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
$1,068.4 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 $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

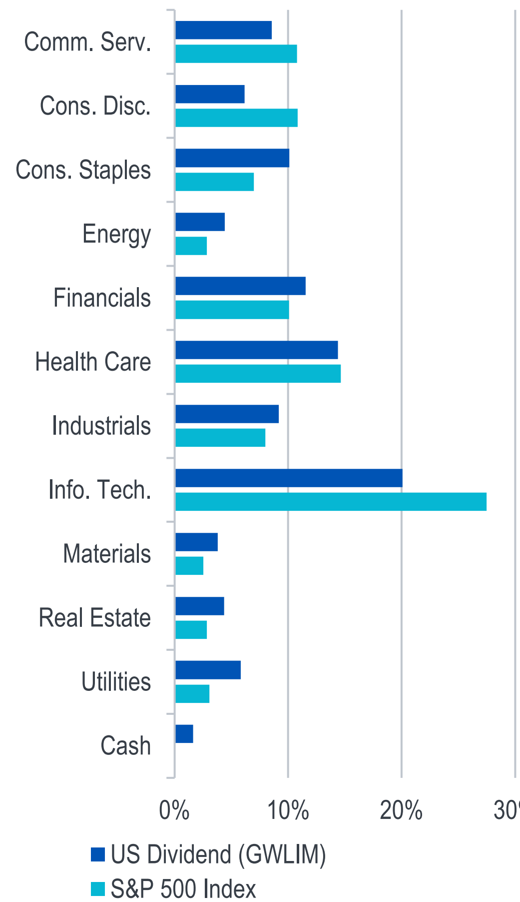
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	252.6	412.6
P/E Curr. Yr. Median	23.7	24.9
P/B Curr. Yr.	5.2	7.0
Div. Yield	2.6	1.9
ROE Trail. 12	20.2	21.2
# of Equity Holdings	78	505

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Microsoft Corp	Information Technology	5.5
Verizon Communication Inc	Communication Services	3.0
JPMorgan Chase & Co	Financials	3.0
Apple Inc	Information Technology	2.4
Chevron Corp.	Energy	2.4
Pepsico Inc.	Consumer Staples	2.3
Broadcom Inc.	Information Technology	2.3
Johnson & Johnson	Health Care	2.2
Accenture PLC Class A	Information Technology	2.1
Union Pacific Corp.	Industrials	2.1
Total		**27.3**

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 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 500 Index had its strongest quarterly gain since 1998, surging 20.5% (total return; 15.7% in Canadian dollar terms), largely on the backs of the heavily weighted information technology (IT) sector. Many IT companies began to show they benefitted by and/or adapted to the lockdown environment. Meanwhile, consumer discretionary stocks enjoyed a robust 61% total return, powered by lockdown measures being lifted, which in turn unleashed pent-up consumer demand. The remaining sectors all finished in positive territory, enjoying the general positive momentum offered by U.S. stocks.

Portfolio performance

During a period of equity market recovery, the portfolio delivered a double-digit positive return although it underperformed the S&P 500 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. Our view was that the path to full recovery would be difficult and fraught with uncertainty. Instead, the speed and extent to which equities priced in a recovery was unprecedented. Cyclicals and growth stocks outperformed and anything defensive lagged during the rally. While we added a degree of cyclicality to the fund, we limited exposure to higher-quality names and maintained a defensive bias. Overall, the quarter was dominated by growth and momentum factors, with dividend yield being one of the largest performance drags in the market. Our defensive and income-oriented sectors, including the Real Estate, Telecommunications, Health Care, Utilities and Staples sectors, all detracted from performance versus the market. Early in the rally, many of the lowest quality, highly levered, COVID-impaired names rallied substantially – some of which were names we sold last quarter. Later in the quarter, the market was driven by expensive growth stocks, most with no yield.

Portfolio activity

We acknowledged the impact to risk-seeking behavior from liquidity and government intervention and took steps to reduce exposure to interest-sensitive, more defensive sectors and add to cyclical groups where we saw potential for value reversion. We reduced our weights in sectors such as the Utilities, Real Estate, Health Care, Consumer Staples and Communication Services (mainly telecom). We added the proceeds primarily into the Consumer Discretionary and Technology sectors. Within the underweighted Consumer Discretionary sector, we added a new position in TJX. We remain underexposed to retail, as it is 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. We eliminated Cognizant from the Information Technology sector after the current quarter brought another disappointing update with soft margins and continued business uncertainty. In the Financials sector, we eliminated our remaining exposure to regional banks, Truist Financial. Regionals are more exposed to low interest rates so we balanced it with the addition of Morgan Stanley, which has lower credit and interest rate risk than traditional banking peers. Although wealth management and investment banking will face near-term revenue headwind, it’ll be mitigated by higher trading activity resulting from market volatility and economic uncertainty. We changed our Real Estate sector mix with the elimination of Store Capital, a real estate REIT, because we’re uncomfortable with the pandemic impacts to their service-orientated tenants. Similarly, we eliminated Avalon Bay, a residential REIT, due to near-term tenant base concerns within their holdings. We replaced these names with the more resilient REITs, Sun Communities and Prologis. Finally, we added a modest position in Activision to take advantage of quarantine-related tailwinds and long-term gaming demographics.

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 behavior. 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 Utilities, Consumer Staples, Real Estate, Energy, Financial and Industrial sectors. The fund is underweight in the Information Technology, Consumer Discretionary and Communication Services sectors (primarily due to non-dividend-paying index weights in Alphabet, Facebook, Twitter and Netflix).