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
$47.6 million

Benchmark
S&P/TSX Composite Index

Investment team
London Capital Management

Portfolio manager(s)

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 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.

As at June 30, 2020

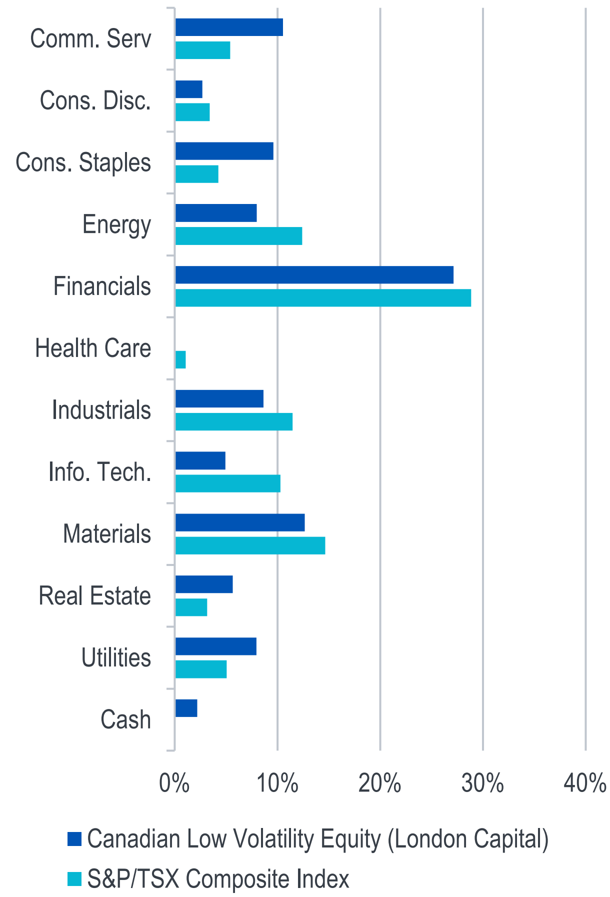
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Sharpe Ratio (1YR)	-24.9	-7.6
Standard Deviation of Annualized Returns (1YR)	26.5%	32.2%
Maximum Drawdown (1YR)	-31.9%	-37.2%
ROE Trail. 12	9.3	9.2
Div. Yield	2.9	3.4
Market Cap.	32.9	52.7
# of Equity Holdings	34	222

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Franco-Nevada Corp	Materials	5.1
Royal Bank of Canada	Financials	5.1
Thomson Reuters Corporation	Industrials	4.9
CGI Group Inc	Information Technology	4.9
Toronto-Dominion Bank	Financials	4.8
Metro Inc	Consumer Staples	4.8
Intact Financial Corp	Financials	4.8
Winpak Ltd	Materials	4.7
Hydro One Limited	Utilities	4.7
Tc Energy Corp	Energy	4.6
Total		**48.5**

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 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 surged 474% during the quarter). Communication services was the lone sector to produce a negative return.

Portfolio performance

During a period where equity markets rebounded after the severe Q1 selloff, the portfolio delivered a positive return although it underperformed the S&P TSX Composite Index on a gross return basis during Q2 2020. The S&P/TSX Composite Index realized an impressive second quarter bounce during 2020. All major North American indices recovered most of the losses incurred during the first quarter and, in the case of the Technology heavy Nasdaq, reached new 52-week highs. While this V-shaped bounce, driven by volatility and growth factors, is not an ideal backdrop for this mandate, the fund managed to capture moderate single-digit returns. Allocation and selection within Information Technology (IT) sector and selection in Materials were the primary drivers of underperformance. The IT sector topped performance amongst its peers so the fund's underweight detracted from returns, as did owning CGI Inc within the same sector. Within the Materials sector, the fund's overweight in Winpak Ltd hurt performance as the stock traded -7% throughout the quarter. Positive offsets came from the fund's underweight position and selection within the Financials sector.

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 to select high-quality, mature, large-cap stocks. Portfolio activity during any given quarter is an outcome of disciplined stock selection and London Capital's risk-mitigating process. Following these guidelines, the fund opened new positions in Dollarama within the Consumer Discretionary sector, TMX Group in Financials and Canadian National Railway within Industrials. The fund also closed positions in Chartwell Retirement Residences (Health Care) and Pembina Pipeline Corp (Energy).

Positioning & outlook

Impressive fiscal and monetary support from Central Banks, combined with strong speculative action, drove an impressive recovery in major indices during the second quarter. The strength of the bounce back was broad-based. Current sentiment is very positive as the markets continue to trend higher despite concerns about the growth of COVID-19 cases, worries about the economic recovery and the market itself becoming quite extended. While fiscal and monetary stimulus have provided record liquidity that enabled the impressive second quarter bounce, it is very difficult to forecast how long this will last. While the fund has benefitted from this recovery, we remain disciplined in our process to avoid the FOMO (fear of missing out) that exists in certain market areas, which would require significant tilts away from our low volatility mandate parameters. Our discipline to focus on low volatility stock metrics and risk mitigation has helped us navigate through this crisis (as well as others) and we'll continue to follow our process. The fund is overweight in the Consumer Staples, Communication Services, Utilities and Real Estate sectors. We hold underweight positions in the Information Technology, Energy, Industrials, Materials, Financials and Health Care sectors where we're finding fewer attractive stock opportunities.