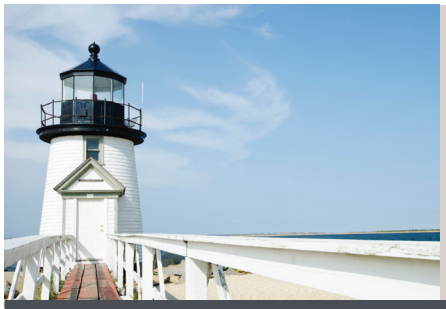

Canadian Focus List

December 1, 2017 | Quarterly Report

Portfolio Advisory Group – Equities

What's inside

3 Portfolio positions

4 Sector commentary

8 Air Canada
Portfolio removal

9 Canadian National Railway Co.
Portfolio decrease

10 Canadian Pacific Railway Ltd.
Portfolio increase

11 Constellation Software Inc.
Portfolio addition

12 Dollarama Inc.
Portfolio decrease

13 Magna International Inc.
Portfolio decrease

14 Manulife Financial Corp.
Portfolio addition

15 Rogers Communications Inc.
Portfolio removal

16 TELUS Corp.
Portfolio addition

17 Portfolio companies

24 Portfolio companies risks

26 Methodology

For an overview of the Portfolio, please click here.

Click here for authors' contact information.

All values in Canadian dollars and priced as of November 30, 2017, market close, unless otherwise noted.

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For required disclosures, see page 27.

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Getting the house in order

Reinforcing the Focus List's foundation to protect against future market tremors

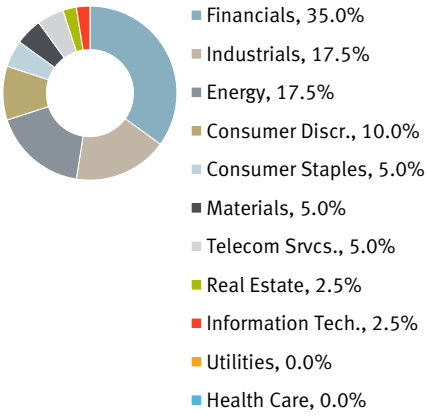
In the context of equity markets history, 2017 will be remembered as one of the least volatile periods on record. Intraday moves were muted, measures of option-implied volatility hit record lows, and pullbacks proved to be rare and limited in magnitude.

In our view, the macro environment continues to support a full allocation to equities relative to strategic allocations. The global economic outlook appears healthy, corporate earnings are expanding, and financial conditions remain accommodative. However, we are cognizant that the proverbial "wall of worry" could be poised to provide some resistance to equity markets in 2018 as investors grapple with higher valuations, protectionist trade threats, central bank balance sheet unwinding, and political gridlock, amongst other worries. With this quarter's changes in the Focus List, we are positioning the portfolio for a constructive environment for equity investing while taking prudent steps to brace for potential bumps in the road.

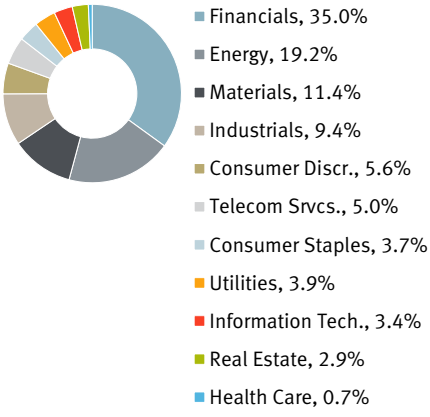
We would draw clients' attention to two themes amongst this quarter's changes that we believe will better position the Focus List to confront potential market tremors. First, we have elected

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 11/28/17

RBC Wealth Management Dominion Securities

We believe the changes we are making to the portfolio are prudent in managing the Focus List's balance of "offense" and "defense" heading into 2018.

to remove or pare back allocations to several names where we believe current valuations present a less favourable risk-reward proposition in the wake of strong share price performance. Namely, we are removing **Air Canada** (AC) and reducing the Focus List's weighting in **Dollarama** (DOL) and **Magna** (MG). Second, we are increasing the portfolio's allocation to a relatively defensive sector in Telecom. We believe these changes are prudent in managing the Focus List's balance of "offense" and "defense" heading into 2018.

In terms of portfolio performance, the Focus List delivered strong absolute and relative returns over the past quarter. Dollarama and Magna were the two most significant individual contributors to performance in the quarter with further gains generated by the portfolio's quality bias in Energy and stock selection in Industrials. For the fall 2017 quarter, the Canadian Focus List recorded a total return of 9.96% relative to the 6.37% recorded by the benchmark.

