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
$1,105.7 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 $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

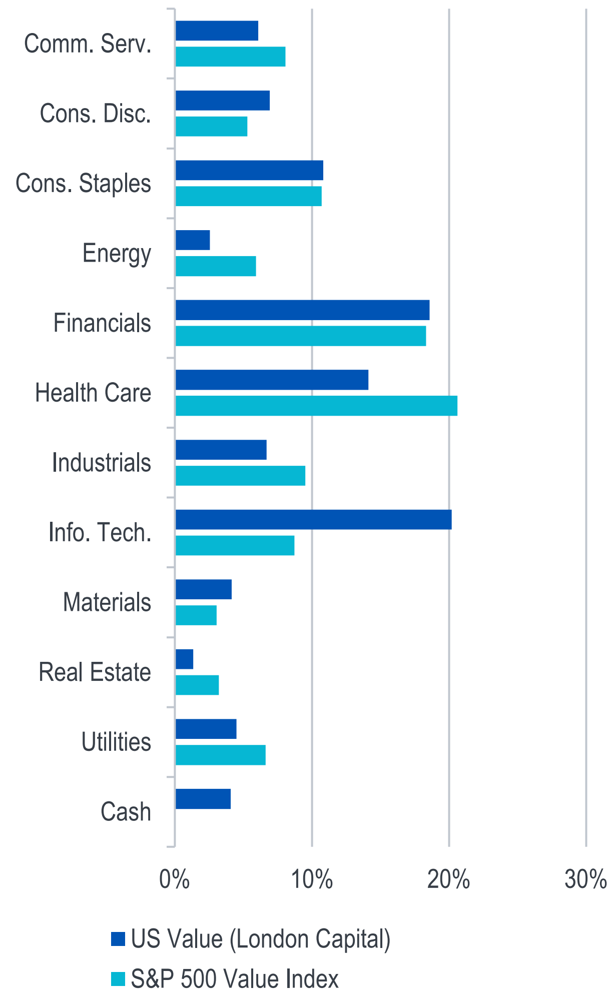
Portfolio attributes

Key attributes	Portfolio[1]	Index[2]
Market Cap.	103.0	125.6
P/E Curr. Yr. Median	13.6	19.9
P/Cash Flow Trail. 12	7.6	13.1
P/B Curr. Yr.	2.9	3.5
EPS Curr. Yr. Median Rev 3M	-15.6	-20.8
ROE Trail. 12	19.1	15.6
Cash Flow to Debt	0.2	0.2
Div. Yield	3.5	3.0
# of Equity Holdings	61	390

Major equity holdings %

Security	Sector	Portfolio Weight[1]
Hp Inc.	Information Technology	2.4
Apple Inc	Information Technology	2.4
Best Buy Co. Inc.	Consumer Discretionary	2.3
Abbvie Inc	Health Care	2.3
Morgan Stanley	Financials	2.3
Broadcom Inc.	Information Technology	2.1
Metlife Inc	Financials	2.0
Intel Corp.	Information Technology	2.0
International Business Machines Corp.	Information Technology	2.0
CVS Health Corp.	Health Care	2.0
Total		**21.8**

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 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 500 Index had its strongest quarterly gain since 1998, surging 20.5% (total return; 15.7% in Canadian dollar terms), largely on the backs of the heavily weighted information technology (IT) sector. The S&P 500 Value Index produced a 13.1% total return in U.S. dollars (8.6% in Canadian dollar terms). The heavyweight health care and financials sectors were notable contributors within the value index. Investors piled into health care companies amid optimistic news surrounding vaccine developments, while financials rebounded strongly with equity markets pricing in a v-shaped recovery. The energy sector also bounced back sharply, supported by WTI oil prices that soared 92%.

Portfolio performance

The portfolio delivered a positive return that matched the S&P 500 Value Index on a gross return basis during Q2 2020 but underperformed compared to the S&P 500 Pure Value Index. U.S. equity markets realized an impressive bounce back during the second quarter with all major indices recovering most of their first-quarter losses. And, in the case of the technology-heavy Nasdaq, they're reaching 52-week highs. All 11 GIC sectors in the S&P 500 index realized positive quarterly gains. The fund was also well positioned from a sector perspective. Despite value stocks generally lagging throughout the second quarter, positive performance was driven by selection in the Financials sector and allocation within the Information Technology and Utilities sectors. The fund's overweight position in Morgan Stanley, Citizens Financial and Metlife were significant positive performance drivers. Negative offsets came from the fund's higher cash weight, an underweight in the Energy sector and selection in a handful of stocks within Materials and Communication Services.

Portfolio activity

The fund's rigorous investment process is focused on finding high-quality U.S. companies that possess a combination of attributes that are value-oriented and exhibit signs of a strong catalyst for future growth and stock appreciation. Portfolio activity during any given quarter is an outcome of disciplined stock selection and London Capital's risk-mitigating process. In keeping with this investment approach, the fund added to its Consumer Discretionary, Staples and Information Technology sector holdings and reduced exposure to the Industrials and Financials sectors. Best Buy was added within Consumer Discretionary. In the Consumer Staples sector, two new stocks were added: Kraft Heinz and Altria Group. Norton Life Lock, a systems software stock, was also added to the fund's Information Technology holdings. We closed positions in Invesco Ltd, Capital One Financial, American International Group and Citigroup Inc within Financials and United Airlines within Industrials.

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 while worries about the economic recovery and the market itself are 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 value focus. Throughout various periods of 2020, the value approach did quite well, and the fund consistently outperformed its benchmark. Should there be a more consistent demand for value, the fund will be well positioned to capitalize. In line with our focus on high-quality value stocks, the fund is currently overweight Information Technology, Consumer Discretionary and Materials sectors where we have found the most attractive combination of quality and value characteristics. The fund is currently underweight in the Health Care, Energy, Industrials, Utilities, Communication Services and Real Estate sectors where we have found few opportunities for strong, risk-adjusted returns.