Canadian Focus List

June 1, 2018 | Quarterly Report

Portfolio Advisory Group – Equities

What's inside

A return to fundamentals

Volatility has subsided and we anticipate renewed focus on a supportive fundamental backdrop.

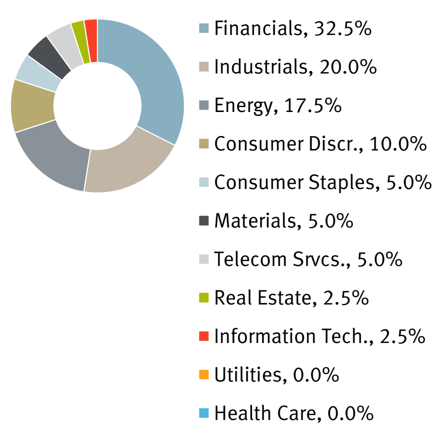
In our last quarterly update we addressed the surge in volatility that gripped global equity markets into the quarter-end. As we had expected at that time, equity market volatility has subsided and investors have once again focused their attention on the long-term fundamentals of the economy.

From our perspective, the economic outlook for Canada remains constructive. Tight labour market conditions and record low levels of unemployment are underpinning consumer spending. Business and federal government spending should rise modestly throughout the year. Additionally, the Canadian economy continues to benefit from the robust economic activity south of the border. Together, these factors are translating into positive economic growth for Canada.

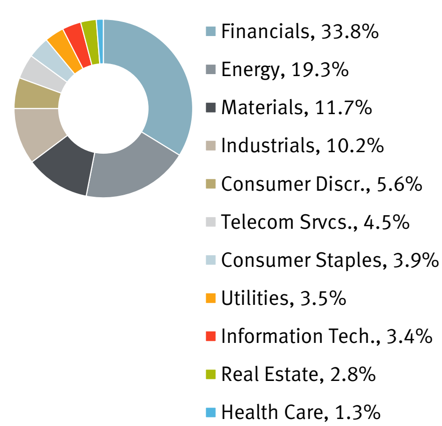
But the Canadian economy is not without its share of challenges, which we continue to monitor. These include elevated consumer debt levels, the potential for a housing market slowdown on the back of higher interest rates and tighter lending standards, widening energy price differentials

Sector weightings: Canadian Focus List vs. the S&P/TSX Composite

Canadian Focus List



S&P/TSX Composite



Source - RBC Dominion Securities, Bloomberg; data through 5/29/18

For an overview of the Portfolio, please click here.

Click here for authors' contact information.

All values in Canadian dollars and priced as of May 31, 2018, market close, unless otherwise noted.

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For required disclosures, see page 20.

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Wealth Management
Dominion Securities

We continue to recommend a full allocation to the Canadian equity market relative to strategic allocations.

affecting Western Canada, and ongoing NAFTA negotiations. We believe these risks are balanced by reasonable valuations for Canadian equities and, as such, we continue to recommend a full allocation to the Canadian equity market relative to strategic allocations.

Turning to performance for the past quarter, the Focus List delivered strong absolute returns on the back of its allocation to the Industrials sector. The Portfolio enjoyed robust gains from **Magna** (MG), **Constellation Software** (CSU), and **Waste Connections** (WCN). The Focus List delivered a total return of 4.5% during the spring 2018 quarter relative to the 4.8% posted by the S&P/TSX benchmark. Sources of relative underperformance this past quarter included our Underweight positioning in the gold complex. Our position in **Alimentation Couche-Tard** (ATD.B) was a notable laggard in the quarter following a disappointing set of performance results in the company's U.S. segment.

Total return for the spring quarter (3/1/18 – 5/31/18)	
Canadian Focus List	4.47%
S&P/TSX Composite Index	4.83%
Relative	-0.36%

Note: Past performance is no guarantee of future results and should not be viewed as an indicator of future results
Source - FactSet

Symbol	Company name	Weight	Price (5/31/18)	Market cap (B)	52-wk range		EPS (Calendar)		P/E		Div yield
							2018E	2019E	2018E	2019E	
Interest sensitive											
MFC	MANULIFE FINANCIAL CORP	2.50%	$24.46	$48.51	$28	- $23	$2.83	$2.99	8.6x	8.2x	3.6%
BMO	BANK OF MONTREAL	2.50%	$100.44	$64.35	$106	- $89	$9.32	$10.21	10.8x	9.8x	3.8%
NA	NATIONAL BANK OF CANADA	2.50%	$62.02	$21.05	$66	- $53	$6.29	$7.01	9.9x	8.8x	3.9%
TD	**TORONTO DOMINION BANK**	**5.00%**	**$75.70**	**$139.71**	**$77**	**- $63**	**$6.65**	**$7.47**	**11.4x**	**10.1x**	**3.5%**
RY	ROYAL BANK OF CANADA	5.00%	$98.00	$141.32	$109	- $90	NA	NA	NA	NA	3.8%
BNS	BANK OF NOVA SCOTIA (THE)*	5.00%	$78.24	$93.78	$86	- $75	R	R	R	R	4.2%
BAM'A	BROOKFIELD ASSET MANAGEMENT INC CL A	5.00%	$51.71	$51.29	$57	- $47	$2.48	NA	20.9x	NA	1.5%
IFC	INTACT FINANCIAL CORP	2.50%	$98.05	$13.65	$109	- $92	$7.49	$8.45	13.1x	11.6x	2.9%
BPY.UN	BROOKFIELD PROPERTY PARTNERS L P	2.50%	$25.65	$6.54	$32	$23	$2.16	NA	11.9x	NA	6.4%
ONEX	ONEX CORP	2.50%	$93.07	$9.43	$106	- $86	$0.59	NA	NMF	NA	0.4%
Consumer											
MG	MAGNA INTERNATIONAL INCORPORATED	2.50%	$83.14	$29.41	$86	- $57	$9.99	$11.36	8.3x	7.3x	2.1%
ATD'B	ALIMENTATION COUCHE-TARD INC CL B	5.00%	$54.14	$23.40	$68	- $52	$3.98	$4.54	13.6x	11.9x	0.7%
DOL	DOLLARAMA INC	2.50%	$149.65	$16.35	$170	- $119	$5.93	$6.85	25.2x	21.8x	0.3%
QSR	RESTAURANT BRANDS INTERNATIONAL INC	5.00%	$76.57	$19.08	$88	- $68	$3.76	$4.01	20.4x	19.1x	3.1%
Industrial											
WCN	WASTE CONNECTIONS INC	5.00%	$99.70	$26.27	$100	- $79	$3.64	$4.42	27.4x	22.6x	0.7%
CP	CANADIAN PACIFIC RAILWAY LTD	5.00%	$250.01	$35.92	$248	- $190	$14.64	$16.28	17.1x	15.4x	1.0%
CNR	CANADIAN NATIONAL RAILWAY	2.50%	$108.25	$79.75	$110	- $91	$5.86	$6.43	18.5x	16.8x	1.7%
TIH	TOROMONT INDS LTD	5.00%	$58.21	$4.72	$59	- $44	$3.25	$3.71	17.9x	15.7x	1.6%
FTT	**FINNING INTL INC**	**2.50%**	**$32.25**	**$5.43**	**$36**	**- $24**	**$2.16**	**$2.46**	**14.9x**	**13.1x**	**2.5%**
Telecom											
T	TELUS CORPORATION	5.00%	$45.59	$27.13	$49	- $43	$3.03	$3.34	15.0x	13.6x	4.6%
Technology											
CSU	CONSTELLATION SOFTWARE INC	2.50%	$1,021.22	$21.64	$1,035	- $651	$41.73	$47.65	24.5x	21.4x	0.5%
Resources											
TRP	TRANSCANADA CORP	5.00%	$54.28	$48.36	$65	- $50	$3.52	$3.58	15.4x	15.2x	5.1%
FNV	FRANCO-NEVADA CORP	2.50%	$91.43	$17.00	$110	- $85	$1.74	$1.90	NMF	48.1x	1.4%
CNQ	CANADIAN NATURAL RESOURCES LIMITED	5.00%	$44.89	$55.04	$49	- $36	$3.27	$3.54	13.7x	12.7x	3.0%
PPL	PEMBINA PIPELINE CORPORATION	2.50%	$45.10	$22.71	$46	- $38	$2.61	$2.98	17.3x	15.1x	5.1%
SU	SUNCOR ENERGY INC	5.00%	$51.64	$84.38	$53	- $36	$3.28	$3.28	15.7x	15.7x	2.8%
NTR	NUTRIEN LTD	2.50%	$65.61	$41.61	$70	- $55	$3.78	$4.55	17.4x	14.4x	3.1%

* This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion in the Canadian Focus List has not been reviewed or confirmed as of the date hereof.

