A diverse portfolio designed to smooth the ride through Canadian market cycles

What's the strategy?

The Canadian Low Volatility Equity (London Capital) portfolio offers a diversified portfolio of Canadian stocks with lower volatility characteristics. The portfolio is designed to offer a better risk-adjusted return than the market to reduce drawdown experiences over market cycles.

What's the approach?

The portfolio managers pursue a proprietary and systematic approach, benefiting from quantitative-driven analysis to identify stocks with the most attractive combination of stock attributes. Fundamental factor-analysis underpins stock selection and portfolio construction to isolate and capitalize on key drivers of market performance.

The portfolio is well diversified across Canadian sectors, and is a pure Canadian concentrated portfolio of low beta, high-quality stocks.

Why invest in this portfolio strategy?

Ideal for investors seeking exposure to a portfolio of high-quality Canadian companies, yet with the goal to preserve capital in down markets.

This purely Canadian portfolio can offer better risk-adjusted return than the broad Canadian market and reduce drawdown experiences over market cycles – a distinct benefit given the highly cyclical nature of the Canadian market.

Typical portfolio characteristics

Here is what you can expect to see from the Canadian Low Volatility Equity (London Capital) portfolio strategy when compared to its benchmark, the S&P/TSX Composite Index:

- Less volatility, as reflected by a lower standard deviation than the market
- Lower drawdown experience over various market cycles
- Higher running yield than the benchmark
- Valuations in line with the broader market
- Broad sector exposure
- A concentrated pure Canadian portfolio with 30 to 50 low beta, high-quality stocks

Strategy snapshot

Asset class
Equity

Inception date
2016

Assets in mandate
$36.6 million

Benchmark
S&P/TSX Composite Index

Investment team
London Capital Management

Portfolio manager(s)
Robert Lee,
Vice-President, Equities

Pei Li,
Manager, Equities

About GLC

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

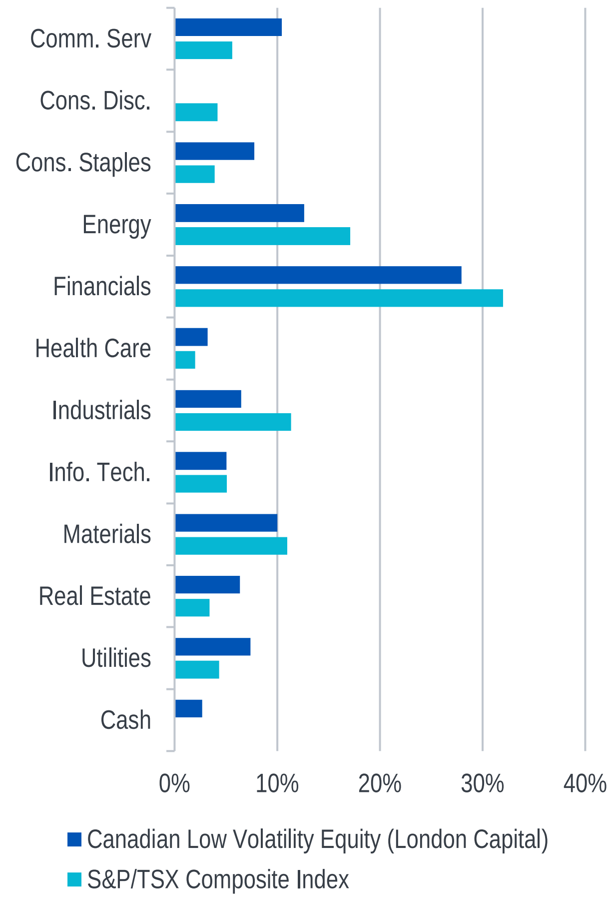
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Sharpe Ratio	1.4	0.2
Stand. Dev. (Annualized Returns)	7.5	9.8
Max. Drawdown	-10.0	-16.8
ROE Trail. 12	15.2	14.8
Div. Yield	3.3	3.3
Market Cap.	33.2	50.5
# of Equity Holdings	30	239

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Stella-Jones Inc	Materials	5.2
Intact Financial Corp	Financials	5.1
Toronto-Dominion Bank	Financials	5.1
Onex Corp	Financials	5.1
CGI Group Inc	Information Technology	5.0
Tc Energy Corp	Energy	4.9
BCE Inc	Communication Services	4.8
Parkland Fuel Corporation	Energy	4.7
Royal Bank of Canada	Financials	4.7
Metro Inc	Consumer Staples	4.4
Total		48.9

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL Canadian Low Volatility Fund (LCM) | 2. Index: S&P/TSX Composite Index | 3. Annualized

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 fund posted a single-digit positive return that outperformed the S&P TSX Composite Index on a gross return basis during the second quarter of 2019. Drivers of outperformance came from allocation and selection within the Energy sector and stock selection within Financials and Health Care. Energy was one of the worst performing sectors due to supply/demand dynamics as well as geopolitical reasons, so the fund's underweight was a benefit. The fund's position in TC Energy helped as the stock traded higher after management agreed to sell an 85% stake in an oil sands pipeline that will generate C$1.15 billion for future projects. In the Financials sectors, our position in Intact Financial benefited from a price gain after the company reported a better-than-expected quarter. In the Health Care sector, the fund's exposure to Chartwell was helped by the stock trading higher on the news that Ventas agreed to acquire an 85% interest in senior housing assets in Quebec, a region that Chartwell has material exposure to.

Portfolio activity

The fund is focused on finding low-volatility stocks through a highly disciplined investment process designed to outperform over a full market cycle. Our rigorous process seeks select high-quality, mature, large-cap stocks. Portfolio activity during any given quarter is an outcome of disciplined stock selection and our risk-mitigating process. The fund added Rogers Communication within the Communication Services sector and Saputo within Staples. Also, the fund added Fairfax Financial to the Financial sector exposure. And lastly, Aecon Group, a construction and engineering stock, was added to Industrials. We closed our position in Enbridge Inc within the Energy sector and sold both CAE Inc and Mullen Group from Industrials.

Positioning & outlook

We expect volatility to increase over the next 6 to 18 months as the market interprets scenarios from the ongoing U.S.-China trade negotiations, signals from global economic indicators and the outcome of the 2020 Presidential election, which is only in the beginning stages. Our disciplined focus on low-volatility stock metrics and risk mitigation has helped us find attractive stocks with good return outlooks. This has led us to overweight our positions in the Communication Services, Consumer Staples, Utilities, Real Estate and Health Care sectors. We hold underweight positions in the Industrials, Energy, Consumer Discretionary and Financials sectors where we're finding fewer attractive stock opportunities.