Benefit from a focus on U.S. companies that are attractively priced and poised to grow

What's the strategy?

The U.S. Value Equity (London Capital) portfolio strategy invests in U.S. stocks that the portfolio managers believe to be undervalued compared to the overall market and the stock's peer group and/or the company's historical average, and exhibit signs of future growth and stock 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 value attributes. Fundamental factor-analysis underpins stock selection and portfolio construction to isolate and capitalize on key drivers of market performance. It's a systematic method designed to deliver strong, long-term, risk-adjusted returns through a transparent and repeatable process.

Why invest in this portfolio strategy?

This value-style portfolio offers exposure to U.S. large-cap companies with attractive valuations and attributes that point to improving momentum in fundamentals that have the potential to lead to outperformance. This portfolio benefits from London Capital's proprietary bottom-up quantitative-driven analysis that isolates the portfolio's holdings to only those stocks with the desired combination of attributes. It's a transparent and repeatable approach that capitalizes on key drivers of stock performance.

Typical portfolio characteristics

Here is what you can expect to see from the U.S. Value Equity (London Capital) portfolio strategy when compared to the S&P 500 Value Index or a broad U.S. benchmark like the S&P 500 Index:

- Lower price to earnings ratio (i.e. attractive stock values)
- Strong cash flow to debt ratio (i.e. signs of improving earnings expectations and strong financial stability)
- Equally weighted holdings in a non-benchmark relative portfolio that tends to result in a lower market cap than the S&P 500 Index or S&P 500 Value Index
- Good diversification across the S&P 500 sectors

Strategy snapshot

Asset class
Equity

Inception date
1998

Assets in mandate
$1,193.6 million

Benchmark
S&P 500 Value 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

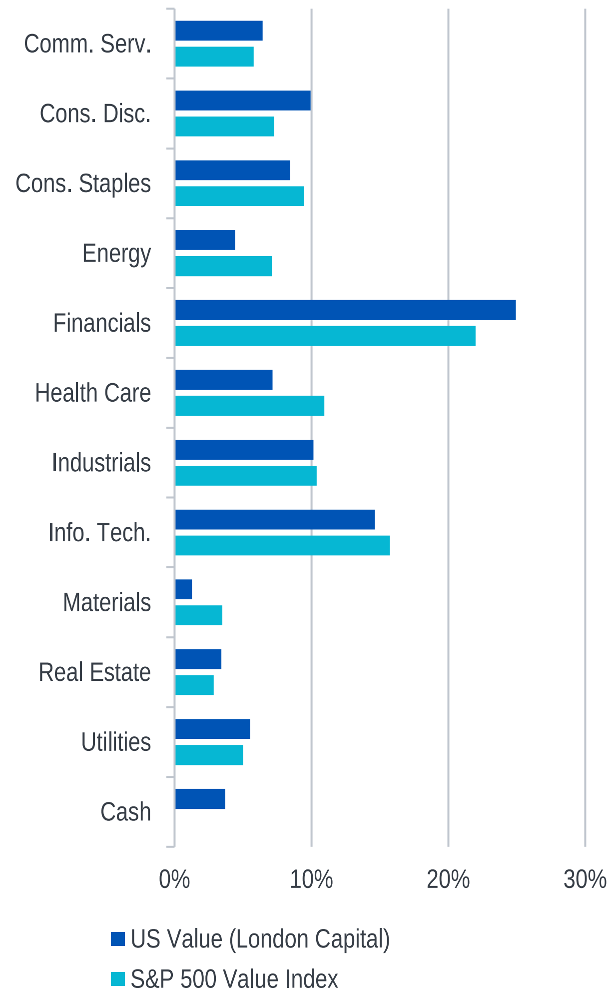
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	90.1	183.6
P/E Curr. Yr. Median	12.0	14.4
P/Cash Flow Trail. 12	8.3	12.1
P/B Curr. Yr.	2.2	3.0
EPS Curr. Yr. Median Rev 3M	0.1	-0.7
ROE Trail. 12	26.3	22.3
Cash Flow to Debt	0.1	0.1
Div. Yield	3.4	2.6
# of Equity Holdings	60	382

