Add diversity and opportunity to your Canadian equity exposure

What's the strategy?

The Mid Cap Canadian Equity (GWLIM) portfolio strategy invests primarily in mid-sized Canadian companies, and to a lesser extent, smaller capitalization Canadian companies with the potential for high growth and long-term capital appreciation.

What's the approach?

It follows a growth-oriented management style that 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, such as having superior management, the flexibility of a small- or mid-cap company to adapt to changing economic conditions, and a competitive product or service advantage relative to industry peers.

Why invest in this portfolio strategy?

This portfolio can be an excellent diversifier from other core and mainstream Canadian equity portfolios. It tends to hold fewer "big banks" and has a broader opportunity set relative to large-cap Canadian equity portfolios. This portfolio strategy offers a portfolio of companies with higher growth potential and the opportunity to participate in strong price appreciation at earlier stages of the investment lifecycle, as many mid-cap companies graduate into large-cap companies.

Typical portfolio characteristics

Here is what you can expect to see from the Mid Cap Canadian equity strategy:

- Stronger growth and growth momentum metrics than the broad Canadian market index, the S&P/TSX Composite Index. Higher volatility than a large-cap core Canadian equity portfolio, but with greater opportunity for growth
- Good diversification: exposure to at least 8 of the 11 sectors and an average of 50-90 holdings. Flexibility to hold up to 30% U.S. mid- to small-cap holdings, which provides the opportunity to add diversification and seek out attractive opportunities often not available in the Canadian market

Strategy snapshot

Asset class
Equity

Inception date
1997

Assets in mandate
$1,054.4 million

Benchmark
S&P/TSX Completion Index

Investment team
GWL Investment Management

Portfolio manager(s)
Bryan Shearer
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

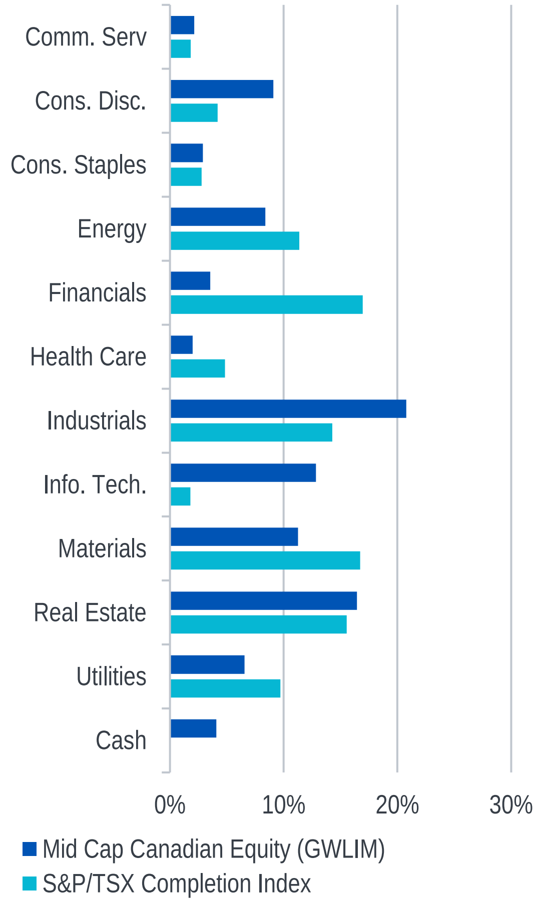
Each division has a distinct investment approach that offers deep expertise within specialized areas of portfolio management, bringing unique perspectives to navigating capital markets through varying cycles.

