Taking a socially responsible approach to finding Canadian growth opportunities

What's the strategy?

The SRI Canadian Equity (GWLIM) portfolio strategy invests primarily in medium- to large-cap Canadian stocks with an emphasis on companies showing accelerating revenue and earnings growth, as well as meeting defined environmental sustainability, social responsibility and corporate governance (ESG) criteria.

What's the approach?

It follows a growth-oriented management style that blends top-down macro-analysis with bottom-up fundamental stock research.

All holdings pass specific exclusionary screening criteria related to a company's environmental sustainability, social responsibility and corporate governance (ESG) performance as well as the company's involvement in certain industries, such as manufacturing or distributing tobacco or liquor products, weapons, gaming or pornography.

Within well-defined risk parameters, the portfolio manager seeks out companies across the market cap spectrum, and will take meaningful positions in specific/select companies when opportunities present. To a limited degree, the portfolio manager can invest in U.S. stocks.

Why invest in this portfolio strategy?

Ideal for investors seeking Canadian equity exposure and a meaningful way of ensuring that investment dollars promote a higher level of environmental sustainability, social responsibility and corporate governance, while benefiting from expert investment analysis and the opportunity for strong growth potential over the long-term.

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.

Typical portfolio characteristics

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

- All holdings pass screening criteria developed for GLC and Sustainalytics
- Exposure to at least 8 of the 11 sectors, an average of 50-80 holdings, and 0%-30% foreign holdings
- Higher return on equity and stronger growth momentum than its benchmark, the S&P/TSX Composite Index
- Outperformance in rising market conditions and defensive positioning in down market conditions

Strategy snapshot

Asset class
Equity

Inception date
2000

Assets in mandate
$140.5 million

Benchmark
S&P/TSX Composite Index

Investment team
GWL Investment Management

Portfolio manager(s)
Dylan Fricker,
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

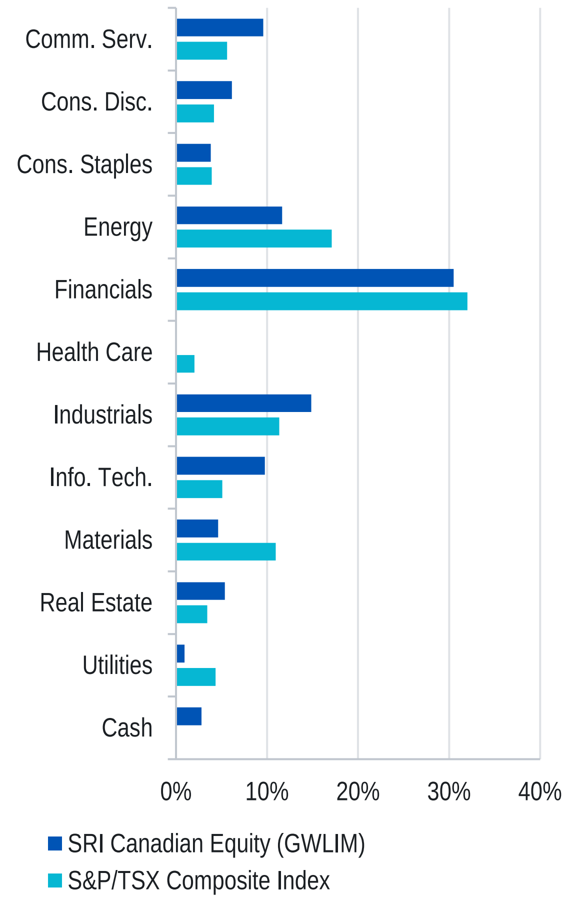
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	56.8	50.5
P/E Curr. Yr. Median	18.9	15.1
P/B Curr. Yr.	2.8	2.5
EPS Curr. Yr. Median Rev 3M	1.0	8.0
Qtly. Earn. Mom.	4.3	7.1
Qtly. Sales Mom.	-0.2	-0.3
Div. Yield	2.8	3.3
# of Equity Holdings	55	239
U.S. Equity Weight	10.6	-

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Toronto-Dominion Bank	Financials	8.5
Royal Bank of Canada	Financials	8.1
Boyd Group Income Fund	Industrials	4.4
Canadian National Railway Co	Industrials	3.7
Bank of Montreal	Financials	3.6
Brookfield Asset Mgmt A Ltd Voting	Financials	3.3
Suncor Energy Inc	Energy	3.2
Enbridge Inc	Energy	3.1
CGI Group Inc	Information Technology	3.0
CP Railway Ltd	Industrials	2.9
Total		43.8

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL SRI Canadian Equity 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

The fund outperformed the S&P/TSX Composite Index over the period with a single-digit positive return on a gross return basis. Strong stock selection within Industrials, Financials and Real Estate contributed to performance as did not holding any cannabis stocks. Fund performance was negatively impacted by an underweight position in the gold sector, which staged a strong rally late in the quarter. Additionally, stock selection within the Consumer Discretionary and Information Technology sectors was slightly detrimental to performance.

Portfolio activity

Holdings in Wyndham Hotels, the world's largest hotel franchise operator, were added to the fund within the Consumer Discretionary sector during the quarter. Wyndham has demonstrated consistent earnings and cashflow performance and has an unwarranted valuation discount to peers. Minto Apartment REIT was added – a high quality, urban focused multi-residential property REIT, with significant opportunities for expansion. We eliminated MTY Food Group holdings due to an array of concerns; namely the recent acquisition of Papa Murphy's (a #5 player in a very competitive space), accelerating declines in same-store sales, rent pressures in select segments and labour shortages in the Quebec region. Shares in Spin Master were eliminated due to disappointing Q1 2019 results – the fourth consecutive quarterly miss. This, along with several factors (such as poor guidance, heightened dependence on Q3 results to meet full year guidance and slowing key products and categories) has led us to lower our conviction in the strength of the management team and increase our risk versus return profile. We trimmed several energy-related holdings, including Stantec and Methanex.

Positioning & outlook

Our outlook on Canadian equities is essentially unchanged from the end of Q1. Accommodative stances by the FOMC, ECB, PBOC and the Bank of Canada have clearly benefitted equity market valuations. Global growth continues to falter: corporate earnings are decelerating, and valuations are less compelling than several months ago. This leads us to be cautious in our market outlook. We will continue to seek out compelling growth opportunities in the months ahead – ideally at more favourable multiples. At the end of the reporting period, we're overweight in key growth sectors when compared to the S&P/TSX Composite Index: Information Technology, Industrials, Communication Services and Consumer Discretionary. The fund's key underweights are in the Materials, Health Care and Energy sectors.