Grow your portfolio with some of America's best companies

What's the strategy?

The U.S. Mid Cap (London Capital) portfolio strategy invests mainly in small to mid-cap U.S. publicly-traded companies with above-average growth potential to achieve long-term capital appreciation.

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 attributes. The portfolio manager seeks the flexibility of a small- or mid-cap company (ranging in size between US$1 and US$10 billion in market capitalization) to adapt to changing economic conditions, and a competitive product or service advantage relative to industry peers. Fundamental factor-analysis underpins stock selection and portfolio construction to isolate and capitalize on key drivers of market performance.

Why invest in this portfolio strategy?

This portfolio can be an excellent diversifier from other core and large-cap U.S. portfolio strategies and tends to hold stocks not typically held within large-cap U.S. portfolios. It offers a portfolio of companies with higher growth potential and the opportunity to participate in strong price appreciation at earlier stages of the investment lifecycle. Mid-cap companies tend to have smaller overseas exposure than their large-cap peers, allowing them to perform better when the U.S. economy is outperforming its global peers.

Typical portfolio characteristics

Here is what you can expect to see from the U.S. Mid Cap (London Capital) portfolio:

- Well diversified across sectors with an average of 50-100 holdings
- Stronger growth and growth momentum attributes than the S&P 400 Index
- Higher volatility than a core U.S. equity portfolio, but with greater opportunity for growth

Strategy snapshot

Asset class
Equity

Inception date
2000

Assets in mandate
$142.8 million

Benchmark
S&P Mid Cap 400 Index

Investment team
London Capital Management

Portfolio manager(s)
Brenda Nicholls
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

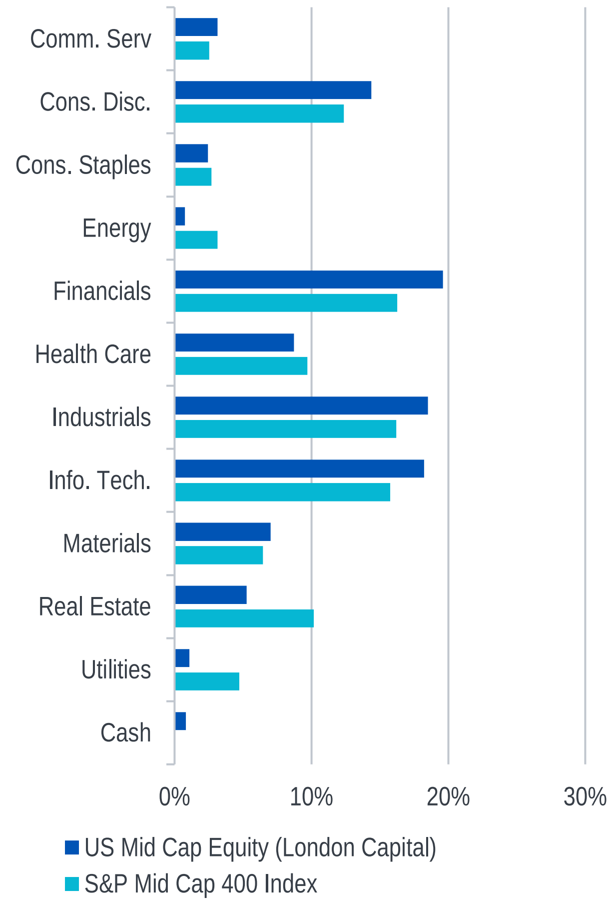
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	7.6	6.0
P/E Curr. Yr. Median	21.1	17.7
P/B Curr. Yr.	5.8	3.2
Qtly. Earn. Mom.	1.9	3.8
Annual Earn. Mom.	16.6	16.5
Sales Geo. Growth 5Y	9.0	7.2
ROE Trail. 12	25.5	14.4
Div. Yield	1.6	2.1
# of Equity Holdings	70	400

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Pool Corp.	Consumer Discretionary	2.9
Marketaxess Holdings Inc.	Financials	2.9
NVR Inc	Consumer Discretionary	2.9
Fair Issac Corp.	Information Technology	2.8
Chemed Corp.	Health Care	2.7
The Toro Co	Industrials	2.7
Leidos Holdings Inc.	Information Technology	2.7
Zebra Technologies Corp.	Information Technology	2.7
Graco Inc.	Industrials	2.6
Old Dominion Freight Line Inc.	Industrials	2.6
Total		27.5

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL U.S. Mid Cap Fund (LCM) | 2. Index: S&P Mid Cap 400 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 500 gained 4.3% total return in U.S. dollars (2.3% in Canadian dollar terms) for the quarter. Financials was the top performing sector with U.S. bank stocks benefitting from a healthy economy and a steeper U.S. yield curve. Information Technology also performed well, with sizable contributions from Microsoft, Visa and Mastercard. Energy was the only sector that produced a negative return in the quarter. U.S. WTI crude prices were down 2.8% following a strong rally in the first quarter. Oil prices were volatile: weighed down initially by demand concerns and rising U.S. inventories, before escalating U.S.-Iran tensions and speculation of further OPEC cuts supported prices in June. U.S. mid-caps underperformed relative to their large-cap counterparts. The S&P 400 Mid Cap Index was up 3.0% in U.S. dollar terms (total return) for the quarter. Eight of 11 sectors finished in the green. Energy was the worst performing sector, down double digits due to weaker oil and gas prices. Financials, Information Technology and Industrials, the three largest sectors within the index, were notable positive contributors.

Portfolio performance

Despite the market choppiness in the second quarter, the fund was able to significantly outperform the S&P 400 benchmark on a gross return basis. Strong stock selection in the Financials sector contributed to positive performance. Factset Research continued its run on a solid earnings reports while Marketaxess Holdings benefited from increasing market share in electronic debt trading platforms. NVR Inc held up well relative the market as housing-related equities were viewed as having both growth potential and as safer havens from broader market choppiness. An underweight position in Energy was also a positive contributor to fund performance. Trucking, within the Industrials sector, was a detractor to performance as the group was hit by investor concerns on faltering economic growth and trade war impacts.

Portfolio activity

We pursue a highly disciplined investment process that seeks out mid-cap equity stocks in the U.S. featuring an attractive combination of growth attributes. Fund weighting within the Technology sector was increased over the quarter despite short term choppiness and growth fears stemming from trade/tariff wars because, over the long term, substantial growth opportunities exist within this space. Our investment in the Health Care sector was reduced by eliminating relatively lower-quality holdings and holdings in Energy were further reduced because of continued concerns regarding a global supply/demand imbalance.

Positioning & outlook

The markets have been buffeted in the second quarter by more of the same concerns that were highlighted during the first quarter: ongoing trade and tariff tensions plus global and domestic growth concerns while geopolitical considerations ramp up. Domestically, the Presidential election cycle is already heating up, which means equities will be subject to headline noise and political rhetoric over the coming number of months too. We continue to believe in the potential of secular growers (i.e., those companies that have a sustainable competitive advantage), as well as those new disruptors that create opportunities and efficiencies in traditional arenas. LendingTree in the mortgage space is a good example. When compared to the S&P 400 Index, the fund is overweight in the Information Technology, Consumer Discretionary, Industrials and Financials sectors and underweight in the Real Estate, Energy and Utilities sectors.