A concentrated portfolio of attractively priced large-cap Canadian companies held for their high-quality characteristics.

What's the strategy?

The Canadian Concentrated Value Equity (Laketon) portfolio invests primarily in large-cap Canadian companies priced below their intrinsic value given their long-term opportunities for growth.

The portfolio manager applies a deep fundamental analysis approach to stock selection. The process begins with industry-specific quantitative screens, re-drawing the universe to create a subset of companies with attractive valuations. Rigorous fundamental analysis and due diligence on each company ensues. The portfolio is constructed to capture opportunities that are mispriced or not yet priced into the market, while managing both company-specific and portfolio risks. Typical portfolio characteristics include lower valuation, higher quality, and solid earnings prospects compared to the broad Canadian market as measured by the S&P/TSX Composite Index.

This strategy seeks out under-valued companies that are well-managed with strong balance sheets and have the potential to achieve long-term capital appreciation.

What's the approach?

Laketon applies proprietary criteria to focus stock selection on opportunities not yet priced into the market. We do deep dive analysis on companies and take meaningful positions in large cap companies we believe are poised to outperform.

Laketon's dynamic financial models and deep dive analysis into companies seeks to capture opportunities and manage risks that are mispriced or not yet priced into the market. It's a deep fundamental analysis approach to stock selection that results in concentrated portfolios of large cap stocks.

Why invest in this portfolio strategy?

Ideal for investors seeking exposure to high quality Canadian equities that may have been overlooked by the market and offer long-term opportunities for growth.

The Canadian Concentrated Value Equity (Laketon) portfolio strategy offers Canadian equity exposure in a diversified portfolio across sectors.

It's a concentrated portfolio of high quality companies added to the portfolio at attractive values and strong potential for capital appreciation

Typical portfolio characteristics

- Lower valuation, higher quality and solid earnings
- Exposure to at least 7 of the 11 industry sectors
- An average of 35 to 45 holdings
- Pure Canadian equity exposure, avoiding foreign currency risk

Strategy snapshot

Asset class
Equity

Inception date
1961

Assets in mandate
$2,399.3 million

Benchmark
S&P/TSX Composite Index

Investment team
GWL Investment Management

Portfolio manager(s)
Ryan Marcy
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

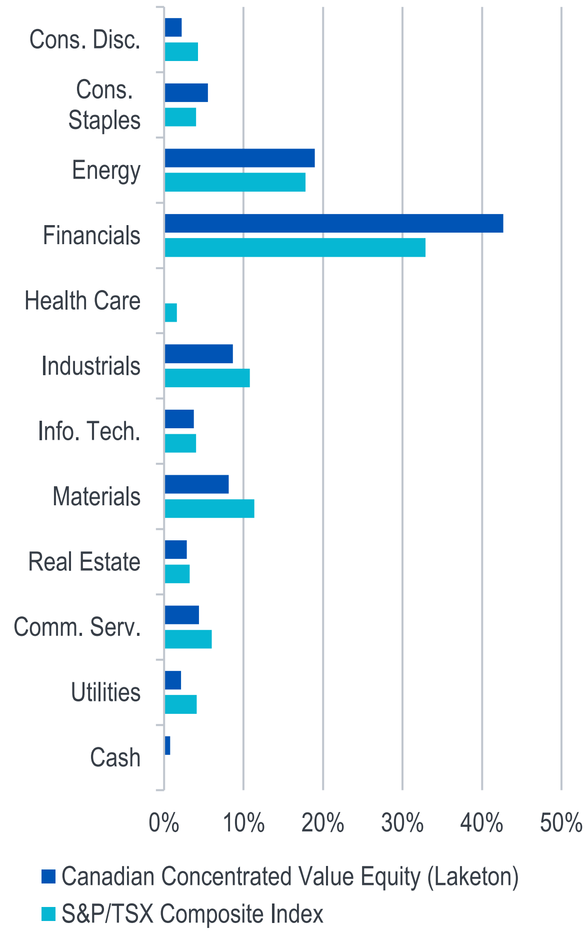
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	52.2	44.7
P/E Curr. Yr. Median	12.0	13.6
P/B Curr. Yr.	1.8	2.0
P/Cash Flow Trail. 12	9.8	11.0
Enterprise Value/EBITDA	10.9	12.3
Annual Earn. Mom.	20.3	18.7
Debt to Equity	1.5	1.6
ROE Trail. 12	13.6	13.0
Div. Yield	3.6	3.6
# of Equity Holdings	38	241

