Focused on quality, consistent dividend income and long-term dividend growth potential

What's the strategy?

The Canadian Focused Dividend (GWLIM) portfolio strategy invests mainly in Canadian stocks with attractive dividend yields and strong potential for dividend growth along with the ability to achieve long-term capital appreciation.

What's the approach?

It blends top-down macro-analysis with bottom-up fundamental stock research. The portfolio manager seeks to identify industry risks, competitive opportunities and macro trends to influence sector allocations. This is done alongside disciplined fundamental research to identify companies that are positioned to deliver strong results. To a limited degree, the portfolio manager can invest in U.S. stocks.

Why invest in this portfolio strategy?

Ideal for investors seeking exposure to Canadian equities, with a bias towards companies that have history of paying and growing their dividends over time.

This income-focused portfolio is well diversified across sectors. It offers a portfolio of dividend-paying stocks with a focus on positive return generation in up markets and capital preservation in down markets. When compared to its benchmark, the S&P/TSX Composite index, the portfolio has historically had a lower volatility, a higher dividend yield, and an attractive valuation measure.

The portfolio has the flexibility to hold U.S. stocks, which provides the opportunity to add diversification and seek out attractive opportunities often not available in the Canadian market.

This is a diversified Canadian equity portfolio that tends to have an attractive risk/return profile versus most Canadian equity strategies.

Typical portfolio characteristics

Here is what you can expect to see from the GWLIM dividend equity strategy when compared to its peers, or its Canadian benchmark:

- An attractive price per earnings (i.e. valuation)
- Exposure to at least 8 of the 11 sectors
- An average of 50-80 holdings
- 0%-30% foreign holdings

Strategy snapshot

Asset class
Equity

Inception date
1985

Assets in mandate
$4,405.3 million

Benchmark
S&P/TSX Composite Index

Investment team
GWL Investment Management

Portfolio manager(s)
Clayton Bittner,
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.

Portfolio attributes

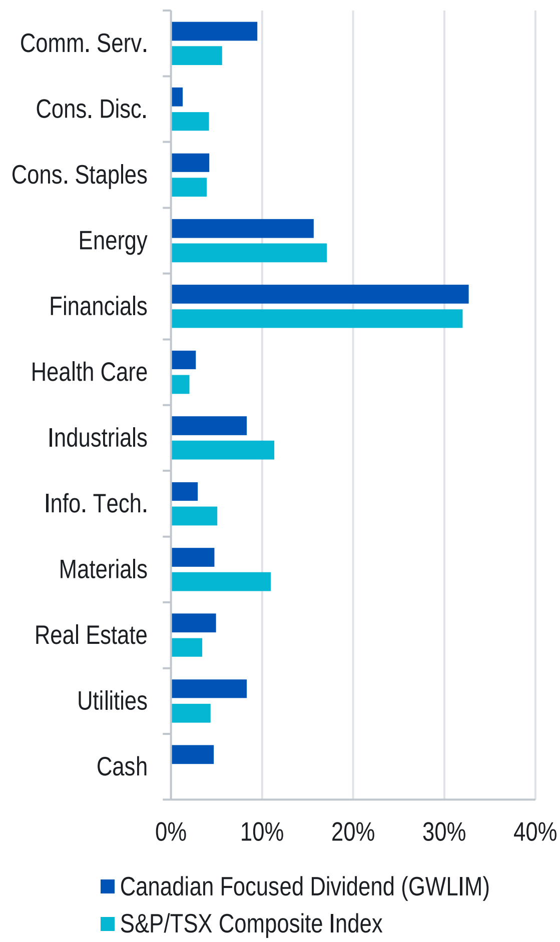
Key attributes	Portfolio[1]	Index[2]
Market Cap.	82.0	50.5
P/E Curr. Yr. Median	14.9	15.1
P/B Curr. Yr.	2.1	2.5
Div. Yield	3.7	3.3
Annual Div. Mom.	10.0	12.3
Payout Ratio Curr. Yr. Median	46.4	33.8
ROE Trail. 12	15.2	14.8
# of Equity Holdings	71	239
U.S. Equity Weight	7.3	-

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Royal Bank of Canada	Financials	6.6
Toronto-Dominion Bank	Financials	6.1
Bank of Nova Scotia	Financials	4.8
Enbridge Inc	Energy	3.7
Manulife Financial Corp	Financials	3.4
Brookfield Asset Mgmt A Ltd Voting	Financials	2.7
Bank of Montreal	Financials	2.6
Canadian National Railway Co	Industrials	2.4
Telus Corporation	Communication Services	2.4
Suncor Energy Inc	Energy	2.3
Total		37.1

