

Canadian Focus List

Quarterly report



Wealth Management
Dominion Securities

March 1, 2024

Portfolio Advisory Group – Equities

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Economic slowdown appears to be slowing

Will we see rate cuts in H2 2024?

Global equity markets surged into the end of the year as hopes of central bank interest rate cuts hit a fever pitch. The Canadian equity market followed suit, despite an economic slowdown continuing to take hold. However, that slowdown appears to be showing signs of slowing as of late. Canadian GDP posted a larger-than-expected 0.2% increase in November (the first rise since May) with the early estimate for a stronger increase in December. The rise in November's GDP was supported by a 0.8% increase in industrial

production, while the services sectors also grew but at a slower 0.1% pace. Furthermore, the Canadian labour market unexpectedly firmed in January, with the unemployment rate ticking lower for the first time in more than a year. While Canadian labour market data can be quite volatile, RBC Economics suggests the details underlying the January upside employment growth (and downside unemployment rate) surprise were firm. With respect to the Canadian housing market, it appears green shoots are emerging. Home resales

For an overview of the Portfolio, please [click here](#).

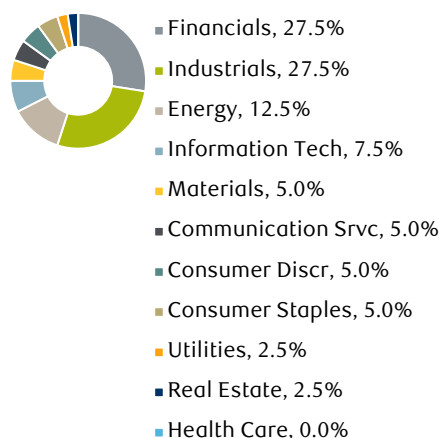
All values in Canadian dollars and priced as of Feb. 29, 2024, market close, unless otherwise noted.

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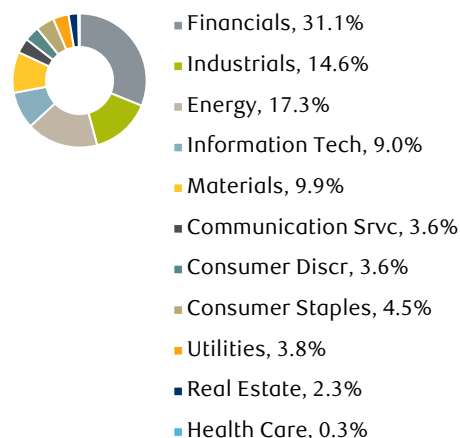
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Sector weightings: Canadian Focus List vs. the S&P/TSX Composite

Canadian Focus List



S&P/TSX Composite



Source - RBC Wealth Management, FactSet; data as of market close 2/26/24; percentages may not total 100% due to rounding

in Canada increased for the second month in a row in January. RBC Economics expects a bottom for prices could form around midyear followed by a gradual appreciation in H2 2024. Last but not least, Canadian January inflation decelerated to 2.9% year over year (y/y) from 3.4% y/y in December, moving under the top end of the Bank of Canada's (BoC) 1%–3% target range for the first time since June 2023.

Despite inflation moving into the BoC's target range, better-than-expected economic data would reason that the BoC does not need to act with any urgency as it relates to beginning the interest rate cutting cycle. We agree with the market view that BoC rate cuts should begin in the second half of the year. This is important for the Canadian economy given its greater-than-average sensitivity to interest rates as lower rates would help cushion the debt-servicing payment shock for indebted households.

From an equity market perspective, we believe the Canadian market should be supported this year by its discounted valuation relative to history, while its exposure to the resource complex should provide a hedge, of sorts, to persistent inflation. We remain satisfied with the quality bias of the Focus List's constituents, and confident in their ability to withstand economic stress if a recession materializes.

The Focus List ended the quarter higher, outperforming the benchmark

Broad-based outperformance

The S&P/TSX Composite ended the quarter up 6.39%. Strength was broad based, but particularly evident in Industrials, Real Estate, Consumer Staples, and Financials. Materials was the largest drag on performance. The Canadian Focus List ended the quarter up 10.90%, an outperformance of 451 basis points (bps) relative to the benchmark.

The Focus List's relative outperformance was largely driven by stock selection within the Materials sector and an Overweight allocation to the Industrials sector.

Although gold, the commodity, was little changed to end the quarter, the same cannot be said about the equities. The gold sub-sector experienced a double-digit decline as inflationary pressures offset a solid gold price environment. The Focus List's zero-weight to gold equities was a significant driver of relative outperformance. Elsewhere in Materials, the Focus List's overweight to CCL Industries Inc. (CCL.B) was a notable positive as management highlighted that this was the best growth outlook it had seen in years, while mergers & acquisitions would be a top priority this year. CCL.B was amongst the best-performing Focus List holdings driven by this optimistic outlook.

