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
$3,931.1 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 $55 billion in assets.

GLC has 5 investment management divisions:

- GWL Investment Management
- London Capital Management
- Laketon Investment Management
- Portico Investment Management
- Global Multi-Asset Strategy team (including 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 30, 2020

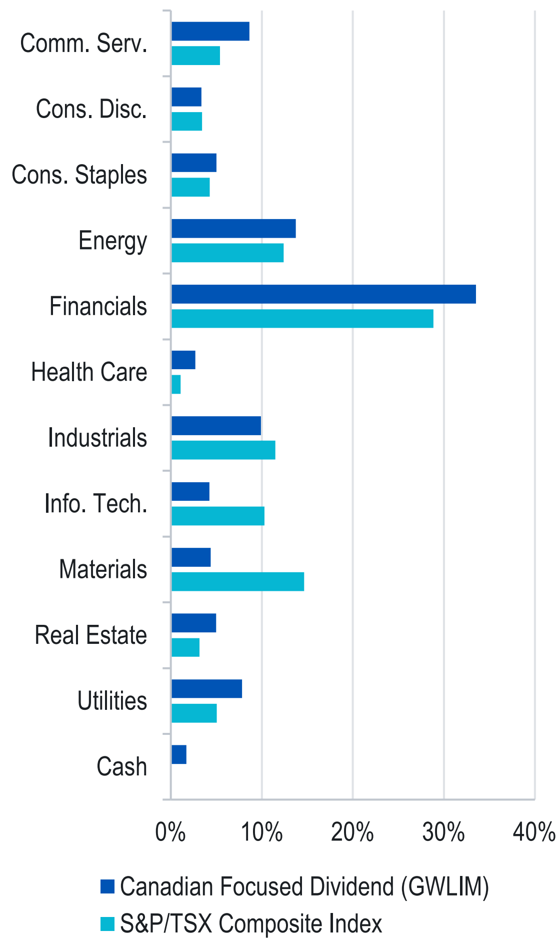
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	105.4	52.7
P/E Curr. Yr. Median	19.5	24.7
P/B Curr. Yr.	2.2	2.2
Div. Yield	4.0	3.4
Annual Div. Mom.	6.1	8.6
Payout Ratio Curr. Yr. Median	58.3	45.2
ROE Trail. 12	11.3	9.2
# of Equity Holdings	70	222
U.S. Equity Weight	9.7	-

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Royal Bank of Canada	Financials	6.8
Toronto-Dominion Bank	Financials	5.9
Bank of Nova Scotia	Financials	4.3
Enbridge Inc	Energy	3.6
Brookfield Asset Mgmt A Ltd Voting	Financials	3.5
Manulife Financial Corp	Financials	2.9
Canadian National Railway Co	Industrials	2.8
Bank of Montreal	Financials	2.4
Brookfield Infrastructure Partners LP	Utilities	2.3
Tc Energy Corp	Energy	2.2
Total		**36.7**

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 30, 2020

Market review

Global equity markets bounced back sharply, posting one of the strongest and quickest recoveries in history. Stocks closed in on their previous all-time highs set prior to the coronavirus crisis due to unprecedentedly large monetary and fiscal support from world governments and central banks, improving economic data in May and June and reopening global economies. The S&P/TSX Composite Index surged 17.0% (total return) during the quarter – the second largest quarterly gain in over a decade. All but one of the 11 sectors finished in positive territory. The information technology sector was the best performer, spearheaded by Shopify's 136% gain. The materials sector benefitted from a strong rally in precious metals, particularly by gold stocks that soared over 50% in the period. The consumer discretionary and energy sectors were also noteworthy contributors: energy companies benefitted from a sharp rebound in oil prices (Western Canadian Select jumped 474% during the quarter). Communication services was the lone sector to produce a negative return.