Total return for the fall quarter (9/1/17 – 11/30/17)	
Canadian Focus List	9.96%
S&P/TSX Composite Index	6.37%
Relative	3.59%

Symbol	Company name	Weight	Price 11/30/17	Market cap (B)	52-wk range	EPS (Calendar) 2018E	EPS (Calendar) 2019E	P/E 2018E	P/E 2019E	Dividend yield
Interest sensitive										
MFC	**MANULIFE FINANCIAL CORP**	**2.50%**	**$27.11**	**$53.65**	**$28 - $22**	**$2.48**	**$2.69**	**10.9x**	**10.1x**	**3.0%**
BMO	BANK OF MONTREAL	2.50%	$99.27	$64.30	$104 - $88	$8.40	$9.03	11.8x	11.0x	3.6%
NA	NATIONAL BANK OF CANADA	2.50%	$63.57	$21.62	$64 - $50	$5.72	$6.14	11.1x	10.4x	3.7%
TD	TORONTO DOMINION BANK	7.50%	$73.24	$134.94	$75 - $62	$5.89	$6.32	12.4x	11.6x	3.3%
RY	ROYAL BANK OF CANADA	5.00%	$100.85	$146.53	$102 - $87	NA	NA	NA	NA	3.6%
BNS	BANK OF NOVA SCOTIA (THE)	5.00%	$81.51	$97.75	$86 - $73	$7.46	$7.93	10.9x	10.3x	3.9%
BAM'A	BROOKFIELD ASSET MANAGEMENT INC CL A	5.00%	$53.62	$53.04	$54 - $43	$1.37	$2.52	39.1x	21.3x	1.3%
IFC	INTACT FINANCIAL CORP	5.00%	$108.24	$15.07	$109 - $91	$6.94	$7.75	15.6x	14.0x	2.4%
BPY.UN	BROOKFIELD PROPERTY PARTNERS L P	2.50%	$28.20	$7.19	$32 $27	$1.71	NA	16.5x	NA	5.4%
Consumer										
MG	**MAGNA INTERNATIONAL INCORPORATED**	**2.50%**	**$72.37**	**$26.15**	**$71 - $53**	**$8.49**	**$9.54**	**8.5x**	**7.6x**	**1.9%**
ATD'B	ALIMENTATION COUCHE-TARD INC CL B	5.00%	$65.79	$28.43	$67 - $56	$4.03	$4.56	16.3x	14.4x	0.5%
DOL	**DOLLARAMA INC**	**2.50%**	**$157.71**	**$17.61**	**$167 - $97**	**$5.17**	**$5.93**	**30.5x**	**26.6x**	**0.3%**
QSR	RESTAURANT BRANDS INTERNATIONAL INC	5.00%	$80.13	$19.14	$88 - $62	$3.39	$3.83	23.6x	20.9x	1.3%
Industrial										
WCN	WASTE CONNECTIONS INC	5.00%	$88.82	$23.42	$95 - $67	$3.02	$3.35	29.4x	26.5x	0.8%
CP	**CANADIAN PACIFIC RAILWAY LTD**	**5.00%**	**$225.80**	**$32.74**	**$226 - $188**	**$12.92**	**$14.31**	**17.5x**	**15.8x**	**1.0%**
CNR	**CANADIAN NATIONAL RAILWAY**	**2.50%**	**$100.71**	**$75.42**	**$109 - $88**	**$5.54**	**$6.11**	**18.2x**	**16.5x**	**1.6%**
TIH	TOROMONT INDS LTD	5.00%	$56.75	$4.59	$58 - $41	$2.78	$3.15	20.4x	18.0x	1.3%
Telecom										
T	**TELUS CORPORATION**	**5.00%**	**$47.68**	**$28.16**	**$49 - $42**	**$2.87**	**$3.07**	**16.6x**	**15.5x**	**4.2%**
Technology										
CSU	**CONSTELLATION SOFTWARE INC**	**2.50%**	**$755.68**	**$16.01**	**$791 - $575**	**$33.09**	**$37.65**	**22.8x**	**20.1x**	**0.7%**
Resources										
VET	VERMILION ENERGY INC	2.50%	$45.50	$5.53	$59 - $38	$0.49	$0.69	NMF	NMF	5.7%
TRP	TRANSCANADA CORP	2.50%	$61.88	$54.30	$65 - $58	$3.27	$3.58	18.9x	17.3x	4.0%
FNV	FRANCO-NEVADA CORP	2.50%	$105.11	$19.49	$110 - $71	$1.46	$1.62	NMF	NMF	1.1%
CNQ	CANADIAN NATURAL RESOURCES LIMITED	5.00%	$43.76	$53.25	$47 - $36	$1.73	$2.39	25.3x	18.3x	2.5%
PPL	PEMBINA PIPELINE CORPORATION	2.50%	$44.93	$22.59	$46 - $39	$2.11	$2.40	21.3x	18.7x	4.8%
SU	SUNCOR ENERGY INC	5.00%	$44.75	$74.01	$47 - $36	$1.38	$1.90	32.4x	23.6x	2.9%
AGU	AGRIUM INC	2.50%	$141.76	$19.59	$147 - $115	$7.59	$8.47	18.7x	16.7x	3.2%