Total return for the winter quarter (12/1/23–2/29/24)

	Total return
Canadian Focus List	10.90%
S&P/TSX Composite Index	6.39%
Relative	451 bps

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

Source - FactSet

The Focus List's Overweight to Industrials also drove significant outperformance in the quarter as the sector posted a very strong double-digit return. Waste Connections, Inc. (WCN) was amongst the best-performing stocks in the Focus List following a solid quarterly result and outlook. The overweight to Toromont Industries Ltd. (TIH) was favourable to relative performance. The company reported quarterly results that were above consensus expectations on the back of strong revenue and margins.

While the Energy sector underperformed the market in the quarter, it contributed favourably to the Focus List's relative performance on the back of an underweight allocation as well as stock selection. We believe energy investors will continue to reap meaningful cash returns via buybacks and dividends if the current oil price environment holds steady. Furthermore, we think oil producers are better equipped to navigate a more challenging macro backdrop via fortified balance sheets and reasonable capex needs. We continue to suggest owning the best-of-breed Canadian energy producers.

Focus List changes

The performance of the Portfolio in the quarter in conjunction with the high-quality nature of the constituents leaves us largely content with the holdings this quarter. However, we are making one notable change that we believe improves the Portfolio's risk-reward profile.

We are reducing the Portfolio's position in Toronto-Dominion Bank (TD) to 2.5% (from 5.0%) on the back of the current anti-money laundering (AML) investigation and associated regulatory risk. While the potential monetary penalty could be significant (possibly greater than US\$1 billion), it is not our primary concern given TD's strong capital position. Rather, the investigation could result in other limitations that could constrain growth in the U.S. for years to come as well as increase compliance-related expenses. Although we view such a materially-negative outcome as a low probability risk, it is a risk nonetheless that we believe warrants a lower exposure to the bank at this time.

We are introducing a 2.5% position in Canadian Imperial Bank of Commerce (CM). We believe several headwinds that currently weigh on the banking sector could

potentially inflect favourably later this year. As such, following the TD reduction, we are adding CM to maintain the overall allocation to the sector. Furthermore, given CM's above-average Canadian consumer loan exposure, the company could experience a greater benefit relative to peers should interest rates decline. Mortgage repricing concerns and the resulting impact on borrower finances, in our view, are weighing on CIBC's valuation. Greater certainty on when rates eventually move lower and by what degree could give investors greater confidence that the mortgage payment shock will be manageable.

