# Focused on quality and long-term dividend growth potential in U.S. markets

## What's the strategy?

The U.S. Dividend (GWLIM) portfolio strategy invests mainly in U.S. stocks with attractive dividend yields and strong potential 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 and quantitative 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 and quantitative analysis to identify companies that are positioned to deliver strong results in the current market cycle.

## Why invest in this portfolio strategy?

Ideal for investors seeking exposure to U.S. equities with a bias towards dividend-paying and dividend-growing stocks – a grouping that typically outperforms non-dividend-paying stocks over the long-term.

This portfolio is well diversified across sectors and income-focused. It offers a portfolio of dividend-paying stocks with a focus on positive return generation in up markets and capital preservation in down markets.

## Typical portfolio characteristics

Here is what you can expect to see from the GWLIM U.S. dividend equity strategy when compared to its peers, or its U.S. benchmark, the S&P 500 index:

- Good diversification through exposure to at least 8 of the 11 sectors and an average of 50-100 holdings
- A higher dividend yield
- Historically had a lower volatility
- An attractive price per earnings (e.g. valuation measure)

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

## Strategy snapshot

### Asset class
Equity

### Inception date
2013

### Assets in mandate
$1,081.7 million

### Benchmark
S&P 500 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.

As at June 28, 2019

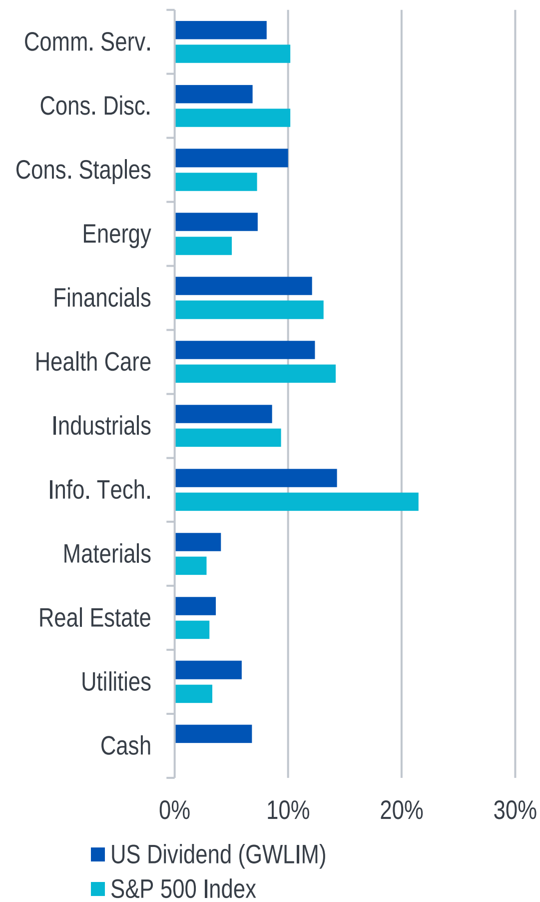
## Portfolio attributes

| Key attributes | Portfolio[1] | Index[2] |
|---|---|---|
| Market Cap. | 175.7 | 250.5 |
| P/E Curr. Yr. Median | 18.0 | 17.7 |
| P/B Curr. Yr. | 3.0 | 5.7 |
| Div. Yield | 2.8 | 2.1 |
| ROE Trail. 12 | 21.2 | 25.0 |
| # of Equity Holdings | 74 | 505 |

## Major equity holdings %

| Security | Sector | Portfolio Weight[1] |
|---|---|---|
| Chevron Corp. | Energy | 4.0 |
| Verizon Communication Inc | Communication Services | 3.9 |
| Microsoft Corp | Information Technology | 3.6 |
| JPMorgan Chase & Co | Financials | 3.5 |
| Johnson & Johnson | Health Care | 2.1 |
| Abbott Laboratories | Health Care | 2.0 |
| Union Pacific Corp. | Industrials | 2.0 |
| HoneyweLL International Inc. | Industrials | 2.0 |
| Pfizer Inc. | Health Care | 1.9 |
| Cisco Systems Inc. | Information Technology | 1.9 |
| Total | | 26.9 |

## Sector Allocation %




Source: GLC, CPMS, S&P | 1. Fund: LL U.S. Dividend Fund (GWLIM) | 2. Index: S&P 500 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 500 gained 4.3% total return in U.S. dollars (2.3% in Canadian dollar terms) for the quarter. Financials was the top performing sector with U.S. bank stocks benefitting from a healthy economy and a steeper U.S. yield curve. Information Technology also performed well, with sizable contributions from Microsoft, Visa and Mastercard. Energy was the only sector that produced a negative return in the quarter. U.S. WTI crude prices were down 2.8% following a strong rally in the first quarter. Oil prices were volatile: weighed down initially by demand concerns and rising U.S. inventories, before escalating U.S.-Iran tensions and speculation of further OPEC cuts supported prices in June.

## Portfolio performance

The fund posted modest single-digit positive returns that fell just short of the broader market (represented by the S&P 500) – a continued reflection of its 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, particularly in utilities and REITs, but 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 Canadian dollar-denominated returns. The fund's elevated cash position and defensive positioning – with limited exposure to cyclical areas of the market (particularly the Technology and Consumer Discretionary sectors) – was a drag on returns.

## Portfolio activity

Broad sector positioning changed very little; however, Q2 was fairly active for individual holdings. We had concerns over Carnival's lack of fuel hedging and geographic exposure, so we switched into Royal Caribbean. This proved fruitful, as Carnival subsequently sold off on very weak results. We reduced our position in Lowes after a disappointing quarter and placed the proceeds into our Disney holdings and a new position in Wyndham Hotels (for slightly less cyclical consumer exposure with a yield pick-up). We increased our overall weight in Staples by adding to our Walmart and Constellation holdings and building a new position in Nestle. Nestle is one of the few Staples offering organic growth in addition to global diversification and M&A optionality. These additions more than offset our elimination of Archer Daniels and reduced Altria position. We eliminated Halliburton in the Energy sector; while the shares remain inexpensive, the current state of the Oil & Gas industry warrants greater caution. Offsetting this exposure, we added Raytheon for relatively defensive Industrials sector exposure and a geopolitical hedge. In Financials, we switched our Travellers holding into Progressive. Our Tech weight came down when we reduced our Cognizant position after they reported a very weak quarter. This reduction was partially offset by a small position in Visa. Visa is one of the best positioned companies in the payments industry with meaningful economies of scale and an attractive runway for growth. After our DowDupont holding underwent a breakup to surface value, we narrowed our exposure to Dupont de Nemours. Finally, we made two switches within the Utilities sector: a relative value trade into Sempra Energy from Southern Co.; and a quality trade-up, moving our First Energy position into Nextera. The net result of these trades was a reduction in cash, which proved timely during the market weakness in May.

## Positioning & outlook

The second quarter featured another correction – this time a mini version of last year's swoon. While last year's concern was the impact of rising rates, this time the issue was rising trade tensions. All the while, in both instances, 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. The reality is that 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're overweight in the Utilities, Consumer Staples, Energy, Materials and Real Estate sectors, in addition to cash. We are underweight in the Information Technology, Communication Services, Health Care, Financials, Discretionary and Industrials sectors. It's noteworthy that given recent changes to the index, Communication Services now includes Facebook, Google and Netflix. We remain overweight in the Telecom space but are not exposed to FAANG outside of modest exposure to Apple. Our Energy sector overweight reflects mainly Pipeline infrastructure names, and our Materials sector exposure reflects gold exposure.