Source - Thomson One

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Sector commentary

Financials & Real Estate

Reaching for a lifeline

We are increasing the Focus List's allocation to the Financials and Real Estate sectors with the addition of a 2.5% position in **Manulife Financial** (MFC). This addition leaves the portfolio's weighting across the two sectors at 37.5%.

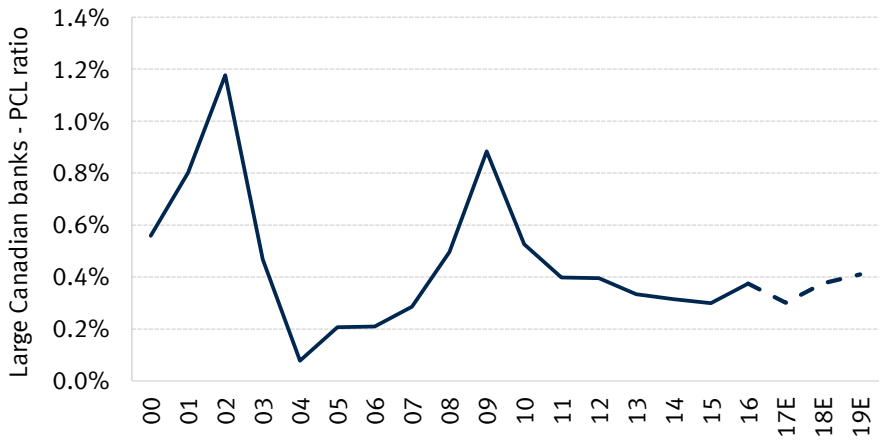
In our view, Canadian life insurers remain reasonably valued and offer a form of protection against higher interest rates. In particular, we believe Manulife boasts attractive growth platforms in Asia and wealth management. Both segments generate substantially higher returns than the company's North American legacy operations, which should help the company achieve its medium-term return on equity target of 13% or greater. We believe a position in Manulife also offers considerable upside optionality related to the potential reinvestment of capital liberated from low-return legacy operations as well as a potential reduction in the U.S. corporate tax rate.

Canadian banks have delivered solid operating performance in 2017 as the dislocation of the energy downturn has faded, the broader credit cycle has remained benign, and cost containment initiatives have resulted in strong operating leverage. While the health of key housing markets will remain in focus, fears that the confluence of a disruption in the non-prime lending channel, the imposition of a foreign-buyers tax in Ontario, and stricter underwriting standards nationwide would precipitate a near-term crash in home prices appear to have abated. The combination of solid earnings growth and diminished housing-related anxiety resulted in strong bank share price performance over the past three months.

We are cautiously optimistic on the fundamental outlook for the banks entering 2018. Additional regulatory tightening in the form of stress tests for uninsured mortgages in conjunction with higher interest rates will present a headwind to loan growth, while a change in credit loss accounting may require a feeling out period for investors. However, we would note that earnings expectations for the industry as a whole are relatively conservative next year. We believe that resilient credit trends, ongoing efficiency gains, and net interest margin expansion could offer upside to

Bank earnings estimates could prove to be conservative if credit remains resilient.

Canadian bank credit losses remain near cyclical lows



Source - Company reports, RBC Capital Markets estimates

the consensus forecast of 7% y/y earnings growth. From a valuation standpoint, the current group multiple of roughly 12x forward earnings represents a premium to the long-term average but remains below the 13x multiple breached earlier this year. We are content with the Focus List's 22.5% allocation to the domestic lenders. As such, we have elected to maintain weightings of 7.5% in **Toronto-Dominion Bank** (TD), 5% in **Royal Bank of Canada** (RY), 5% in **Bank of Nova Scotia** (BNS), 2.5% in **National Bank** (NA), and 2.5% in **Bank of Montreal** (BMO).

We continue to have a positive outlook on the return potential of the Focus List's 2.5% position in **Brookfield Property Partners** (BPY.UN) in the wake of the company's offer to acquire U.S. mall owner GGP. While the contemplated transaction would result in increased exposure to a controversial property segment, we are inclined to give management the benefit of the doubt when it comes to its ability to surface value from contrarian investment opportunities. Moreover, we believe Brookfield Property Partners' current valuation at a 27% discount to RBC Capital Markets' estimated net asset value offers an additional margin of safety.