Source - Thomson One

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Sector commentary

Canadian household finances are roughly twice as sensitive to borrowing rates as they were 20 years ago.

Financials & Real Estate

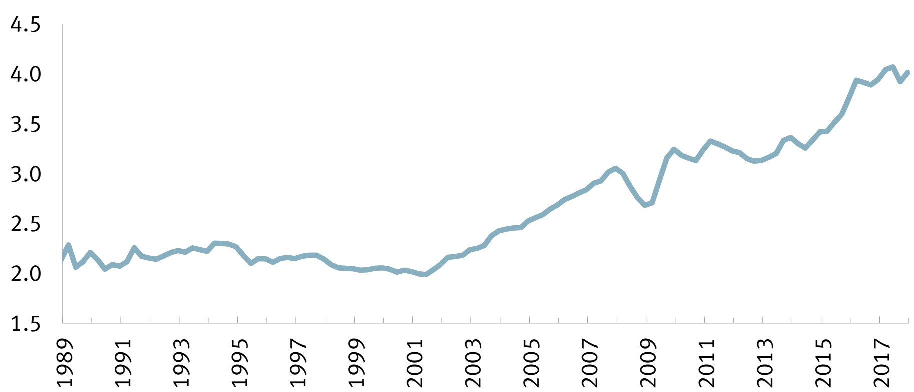
Checking bank exposure

We have reduced the Focus List's allocation to the Financials sector to 32.5% (from 35%) by moderating its exposure to the domestic lenders. The Focus List's weighting in the Real Estate sector remains unchanged at 2.5%.

We have reduced the position in **Toronto-Dominion Bank** (TD) to 5% (from 7.5%). This change reflects our desire to reduce exposure to the Canadian banks broadly and to consumer lending more specifically. Higher interest rates are set to be increasingly reflected in borrowers' debt service obligations while the combination of higher rates and new regulations have slowed key pockets of the housing market. With respect to the impact that higher rates could have on Canadians' ability to service their debts, it is worth noting that sensitivity to an increase in borrowing rates has doubled over the past 20 years. While loan losses remain near cycle lows and measures of credit stress are largely benign, we believe the risk to being early in reducing the Focus List's bank exposure is relatively low given valuations that are roughly in line with long-term averages and increased expectations for bank earnings growth. We are comfortable with a 5% position in Toronto-Dominion Bank as we continue to value the bank's quality management and diversification outside of Canada. We have also maintained a weighting of 5% in **Royal Bank of Canada** (RY), and 2.5% in **National Bank** (NA) and **Bank of Montreal** (BMO).

We continue to exercise patience with the Focus List's 2.5% position in **Brookfield Property Partners** (BPY.UN). In March, Brookfield Property formalized and received board support for its offer to acquire GGP, an owner of U.S. retail properties. The potential transaction has pressured Brookfield Property's unit price as sentiment towards U.S. retail real estate remains depressed and investors anticipate a large portion of the 254 million Brookfield Property units to be issued upon successful closing of the transaction to cycle back into the open market. Management has demonstrated the ability to identify investment opportunities where sentiment has separated prices from long-term value, and we suspect a similar dynamic could be at play with Brookfield Property units trading at a nearly 40% discount to RBC Capital Markets' net asset value estimate.

Mortgage servicing sensitivity to a 1% rate increase (as % of household income)



Source - Canadian Real Estate Association, RBC Economics

The 5% position in **Brookfield Asset Management** (BAM.A) in addition to the 2.5% positions in **Manulife Financial** (MFC), **Onex** (ONEX), and **Intact Financial** (IFC) round out the allocation to Financials.

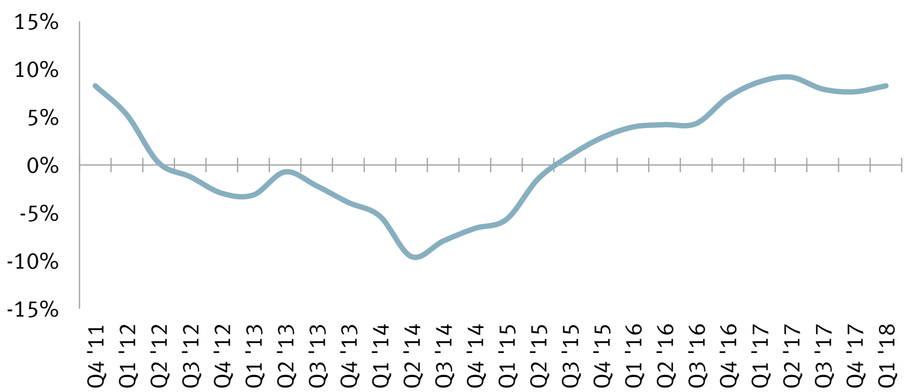
Telecom

Riding a wireless wave

We have maintained the Focus List's 5% position in **TELUS** (T) as the sole allocation in the Telecom sector. Wireless subscriber growth remains healthy with incumbents and new entrants alike benefitting from elevated industry activity driven by penetration gains, positive net migration, and growth in smart devices. With roughly 70% of its earnings coming from wireless, TELUS is well positioned to benefit from these trends.

Wireless subscriber growth has been healthy for incumbents and new entrants alike.

Postpaid wireless subscriber gross additions growth (y/y)



Source - Company reports, RBC Capital Markets

Consumer

Mending fences and pumping gas

We have left the Focus List's allocations to the Consumer Discretionary and Staples sectors unchanged with weightings of 10% and 5%, respectively.

We continue to like the earnings compounding potential of the **Restaurant Brands** (QSR) platform and, as such, have maintained the 5% position. There continues to be much consternation over frayed relations between head office and Tim Hortons franchisees as well as the tepid trajectory of the franchise's same-store sales. We believe that management boasts a demonstrated ability to mend fences from prior experience at Burger King and that tangible steps have been taken to return to a more productive working relationship. Moreover, one of the highlights of Restaurant Brands' fully franchised model is that same-store sales are less impactful to earnings growth than are new restaurant openings where recent performance has been quite strong with over 1,000 new Burger King units opened in 2017. We continue to believe that the company's majority shareholder, 3G Capital, is well aligned with the interests of shareholders in preserving brand equity and pursuing long-term sustainable growth.

Alimentation Couche-Tard (ATD.B) endured a challenging quarter that was punctuated by disappointing fiscal Q3 results. We believe the quarter was adversely impacted by extenuating circumstances including a rare dip in fuel margins relative to the industry as well as the lingering impact of last year's hurricanes on stores in the Southern U.S. We have maintained the Focus List's 5% position as we are hopeful that a rebound in fuel margin performance and in-store sales can reverse

A gap in long-cycle projects will place non-OPEC oil growth increasingly on the shoulders of the U.S.

share price underperformance. We believe concerns around the near-to-medium-term impact of electric vehicles and a general rise in fuel efficiency are overdone but will closely watch the company's ability to drive in-store sales amid mounting competition from dollar stores and quick service restaurants.

