glc asset management

Canadian Concentrated Growth Equity

Laketon Investment Management

Q2 2019

A concentrated portfolio of large cap growth companies

What's the strategy?

The Canadian Concentrated Growth Equity (Laketon) portfolio strategy invests primarily in large-cap Canadian equities with a focus on capital growth over the long-term.

What's the approach?

The portfolio manager applies a deep fundamental analysis approach to stock selection and focuses on companies with strong business models, sustainable competitive advantages, proven management teams and a track record for generating return-on capital well in excess of their cost of capital.

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.

The portfolio manager has the flexibility to invest in U.S. stocks within specified limits to add diversification and seek out attractive opportunities often not available in the Canadian market.

Why invest in this portfolio strategy?

Ideal for investors seeking exposure to a concentrated portfolio of growth-oriented Canadian equities with strong potential for capital appreciation over the long-term.

The Canadian Concentrated Growth Equity (Laketon) portfolio strategy is actively managed and offers a concentrated portfolio of high quality, large-cap stocks that are broadly diversified across sectors.

Typical portfolio characteristics

Here is what you can expect to see from the Canadian Concentrated Growth Equity (Laketon) strategy when compared to its peers, or its Canadian benchmark, the S&P/TSX Composite Index:

- Higher return-on-invested-capital attributes
- Higher growth metrics
- Higher reinvestment rate and lower dividend yield
- Concentrated portfolio, of typically 25-45 holdings
- Higher active share ratios
- Flexibility to hold U.S. stocks (up to 10%) to seek out attractive stock opportunities

Strategy snapshot

Asset class
Equity

Inception date
1985

Assets in mandate
$2,250.3 million

Benchmark
S&P/TSX Composite Index

Investment team
Laketon Investment Management

Portfolio manager(s)
Ben Fawcett,
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.

Portfolio attributes

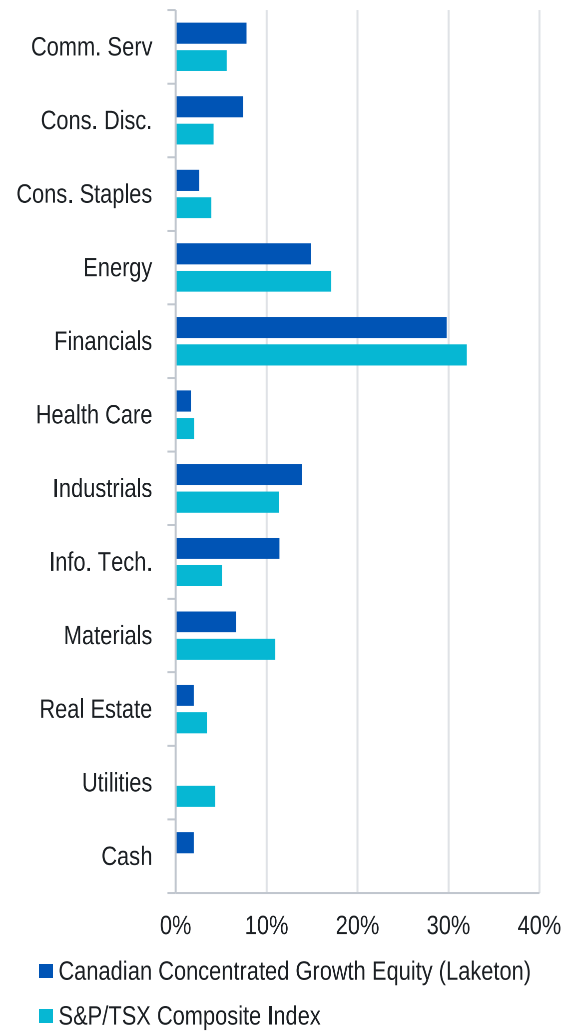
Key attributes	Portfolio[1]	Broad Index[2]
ROE Trail. 12	19.1	14.8
EPS Curr. Yr. Median Reinvest. Rate	10.2	6.7
Annual Earn. Mom.	17.4	10.5
Qtly. Earn. Mom.	6.8	7.1
Qtly. Sales Mom.	-0.1	-0.3
Div. Yield	2.9	3.3
P/E Curr. Yr. Median	19.3	15.1
Market Cap.	109.8	50.5
# of Equity Holdings	41	239
U.S. Equity Weight	9.2	-