The Focus List's 5% positions in **Brookfield Asset Management** (BAM.A) and **Intact Financial** (IFC) round out the allocation to Financials & Real Estate.

Telecom

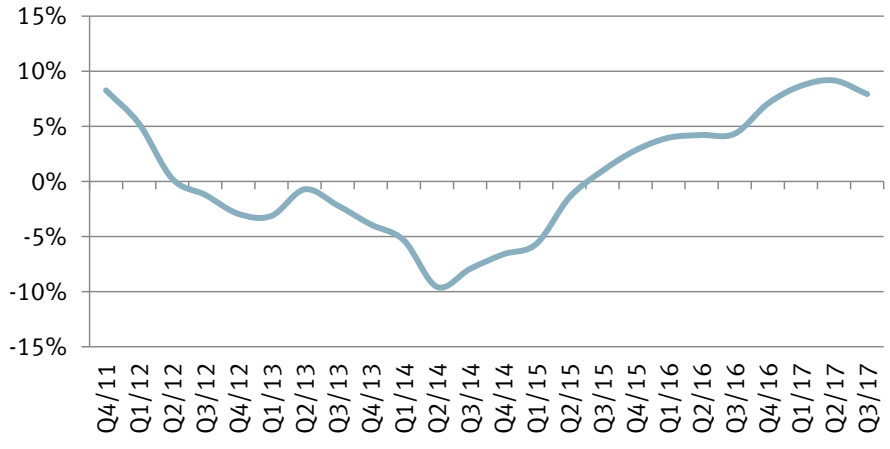
Switching providers

We are increasing the Focus List's allocation to the Telecom sector and making a switch in our positioning. We are removing the 2.5% position in **Rogers Communications** (RCI.B) in favour of adding a 5% position in **TELUS** (T). We continue to have a positive outlook on Rogers as wireless fundamentals remain supportive and the company upgrades its cable offering next year. However, we see greater upside potential in TELUS as we believe improving free cash flow and an increasingly attractive business mix could drive a potential valuation re-rating relative to peers.

We expect wireless operating conditions to remain healthy and to underpin net asset value growth.

Strong growth in wireless subscribers has contributed to healthy industry conditions

Trailing 12-month postpaid subscriber gross additions (y/y growth)



Source - Company reports, RBC Capital Markets

Consumer

Tightening our belt

We are reducing the portfolio's allocation to the Consumer Discretionary sector to 10% (from 15%) by paring our exposure to two positions. Namely, we are lowering our weightings in both **Dollarama** (DOL) and **Magna** (MG) to 2.5% (from 5%). The Focus List's 5% allocation to the Consumer Staples sector remains unchanged.

We continue to see considerable scope for future growth at Dollarama as the company builds towards its long-term target of 1,700 stores (from 1,125 today). Despite our fondness for the business and its compelling economics, we must acknowledge that the stock's valuation has entered unchartered territory at approximately 23x forward EBITDA. We believe this multiple reflects investor expectations for continued positive earnings surprises and leaves little margin for error for bumps along the road. As such, we are reducing our weighting in Dollarama to 2.5%.

We believe that Magna stands to weather a slowdown in North American auto sales by growing sales and expanding margins in its European and Asian operations. However, we are concerned that industry-wide multiple expansion leaves the space vulnerable to an adverse outcome on NAFTA renegotiations. Should NAFTA be terminated or substantially redrawn, we believe Magna's valuation would contract as investors reassess the potential for short-term trade friction and impaired long-term competitiveness.

We have maintained the Focus List's 5% positions in **Alimentation Couche-Tard** (ATD.B) and **Restaurant Brands** (QSR).

Industrials & Technology

Coming in for a landing

We are making a handful of changes to the Focus List's positioning across Industrials and Technology. In Industrials, we are removing the portfolio's 2.5% position in **Air Canada** (AC) and switching our weightings between **Canadian National Railway** (CNR) and **Canadian Pacific Railway** (CP). In Technology, we are adding a 2.5% position in **Constellation Software** (CSU). The portfolio's 20% weighting across the two sectors remains unchanged.

In adding a 2.5% position in Constellation Software, we believe the Focus List is gaining exposure to a perpetual free cash flow compounder.

We are removing the Focus List's 2.5% position in Air Canada now that key catalysts in the form of strong quarterly results and a well-received investor day have passed. We continue to see long-term potential in the shares, but we believe the risk-reward proposition is more balanced at the current share price than when the position was originally added to the portfolio.

We are switching our weightings in Canadian National and Canadian Pacific with the former now a 2.5% position and the latter now a 5% position. We believe Canadian Pacific has the potential to carry business momentum into 2018 with an improved relative service offering, key contracts up for bid, and the ability to add volumes at high incremental margins. Canadian National remains a core holding but is facing capital and operating cost pressures as it struggles to accommodate recent volume gains.