We have maintained the 2.5% positions in **Dollarama** (DOL) and **Magna** (MG).

Industrials & Technology

Gearing up for late cycle

We have increased the Focus List's weighting in the Industrials sector to 20% (from 17.5%) and maintained its 2.5% position in Technology.

We have added a 2.5% position in **Finning International** (FTT) to the Focus List. We believe Finning represents an attractive pick-and-shovel play on the commodity upcycle that typically occurs in the later stages of economic expansion. The company should benefit from increased activity amongst its oil-, copper-, and coal-producing customers as their demand for equipment and services grows. In addition to our anticipation of strong top-line growth, management has spent the past four years reducing costs and promoting capital efficiency. We believe the combination of these factors should drive strong earnings growth.

We have maintained the Focus List's positioning in the rails with a 5% weighting in **Canadian Pacific Railway** (CP) and a 2.5% weighting in **Canadian National Railway** (CNR). While recent service issues could still lead to contract losses to Canadian Pacific, we note that Canadian National Railway's operations have shown tangible signs of a turnaround with improved network fluidity and volume growth.

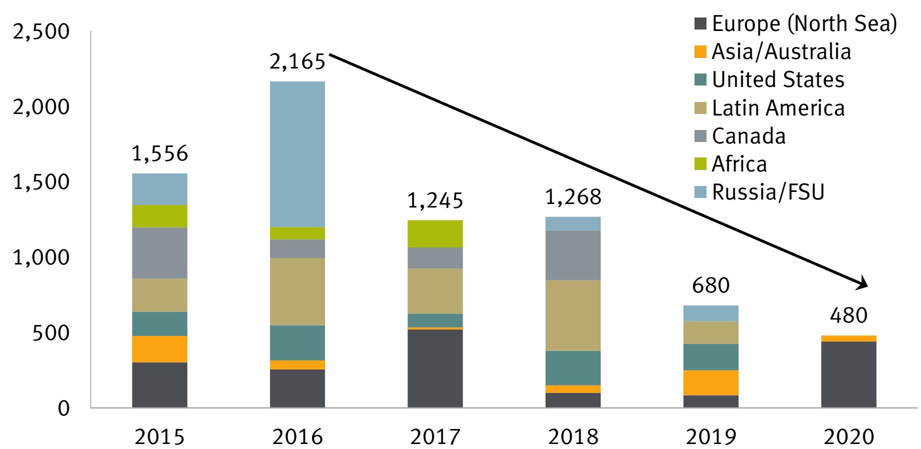
The 5% allocations to **Toromont** (TIH) and **Waste Connections** (WCN) as well as the 2.5% allocation to **Constellation Software** (CSU) are unchanged.

Energy

Pumping up the cash flow

Oil extended its rally with the West Texas Intermediate (WTI) benchmark notching a 3.5-year high of US$72.90 per barrel on May 25 before pulling back on concerns that the OPEC-led production pact that helped rebalance the market could be eased. Nevertheless, the crude oil market appears as healthy as it has been since its 2014 downturn with developed market crude and refined product inventories near their 5-year average level. RBC Capital Markets' long-term WTI price of US$65 per barrel,

Select non-OPEC crude oil project pipeline (millions of barrels per day)



Source - IEA, IHS Energy, Gunvor Group, RBC Capital Markets which reflects a host of factors, is under review. One issue that will likely factor into that review, in our view, is a gap in longer-cycle-time oil projects coming online in the next few years as a result of the price-induced drop in capital investment during the 2015–16 time frame.

While pipeline capacity constraints remain a key issue for heavy oil producers in Western Canada, we note that Canadian Natural Resources' and Suncor's cash flows have relatively low sensitivity to transportation-induced discounts.

We have maintained the Focus List's Energy sector weighting of 17.5% with no change to stock-specific allocations. We remain content that the 5% positions in **Canadian Natural Resources** (CNQ) and **Suncor** (SU) provide prudent exposure to commodity prices at this juncture. Based on RBC Capital Markets' estimates, both companies should generate meaningful and growing free cash flow over the next two years with a commensurate boost to cash returned to shareholders via dividends and share buybacks. While pipeline capacity constraints remain a key issue for heavy oil producers in Western Canada, we note that Canadian Natural Resources' and Suncor's cash flows have relatively low sensitivity to transportation-induced discounts on heavy oil due to their upgrading and refining operations. The Focus List's 5% weighting in **TransCanada** (TRP) and 2.5% in **Pembina Pipeline** (PPL) are also unchanged. We believe both companies are well positioned to navigate the current environment where investors are favouring companies with stronger balance sheets, manageable funding needs, and project visibility.

Materials

Bringing in the harvest

We have maintained the Focus List's 5% allocation to the Materials sector with 2.5% positions in **Nutrien** (NTR) and **Franco-Nevada** (FNV).

Nutrien has made progress on several important initiatives. Synergy realization related to the merger of the Agrium and PotashCorp businesses has reached a run rate of US$150M, which puts the company on track to achieve its US$500M target by the end of 2019. The company has also announced the partial sale of its largest equity investment for over US$4B. The sale of Nutrien's equity investments is a key step towards a more productive allocation of capital, in our view, as cash is deployed towards a combination of dividends, buybacks, and retail consolidation.

Finning International Inc.

(TSX: FTT, $32.25)

Finning provides sales, rental, parts, and support services for Caterpillar equipment & engines and complementary equipment across various industries including mining, agriculture, forestry, construction, power systems, paving, and government. It operates as an authorized dealer of Caterpillar products in Western Canada and Northern Canada; the U.K. & Ireland; and the Southern Cone of South America.

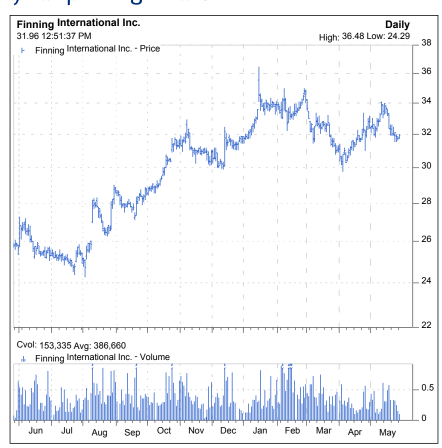
We are adding a 2.5% position in Finning International to the List

- **Finning offers investors late cycle commodity exposure without project risks**: Finning is well positioned for the commodity upcycle, which typically occurs in the later stages of the economic cycle. In Canada, we believe the company should benefit from improved activity in the oil sands, copper, and coal markets. To that end, management is forecasting a threefold increase in the number of 797-model truck rebuilds in 2019. In South America, rising copper production and increased fleet utilization supports the long-term outlook for equipment sales and services. Finally, the company's U.K. operations should benefit from strong demand for general construction equipment.
- **Management executing on operational improvements**: Management has spent the last four years transforming both the operations and company culture. As a result, management has taken out over $200M in costs and improved the capital efficiency of the organization. The overhaul of the operations included streamlining the supply chain, reducing the product offering, and maximizing return on capital. We believe that these efforts should lead to improved free cash flow conversion and a higher return on invested capital through the business cycle, which in turn could drive a higher valuation for the business.
- **Innovation-driven investments could add upside optionality**: Finning recently launched a new global division call Finning Digital. Enabling value-added services such as linking equipment to performance management software are becoming greater factors in equipment purchasing decisions. These offerings are high-margin and strategic in nature as they create a layer of stickiness around the customer relationship. The success of Finning's digital capabilities could lead to new revenue streams, and increased potential to acquire other Caterpillar dealerships.

