Benefit from experience, expertise and successful investing within the heart of the Canadian economy

What's the strategy?

The Canadian Resources (GWLIM) portfolio strategy invests mainly in medium- to large-cap Canadian resource-based stocks with above-average growth potential to achieve long-term capital appreciation.

What's the approach?

This strategy focuses on investing in Canadian resource companies across the market cap spectrum from industries such as oil and gas, gold and precious metals, metal and minerals, forest products and alternative energy. 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, alongside disciplined fundamental research to identify companies that are positioned to deliver strong results in the current market cycle.

Why invest in this portfolio strategy?

By investing in companies exposed to the commodity industry, the strategy can act as a Canadian equity diversifier within a portfolio by: Having low to negative correlation to equity and bond markets; and acting as an inflation hedge, as commodities typically perform better during periods of rising inflation. It offers an active management approach by a portfolio team with extensive experience in selecting resource stocks with higher growth potential than the broad Canadian market, and the opportunity to leverage the global demand for energy and commodities.

Typical portfolio characteristics

Here is what you can expect to see from the Canadian Resources (GWLIM) portfolio strategy when compared to the S&P/TSX Composite Index:

- Diversification within resource-related companies, no cap-size bias and an average of 40-80 holdings
- 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
- Greater long-term return opportunity and higher volatility than the broad Canadian market

Strategy snapshot

Asset class
Equity

Inception date
2015

Assets in mandate
$35.7 million

Benchmark
60% S&P/TSX Energy Index
40% S&P/TSX Materials Index
40% S&P/TSX Materials Index

Investment team
GWL Investment Management

Portfolio manager(s)
Patricia Nesbitt,
Senior Vice-President, Equities

Dylan Fricker,
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.

Portfolio attributes

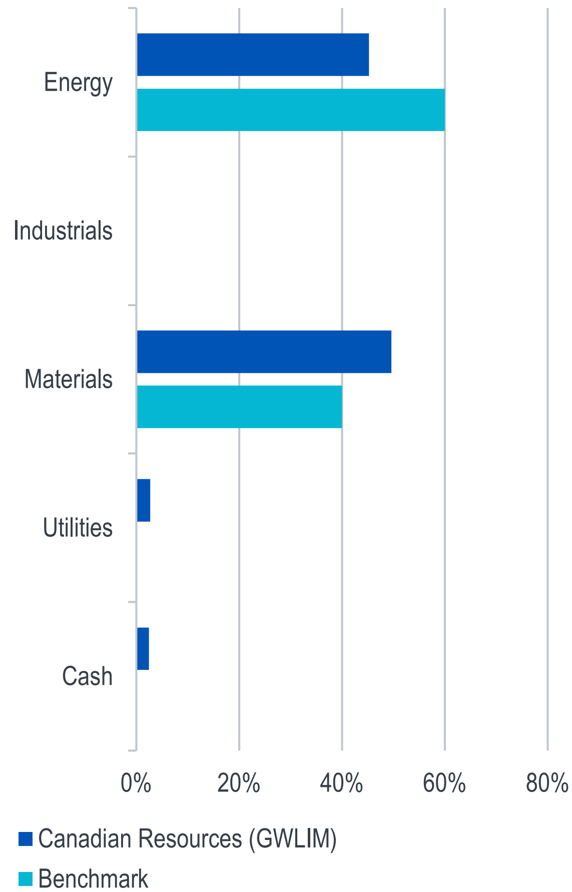
Key attributes	Portfolio[1]	Index[2]
Market Cap.	27.3	39.1
P/E Curr. Yr. Median	27.3	12.1
P/B Curr. Yr.	1.8	1.7
Debt to Equity	0.7	0.8
Cash Flow to Debt	0.2	0.2
ROE Trail. 12	5.4	3.9
Div. Yield	3.3	4.2
# of Equity Holdings	40	75

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Enbridge Inc	Energy	8.6
Tc Energy Corp	Energy	8.4
Suncor Energy Inc	Energy	6.9
Barrick Gold Corporation	Materials	5.9
Canadian Natural Resources Ltd	Energy	5.5
Pembina Pipeline Corporation	Energy	4.8
Nutrien Ltd.	Materials	4.3
Ishares Gold Bullion Etf Cad	Materials	4.2
Franco-Nevada Corp	Materials	4.0
Wheaton Precious Metals Corp	Materials	3.3
Total		**55.8**