Major equity holdings %

Security	Sector	Portfolio Weight[1]
General Motors Co.	Consumer Discretionary	2.2
Apple Inc	Information Technology	2.2
United Continental Holdings Inc	Industrials	2.2
Citigroup Inc.	Financials	2.2
Xerox Corp.	Information Technology	2.2
Cummins Inc.	Industrials	2.2
Hp Inc.	Information Technology	2.1
Metlife Inc	Financials	2.1
Kimco Realty Corp.	Real Estate	2.1
Cardinal Health Inc.	Health Care	2.0
Total		21.5

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL U.S. Value Equity Fund (LCM) | 2. Index: S&P 500 Value 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.

Portfolio performance

The fund underperformed the S&P 500 Value Index on a gross return basis during the second quarter of 2019 as value-style headwinds continue to persist from the first quarter. The main driver was exposure to a handful of stocks within the Health Care and Consumer Discretionary sectors. Owning Mylan and Cardinal Health were drags on performance. As its businesses continue to struggle around the globe, Mylan traded lower after the company failed to provide any updates on their much-anticipated strategic review that has been ongoing for almost a year. Cardinal Health was weak during the period after the company posted disappointing Medical segment EBIT numbers that were well below expectations. Within the Consumer Discretionary sector, both Foot Locker and Kohls Corp detracted from fund performance. Foot Locker traded lower after the company reported weak top-line sales and profits that missed expectations while Kohls presented both a weak earnings update and a reduction of their annual outlook.

Portfolio activity

We added specialty retail stocks to Consumer Discretionary sector holdings via L Brands, Kohls and Foot Locker. We invested in Lincoln National and asset manager Franklin Resources within Financials, and bought holdings in Gilead and Abbvie Inc., two biotech stocks within Health Care. We also added Bristol Myers Squibb, a pharmaceutical company. In the Industrials sector, we added holdings in Masco Corp. Lastly, within the Information Technology sector, Seagate Technology and Xerox Corp (both technology hardware stocks) were added. Rounding out the additions to Technology was a semi-conductor company, Kla-Tencor. We sold holdings in Good Year Tire within the Consumer Discretionary sector and closed positions in three Energy stocks, Valero Energy, Marathon Petroleum and Occidental. Bright House Financial, a life and health insurance stock was sold. CVS Health Corp was sold out of the Health Care sector and we closed the fund’s position in IBM within Information Technology. Lastly, a number of stocks across various Materials subsectors were removed: Lyondellbasell, Nucor, Eastman Chemical and Westrock. Broadly speaking in net terms, the fund increased its exposure to cyclical sectors of Consumer Discretionary, Information Technology and Industrials and reduced it exposure to commodity sectors of Energy and Materials.

Positioning & outlook

Outperformance in growth stocks persisted in the second quarter. Although the fund has been impacted by significant style headwinds, it continues to remain true to its mandate. The demand for growth stocks had led to significant price and multiple expansion in many stocks and we expect a reversion to the mean at some point. Uncertainty surrounding the U.S.-China trade negotiations, and slowing economic growth around the globe, seem to be the main drivers of fund flows within the capital markets. An increase in global economic indicators, followed by improved second quarter earnings, makes a strong case for a reversion to the value style (especially in the case should we receive a positive trade outcome). Regardless of the outcome of any of these fluid and unpredictable events, the fund will remain focussed on selecting the most attractive value stocks within its investable universe and will be positioned to benefit when sentiment changes. In line with our focus on high-quality value stocks, the fund is currently overweight Financials, Consumer Discretionary and Communication Services sectors where we have found the most attractive combination of quality and value characteristics. The fund is currently underweight in Health Care, Energy, Materials, Information Technology and Consumer Staples sectors where we have found fewer opportunities for strong, risk-adjusted returns.

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