Risks

Risks include, but are not limited to, cyclicality in customer demand, competition from unaffiliated equipment manufacturers, the emergence of non-traditional distribution platforms, labour relations, and volatility in foreign exchange rates.

1-year pricing chart



Source - FactSet; data as of 1:51pm ET, 5/29/18

RBC Capital Markets:	Outperform

Toronto-Dominion Bank

(TSX: TD, $75.70)

Toronto-Dominion Bank (TD Bank) is the sixth-largest bank in North America by branches and serves more than 24 million customers in three key businesses: Canadian retail, U.S. retail, and wholesale banking. The bank also has a 42% ownership position in TD Ameritrade.

RBC Capital Markets:	Sector Perform

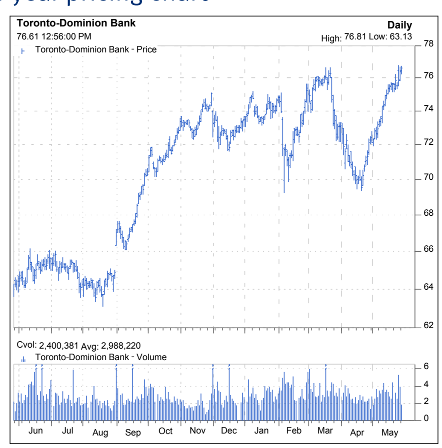
We are decreasing our position in TD Bank to 5% (from 7.5%)

- **Desire to moderate the Focus List's exposure to banks**: In trimming the position in Toronto-Dominion Bank by 2.5%, we have reduced the Focus List's allocation to the Canadian banks to 20% (from 22.5%). This compares to the S&P/TSX Composite's 23% weighting. We believe it is a prudent time to reduce exposure to the banks with interest rates on the rise and provisions for credit losses near cycle lows. Rising debt service costs and cooling activity in key housing markets present a headwind to loan growth and could lead to higher credit provisioning in the future. Moreover, Canadian banks are indirectly exposed to other challenges facing the domestic economy, including trade policy uncertainty and waning economic competitiveness. While measures of credit stress remain largely benign, we believe the risk to being early in reducing the Portfolio's bank exposure is relatively low given current valuations and earnings expectations.
- **Opportunity to trim largest single-name exposure at attractive valuation**: Bank valuations are trading roughly in line with their long-term historical averages. Toronto-Dominion Bank in particular is trading at a modestly wider-than-average premium relative to the industry on a price-to-earnings basis. As such, we believe current valuations offer a timely opportunity to reduce our exposure to what was the Focus List's only 7.5% position. We remain comfortable with a 5% position in Toronto-Dominion Bank as we continue to value the bank's quality management and diversification outside of Canada.
- **Recent expense and credit trends are unlikely to continue**: Toronto-Dominion Bank delivered better-than-expected Q2 earnings relative to consensus estimates with all segments recording solid results. We are cognizant that management expects expenses to rise in the second half of the year and that provisions for credit losses may be as good as they get in this cycle.

Risks

Risks include, but are not limited to, the health of the economy, deterioration in the capital markets environment, a turndown in North American housing markets, failure of government programs, and greater-than-anticipated impact from off-balance sheet commitments.

1-year pricing chart



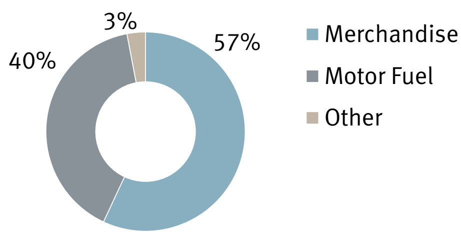
Source - FactSet; data as of 1:56pm ET, 5/29/18

Portfolio companies

Alimentation Couche-Tard Inc. (ATD.B) – 5%

- Couche-Tard is one of the largest convenience store retailers in North America. It operates a network of roughly 10,000 stores located across Canada and the U.S. The company also operates a network of approximately 2,700 stores in Europe.
- The company is geographically diversified with nearly 90% of its earnings generated outside of Canada.
- Management has a proven track record of adding value through the successful integration of accretive acquisitions.

ATD.B 2017 gross profit mix



Source - Bloomberg, Company reports

The Bank of Nova Scotia (BNS) – 5%

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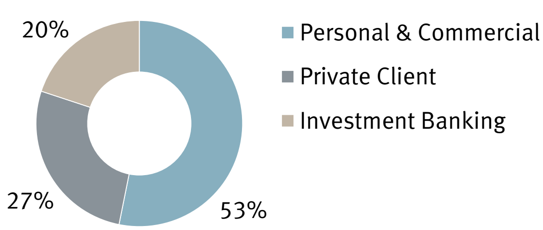
Bank of Montreal (BMO) – 2.5%

- Bank of Montreal is Canada's fourth-largest bank by market capitalization. Its group of companies includes Chicago-based BMO Harris Bank (including the acquired Marshall & Ilsley), BMO Nesbitt Burns (a full-service investment firm), and BMO Capital Markets.
- Cost containment remains a focus at the bank with RBC Capital Markets forecasting additional efficiency gains through fiscal 2018. We believe Bank of Montreal's U.S. exposure will support loan growth at a time when RBC Capital Markets expects domestic lending to slow due to regulatory actions aimed at the mortgage market.

BMO 2017 net revenue mix



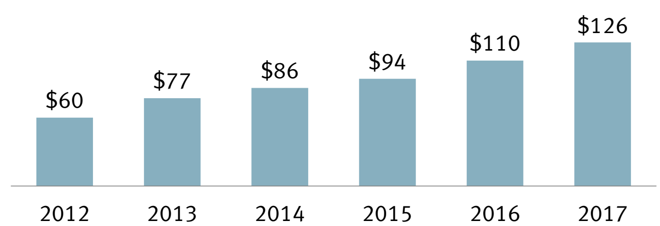
Source - Bloomberg, Company reports

Some exhibits in the report may not add to 100% due to rounding.

Brookfield Asset Management Inc. (BAM.A) – 5%

- Brookfield Asset Management is a global alternative asset manager focused on property, power, and infrastructure assets with approximately US$285B of assets under management (US$127B of which is fee-bearing).
- Given its solid track record of identifying long-term opportunities, we believe BAM should be able to generate significant returns over and above what is currently reflected in company cash flows.
- The company continues to grow its asset management business, which we believe will provide the company with a steady source of earnings.

BAM.A fee-bearing capital (in USD billions)

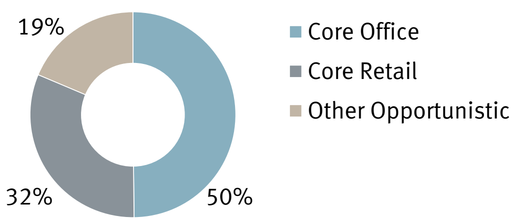


Source - Company reports

Brookfield Property Partners L.P. (BPY.UN) – 2.5%

- Brookfield Property Partners is a global owner and operator of high-quality real property spanning a range of sectors, including office, retail, industrial, multifamily, and hotels.
- The company's property footprint is diversified by both property type and geography. Management relies on its expertise and global reach to shift capital away from areas of the company's property portfolio that it believes are fully valued and into opportunities with better risk-reward potential.
- The company targets an asset mix of 80% core and 20% opportunistic investments.

