Building growth from tech and innovation

What's the strategy?

The Science and Tech (London Capital) portfolio strategy invests primarily in U.S. and Canadian companies with strong growth prospects in science and technology related sectors to achieve long-term capital appreciation. The fund is exclusively focused in the information and technology and communication services sectors.

What's the approach?

The portfolio managers pursue a systematic approach in which top-down analysis determines industry weight positioning and a bottom-up analysis determines stock selection and weights. The mandate takes a longer-term view on companies and, as a result, has a lower turnover than most other funds of a similar nature. The portfolio manager seeks to identify industry risks, competitive opportunities and macro trends to influence sector allocations. This is done alongside disciplined fundamental research to identify science and technology related companies that are positioned to deliver strong results in the current market cycle.

Why invest in this portfolio strategy?

Ideal for investors seeking sector specific exposure to science and technology growth-related companies to complement a well-diversified portfolio. Investors gain access to the potential of forward-thinking, innovative science and technology companies through this mandate. These growth companies rapidly evolve in today's market place, tending to outpace inflation and have strong price appreciation over the long term. The portfolio will invest across the market cap spectrum in both the Canadian and U.S. markets.

Typical portfolio characteristics

Here's what you can expect to see from London Capital's Science and Technology equity strategy:

- An above-average earnings momentum compared to broad index
- Between 30 and 70 holdings
- 50% to 100% Canadian and U.S. holdings
- 0% to 30% international holdings

Strategy snapshot

Asset class
Equity

Inception date
2000

Assets in mandate
$334.2 million

Benchmark
20% S&P/TSX Capped IT Index

55% S&P 500 Information Technology Index

25% S&P 500 Communication Services

Investment team
London Capital Management

Portfolio manager(s)
Martin Rose,
Vice-President, 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

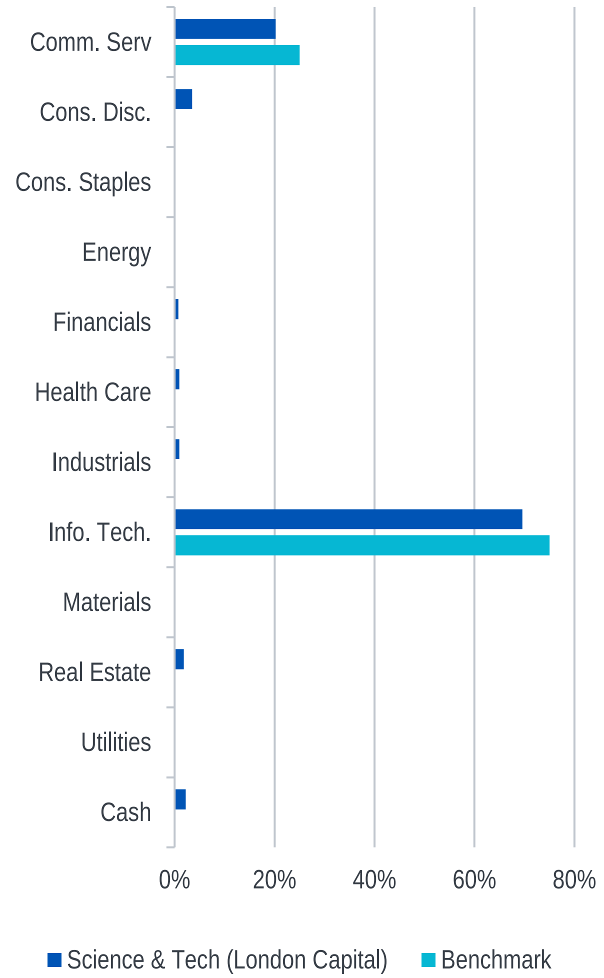
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	489.0	441.1
Qtly. Sales Mom.	2.6	1.8
P/E Curr. Yr. Median	27.5	28.8
P/B Curr. Yr.	7.9	11.3
EPS Curr. Yr. Median Reinvest. Rate	25.5	25.3
ROE Trail. 12	27.0	30.1
Div. Yield	1.1	1.4
# of Equity Holdings	47	-

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Microsoft Corp	Information Technology	9.1
Apple Inc	Information Technology	8.3
Alphabet Inc-Cl A	Communication Services	6.6
Facebook Inc.	Communication Services	5.0
Visa Inc-Class A Shares	Information Technology	4.7
Constellation Software Inc	Information Technology	4.7
CGI Group Inc	Information Technology	4.4
Mastercard Inc Cl A	Information Technology	3.8
Paypal Holdings Inc.	Information Technology	3.6
Open Text Corp	Information Technology	3.4
Total		53.8

Sector Allocation %



Source: GLC, Bloomberg, S&P │1. Fund: LL Science and Tech Fund (LCM) │2. Index: 20% S&P/TSX Capped IT Index, 55% S&P 500 Information Technology Index, 25% S&P 500 Communication Services

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 performed in line with the S&P/TSX Science and Technology Composite Index on a gross return basis. Lightspeed contributed to total performance as the stock continued to rally after their successful IPO in the first quarter. The fund also benefitted from an overweight position in the payment space, with Paypal, Mastercard and Visa performing well. Shopify was the largest drag on relative performance as its extremely elevated valuation keeps us to an underweight position. Qualcomm detracted from performance with an increased risk of regulatory action hurting their licensing business. Alibaba Group underperformed in the quarter after continued economic weakness in China.

Portfolio activity

We added several new names to the fund this quarter, increasing our exposure to the upcoming rollout of 5G networks around the world. Qualcomm, Ericsson, Marvel and Inphi are all expected to have substantial amounts of content included in various stages of the infrastructure build. We also increased our weights in Comcast, Facebook and AT&T to help control the overall volatility of the fund. We eliminated our position in Varonis Systems as channel checks indicate unexpected weakness in their European business. We also eliminated small positions in Raytheon and Nutanix as they each faced company-specific and end-market issues.

Positioning & outlook

Technology stocks saw increased volatility in the second quarter as trade tensions, worldwide economic uncertainty, and regulatory risks increased. This caused us to take a slightly more cautious position. Over the longer term, we remain confident in overall growth prospects for the sector, including software (Microsoft and Salesforce.com) and data processing firms (Visa, Mastercard and Paypal). We continue to look for opportunities to add to positions in these areas as valuations become more attractive. We believe the fund is well-positioned with most of its holdings (over 90%) in the U.S. and Canadian Information Technology and Communication Services sectors. The remainder is invested in technological leaders within their respective industries, such as the Health Care, Consumer Discretionary and Industrials sectors. The fund is fully invested and holds between 2% and 3% in cash.