Portfolio positions

Symbol	Company name	Weight	Price 2/26/24	52-wk range	EPS (calendar year)			P/E		Div. yield	Market cap (B)
					2022A	2023E	2024E	2023E	2024E		
Communication Services											
T	TELUS Corporation	5.0%	\$23.84	29 - 21	\$1.19	\$0.95	\$1.05	25.1x	22.8x	6.3%	\$35.0
Consumer Discretionary											
DOL	Dollarama	5.0%	\$105.23	106 - 74	\$2.71	\$3.39	\$3.84	31.1x	27.4x	0.3%	\$29.6
Consumer Staples											
ATD	Alimentation Couche-Tard	5.0%	\$86.10	87 - 60	\$3.88	\$4.26	\$4.52	20.2x	19.0x	0.8%	\$83.0
Energy											
CNQ	Canadian Natural Resources	5.0%	\$88.98	93 - 67	\$11.19	\$7.51	\$7.81	11.9x	11.4x	4.5%	\$96.3
PPL	Pembina Pipeline	2.5%	\$46.80	47 - 39	\$5.12	\$2.99	\$2.92	15.7x	16.0x	5.7%	\$25.7
SU	Suncor Energy	2.5%	\$45.68	48 - 37	\$8.44	\$5.10	\$4.64	9.0x	9.8x	4.8%	\$59.2
TRP	TC Energy	2.5%	\$53.09	57 - 44	\$4.30	\$4.52	\$4.07	11.7x	13.0x	7.2%	\$55.1
Financials											
BMO	Bank of Montreal	5.0%	\$126.83	132 - 103	\$12.98	\$11.78	\$12.21	10.8x	10.4x	4.8%	\$91.4
BN	Brookfield Corporation	5.0%	\$55.07	56 - 39	\$3.60	\$4.08	\$4.24	13.5x	13.0x	0.8%	\$90.3
CM	Canadian Imperial Bank	2.5%	\$62.81	64 - 47	\$6.99	\$6.70	\$6.64	9.4x	9.5x	5.6%	\$58.5
IFC	Intact Financial	5.0%	\$235.96	237 - 182	\$11.88	\$11.70	\$14.35	20.2x	16.4x	2.1%	\$41.4
NA	National Bank of Canada	2.5%	\$104.54	105 - 84	\$9.61	\$9.59	\$9.64	10.9x	10.8x	4.1%	\$35.4
RY	Royal Bank of Canada	5.0%	\$132.32	139 - 108	\$11.22	NA	NA	NA	NA	NA	NA
TD	Toronto-Dominion Bank	2.5%	\$80.73	91 - 76	\$8.30	\$7.95	\$7.89	10.2x	10.2x	4.8%	\$144.6
Industrials											
BBD.B	Bombardier Class B	2.5%	\$48.00	74 - 40	\$0.99	\$5.31	\$5.34	9.0x	9.0x	0.0%	\$4.1
CP	Canadian Pacific Kansas City	5.0%	\$116.91	117 - 94	\$3.77	\$3.84	\$4.36	30.4x	26.8x	0.7%	\$108.9
EFN	Element Fleet Management	2.5%	\$23.01	23 - 17	\$1.10	\$1.29	\$1.44	17.9x	16.0x	2.1%	\$9.0
GFL	GFL Environmental*	2.5%	\$49.68	52 - 37	NA	NA	NA	NA	NA	NA	NA
TRI	Thomson Reuters	2.5%	\$214.83	218 - 159	\$3.43	\$4.73	\$4.83	45.5x	44.5x	1.4%	\$97.2
TIH	Toromont Industries	5.0%	\$127.19	128 - 101	\$5.47	\$6.38	\$6.38	19.9x	19.9x	1.5%	\$10.5
WCN	Waste Connections	5.0%	\$229.62	232 - 175	\$5.14	\$5.68	\$6.47	40.4x	35.5x	0.7%	\$59.2
WSP	WSP Global	2.5%	\$212.00	214 - 164	\$5.75	\$6.80	\$7.73	31.2x	27.4x	0.7%	\$26.4
Information Technology											
CSU	Constellation Software	5.0%	\$3,754.12	3806 - 2236	\$60.09	\$78.18	\$95.66	48.0x	39.2x	0.1%	\$79.6
SHOP	Shopify Class A	2.5%	\$104.78	123 - 53	\$0.05	\$0.99	\$1.38	NM	NM	0.0%	\$126.6
Materials											
CCL.B	CCL Industries Class B	2.5%	\$68.97	72 - 53	\$3.48	\$3.76	\$4.04	18.3x	17.1x	1.7%	\$11.4
NTR	Nutrien	2.5%	\$72.35	113 - 65	\$17.74	\$5.99	\$5.68	12.1x	12.7x	3.9%	\$35.8
Real Estate											
FCR.U	First Capital REIT^^	2.5%	\$15.85	18 - 12	\$1.04	\$0.95	\$1.07	16.7x	14.8x	5.5%	\$3.4
Utilities											
BIP.U	Brookfield Infrastructure Partners^	2.5%	\$39.36	50 - 29	\$3.60	\$3.96	\$4.40	9.9x	8.9x	5.6%	\$18.2

* 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.

^ Funds from operations (FFO) instead of earnings per share (EPS)

^^ Adjusted funds from operations (AFFO) instead of earnings per share (EPS)

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Canadian Imperial Bank of Commerce

(TSX: CM; \$62.81)

We are adding a 2.5% position in Canadian Imperial Bank of Commerce

- **Maintaining bank allocation:** We believe several headwinds that currently weigh on the banking sector could potentially inflect favourably later this year. As such, following the TD reduction, we are adding CIBC to the Portfolio to maintain the overall sector allocation.
- **Rate cuts could be a catalyst:** Given CIBC’s above-average Canadian consumer loan exposure, the bank could experience a greater benefit relative to peers should interest rates decline. Mortgage repricing concerns and the resulting impact on borrower finances, in our view, are weighing on CIBC’s valuation. Greater certainty on when rates eventually move lower and by what degree could give investors greater confidence that the mortgage payment shock will be manageable.

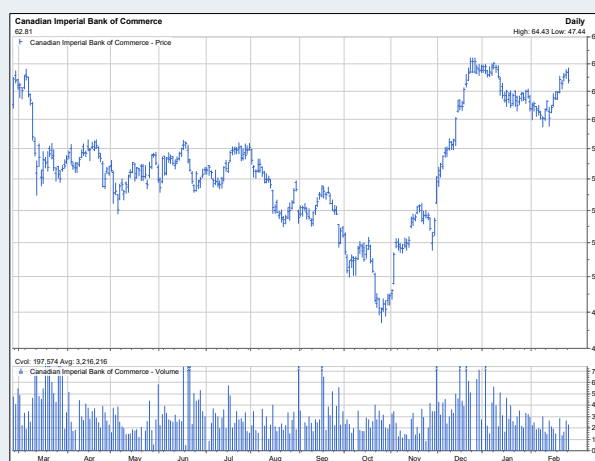
Risks

Risks include, but are not limited to, deterioration of the of the overall economy, the Canadian housing market, regulatory and political risk, weakening retail credit quality, and loss of market share.