BPY.UN year-end 2017 invested capital

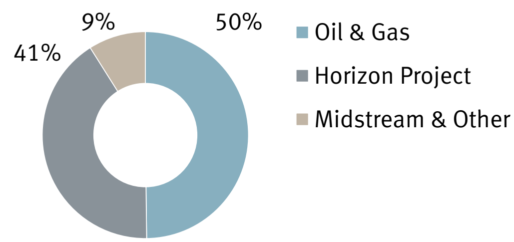


Source - Company reports

Canadian Natural Resources Ltd. (CNQ) – 5%

- Canadian Natural Resources is a senior oil and natural gas producer with operations in Western Canada, the North Sea, and Offshore Africa. The company's main growth driver is its Horizon oil sands project.
- The company's approach of dividing its oil sands development into smaller, more manageable phases provides greater expansion flexibility and control over costs.
- In addition, CNQ has a large natural gas portfolio that could see further investment should the commodity stage a recovery.

CNQ 2017 revenue mix

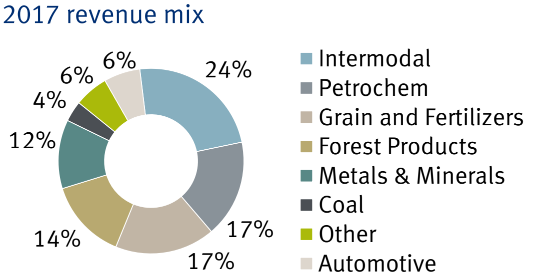


Source - Bloomberg, Company reports

Canadian National Railway (CNR) – 2.5%

- CN Rail transports about $250B worth of goods per year over a network that connects three coasts: the Atlantic, the Pacific, and the Gulf of Mexico.
- The company benefits from a diversified portfolio of goods with no category accounting for more than 23% of revenue.
- With 18% of revenue related to U.S. domestic traffic and an additional 33% transborder traffic, we believe the company is well positioned to benefit from U.S. economic growth.
- We believe North American rails could be a secular revaluation story as returns on invested capital push higher.

CNR 2017 revenue mix

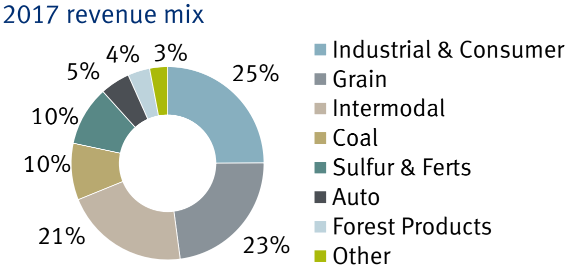


Source - Bloomberg, Company reports

Canadian Pacific Railway Ltd. (CP) – 5%

- CP Rail operates a network from Montreal to Vancouver and across the U.S. Northeast and Midwest regions. CP transports bulk commodities, merchandise freight, and intermodal traffic.
- We believe the company's business mix leaves it well positioned to capitalize on a recovery in bulk commodity shipments.
- We believe volume growth and latent network capacity position the company for margin expansion and earnings growth.

CP 2017 revenue mix

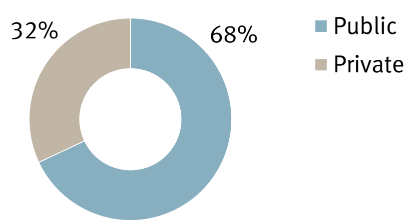


Source - Bloomberg, Company reports

Constellation Software Inc. (CSU) – 2.5%

- Constellation provides mission-critical enterprise resource planning software within attractive, niche vertical markets. Growth is driven in large part by acquisitions using a disciplined approach with high target returns.
- We believe Constellation has demonstrated a proven ability to compound capital through its disciplined acquisition framework. The company employs a high hurdle rate and a decentralized organizational structure, which we believe can help facilitate the redeployment of capital at high rates of return.

CSU 2017 revenue mix

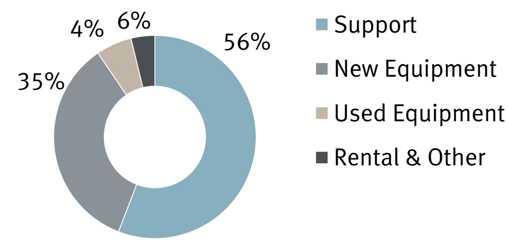


Source - Bloomberg, Company reports

Finning International Inc. (FTT) – 2.5%

- Finning is the world's largest Caterpillar equipment dealer, with operations in Western Canada, South America, and the U.K.
- Over the past several years, management has reduced the company's cost base and improved capital efficiency. RBC Capital Markets believes this sets the stage for significant operating leverage as demand picks up.
- Finning's geographical footprint is well positioned for a commodity upcycle. Strong copper prices are driving equipment sales and service demand in South America while increasing oil sands production levels pull forward service requirements.

FTT 2017 revenue mix

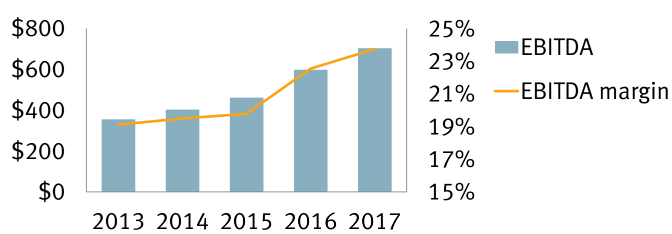


Source - Bloomberg, Company reports

Dollarama Inc. (DOL) – 2.5%

- Dollarama is Canada's leading fixed-price point retailer. With over 1,000 stores across the country, DOL is four times larger than its closest competitor.
- The dollar store format remains underpenetrated relative to the U.S. market, which provides a significant fairway for square-footage growth over the next several years.
- The company has a proven ability to engineer its gross margin despite fluctuations in the Canadian dollar.
- It is well positioned to benefit from value-conscious consumers and is defensively positioned in the case of weak GDP growth, in our opinion.

DOL EBITDA (millions) & EBITDA margin

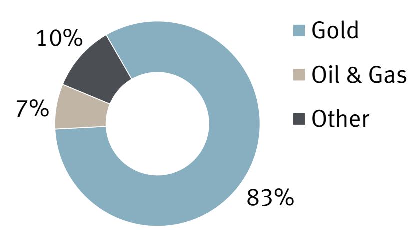


Source - Company reports

Franco-Nevada Corp. (FNV) – 2.5%

- Franco-Nevada is a diversified resource royalty and metal streams company with ongoing revenues from 46 active precious and base metal royalties/streams, and 63 active oil and gas royalties.
- Franco-Nevada's royalty and metal streams business model offers leverage to commodity prices but largely shields the company from operating risks, cost escalation, and environmental liabilities.
- The company possesses considerable liquidity with which to pursue additional investment opportunities.

FNV 2017 revenue mix

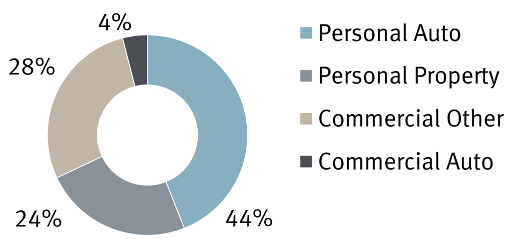


Source - Bloomberg, Company reports

Intact Financial Corp. (IFC) – 2.5%

- Intact Financial is the largest property and casualty (P&C) insurance company in Canada with a roughly 17% market share of premiums written.
- Intact's scale provides it with competitive advantages in the form of operating leverage, underwriting expertise, diversification, and consolidation potential.
- The company's P&C operations are not typically correlated to the performance of the broader economy.