As at June 28, 2019

Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap. (Cdn Holdings)	2.5	6.8
Market Cap. (US Holdings)[3]	7.2	6.0
P/E Curr. Yr. Median	23.4	17.3
P/B Curr. Yr.	2.2	1.4
EPS Curr. Yr. Median Rev 3M	-6.0	0.7
Qtly. Earn. Mom.	7.2	7.3
Div. Yield	2.1	3.2
# of Equity Holdings	55	179
U.S. Equity Weight	11.6	-

Sector Allocation %



Major equity holdings %

Security	Sector	Portfolio Weight[1]
Boyd Group Income Fund	Industrials	7.7
Kinaxis Inc	Information Technology	7.2
Killam Apartment Real Estate Invst Trust	Real Estate	4.3
Boralex Inc. Class A	Utilities	4.0
Morguard Corp	Real Estate	3.6
Aritzia Inc.	Consumer Discretionary	3.6
Ia Financial Corporation Inc.	Financials	3.5
Morneau Shepell Inc.	Industrials	3.3
Intertape Polymer Group Inc	Materials	3.3
Winpak Ltd	Materials	2.7
Total		43.4

Source: GLC, Bloomberg, S&P │1. Fund: LL Mid Cap Canadian Equity Fund (GWLIM) │2. Index: S&P/TSX Completion Index 3. S&P 400

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. The S&P/TSC Completion Index returned 1.24%. Canadian small-cap stocks trailed their large-cap counterparts. The S&P/TSX Small

Cap Index was down 0.3% (total return) for the quarter largely due to weaker returns from small-cap energy names. Weak sentiment toward the Energy sector hit small and intermediate oil and gas producers hardest as investors favoured more defensive, larger-cap names.

Portfolio performance

The fund significantly outperformed the S&P/TSX Completion Index with a strong single-digital return in a volatile quarter, allowing the fund to almost close the gap with the S&P/TSX Completion Index on a YTD basis. Many of our largest holdings produced strong returns on the back of solid financial reporting; for example Boyd Income Group (currently 7.7% of the fund) was up 20% in the quarter after reporting quarterly results that exceeded expectations. On a sector basis, some of our greatest returns were realized in Communications Services, with a U.S. holding, Zayo Holdings, finally receiving a long-awaited take-out offer. The Information Technology sector was also a strong contributor to quarterly fund performance, with our holdings in Lightspeed up 60%. As expected, the Energy sector gave back most of its Q1 gains, justifying our underweight and defensive positioning in the sector. The sector was the largest negative influence on the S&P/TSX Completion Index during the quarter.

Portfolio activity

Portfolio activity was fairly muted throughout the quarter. We took the opportunity to reduce select positions with stretched valuations and were also able to redeploy the capital back into owned names that had been previously reduced on valuation concerns but had now come back to more reasonable levels. We added one new name during the quarter: North American Energy Partners (NOA) that participates in the heavy earth moving business in the oil sands and in various large infrastructure projects across Canada and North Dakota. We did not eliminate any names.

Positioning & outlook

We continue to remain moderately defensive, retaining our underweight positioning in the Energy sector as well as the Metals sub-sector of Materials. On a relative basis, we continue to believe the U.S. economy will outperform Canada; however, political decisions in both countries are impeding economic improvement. In the U.S., ongoing trade relations with China are starting to impede economic growth and influence the messaging from the Fed. It’s possible the market could see a strong near-term bounce if both countries come to an agreement on trade but we’d likely use this rally as an opportunity to trim holdings and raise cash. We believe the trade war has caused a significant amount of damage and will compound the negative effects of a late economic cycle. In Canada, we continue to be more cautious than most on growth expectations. The Canadian government does not appear to have the will to address serious domestic economic issues, such as the poor structural state of the Canadian Energy sector, elevated pricing levels in the Canadian housing market and record household debt-to-income levels. Our cash levels fell to a more normal level during the quarter. Our patience paid off when many overpriced stocks corrected back to more realistic levels, allowing us to reinvest in quality, well-run names. The fund is overweight, relative to the S&P/TSX Completion Index, in the Information Technology, Industrials and Communication Services sectors, while it is underweight in the Financials, Utilities and Health Care sectors. The fund’s U.S. exposure is 12%.