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
$2,270.3 million

Benchmark
S&P/TSX Composite Index

Investment team
Laketon Investment Management

Portfolio manager(s)
Ben Fawcett,
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 (GMAS) team (including Portfolio Solutions Group)

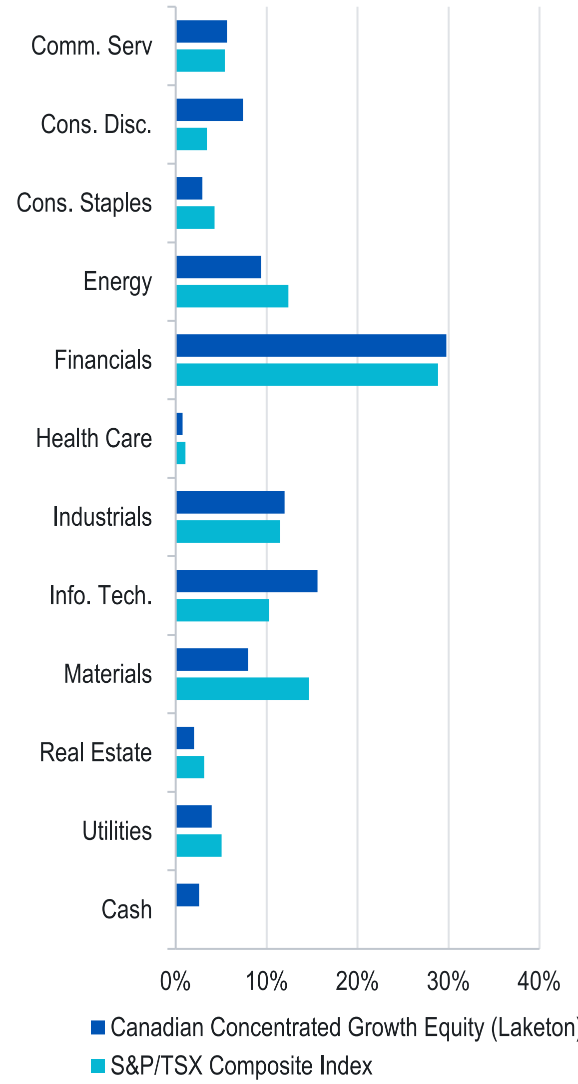
Each division has a distinct investment approach that offers deep expertise within specialized areas of portfolio management, bringing unique perspectives to navigating capital markets through varying cycles.

Portfolio attributes

As at June 30, 2020

Key attributes	Portfolio[1]	Broad Index[2]
ROE Trail. 12	13.6	9.2
EPS Curr. Yr. Median Reinvest. Rate	7.2	3.8
Annual Earn. Mom.	-6.6	-8.7
Qtly. Earn. Mom.	-2.8	-4.1
Qtly. Sales Mom.	-3.6	-2.5
Div. Yield	3.0	3.4
P/E Curr. Yr. Median	24.1	24.7
Market Cap.	152.8	52.7
# of Equity Holdings	40	222
U.S. Equity Weight	9.5	-
Market Cap.	152.8	52.7
# of Equity Holdings	40	222
U.S. Equity Weight	9.5	-

Sector Allocation %



Major equity holdings %

Security	Sector	Portfolio Weight[1]
Royal Bank of Canada	Financials	8.3
Toronto-Dominion Bank	Financials	7.4
Brookfield Asset Mgmt A Ltd Voting	Financials	4.6
CP Railway Ltd	Industrials	4.0
Canadian National Railway Co	Industrials	3.4
Waste Connections, Inc.	Industrials	3.3
Manulife Financial Corp	Financials	3.0
Alimentation Couche-Tard Cl B Sv	Consumer Staples	3.0
Suncor Energy Inc	Energy	2.9
Constellation Software Inc	Information Technology	2.8

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 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 double-digit positive return, although it underperformed the S&P TSX Composite Index on a gross return basis during Q2 2020. In a dramatic reversal from Q1, markets rallied hard on the back of the U.S. Federal Reserve Chairman's pledge to do whatever it takes. The TSX Composite Index's total return over the course of the past three months was almost 16%, retracing the majority of its year-to-date losses. On the surface, the portfolio appeared to follow this same pattern, making substantial gains versus the benchmark in Q1 due to its higher-quality holdings, while conceding most of the gains as the market rallied back in Q2. However, digging deeper, conservative positioning in cyclical sectors, such as the Energy and Financials sectors that had provided significant gains in Q1, underperformed due to underweight positioning in Shopify (half of underperformance) and gold stocks. Specifically, Shopify's weight in the TSX composite increased from 3.3% to 6.4% over the quarter, resulting in over 300 basis points of underperformance for any fund that did not hold the stock. The index weight of precious metals also increased ~3% during Q2, though our underperformance here was fortunately mitigated by a half weight in this group. The fund's positive returns were given a boost from strong selection within the underweight Consumer Staples sector.

Portfolio activity

Portfolio activity in Q1 was marked by moves out of stocks that would be particularly hard hit by the pandemic. Much of our activity in the second quarter related to redeploying the proceeds of Q1 sales to take advantage of a (temporarily) discounted market and initiate positions in names we had long had our eye on. Two such positions where Nike and CAE. Although COVID-19 poses current challenges to Nike, we believe that in the longer term the company can grow revenues at a high single-digit rate and earnings at a high teens rate. Much of this can be achieved by shifting their mix of sales from wholesale (low selling price/low margin) to online or direct-to-consumer sales (much higher selling price/higher margin). This type of growth is particularly attractive because it drives Nike's top and bottom line for the foreseeable future while requiring minimal capital expenditure. CAE is a global leader in the aviation training space, including the manufacture of flight simulators. CAE's training business, which generates strong returns on capital (mid teens), has been steadily taking share from its primary competitor, large mainline airlines. We believe this trend could accelerate as airlines with in-house training operations begin to notice the benefits of contracting to CAE (especially during the current environment) – turning a fixed cost into a variable cost. The obvious risk on this position relates to the duration and extent of the pandemic; however, the risk is offset if CAE can remain free cash flow positive at low utilization levels. CAE shares have been trading at a substantial discount to their pre-COVID levels.

Positioning & outlook

Market movement in Q1 2020 was a direct response to how much the central banks and governments flooded the financial system with liquidity. From our perspective, the pandemic is not close to being contained (let alone eradicated), and more damage is being inflicted on the real economy day after day. Analyst expectations are still far too high for the balance of the year, not to mention 2021. Despite overstated earnings forecasts, valuations appear full. Rather than build a portfolio around our expectations for the release of a vaccine, or the next tranche of central bank/government largesse, we continue to focus our efforts building a portfolio of great stocks using strong analysis, research and our consistent investment approach. We place emphasis on investing in the types of companies that will not only survive the economic uncertainties but will, in many cases, emerge in a stronger competitive position. The team continues to work diligently and effectively to review the portfolio to continue making necessary adjustments as required. As we have previously stated, we continue to focus and position for the long run where we believe owning a diverse group of high-quality growth stocks will generate strong returns while being able to weather any market setbacks. The fund is currently overweight in the Information Technology, Consumer Discretionary and Communication Services sectors and underweight in the Materials, Energy and Financials sectors.

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