IFC 2017 net premiums earned

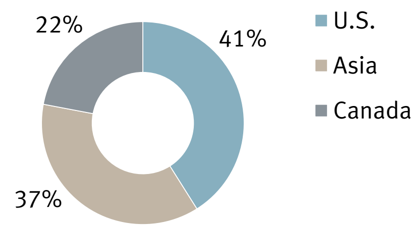


Source - Bloomberg, Company reports

Manulife Financial Corp. (MFC) – 2.5%

- Manulife is Canada's largest insurer and a leading global provider of financial protection and wealth management products and services. The company services individuals, groups, and institutions with principal operations in Asia, Canada, and the U.S.
- Manulife's Asian and wealth management businesses have substantially higher returns on equity than its legacy North American operations. We believe continued growth in these platforms will help the company improve its core return on equity over the medium term.
- MFC is open to exploring all options for its legacy businesses. We believe the sale of low-return legacy businesses could liberate capital for reinvestment in higher-return operations.

MFC 2017 revenue mix

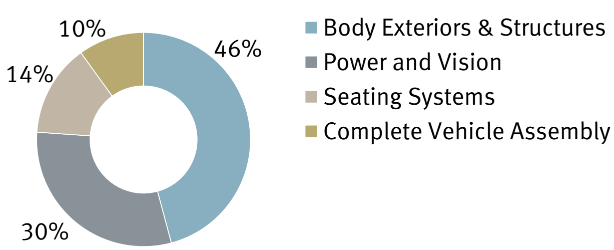


Source - Bloomberg, Company reports

Magna International Inc. (MG) – 2.5%

- MG is one of the world's leading auto parts suppliers with a diversified product suite. It also has the capability to design and integrate complete systems, including the assembly of an entire vehicle. MG operates over 300 plants in 28 countries.
- North American auto sales have fallen below the long-term trend line, while RBC Capital Markets projects global production to grow at roughly a 1.3% CAGR through 2022. We expect higher utilization rates to drive higher margins in Europe and Asia.
- The company continues to deploy excess free cash flow via a combination of acquisitions, buybacks, and dividend hikes.

MG 2017 revenue mix

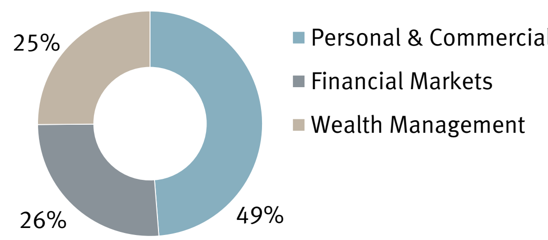


Source - Bloomberg, Company reports

National Bank of Canada (NA) – 2.5%

- National Bank is a Montreal-based, fully integrated financial services company, and the smallest of the Big Six Canadian banks. Earnings are typically split between personal & commercial (50%), wealth management (15%), and financial markets (35%).
- RBC Capital Markets expects National Bank to deliver additional efficiency improvements through 2019. The bank's capital ratio is now in a strong position, which has prompted National Bank to initiate a share buyback.

NA 2017 net revenue mix

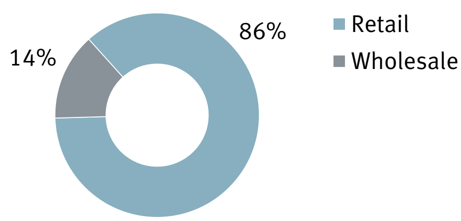


Source - Bloomberg, Company reports

Nutrien Ltd. (NTR) – 2.5%

- Nutrien is the world's largest fertilizer producer and agricultural input retailer, formed through the merger of Agrium and PotashCorp in January 2018.
- The company produces nitrogen, phosphate, and potash primarily in North America for sale globally. The Retail segment boasts significant market share in Canada, the U.S., Australia, and Argentina.
- Nutrien is targeting US$500M in run-rate merger synergies by end-2019, which should provide an earnings tailwind. RBC Capital Markets believes the sale of the company's equity investments could generate net proceeds of roughly US$4B, which could be reallocated to retail consolidation opportunities and cash returns to shareholders.

NTR 2017 gross profits by business segments

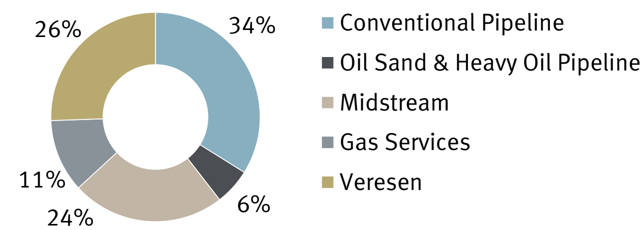


Source - Bloomberg, Company reports

Pembina Pipeline Corp. (PPL) – 2.5%

- Pembina Pipeline is a pipeline and midstream company that operates oil and natural gas liquids (NGL) pipelines, gas gathering and processing facilities, and oil and NGL infrastructure and logistics businesses.
- Its significant pipeline of committed growth projects should underpin significant EBITDA and dividend growth. Its acquisition of Veresen increases Pembina's range of solutions and exposure to the Montney play.
- The company's premium valuation is supported by quality assets and mostly fee-for-service/cost-of-service cash flows.

PPL 2018 forecast EBITDA

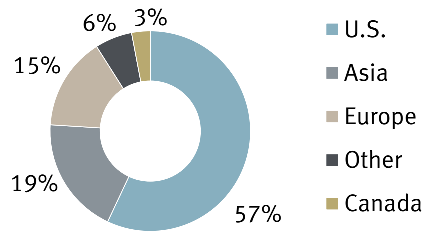


Source - RBC Capital Markets estimates

Onex Corporation (ONEX) – 2.5%

- Onex manages a portfolio of private equity investments as well as various public and private companies and targets a long-term internal rate of return of 15%. Onex has an excellent long-term investment track record.
- The company has approximately 30% of its net asset value in cash, which provides higher visibility should macro conditions deteriorate, and has valuation support through potential share buybacks should the share price weaken. Most of the company's investments are in the U.S.

ONEX 2017 revenue by geography

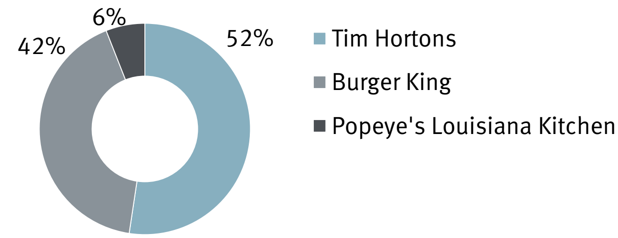


Source - Bloomberg, Company reports

Restaurant Brands International Inc. (QSR) – 5%

- Restaurant Brands is one of the largest global quick service restaurant franchisors. Its three brands, Burger King, Tim Hortons, and Popeyes, operate across more than 23,000 units in over 100 countries.
- 3G Capital, QSR's majority shareholder, has a demonstrated track record of generating efficiencies and returns on capital.
- The franchise model offers relatively stable revenue and cash flow, which should help in rapidly repaying acquisition debt.
- We expect improved same-store sales trends, cost rationalization at Popeyes, and unit growth to drive above-peer earnings growth.

QSR 2017 adjusted EBITDA mix

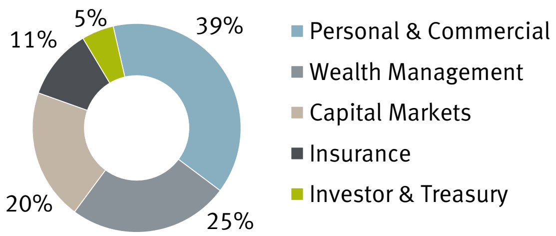


Source - Bloomberg, Company reports

Royal Bank of Canada (RY) – 5%

- Royal Bank is Canada's largest bank by assets and market capitalization, offering a full range of personal, commercial, and corporate banking services.
- Earnings are diversified across Personal & Commercial Banking, Capital Markets, Wealth Management, Insurance, and Investor & Treasury Services.

