (i.e. valuation) with a higher dividend yield
- An average of 70-90 holdings
- Globally invested portfolio that can hold up to 30% in cash when a relatively low number of stocks rank well

Strategy snapshot

Asset class
Equity

Inception date
2009

Assets in mandate
$669.4 million

Benchmark
S&P Global Infrastructure 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

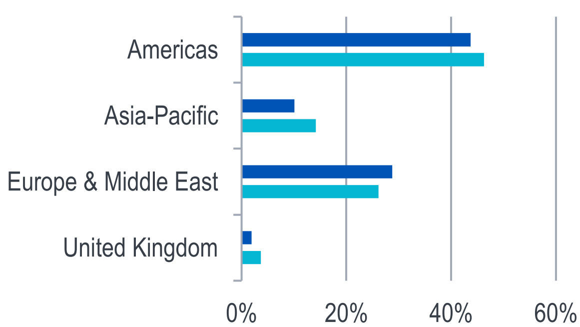
Key attributes	Portfolio[1]	Index[2]
Market Cap.	31.3	37.8
P/B Curr. Yr.	2.0	2.2
P/E Curr. Yr. Median	16.8	16.8
Div. Yield	4.6	4.5
Annual Div. Mom.	15.5	15.1
Debt to Capital	0.5	0.5
ROE Trail. 12	12.0	11.8
# of Equity Holdings	86	75

Major equity holdings %

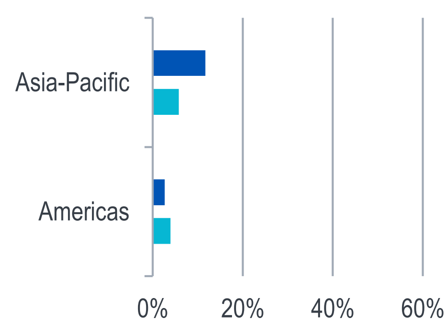
Security	Country	Sector	Portfolio Weight[1]
Atlantia SPA	Italy	Industrials	4.3
Transurban Group Stapled Securities	Australia	Industrials	4.0
Exelon Corp.	United States	Utilities	3.7
Aena SM	Spain	Industrials	3.6
Enbridge Inc	Canada	Energy	3.3
Nextera Energy Inc.	United States	Utilities	3.2
Auckland International Airport Ltd.	New Zealand	Industrials	3.1
Kinder Morgan Inc.	United States	Energy	3.0
Enel SPA	Italy	Utilities	2.9
Sempra Energy	United States	Utilities	2.8
Total			**33.8**

Regional Allocation %

Developed Markets

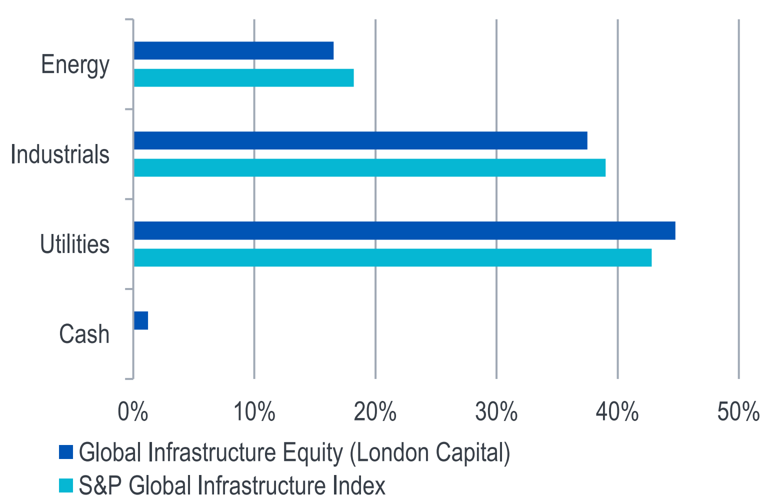


Emerging Markets



Cash 1.21%

Sector Allocation %



Source: GLC, S&P | 1. Fund: LL Global Infrastructure Equity Fund (LCM) | 2. Index: S&P Global Infrastructure 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 MSCI World (Net) Index for global equities fell 13.4% in U.S. dollar terms (-8.5% in Canadian dollar terms, total return). Technology stocks weighed on U.S. equity markets, with the sector showing signs of weakness following a sustained period of outperformance. Energy was another notable detractor, with producers suffering from a 38% collapse in U.S. WTI oil prices during the period. Signs of waning economic momentum and continued political tensions in Europe weighed on European equity markets. Disagreements over a proposed Italian budget highlighted the challenges in the region. The coalition government eventually ceded ground on fiscal policy in order to appease European Union guidelines. Elsewhere, Germany's Angela Merkel announced she would not seek re-election following the loss of key political support while French president Emmanuel Macron was confronted with protests as he struggled to follow through on his reform program. Britain and the European Union made progress in their negotiations but an array of possible Brexit outcomes remained on the table as 2018 drew to a close. Japanese equities couldn't escape the global equity selloff and finished at the bottom of the pack amongst developed markets. The Japanese Yen strengthened during the global risk-off period, which hampered Japanese equities. Emerging markets continued to struggle, weighed down by trade uncertainty and continued U.S. dollar strength. The MSCI Emerging Markets Index (EM), having entered 'bear market' territory in the prior quarter, fell 7.5% in U.S. dollar terms (total return) in the fourth quarter. Information Technology stocks were a notable area of weakness within the MSCI EM Index. The S&P/TSX Composite posted a double digit negative return in the fourth quarter, down 10.11% (total return). The U.S., Mexico and Canada reached a tentative agreement on a revised NAFTA (now called USMCA) but sentiment toward Canadian equities remained depressed. The S&P Global Infrastructure index managed a slight positive return for the quarter of 0.25%.

Portfolio performance

Despite a volatile December, the portfolio posted a positive return and managed to outperform its S&P Global Infrastructure index on a gross return basis for the quarter. From a country perspective, in spite of Italy's political issues, the country's infrastructure-related stocks performed well and our overweight position to Italy contributed positively to the fund's returns. Good stock selection in China also benefited the fund's relative performance.

From a sector perspective, strong selection with the Industrial sector helped returns. Mexican Industrials were the top contributors while American Utilities (PG&E Corporation) and Energy (Overseas ShipHolding Group) were top detractors for the period as they both got swept up in the risk-off sentiment of the markets.

Portfolio activity

This fund pursues a highly disciplined investment process focused on high-quality infrastructure related companies with an attractive combination of quality, yield and valuation metrics. With an eye-toward risk mitigation through good diversification, stock selection tends to drive sector and country over- and underweight positions. The result is a portfolio of high-quality stocks with an attractive overall yield that we believe can outperform on a long-term risk-adjusted basis. During the past quarter, the portfolio's top weights were in the United States (36.6%), Italy (13.6%) and China (11.7%) and the breakdown by sector included a modest overweight in Utilities stocks relative to the benchmark, followed by a slight underweight in the Industrial and Energy stocks. From a country perspective, during the quarter we trimmed the fund's exposure to U.S. and Canada and increased exposures to countries like France and Spain.

Positioning & outlook

Despite near-term market fluctuations, we believe this portfolio is well-positioned. The fund remains focused on holding dividend-paying global infrastructure securities with relatively attractive valuations, selected through a disciplined quantitative factor-based investment approach.

Overall, from a country perspective, the fund cut its overweight position in the U.S. and Canada, while added weights in France and the U.S. From a sector perspective, the fund has a bias towards the Industrials sector where we are finding the most attractive opportunities versus the Energy and Utilities sectors.