As at June 30, 2020

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL Canadian Resources Fund (GWLIM) | 2. Index: 60% S&P/TSX Energy Index, 40% S&P/TSX Materials Index

Portfolio manager's quarterly commentary

As at June 30, 2020

Market review

Canadian resource stocks bounced back strongly in the second quarter. The Canadian energy sector rose 10.9% (total return) while the materials sector spiked 42.0% (total return). Materials benefitted from a strong rally in precious metals, particularly by gold stocks that soared over 50% during the period. WTI oil prices soared 91.7%, while Western Canadian Select shot up a staggering 474%. However, 2020 global oil consumption is estimated to contract a record 8.1 million barrels per day (bpd). While a recovery is expected, demand is not anticipated to reach 100 million bpd until 2023. Oil prices face more fundamental downward pressure due to excess capacity and supply, as opposed to supportive pressure stemming from demand. Precarious OPEC+ production curbs are the only thing keeping oil prices afloat, and they appear to be holding for now.

Portfolio performance

The second quarter of 2020 was a period of equity market recovery with a violent, liquidity-driven "risk on" rally across much of the resource space. The portfolio delivered a strong double-digit positive return that nearly matched the Canadian

Resources Composite Index on a gross return basis. The portfolio favours an on-going focus on predictable dividend-paying companies within the Energy sector. Its generally cautious view of North American supply versus demand fundamentals did not prove to be a detriment to performance. Within the overweighted Materials sector, it's not uncommon for the fund to endure periods of short-term underperformance when investors give chase to speculative-grade gold stocks. Materials sector stock selection detracted from overall performance in Q2. However, the fund was able to hold performance to acceptable levels with a larger allocation of higher-quality companies and a large allocation to physical bullion. Similarly, long-standing positions in the more predictable areas of the Materials sector, such as packaging companies, were mixed contributors. Agriculture, via our position in Nutrien Ltd., was another detractor. The fund benefitted from an overweight allocation in the Utilities sector with wind power developer, Boralex Inc. Lumber-producing companies, West Fraser Timber Co. Ltd and Interfor Corporation were very strong contributors to performance (rallying over 92% and 99% respectively), as was building materials producer, Norbord Inc. (rallying 108% in the quarter).

Portfolio activity

The largest fund re-positioning moves during the quarter can probably best be described as "contrarian" in nature. Early in the quarter, the fund took advantage of deeply discounted valuations (primarily in the economically sensitive areas of lumber and building materials) by aggressiving adding exposure to high-quality companies, such as West Fraser Timber, Interfor and Norbord. Over the course of the quarter as precious metals shares rallied, the fund took profits once valuations reached or exceeded reasonable estimates of intrinsic value.

Positioning & outlook

Despite our hopes to the contrary, we find it unlikely that the path of economic recovery will be linear. Market volatility is therefore expected to remain elevated. Stock selection within the fund is dictated by company-by-company fundamentals. Gold should perform reasonablly well in an era of profligate government spending and shifting economic fundamentals and we're hard pressed to make strong arguments opposed to this consensus thinking. Consumer behaviour in an infected world has, thus far, surprised to the positive, with notable upticks in large ticket purchases geared toward "experiences" (such as outdoor recreation), but also toward "safety" through purchases of single family living (instead of dense urban apartments). We remain cautiously optimistic on the outlook for housing activity against this backdrop – so long as employment data allows for such. Unfortunately for Canada, we remain concerned about on-going over supply issues in oil and gas so our underweight in energy producers remains. The bulk of our Energy sector exposure is concentrated on mid-stream, pipeline and infrastructure assets where cashflow volatility and forecasting risk is lower. While cash levels are effectively at normal operating levels (approximately 2 to 3%) within the fund, we're using physical bullion as a sort of "cash proxy", favouring the central bank of Mother Nature (i.e., gold is hard to find and even harder to get out of the ground) over the whims of global banking peers.