

A concentrated portfolio of large cap growth companies

What's the strategy?

The Canadian Concentrated Growth Equity (Laketon) portfolio strategy invests primarily in large-cap Canadian equities with a focus on capital growth over the long-term.

What's the approach?

The portfolio manager applies a deep fundamental analysis approach to stock selection and focuses on companies with strong business models, sustainable competitive advantages, proven management teams and a track record for generating return-on capital well in excess of their cost of capital.

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.

The portfolio manager has the flexibility to invest in U.S. stocks within specified limits to add diversification and seek out attractive opportunities often not available in the Canadian market.

Why invest in this portfolio strategy?

Ideal for investors seeking exposure to a concentrated portfolio of growth-oriented Canadian equities with strong potential for capital appreciation over the long-term.

The Canadian Concentrated Growth Equity (Laketon) portfolio strategy is actively managed and offers a concentrated portfolio of high quality, large-cap stocks that are broadly diversified across sectors.

Typical portfolio characteristics

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

- Higher return-on-invested-capital attributes
- Higher growth metrics
- Higher reinvestment rate and lower dividend yield
- Concentrated portfolio, of typically 25-45 holdings
- Higher active share ratios
- Flexibility to hold U.S. stocks (up to 10%) to seek out attractive stock opportunities

Strategy snapshot

Asset class

Equity

Inception date

1985

Assets in mandate

\$2,119.5 million

Benchmark

S&P/TSX Composite Index

Investment team

Laketon Investment Management

Portfolio manager(s)

Ben Fawcett,
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.

Portfolio attributes

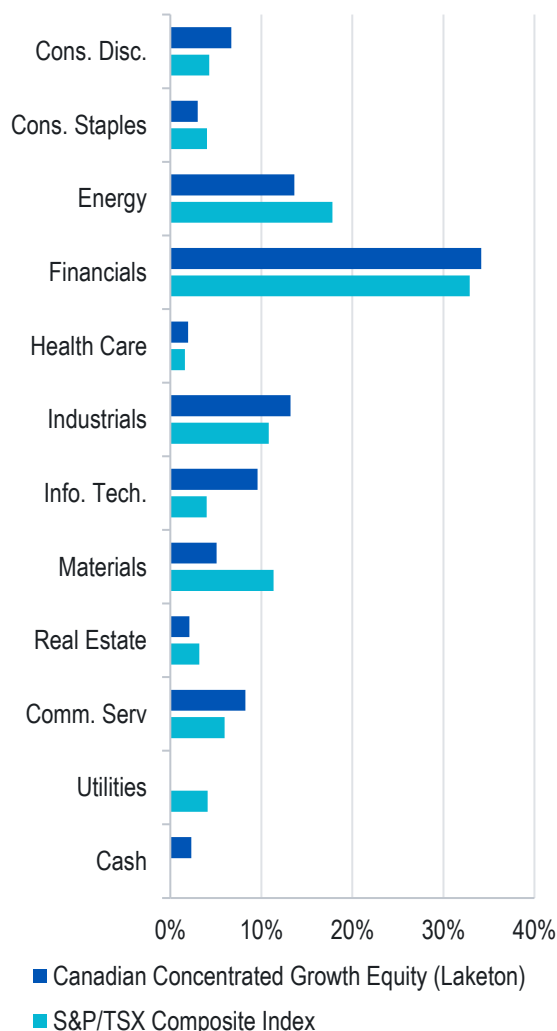
Key attributes	Portfolio ¹	Broad Index ²
ROE Trail. 12	16.8	13.0
EPS Curr. Yr. Median Reinvest. Rate	10.9	7.1
Annual Earn. Mom.	22.7	18.7
Qtly. Earn. Mom.	3.5	1.7
Qtly. Sales Mom.	3.6	3.7
Div. Yield	3.1	3.6
P/E Curr. Yr. Median	16.2	13.6
Market Cap.	91.9	44.7
# of Equity Holdings	40	241
U.S. Equity Weight	8.8	-