Company description

CIBC is Canada’s fifth-largest bank as measured by loans, assets, and market capitalization. The bank offers a range of financial products and services across several business lines, including Personal and Business Banking, Commercial Banking and Wealth Management, and Capital Markets.

1-year pricing chart



Source - FactSet; data through 2/26/24

Toronto-Dominion Bank

(TSX: TD; \$80.73)

We are decreasing our position Toronto-Dominion Bank to 2.5% (from 5%)

- AML investigation and associated regulatory risk:** TD is currently subject to an anti-money laundering (AML) investigation that involves the U.S. Department of Justice. While the potential monetary penalty could be significant (possibly greater than US\$1 billion), it is not our primary concern given TD's strong capital position. Rather, the investigation could result in other limitations that could constrain growth in the U.S. for years to come as well as an increase in compliance-related expenses. Although we view such a materially negative outcome as a low probability risk, it is a risk nonetheless that we think warrants a lower exposure to the bank at this time.
- Strong capital position:** TD has a group-leading capital position. If growth by acquisition is restrained in the United States, TD's excess capital can be deployed towards share repurchases and greater organic growth opportunities across North America.
- High-quality Canadian franchise:** We believe that TD has a strong Canadian Personal & Commercial franchise with a high-quality, low-cost deposit base that gives the bank a clear operational advantage over most peers.

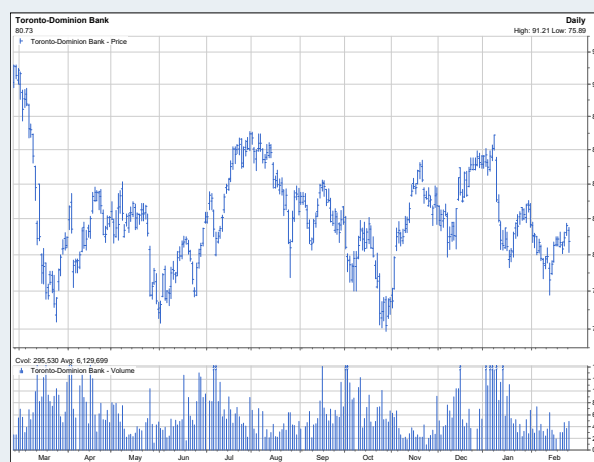
Risks

Risks include, but are not limited to, deterioration of the of the overall economy, the Canadian and U.S. housing markets, regulatory and political risk, weakening retail credit quality, and loss of market share.

Company description

The Toronto-Dominion Bank is Canada's second-largest bank by market capitalization. The bank has a large footprint in both Canada and the United States. Canadian Personal and Commercial Banking serves approximately 15 million customers, while the U.S. Retail Bank serves 10 million customers.

1-year pricing chart



Source - FactSet; data through 2/26/24

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.

NOTE: Past performance is no guarantee of future results and should not be viewed as an indicator of future results.

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Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Outperform]	829	57.17	253	30.52
Hold [Sector Perform]	575	39.66	154	26.78
Sell [Underperform]	46	3.17	6	13.04

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Alimentation Couche-Tard (ATD; Outperform; \$86.10)

Bank of Montreal (BMO; Outperform; \$126.83)

Bombardier (BBD.B; Outperform; \$48.00)

Brookfield Corp. (BN; Outperform; \$55.07)

Brookfield Infrastructure Partners L.P. (BIP.U; Outperform; \$39.36)
Canadian Imperial Bank of Commerce (CM; Sector Perform; \$62.81)
Canadian Natural Resources (CNQ; Outperform; \$88.98)
Canadian Pacific Kansas City (CP; Outperform; \$116.91)
CCL Industries (CCL.B; Outperform; \$68.97)
Constellation Software (CSU; Outperform; \$3,754.12)
Dollarama (DOL; Outperform; \$105.23)
Element Fleet Management (EFN; Outperform; \$23.01)
First Capital REIT (FCR.UN; Outperform; \$15.85)
GFL Environmental (GFL; Restricted; \$49.68)
Intact Financial (IFC; Sector Perform; \$235.96)
National Bank of Canada (NA; Sector Perform; \$104.54)
Nutrien (NTR; Outperform; \$72.35)
Pembina Pipeline (PPL; Outperform; \$46.80)
Shopify (SHOP; Outperform; \$104.78)
Suncor Energy (SU; Outperform; \$45.68)
TC Energy (TRP; Outperform; \$53.09)
TELUS (T; Outperform; \$23.84)
Thomson Reuters (TRI; Sector Perform; \$214.83)
Toromont Industries (TIH; Outperform; \$127.19)
Toronto-Dominion Bank (TD; Outperform; \$80.73)
Waste Connections (WCN; Outperform; \$229.62)
WSP Global (WSP; Outperform; \$212.00)

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