In adding a 2.5% position in Constellation Software, we believe the Focus List is gaining exposure to a perpetual free cash flow compounder. The company has demonstrated a proven ability to create shareholder value through its diligent and disciplined acquisition process. Constellation employs a high return hurdle rate in

evaluating transactions and has made recent changes to its organizational structure to facilitate capital deployment. While deal flow can be lumpy from quarter to quarter, we believe Constellation will create value over the long term.

The Focus List's 5% allocations to **Toromont** (TIH) and **Waste Connections** (WCN) remain unchanged.

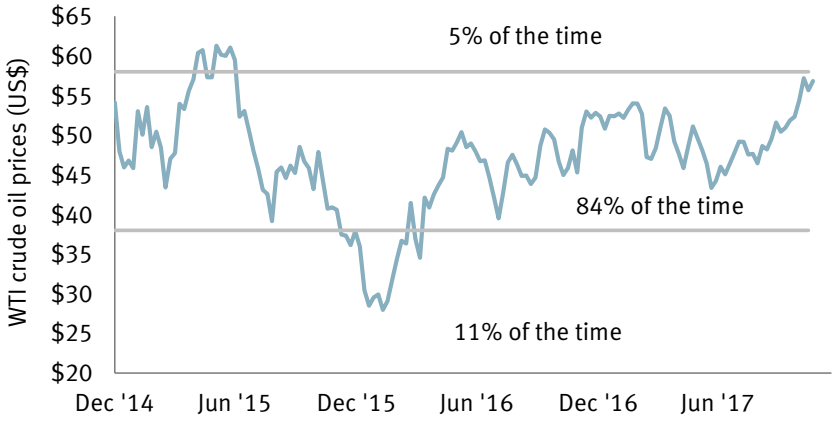
Energy

Awaiting the cash flow gusher

Crude oil prices have rallied more than 20% over the past three months and now sit at the high end of their recent trading range. Where prices go from here will depend in large part on the pace of normalization in U.S. inventories and the ability of U.S. producers to ramp up production in response to higher prices. For its part, RBC Capital Markets has maintained a subdued outlook for North American crude prices that calls for an average price of US$51 per barrel in 2018 and US$54 per barrel in 2019.

U.S. inventory and production data will continue to be closely scrutinized with crude at the high end of its range.

Oil has spent much of the past three years trading in a narrow range



Source - EIA, Chicago Mercantile Exchange, RBC Capital Markets Canadian Equity Strategy

We have left the Focus List's holdings in Energy unchanged with a sector allocation of 17.5%. High-quality, well-capitalized producers with visible production growth continue to form the core of the portfolio's allocation to the producer space with 5% positions in both **Canadian Natural Resources** (CNQ) and **Suncor** (SU), complemented by a 2.5% position in **Vermilion** (VET). Canadian Natural Resources and Suncor will see key growth projects ramp up in 2018 and should display considerable growth in free cash flow through 2019 as a result.

The portfolio's 2.5% positions in **TransCanada** (TRP) and **Pembina Pipeline** (PPL) are unchanged.

Materials

Maintaining a toehold

We have maintained the Focus List's 5% allocation to the Materials sector with 2.5% positions in **Agrium** (AGU) and **Franco-Nevada** (FNV). We remain constructive on the prospects for the combination of Agrium and PotashCorp with the merger expected to close by year end. We also believe modest gold exposure is prudent in light of the potential for a geopolitical conflagration.

Air Canada

(TSX: AC, $24.59)

Air Canada is Canada's largest airline and the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market, and the international market to and from Canada. Together with its regional partners and leisure carrier, Air Canada served over 45 million passengers in 2016.

RBC Capital Markets:	Outperform Speculative Risk

We are removing the 2.5% position in Air Canada from the List

- **Near-term catalysts have now passed:** Air Canada shares have enjoyed significant outperformance over the past six months on the strength of recent quarterly reports and the company's investor day. We continue to see long-term upside as the company delivers on its strategic plan of transforming its cost structure, driving higher free cash flow, and reducing financial leverage. However, we see less potential for near-term catalysts with the solid peak summer season now past and the company's strategic plan well understood by investors.
- **High operating and financial leverage:** The Focus List's 2.5% position in Air Canada was always viewed in the context of the portfolio's overall risk budget. At the time of Air Canada's addition, we believed that the share price offered a compelling potential return commensurate with the company's high degree of operating and financial leverage. While we still see further potential for a valuation re-rating as the company executes on its strategic plan, the risk-reward is no longer as compelling as it once was, in our view. Air travel is a high fixed-cost business and Air Canada's financial leverage remains at the high end of the peer group. As such, we are wary of the potential for earnings and share price pressure during the down-leg of an economic cycle.