Major equity holdings %

Security	Sector	Portfolio Weight ¹
Royal Bank of Canada	Financials	8.6
Toronto-Dominion Bank	Financials	8.4
Bank of Nova Scotia	Financials	6.6
Rogers Communications Inc	Communication Services	4.4
Brookfield Asset Mgmt A Ltd Voting	Financials	4.1
CP Railway Ltd	Industrials	4.0
Suncor Energy Inc	Energy	3.5
CGI Group Inc	Information Technology	3.4
Waste Connections, Inc.	Industrials	3.2
Canadian Natural Resources Ltd	Energy	3.2
Total		49.2

As at December 31, 2018

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL Canadian Growth Equity 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 (US 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

Overall, the fund performed in line with its benchmark on a gross return basis in Q4, 2018, but with North American stock markets falling more than 10% this quarter, many of the portfolio's high-quality growth stocks were able to demonstrate their defensive characteristics. During the initial pullback in October, the portfolio underperformed as investors 'took profits' from many of the market leaders we held. However, as a deeper fear started to permeate the market in November and December, companies with robust business models and bullet-proof balance sheets – the type of long-term investments we prefer – outperformed. In particular, proven stocks, such as CGI and Microsoft, made the IT sector one of the strongest during the quarter. Likewise, the defensive characteristics of Waste Connections and Ritchie Brothers, coupled with stock specific catalysts at Air Canada, propelled the fund's holdings within the Industrials sector to a strong relative showing. Finally, the fund's Health Care stocks made a strong relative contribution due to the collapse in the marijuana-related stocks we've shunned. The fund's Energy and Materials stocks and sector positioning proved to be the greatest detractors to the portfolio's performance this quarter. Encana, whose share price was cut in half after announcing that it was acquiring Newfield Exploration, accounted for much of the underperformance in the group. Further, our large underweight in the outperforming energy pipeline companies also impacted overall Energy sector performance. Our large underweight in gold stocks hurt the fund's performance in the Materials sector as they were strong relative outperformers (up more than 25% versus the S&P TSX) in the weak market.

Portfolio activity

With many market signals now flashing amber, we made a number of adjustments to the portfolio – trimming stocks with higher market beta and adding to more defensive names.

Specifically, we sold most of our position in Home Depot and initiated a position in Johnston and Johnston. While we're big fans of Home Depot's management team and business, there's no denying they've benefited from the strong U.S. recovery. From a growth perspective, with few opportunities for Home Depot to grow its store count or to further improve margins, the stock has become highly reliant on driving more and more business through each store – something that will become challenging during a consumer/ construction slowdown.

We also trimmed (though remain fully committed to) some of our longer-term positions in the Consumer Discretionary, Financial and IT sectors and redeployed the proceeds into more defensive names, such as our recently initiated position in Shaw Communications.

Positioning & outlook

During the past three months, we've witnessed the U.S. markets catch-up (and in some cases, exceed) the weakness experienced in global markets throughout the year. The 2017 theme of global synchronous growth receded as European and Asian economies slowed in 2018, while the U.S. economy has been one of the remaining few holdouts. Since the great recession, corporate balance sheets have continued to deteriorate despite record levels of corporate profitability. The key question in our minds for 2019 relates to the degree to which U.S. and Global markets can withstand rising rates and Central Bank de-levering (something we see as necessary) without causing a broader collapse in sentiment and economic growth.

We continue to remain concerned about Canada's longer-term competitive positioning versus the U.S. and high levels of consumer debt. We are particularly focussed on some of the Canadian financial services equities such as the bank stocks. Headline growth for the banks still looks solid and valuations are below long-run averages; however, we are increasingly concerned by the state of the Canadian consumer and their ability to keep spending should the domestic housing market continue to soften.

Despite near-term volatility, we continue to focus and position for the longer run where we believe owning a diverse group of high-quality growth stocks will generate strong returns. The mandate holds companies that generate value-enhancing return on capital, are backed by strong secular themes with below average cyclical exposure and have strong balance

sheets. As we navigate these volatile markets, we continue to diligently review the portfolio to ensure our investments are of a high quality, have strong long-term growth prospects and can weather ongoing market weakness.

At the end of the period, we continue to maintain an overweight bias towards the Technology, Consumer Discretionary and Communication sectors and an underweight bias towards Energy Infrastructure, Materials and Utilities sectors.

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