RY 2017 net revenue mix

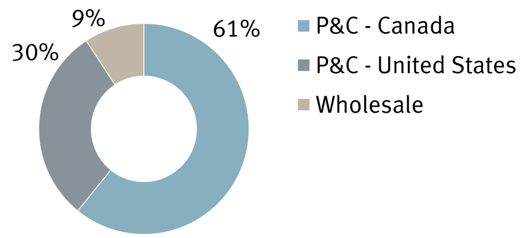


Source - Bloomberg, Company reports

TD Bank (TD) – 5%

- We believe TD Bank is well-positioned to deliver quality earnings growth with a business mix weighted to the North American retail market.
- TD's diversification outside of Canada should be viewed positively, in our opinion, as we expect the bank's U.S. operations to drive strong earnings growth.

TD 2017 net revenue mix

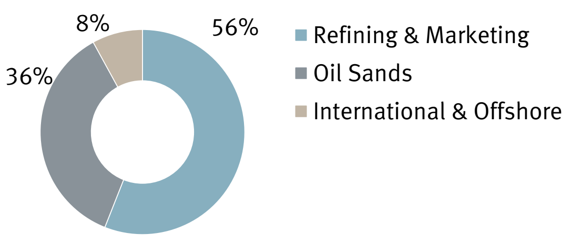


Source - Bloomberg, Company reports

Suncor Energy Inc. (SU) – 5%

- As an integrated oil company, Suncor's upstream portfolio has shifted from a 100% oil sands focus to one considerably more diverse in nature. The company's portfolio also includes refining and product marketing.
- RBC Capital Markets believes that growth initiatives at Fort Hills and Hebron will add significant sources of new production when they are fully ramped up.

SU 2017 revenue mix

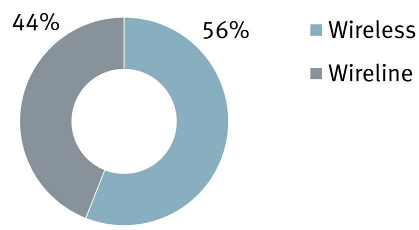


Source - Bloomberg, Company reports

TELUS Corp. (T) – 5%

- TELUS is the second-largest telecommunications provider in Canada, providing wireline, data, and wireless services to consumers, businesses, and wholesale telecom providers. In addition to its incumbent Western Canada territory, TELUS operates a national wireless franchise and an enterprise-focused operation in Central/Eastern Canada.
- The company boasts an attractive business mix with roughly 70% of EBITDA generated by the wireless division and the remaining 30% by wireline.
- The company has pursued an accelerated build-out of fibre-to-the-home (FTTH) infrastructure across its wireline footprint. We believe this positions the company well in an increasingly competitive space.

T 2017 revenue mix

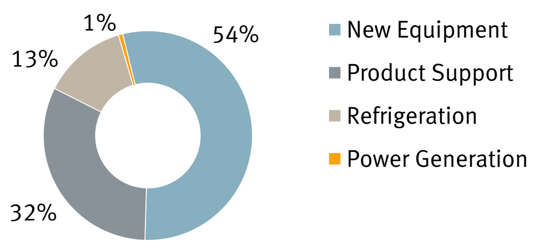


Source - Bloomberg, Company reports

Toromont Industries Ltd. (TIH) – 5%

- Toromont sells, rents, and services a broad range of Caterpillar mobile equipment and industrial engines across one of CAT's largest global dealer territories. It also runs Cimco, its industrial and recreational refrigeration unit.
- We believe Toromont is positioned to continue to generate solid growth in product support and rental revenues.
- Toromont's acquisition of the Hewitt Group provides management with a substantial margin expansion opportunity. It also expands the scale and footprint of Toromont's dealer network into Quebec and Atlantic Canada.

TIH 2017 revenue mix

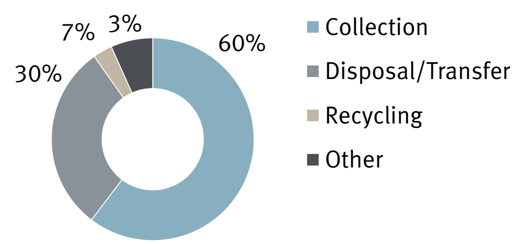


Source - Bloomberg, Company reports

Waste Connections, Inc. (WCN) – 5%

- Waste Connections is an integrated solid waste services company serving residential, commercial, industrial, and energy-producing customers across the U.S. and Canada.
- The company's focus on market selection and its operational expertise have resulted in a track record of peer-leading margins and cash flow conversion.
- Following the successful integration of Progressive Waste, we believe the company has additional attractive opportunities to deploy capital on value-accretive acquisitions.

WCN 2017 revenue mix

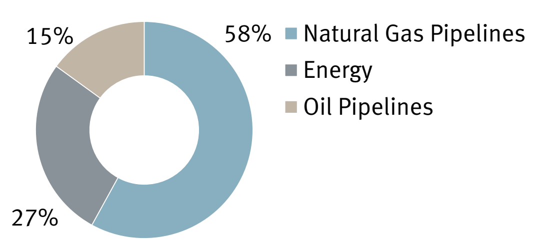


Source - Bloomberg, Company reports

TransCanada Corporation (TRP) – 5%

- TransCanada has more than 91,500 kilometres of natural gas pipelines, 4,800 kilometres of oil pipelines, and 653 billion cubic feet of natural gas storage.
- The successful acquisition of Columbia Pipeline Group adds to the company's footprint in the Marcellus and Utica gas plays.
- The company's capital backlog is underpinned by smaller projects, which we believe helps mitigate execution risk.

TRP 2017 revenue mix



Source - Bloomberg, Company reports

Portfolio companies risks

Alimentation Couche-Tard: Risks include, but are not limited to, fluctuations in gas margins, an inability to execute acquisitions on economic terms and realize forecast synergies, and risks related to operations spanning numerous geographies and currencies.

Bank of Montreal: Risks include, but are not limited to, the health of the overall economy, deterioration in the capital markets environment, the U.S. and Canadian housing markets, and greater-than-anticipated impact from off-balance sheet commitments.

The Bank of Nova Scotia: This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion in the Canadian Focus List has not been reviewed or confirmed as of the date hereof.

Brookfield Asset Management: Risks include, but are not limited to, rising interest rates, a hard cyclical downturn in the commercial property sector, and any economic shock that could cause lending spreads to widen and/or loan value ratios to decline.

Brookfield Property Partners: Risks include, but are not limited to, those associated with the ownership of real property including general economic conditions, local real estate markets, credit risk of tenants, and changes in interest rates. As an entity that operates in multiple geographies, the company is also exposed to currency fluctuations.

Canadian National Railway: Risks include, but are not limited to, extreme fluctuations in fuel prices, unusual weather conditions that could impact grain crops or railway operating efficiencies, and weaker-than-anticipated economic conditions.

Canadian Natural Resources: Risks include, but are not limited to, unexpected changes in energy prices, the ability to replace production and reserves on an economic basis, and government legislation relating to royalties, taxes, and environmental policy.

Canadian Pacific Railway: Risks include, but are not limited to, extreme fluctuations in fuel prices, unusual weather conditions that could impact grain crops or railway operating efficiencies, and weaker-than-anticipated economic conditions.

Constellation Software: Risks include, but are not limited to, an inability to source attractive acquisitions, unexpected organic growth headwinds, an inability to sustain margins, and the loss of key employees.

Dollarama: Risks include, but are not limited to, increased competition, wage pressures, margin erosion prompted by weakness in the Canadian dollar, and an inability to source attractive real estate for unit growth.

Finning International: Risks include, but are not limited to, cyclicality in customer demand, competition from unaffiliated equipment manufacturers, the emergence of non-traditional distribution platforms, labour relations, and volatility in foreign exchange rates.