Risks

Risks include, but are not limited to, high operating and financial leverage, above-average sensitivity to economic conditions, exposure to volatility in fuel prices, and the risk of terrorism and epidemics.

1-year pricing chart

Source - FactSet; data as of 2:01pm ET 11/28/17

Canadian National Railway Co.

(TSX: CNR, $100.71)

Canadian National Railway transports about $250B worth of goods per year over a network that connects three coasts: the Atlantic, the Pacific, and the Gulf of Mexico.

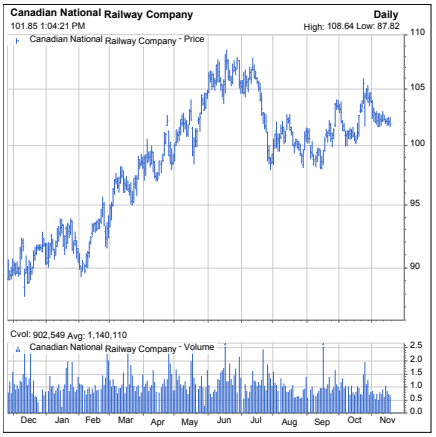
We are decreasing our position in Canadian National Railway to 2.5% (from 5%)

- **Continue to view Canadian National as a core holding:** We remain comfortable viewing the company as a core Industrials holding. Canadian National's strong management, enviable network positioning, and diversified client exposure have contributed to industry-leading operating metrics over time. We expect continued execution to result in growing free cash flows and increased cash returns to shareholders.
- **Outsized volume growth leading to congestion headaches:** Canadian National has experienced volume growth that has far outpaced the competition in 2017. Year to date, carloads are up 11% for Canadian National versus just 4% for the North American industry as a whole. The company has been forced to scale up its employee headcount to accommodate the outsized volume growth and has also increased its capital investment guidance for the year. RBC Capital Markets is mindful that the extra investment could represent a potential drag on efficiency gains in 2018.
- **Business momentum and valuation favour Canadian Pacific:** In contrast to Canadian National, we believe Canadian Pacific is well positioned to grow volumes at attractive incremental margins. The company has experienced a recent inflection in volumes that we anticipate can carry into 2018 with improving relative service and key contracts up for bid. Canadian Pacific continues to trade at a discount to Canadian National on a price-to-earnings basis. We believe that the valuations of the two companies could converge as Canadian Pacific's business momentum continues to assert itself.

Risks

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.

1-year pricing chart



Source - FactSet; data as of 2:04pm ET 11/28/17

RBC Capital Markets:	Outperform

Canadian Pacific Railway Ltd.

(TSX: CP, $225.80)

Canadian Pacific Railway operates a rail network from Montreal to Vancouver and across the U.S. Northeast and Midwest regions. Canadian Pacific transports bulk commodities, merchandise freight, and intermodal traffic.

RBC Capital Markets:	Outperform

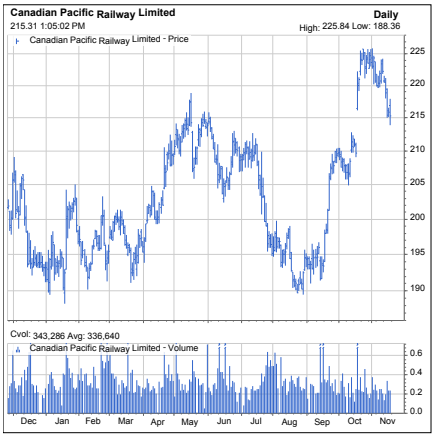
We are increasing our position in Canadian Pacific Railway to 5% (from 2.5%)

- **Favourable sector fundamentals:** We maintain an Overweight allocation to the rail sector as we continue to have a positive view of industry fundamentals. The industry has several unique and attractive characteristics, in our view: (1) limited and rational competition; (2) high barriers to entry; and (3) sustainable demand. We believe the combination of reasonable volume growth and pricing gains in excess of cost inflation will drive industry-wide margin expansion.
- **Capacity to add volumes at high incremental margins:** Canadian Pacific is well positioned, in our opinion, to turn volume momentum and market share gains into attractive earnings growth. The company has experienced a recent inflection in volumes. We believe volume strength can be sustained by a continued ramp-up in potash volumes, a better-than-expected grain harvest, and renewed growth in shipments of crude by rail. Congestion issues at a key competitor and improving relative service levels could further bolster volume growth via key contract wins for Canadian Pacific.
- **Attractive valuation relative to North American peers:** Canadian Pacific is the cheapest railroad in North America on a price-to-earnings basis. We believe this discount is unwarranted given the company's volume momentum, potential for market share gains, and strong operating model.

