Combination of steady dividend income and capital growth

What's the strategy?

The Canadian Concentrated Pure Dividend (Laketon) portfolio invests primarily in Canadian dividend-paying equities with attractive dividend yields, and to a lesser extent may hold preferred shares. This strategy seeks to achieve a steady stream of income-generation with the potential for long-term capital appreciation.

What's the approach?

The portfolio manager applies a deep fundamental analysis approach to stock selection and focuses on positive return generation in up markets and capital preservation in down markets. Using dynamic and proprietary financial models along with deep dive analysis into companies, the portfolio manager seeks to capture opportunities and manage risks that are mispriced or not yet priced into the market.

This is a pure Canadian exposure portfolio strategy that results in a concentrated portfolio of large-cap dividend-paying stocks with strong potential for capital appreciation and the benefit of compounding dividends over time.

Why invest in this portfolio strategy?

Ideal for investors seeking exposure to large-cap pure Canadian equity portfolio of high quality dividend-paying stocks that offer the potential for attractive long-term capital appreciation and the benefits of compounding dividend income over time.

Typical portfolio characteristics

Here is what you can expect to see from the Canadian Concentrated Pure Dividend (Laketon) portfolio when compared to its peers, or its Canadian benchmark, the S&P/TSX Composite Index:

- Dividend income to help cushion returns in volatile equity markets
- Pure Canadian equity exposure
- A concentrated portfolio with an average of 25-45 holdings across at least 7 of the 11 sectors
- An attractive risk/return profile versus most Canadian equity strategies
- A track record of historically lower volatility when compared to its benchmark and a tendency to outperform in down markets
- Lower valuation metrics (i.e.price per earnings) and a higher dividend yield than the broad Canadian market
- Core holdings 80%, opportunistic/trading 20%

Strategy snapshot

Asset class
Equity

Inception date
1985

Assets in mandate
$2,428.2 million

Benchmark
S&P/TSX Composite Index

Investment team
Laketon Investment Management

Portfolio manager(s)
Bradford Cann
Senior Vice-President, Equities

GLC Asset Management Group Ltd.

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

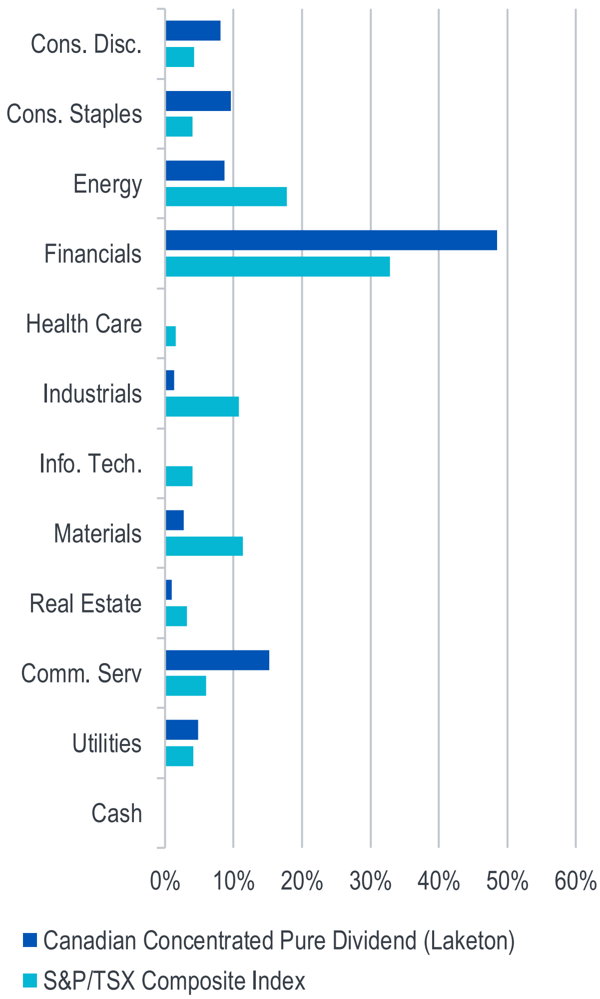
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
P/E Curr. Yr. Median	10.5	13.6
P/E Trail. 12	11.2	15.6
P/Cash Flow Trail. 12	8.6	11.0
Div. Yield	4.3	3.6
Payout Ratio Curr. Yr. Median	41.1	32.4
Debt to Equity	1.8	1.6
Market Cap.	54.0	44.7
# of Equity Holdings	32	241

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Royal Bank of Canada	Financials	8.9
Toronto-Dominion Bank	Financials	8.3
Bank of Nova Scotia	Financials	8.0
BCE Inc	Communication Services	7.7
Bank of Montreal	Financials	6.8
Magna International Inc	Consumer Discretionary	6.7
Canadian Imperial Bank of Commerce	Financials	6.5
Suncor Energy Inc	Energy	4.6
Telus Corporation	Communication Services	4.3
National Bank of Canada	Financials	3.4
Total		**65.3**

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: CL - Enhanced Dividend 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.

Portfolio performance

While the absolute returns for the market and the fund were weak in the quarter, the fund experienced strong relative performance versus its S&P/TSX Composite Index, highlighting the defensive characteristics of the portfolio. Outperformance was helped by our overweight allocation to Consumer Staples and the renamed Communication Services (formerly Telecommunications) sectors, due to a rotation into more stable parts of the market. Our underweight positioning in the Industrials and Information Technology sectors also contributed to positive relative performance. Performance was hurt by an overweight allocation to Financials, as well as stock selection in the Energy sector. Our top stock contributors to performance in the quarter were BCE, Saputo, Rogers, Fortis and Loblaws. Our top detractors to performance were Vermillion, BMO, Suncor and Crescent Point.

Portfolio activity

We exited our position in Imperial Oil during the quarter because it reached the upper end of our valuation range. We believe the integrated nature of its energy operations were receiving close to the maximum benefit for this cycle, given relative low Canadian crude oil prices. No new positions were added and no other notable adjustments were made to any of our current holdings (low turnover is one of the trademarks of the Enhanced Dividend fund).

Positioning & outlook

Portfolio positioning remains consistent with last quarter, with overweight allocations to Financials, Communication Services and Consumer Staples. Given how late we are in the market cycle, we're comfortable maintaining a somewhat defensive stance into 2019 and are content with the earnings stability of most of our underlying stock holdings. We remain neutral-to-underweight in the interest rate-sensitive sectors: Utilities, Real Estate and the Energy Infrastructure sub-sectors, due to their heightened potential for valuation contraction. Our large underweight position in Energy reflects our zero weighting in Energy Infrastructure, while we are market weight the E&P sub-sector, with a bias towards higher-quality and larger-cap energy producers that have more diversified and stable asset bases. Headlines around trade and rate policy will continue to generate volatility in the market on a short-term basis. Nevertheless, our overall focus remains longer term in nature. We continue to invest in companies that can maintain and grow their dividends, exhibit high quality earnings through different parts of the cycle, have proven management teams and possess strong balance sheets.