Franco-Nevada: Risks include, but are not limited to, variability in commodity prices, the ability to source and execute on accretive royalty/stream acquisition opportunities, and the financial health and operational execution of project partners.

Intact Financial: Risks include, but are not limited to, catastrophe-related losses, variable profitability, political uncertainty, acquisition and integration risk, reserve adequacy, and volatility in its investment portfolio.

Magna International: Risks include, but are not limited to, deterioration in the outlook for auto sales, the financial performance of key customers, and pricing pressure.

Manulife Financial: Risks include, but are not limited to, persistently low interest rates, deteriorating equity markets, adequacy of actuarial assumptions, changes to regulatory rules, unfavourable developments in Asia, and appreciation in the Canadian dollar.

National Bank of Canada: Risks include, but are not limited to, the health of the overall economy and that of Quebec in particular, sustained deterioration in the capital markets environment, a turndown in the Canadian housing market, and deterioration in the outlook for energy-related credit.

Nutrien: Risks include, but are not limited to, unpredictable weather affecting agricultural inputs, foreign exchange impact on earnings and cash flows, the volatile nature of input costs and realized prices, and failure to realize targeted merger synergies.

Onex: Risks include, but are not limited to, an inability to generate positive fund performance, operating and financial risks of owned investments, departure of key personnel, changes in the tax code, and fluctuations in foreign exchange risk.

Pembina Pipeline: Risks include, but are not limited to, volumes shipped on the company's pipelines, regulatory risk, an inability to complete projects on time and on budget, operational issues, reduced margins in the midstream and marketing segment, and an increase in long-term interest rates.

Restaurant Brands International: Risks include, but are not limited to, slower-than-expected economic growth, food safety issues, input and labour cost inflation, fluctuations in foreign exchange rates, and execution risks.

Royal Bank of Canada: NA

Suncor Energy: Risks include, but are not limited to, unexpected changes in energy prices and refining margins, the ability to replace production and reserves on an economic basis, and government legislation relating to royalties, taxes, and environmental policy.

TD Bank: Risks include, but are not limited to, the health of the overall economy, sustained deterioration in the capital markets environment, a turndown in the Canadian and U.S. housing markets, failure of government programs, and greater-than-anticipated impact from off-balance sheet commitments.

TELUS: Risks include, but are not limited to, increased wireless competition from new entrants, higher capital expenditures associated with an accelerated fibre-to-the-home (FTTH) build-out, the emergence of irrational pricing in the industry, and regulatory changes that allow more foreign competition.

Toromont Industries: Risks include, but are not limited to, lower demand for large equipment required for infrastructure, construction, or mining operations in Eastern Canada; replacement risks from new competitors in their area of operations; lower demand for its refrigeration division; negative macroeconomic trends; lower commodity prices; as well as strategy execution and labour relations.

TransCanada: Risks include, but are not limited to, reduced volumes on the Canadian Mainline, an inability to execute on key projects, and variability in commodity prices.

Waste Connections: Risks include, but are not limited to, economic weakness, a failure to successfully integrate acquisitions, adverse regulatory changes, and volatility in commodity prices.

Methodology

The Canadian Focus List is produced by RBC Capital Markets and RBC Wealth Management's Portfolio Advisory Group. The List was launched in the mid-1980s and has a long-term track record of strong performance versus the S&P/TSX. The Canadian Focus List serves as a core Canadian equity portfolio and may be suitable for investors with a moderate risk tolerance in relation to an equity market investment.

Investment Process:

- The Portfolio is diversified across a minimum of 20 stocks with representation from each of the major sectors of the Canadian market.
- On a quarterly basis, a top-down analysis incorporating RBC Capital Markets' outlook for the economy, the markets, and various economic sectors is brought to bear on the sector composition of a diversified portfolio of securities.
- A "three-discipline" (3D) approach combining fundamental analysis of the firm's equity analysts with RBC Capital Markets' proprietary technical and quantitative disciplines screens stocks for inclusion on the List.
- On a quarterly basis, all stocks that prescreen well under the 3D process are considered for inclusion. Furthermore, the Committee considers each stock in relation to: strength of management, the robustness of its business model, and its potential to pay and grow dividends.

The foundation of our process is to try to find good businesses trading at reasonable valuations. Within the context of this, we focus on businesses with high returns on invested capital (in other words, every dollar the company puts into the business generates a significant return for the business), strong balance sheets, high cash generation, non-nebulous accounting, credible management teams that have demonstrated track records of success, and the willingness to return some capital to shareholders through share buybacks and dividends. Further, when possible, we try to find businesses that are at a positive inflection point in their evolution, which would be marked by things such as a gradual expansion of margins, a transition to positive free cash flow, or the roll-off of a significant capex cycle.

Against this, we overlay the 3D process, which helps us to filter out much of the noise generated by the day-to-day fluctuations of the market. We believe that an approach such as this will be rewarded over time. However, from time to time, the market will choose to focus its attention and goodwill on those businesses that lack many of the attributes that we look for and thus we expect to experience quarters in which we significantly underperform. Rather than view this as an opportunity to chase what is working, we view this as an opportunity to look for the types of businesses outlined above and, perhaps, capitalize on opportunities that the market has chosen to ignore in favour of short-term performance.

Disclosures and disclaimers

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For purposes of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories –Buy, Hold/Neutral, or Sell– regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Distribution of Ratings - RBC Capital Markets, LLC Equity Research
As of March 31, 2018

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Top Pick & Outperform]	865	53.49	275	31.79
Hold [Sector Perform]	667	41.25	147	22.04
Sell [Underperform]	85	5.26	7	8.24

Explanation of RBC Capital Markets, LLC Equity Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio. Outperform (O): Expected to materially outperform sector average over 12 months. Sector Perform (SP): Returns expected to be in line with sector average over 12 months. Underperform (U): Returns expected to be materially below sector average over 12 months. Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating

The Speculative risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

RBC Capital Markets has fundamental research of the following companies:

Alimentation Couche-Tard Inc. (ATD.B; Outperform; $54.14)

Bank of Montreal (BMO; Sector Perform; $100.44)

The Bank of Nova Scotia (BNS; Restricted; $78.24)

Brookfield Asset Management Inc. (BAM.A; Outperform; $51.71)

Brookfield Property Partners L.P. (BPY.UN; Outperform; $25.65)

Canadian National Railway Co. (CNR; Outperform; $108.25)

Canadian Natural Resources Ltd. (CNQ; Top Pick; $44.89)

Canadian Pacific Railway Ltd. (CP; Outperform; $250.01)

Constellation Software Inc. (CSU; Outperform; $1,021.22)

Dollarama Inc. (DOL; Outperform; $149.65)

Finning International Inc. (FTT; Outperform; $32.25)

Franco-Nevada Corporation (FNV; Outperform, $91.43)

Intact Financial Corporation (IFC; Outperform; $98.05)

Magna International Inc. (MG; Outperform; $83.14)

Manulife Financial Corporation (MFC; Outperform; $24.46)

National Bank of Canada (NA; Outperform; $62.02)

Nutrien Ltd. (NTR; Outperform; $66.61)

Onex Corporation (ONEX; Outperform; $93.07)

Pembina Pipeline Corporation (PPL; Outperform; $45.10)

Restaurant Brands International Inc. (QSR; Outperform; $76.57)

Suncor Energy Inc. (SU; Outperform; $51.64)

TELUS Corporation (T; Outperform; $45.59)

Toromont Industries Ltd. (TIH; Sector Perform; $58.21)

Toronto-Dominion Bank (TD; Sector Perform; $75.70)

TransCanada Corporation (TRP; Outperform; $54.28)

Waste Connections, Inc. (WCN; Outperform; $99.70)

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