glc asset management

Canadian Concentrated Pure Dividend

Laketon Investment Management

Q2 2019

Combination of steady dividend income and capital growth

What's the strategy?

The Canadian Concentrated Pure Dividend (Laketon) portfolio invests primarily in Canadian dividend-paying equities with attractive dividend yields, and to a lesser extent may hold preferred shares. This strategy seeks to achieve a steady stream of income-generation with the potential for long-term capital appreciation.

What's the approach?

The portfolio manager applies a deep fundamental analysis approach to stock selection and focuses on positive return generation in up markets and capital preservation in down markets. Using dynamic and proprietary financial models along with deep dive analysis into companies, the portfolio manager seeks to capture opportunities and manage risks that are mispriced or not yet priced into the market.

Why invest in this portfolio strategy?

Ideal for investors seeking exposure to large-cap pure Canadian equity portfolio of high quality dividend-paying stocks that offer the potential for attractive long-term capital appreciation and the benefits of compounding dividend income over time.

Typical portfolio characteristics

Here is what you can expect to see from the Canadian Concentrated Pure Dividend (Laketon) portfolio:

- Pure Canadian equity exposure
- A concentrated portfolio with an average of 25-45 holdings across at least 7 of the 11 sectors
- An attractive risk/return profile versus most Canadian equity strategies
- A track record of historically lower volatility when compared to its benchmark and a tendency to outperform in down markets
- Lower valuation metrics (i.e.price per earnings) and a higher dividend yield than the broad Canadian market

Strategy snapshot

Asset class
Equity

Inception date
1985

Assets in mandate
$2,660.4 million

Benchmark
S&P/TSX Composite Index

Investment team
Laketon Investment Management

Portfolio manager(s)
Bradford Cann
Senior Vice-President, Equities

GLC Asset Management Group Ltd.

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

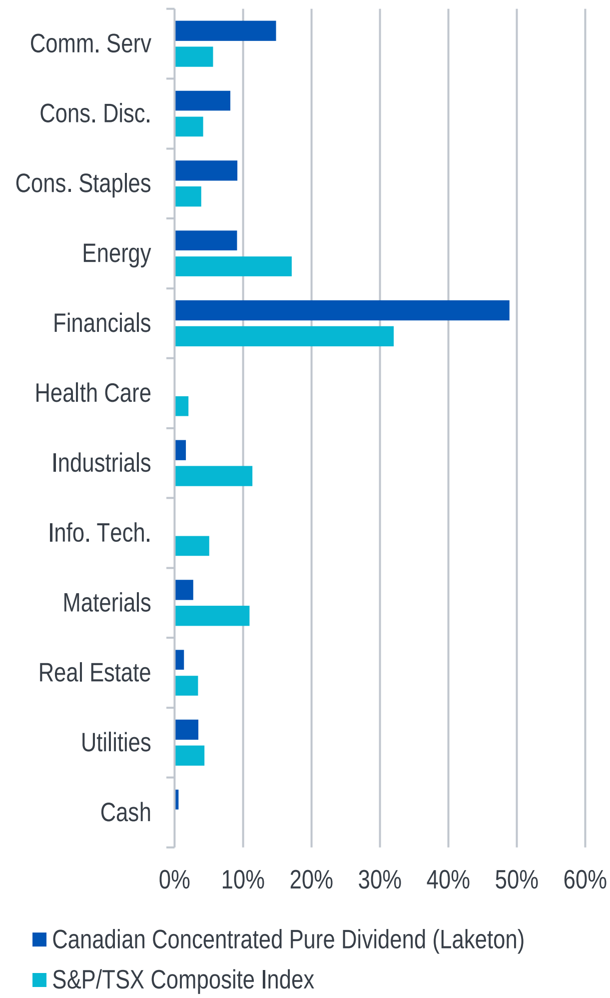
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
P/E Curr. Yr. Median	11.6	15.1
P/E Trail. 12	12.2	17.6
P/Cash Flow Trail. 12	8.0	12.9
Div. Yield	4.1	3.3
Payout Ratio Curr. Yr. Median	44.4	33.8
Debt to Equity	1.9	1.7
Market Cap.	59.9	50.5
# of Equity Holdings	34	239

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Royal Bank of Canada	Financials	8.8
Toronto-Dominion Bank	Financials	8.6
BCE Inc	Communication Services	7.8
Bank of Nova Scotia	Financials	7.7
Bank of Montreal	Financials	6.9
Magna International Inc	Consumer Discretionary	6.2
Canadian Imperial Bank of Commerce	Financials	6.1
Suncor Energy Inc	Energy	4.5
Telus Corporation	Communication Services	4.2
Sun Life Financial Inc	Financials	3.6
Total		64.4

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: CL - Enhanced Dividend Fund (Laketon) | 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

Both the fund and the market posted positive returns in the quarter, following the strong rebound in Q1. On a relative basis, the fund did not keep pace with the S&P/TSX Composite Index, largely due to the portfolio's defensive positioning and the risk-on nature of the market. Performance was hurt by our overweight allocation to the underperforming Consumer Staples and Communication Services sectors. Our top stock contributors were Enbridge (underweight), Hudson's Bay, CI Financial and TD Bank. Our top detractors to performance were Magna, Saputo, Vermillion and CIBC. Our underweight stance in the Materials, Industrials and Information Technology sectors were a detraction from fund performance as all three sectors outperformed the broader market. Our underweight position in Energy and Health Care (cannabis stocks) positively contributed to performance.

Portfolio activity

We initiated a position in Cineplex during the quarter. We've taken the view the market has over-reacted to the potential risks of the theatre business as well as its short-term box office weakness. While the theatre business has matured, we believe it will not fall off a cliff and will continue to be a strong and stable cash flow producer. We also believe there will be a rebound in box office through the remainder of the year. Secondly, we are of the view that the company will have success in diversifying its business, mainly through its recreational segment and its location-based digital marketing segment. The 7.5 to 8.0% yield is believed to be safe and an attractive attribute of the stock. We trimmed our positions in Fortis, Capital Power, Loblaw, Saputo and Magna and added to our positions in Vermillion and Canadian National Railway.

Positioning & outlook

Portfolio positioning remains consistent with last quarter, with overweight allocations to the Financials, Communication Services and Consumer Staples sectors. Given how late we are in the market cycle, we're comfortable maintaining a defensive stance and are content with the earnings stability of most of our underlying stock holdings. Headlines around trade and rate policy will continue to generate volatility in the market on a short-term basis. Nevertheless, our overall focus remains longer term in nature. We continue to invest in companies that can maintain and grow their dividends, exhibit high quality earnings through different parts of the cycle, have proven management teams and possess strong balance sheets. We remain neutral-to-underweight in the interest rate-sensitive sectors: Utilities, Real Estate and the Energy Infrastructure sub-sector because these sectors' valuations are at the upper end of the historical range. Our large underweight position in the Energy sector reflects our zero weighting in Energy Infrastructure; we believe the sector is overvalued given a muted growth outlook, low earnings quality and elevated leverage. We are market weight in the E&P sub-sector with a bias towards higher-quality and larger-cap energy producers that have more diversified and stable asset bases.