Risks

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.

1-year pricing chart



Source - FactSet; data as of 2:05pm ET 11/28/17

Constellation Software Inc.

(TSX: CSU, $755.68)

Constellation Software is a conglomerate that acquires, manages, and grows businesses that provide 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.

RBC Capital Markets:	Outperform

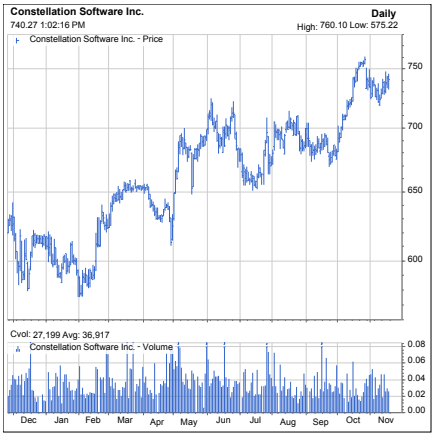
We are adding a 2.5% position in Constellation Software to the List

- **Ability to compound capital through acquisitions:** We believe that Constellation has demonstrated a proven ability to compound value through acquisitions. The company employs a high hurdle rate when evaluating potential deals that promotes higher returns on acquisition capital relative to software consolidator peers. The company has made recent changes to its organizational structure in an effort to facilitate capital deployment, including further decentralizing capital allocation decision-making and expanding the corporate acquisition team.
- **Improved visibility to Constellation's long-term margins:** RBC Capital Markets believes Constellation can sustain attractive EBITDA margins of greater than 26%. The company's management compensation plan prioritizes return on invested capital, which should lead to a focus on maximizing profitability. While the company's operating groups are focused on making investments in organic initiatives, RBC Capital Markets believes a disciplined approach should limit the impact on margins.
- **Attractive valuation relative to peers:** Constellation trades at roughly 16x EBITDA relative to other Canadian software consolidator peers, which are at an average of roughly 15x. We believe Constellation's modest premium is easily justified by the company's superior ability to compound free cash flow over the long term.

Risks

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.

1-year pricing chart



Source - FactSet; data as of 2:02pm ET 11/28/17

Dollarama Inc.

(TSX: DOL, $157.71)

Dollarama is Canada's leading fixed-price point retailer. With over 1,000 stores across the country, Dollarama is four times larger than its closest competitor.

We are decreasing our position in Dollarama to 2.5% (from 5%)

- **Premier growth story in the Canadian marketplace:** We (like everyone else it seems) recognize the compelling growth algorithm designed and executed by the Dollarama team. Dollarama's value proposition has proven to be extremely attractive to value-conscious shoppers and has ultimately translated to strong earnings growth for the company. With a current long-term store target of 1,700 and consumer acceptance of higher price points, we see plenty of fairway for the growth story to continue.
- **Premium valuation increasingly reflecting sunny outlook:** The aforementioned positive attributes are currently reflected in the company's valuation to an unprecedented degree with Dollarama trading at nearly 23x forward EBITDA. Dollarama has historically traded at a premium valuation, which was consistently justified by superior execution and positive earnings surprises. At the current valuation, we believe the margin of safety is increasingly thin as investors pay up for future outperformance relative to analyst expectations. As such, we are content to maintain exposure to the company's growth trajectory but pare back the portfolio's weighting.
- **Higher minimum wages a potential headwind:** We believe Dollarama is one of the best-positioned retailers to manage the headwind of higher minimum wages. The company has demonstrated an ability to engineer its gross margins as its merchandising relationships allow it to custom-tailor the offering alongside the use of multiple price points. However, we believe the premium valuation afforded the company leaves little room for a bump in the road in adjusting to the new reality. Of particular significance to Dollarama is the jump in Ontario's minimum wage to $14 next year (from $11.60) as the province is home to 40% of the company's store base.

Risks

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.

1-year pricing chart

Source - FactSet; data as of 2:03pm ET 11/28/17

RBC Capital Markets:	Outperform

Magna International Inc.

(TSX: MG, $72.37)

Magna 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. Magna operates over 300 plants in 28 countries.