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Toronto-Dominion Bank	Financials	7.8
Bank of Nova Scotia	Financials	7.0
Royal Bank of Canada	Financials	6.3
Enbridge Inc	Energy	4.7
Suncor Energy Inc	Energy	4.4
Brookfield Asset Mgmt A Ltd Voting	Financials	4.0
Bank of Montreal	Financials	3.9
Manulife Financial Corp	Financials	3.6
Transcanada Corp	Energy	3.5
Canadian Imperial Bank of Commerce	Financials	3.5
Total		**48.8**

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL Canadian Equity Value Fund (Laketon) | 2. Index: S&P/TSX Composite Index

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 (U.S. 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. The MSCI Canadian Value Index slightly underperformed the S&P/TSX Composite Index with a return of -10.50%.

Portfolio performance

The fund performed roughly inline with but slightly short of the broader S&P/TSX Composite Index, and slightly ahead of its narrower MSCI Canadian Value Index benchmark, on a gross return basis for the quarter. Under the surface, there were several positive and negative contributors. Performance was helped by strong selection in Utilities (owning Fortis), Real Estate (owning H&R and RioCan) and Information Technology (owning CGI Group versus Blackberry). The fund benefitted from its overweight exposure to Consumer Staples and was helped by selection within that sector (owning Loblaw). The fund's zero weight exposure to Health Care also helped performance, as marijuana producers stumbled. In a reversal of the prior quarter, negative stock selection and underweight allocation in the Materials sector was one of the main headwinds for the fund. The fund's overweight position in fertilizer producer Nutrien weighed down performance, as did being underweight in the gold and precious metal group, which rallied as the market retreated. Selection in Industrials also negatively impacted performance from owning Finning and New Flyer versus Thomson Reuters.

Portfolio activity

There were only a handful of changes on the margin during Q4 2018. The fund moved from a slight overweight to an underweight position in the Communication Services sector (formerly Telecommunications), locking in gains by selling its position in Telus (partially offset by increasing exposure to Shaw and Rogers). The fund also continued to lower its exposure to the Industrials sector, locking in gains from CN Rail and reducing exposure to New Flyer on the back of deteriorating fundamentals. Proceeds were used to increase exposure to other holdings in various sectors, including Energy, which came under substantial pressure during the quarter as both oil prices and Canadian oil price differentials weakened. The fund increased its exposure to selected holdings in Financials (Onex), Information Technology (Open Text) and Materials (Nutrien) – all high-quality companies that struggled during the quarter due to various macro and company-specific issues.

Positioning & outlook

Our general outlook for the Canadian equity markets remains positive. We continue to see the potential for positive earnings growth in 2019, though we recognize that existing Wall Street estimates will likely be revised lower over the next one to two quarters. Despite overly optimistic Wall Street earning per share estimates, overall market valuation for the S&P/TSX Composite has become increasingly attractive, with the Canadian market trading at discounted multiples relative to both historical levels and U.S. and global peers. We continue to monitor several key market variables that have the potential to impact the outlook for Canadian companies moving forward, including the evolution of trade policies, monetary policy progression and OPEC+ decisions, among others. Beyond broader macro crosswinds, Canada (and Canadian equities) have faced specific risks, which continue to evolve, including: Canadian oil and natural gas pricing differentials; the impact of changes to mortgage regulation/rising interest rates on the Canadian consumer; and, USMCA (former NAFTA) progression. Nevertheless, we continue to believe that, as time progresses, these Canadian-specific issues will clear up, making Canadian equities more attractive.

The portfolio is fully invested at quarter-end, with exposure to 10 of 11 GICS sectors. We remain focused on finding high-quality companies that are temporarily priced below their intrinsic value (due to transitory or other issues), and have long-term opportunities for growth. We hold an overweight bias towards the Financials, Energy and Consumer Staples sectors – ones where we see considerable valuation upside in the Canadian market. The fund has an underweight bias to the Materials, Industrials, Consumer Discretionary and Utilities sectors.