As at June 28, 2019

Sector Allocation %



Sources: GLC, Bloomberg, S&P │1. Fund: LL Dividend Fund (GWLIM) │2. Index: S&P/TSX Composite Index

Portfolio manager's quarterly commentary

As at June 28, 2019

Market review

World equity markets produced modest positive returns in the second quarter of 2019. Stocks were supported by dovish central banks and falling interest rates. With inflation remaining contained, markets are pricing in rate cuts from the U.S. Federal Reserve over the coming months due to continued trade tensions and decelerating economic growth. Equity markets ebbed and flowed with trade developments –particularly evident during May when markets sold off after U.S.-China trade talks broke down. The S&P/TSX Composite Index returned 2.6% (total return) in the second quarter. Information Technology was the top performing sector in Canada, largely due to very strong returns from Shopify. The heavyweight Financials sector outperformed the broad market despite another mixed earnings season from the Canadian banks. The Materials sector, under pressure for much of the quarter, bounced back following a June rally in gold stocks. Gold prices spiked higher on the prospect of lower policy rates in the U.S. and continued geopolitical tensions. Health

Care was the worst performing sector, primarily due to a pull-back in cannabis stocks. The Energy sector also underperformed, with exploration and production companies suffering from weaker oil and gas prices.

Portfolio performance

After a very strong start to the year, the fund posted modest positive returns in the second quarter that underperformed the broader market (represented by the S&P/TSX Composite Index) – a continued reflection of the fund's lower-risk approach relative to the market. While markets initially weakened due to rising trade tensions and deteriorating economic data, they rebounded sharply in June, once again sparked by the U.S. Federal Reserve's dovish comments. The move lower in treasury yields helped our interest-sensitive exposure, and it propelled investors' risk appetite even more, driving markets to new highs in June. In addition, continued weakness in the U.S. dollar was a drag on the fund's U.S. equity exposure and contributed to a rally in deeply cycling gold stocks, to which the fund is under exposed. Due to the fund's elevated cash position and defensive positioning, and with limited exposure to cyclical areas of the market, allocation to the Technology, Materials and Industrials sectors was a drag on returns.

Portfolio activity

Fed rhetoric and the anticipation of liquidity drove the market in Q2. Economic data, which had already been weakening, continued to worsen as trade tensions picked up. Earnings expectations continued to fall, and rates plummeted as fixed-income investors reflected on the weaker data. While the Fed provided "verbal reassurance" to the market, they've not made any explicit changes to the Fed Funds rate since they hiked rates last December. Although equities appear willing to look beyond any signs of trouble in favour of speculation, the data suggests otherwise. Consequently, our strategy remained unchanged in Q2, particularly with respect to sector exposure. We modestly shifted from REITs to Utilities and added incrementally to our gold exposure. We selectively reduced Telco weights to add Zayo in consideration of a special M&A situation. We eliminated CES Energy given ongoing Canadian egress difficulties in the Energy sector and eliminated Russell Metals within Industrials. While inexpensive, it is direct exposure to both the Canadian energy space and trade tensions, so we reallocated into Toromont. This is a high-quality name that normally trades rich but sold off on a rare weak quarter. In the Technology sector, we eliminated two holdings: a very small position in Apple (after the shares began pricing out the potential risks of trade-related supply chain disruption and Chinese consumer blowback on Apple products); and Cognizant, after a very weak quarter. This is a cash-rich name with a strong history of growth, which we bought at a discount after signs of a setback in their Financial vertical and sold after the quarter revealed the problem to be more pervasive.

Positioning & outlook

The second quarter featured another correction – this time a mini version of last year's swoon. While last year's market correction was based on concerns relating to the impact of rising rates, this time the issue was rising trade tensions. In both these instances of market correction, economic data has been quietly deteriorating behind the scenes. Notwithstanding this reality, both last year's and this year's snap-back rallies were central bank induced, based on hope and faith that liquidity can save the day. This remains to be seen, but what is far more likely is the return of volatility – an unintended consequence of ongoing Fed experiments. The "Fed Put" has dangerously emboldened investors once again, making markets ignorant to why the Fed has changed its tone so dramatically. We believe the Fed's change in stance reflects end of cycle behaviour. At this point, whether markets are rising or falling, performance should be driven primarily by non-cyclical names, and safe, attractive yields are paramount once again. In the context of the current economy, we remain unapologetically defensive. Relative to the index, we are overweight the Utilities, Communication Services, Real Estate, Consumer Staples and Health Care sectors in addition to cash. We are underweight in the Materials, Energy, Industrials, Consumer Discretionary and Technology sectors.