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Royal Bank of Canada	Financials	8.6
Toronto-Dominion Bank	Financials	8.5
CP Railway Ltd	Industrials	5.0
Brookfield Asset Mgmt A Ltd Voting	Financials	4.6
Suncor Energy Inc	Energy	3.9
Rogers Communications Inc	Communication Services	3.8
Restaurant Brands International Inc.	Consumer Discretionary	3.4
Enbridge Inc	Energy	3.4
Waste Connections, Inc.	Industrials	3.3
CGI Group Inc	Information Technology	3.3
Total		47.8

As at June 28, 2019

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL Canadian Growth Equity 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

The portfolio posted a single-digit positive return that materially outperformed the S&P/TSX Composite this quarter. The Consumer Discretionary and Industrials sectors were top performers due strong contributions from Dollarama, Hilton, Air Canada and CP Rail. Several strong performing stocks in the Information Technology sector (including Microsoft and CGI) were offset by our underweight in Shopify, which posted another strong quarter, to detract from the sector's overall performance. Our worst performing group of stocks was in the Communication Services sector, where all three holdings (Rogers, Shaw and Google) underperformed the benchmark.

Portfolio activity

Following a relatively quiet Q1, several changes were made to the portfolio this quarter. We eliminated the long running (and profitable) holding Onex from the portfolio. Our concerns are threefold: we believe the flood of money into private equity funds will compress future returns; poor recent performance of some investments might indicate hubris and/or elevated competition for deals; and, Onex's participation in the rapidly expanding leveraged loan market moves the company away from their core competency. Also within the Financials sector, we increased our underweight in bank stocks due to concerns about their limited growth prospects. We continue to favour TD Bank and Royal Bank for their preeminent domestic platform and strong U.S. businesses. In the Energy space, we added to our position in Enbridge, anticipating that most of the bad news related to delayed projects is 'baked' into the stock at this time. Finally, we made several changes within the gold space by reducing our holdings in Barrick Gold and Newmont Goldcorp as we question the rational for their recent acquisitions. Even prior to these acquisitions, both companies were challenged to offset substantial annual reserve declines. Bulking up through acquisition simply compounds this problem. We reinvested the proceeds into three gold producers we believe are still capable of creating value for shareholders: Kirkland Lake Gold, Agnico Eagle Mines and Franco-Nevada royalty corp.

Positioning & outlook

To our surprise, bond yields continued to fall this quarter – the market now convinced that the Federal Reserve will cut rates twice, if not three times, this year. While we acknowledge that some global indicators have been weakening recently, U.S. economic indicators and employment continue to look strong. With China starting to stimulate to strengthen its hand in U.S. trade negotiations, and the FOMC compelled to make a couple of 'insurance' cuts, we see little likelihood of a U.S. recession. Factor in reasonable valuation levels (considering global rates are on the floor) based on already lowered forward earnings expectations, and our outlook has turned more constructive. While we continue to remain concerned about Canada's longer-term competitive positioning versus the U.S. and our high levels of consumer debt, we've recently been consoled by respectable Canadian economic data. This leads us to believe that the BoC will remain on hold, despite the likely FOMC cuts, providing cover for the Canadian dollar. Despite fickle markets, we continue to focus and position for the longer run where we believe owning a diverse group of high-quality growth stocks will generate strong returns. The mandate holds companies that generate value-enhancing return on capital, are backed by strong secular themes with below-average cyclical exposure and have strong balance sheets. While in the shorter-term we hold a more positive outlook towards the market, we continue to diligently review the portfolio to ensure our investments have strong long-term growth prospects to weather any market setbacks. At the end of the period, we continue to maintain an overweight bias towards the Information Technology, Consumer Discretionary and Industrials sectors and an underweight bias towards the Materials and Utilities sectors.