Portfolio performance

During a period of equity market recovery, the portfolio delivered a solid positive return, though it significantly underperformed the S&P TSX Composite Index on a gross return basis during Q2 2020. Once global central banks and governments became involved through aggressive fiscal and monetary policy at the peak of the crisis, equity markets were quick to add back risk and “look over the valley” towards a more normalized economy. The speed and extent to which equities priced in a recovery was unprecedented. While we added a degree of cyclicality to the fund, we maintained a defensive bias in addition to following our value-style discipline. The quarter was dominated by growth and momentum factors, with dividend yield being one of the largest performance drags in the market. Income-oriented sectors, including Real Estate, Communication Services and Utilities, were all a drag versus the market. The fund’s underweight and stock selection within Materials also detracted from overall performance. Conversely, sectors with lower or no yield, where the fund is underweight, outperformed dramatically – where most of the performance shortfall originated. The S&P/TSX has a large weighting in gold equities (the majority of which pay no dividend) and money-printing inflation concerns drove a strong rally in gold prices during the quarter. Similarly, the S&P/TSX has a large Technology sector weight, also largely comprised of non-dividend-paying equities. In adhering to our mandate, we remained underweight in these Info Tech names, including Shopify, which rallied over 120% in Q2.

Portfolio activity

We acknowledged the impact to risk-seeking behavior from liquidity and government intervention and took steps to reduce exposure to interest-sensitive, defensive sectors by adding to cyclical groups where we saw potential for value reversion. We reduced investment in Utilities, Telecommunication, Health Care and select Real Estate sector names, and added to the Energy, Technology, Industrials, Consumer Discretionary and Financials sectors. Within the Discretionary sector, we added a new position in TJX. We remain underexposed to retail, as it’s one of the most challenged sectors during the pandemic; however, TJX is a high-quality name with an enviable track record of creating value. We believe the normalization process will be slow, but off-price retailers will ultimately be some of the first to benefit. Within the Energy sector, we eliminated our long-held position in Enerflex. The shares remain very cheap, but the trajectory of a recovery in production activity is going to be very slow, with most companies still ratcheting back activity. We replaced the holding with a small position in Tourmaline Oil. For quality, it tops the list of Canadian energy names and offers some optionality in a recovery in natural gas prices from reduced production. Within the Financials sector, we eliminated our JP Morgan position due to a relatively full valuation and our preference for Morgan Stanley. The latter has lower credit and interest rate risk than the traditional P&C banking peers. Although wealth management and investment banking will face near-term revenue headwind, it will be mitigated by higher trading activity resulting from market volatility and economic uncertainty.

Positioning & outlook

Last quarter’s outlook was essentially a call on the duration of the pandemic. At the time, we reflected a considerable amount of uncertainty into most equities, which drove our decision to add modestly to the cyclical tilt of the portfolio. While our view on the duration of the recovery remains largely unchanged, we fell short in our assessment of equity markets willingness to price in “normalized earnings” so quickly. Beyond this, market participants seem willing to assume central bank omnipotence, leading to increasingly bizarre behaviour. Examples include a bankrupt company stock rallying 100s of percentage points, “new tech” stocks with no earnings or cash flow to speak of going parabolic, and stocks making new all-time highs even as virus case counts are on the rise again in many U.S. states. Valuation factors have actually proven to be a hinderance to performance in Q2, with the main drivers being growth and momentum. Relative value lies solely in deeply cyclical groups that require a rapid economic recovery – which we believe will be elusive. On the other hand, any perceived “defensive” growth stocks are trading at astronomic levels difficult to justify. We continue to believe the path to a new normal will be a bumpy one, with a tug-of-war between cheap cyclicals and expensive growth. Some level of balance is a good bet, with the tricky part being which way to tilt. Given that this is a yield mandate, we naturally lean on the value side. Given our recent additions to more cyclical groups, we anticipate much change in Q3, although we’ll watch for high-quality growth opportunities within sectors. Relative to the index, the fund is overweight the Financials, Utilities, Communication Services, Real Estate, Health Care, Consumer Staples and Energy sectors and underweight in the Materials, Industrials, and Information Technology sectors.