RBC Capital Markets:	Outperform

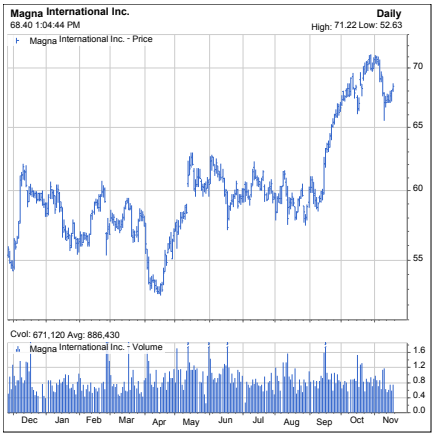
We are decreasing our position in Magna to 2.5% (from 5%)

- **Positioned to grow earnings despite slowing North American sales:** RBC Capital Markets expects North American auto sales to contract at a rate of 1% per annum through 2021. We believe Magna can grow earnings despite the sales slowdown in its largest market as the company's sales and margins expand in Europe and Asia. Furthermore, we expect continued earnings growth to translate into significant cash returns to shareholders in the form of both dividend growth and share buybacks.
- **NAFTA represents a key risk for the auto supply chain:** Trade negotiations have appeared to hit a wall with the U.S., Canada, and Mexico failing to find common ground on several key issues. In the event that NAFTA is terminated or significantly redrawn, we would expect the auto suppliers to be significantly impacted from a short-term sentiment and long-term competitiveness standpoint. Despite this, North American auto supplier stocks have outperformed over the past year. We are wary that industry-wide valuation expansion has narrowed the margin of safety while the risk of an adverse outcome on NAFTA has grown. Magna continues to trade at an attractive discount relative to the peer group, but we believe industry-wide outperformance has provided an opportunity to prudently pare back the position.

Risks

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

1-year pricing chart



Source - FactSet; data as of 2:04pm ET 11/28/17

Manulife Financial Corp.

(TSX: MFC, $27.11)

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.

RBC Capital Markets:	Outperform

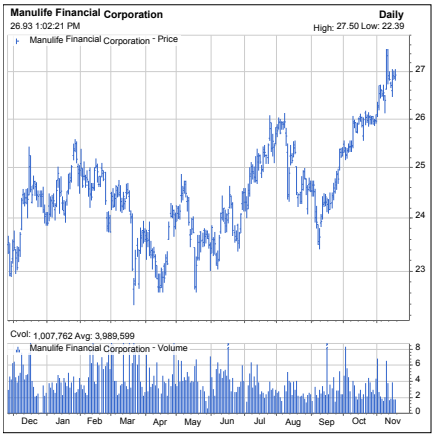
We are adding a 2.5% position in Manulife Financial to the List

- **Attractive growth platforms in Asia and wealth management:** Manulife's Asian operations continue to experience strong growth while revenue trends in the company's wealth management business are also solid. Both businesses have substantially higher returns on equity than the company's legacy North American operations. We believe continued growth in these platforms will help the company achieve its medium-term return on equity target of 13% or greater.
- **Potential balance sheet optimization:** The company is open to exploring all options for its legacy businesses and we would note that the recent appointment of a new president and CEO could be a catalyst on this front. We believe that the sale of low-return legacy businesses could potentially liberate capital for reinvestment in higher-return operations. It is difficult to quantify the potential upside from these types of transformative initiatives. However, we would note that RBC Capital Markets does not incorporate any potential value from balance sheet optimization in its Manulife valuation, which suggests that capital recycling is a source of additional upside optionality.
- **Efficiency improvement:** Manulife has been driving expense and operational efficiency improvements over recent years. We believe further improvements remain a strategic priority for the company with savings redirected to technology investments and the bottom line.

Risks

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.

1-year pricing chart



Source - FactSet; data as of 2:02pm ET 11/28/17

Rogers Communications Inc.

(TSX: RCI.B, $66.96)

Rogers Communications consists of cable, wireless, business service, and media businesses. Rogers Wireless is Canada's largest wireless company.

We are removing the 2.5% position in Rogers Communications from the List

- **Attractive business mix and positive outlook:** We believe Rogers boasts an attractive mix of wireless, cable, and media assets. We also believe that the outlook heading into 2018 is positive with the impending deployment of the X1 cable platform and fresh initiatives from new CEO Joe Natale. RBC Capital Markets believes the company will return to dividend growth in 2018.
- **Pursuit of better potential returns elsewhere in the sector:** Despite all the positive attributes we ascribe to Rogers, we believe TELUS provides better potential returns as the company hits an inflection on key financial metrics in 2018. TELUS' share price performance has lagged that of Rogers over the past year and we believe that relative performance could reverse in the quarters ahead.

Risks

Risks include, but are not limited to, increased wireless competition, greater-than-expected market share gains from internet protocol television (IPTV) and fibre-to-the-home (FTTH) across Rogers' footprint, greater-than-anticipated telephony and TV substitution, and regulatory changes that allow more foreign competition.

1-year pricing chart

Source - FactSet; data as of 2:01pm ET 11/28/17

RBC Capital Markets:	Sector Perform

TELUS Corp.

(TSX: T, $47.68)

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.

RBC Capital Markets:	Outperform

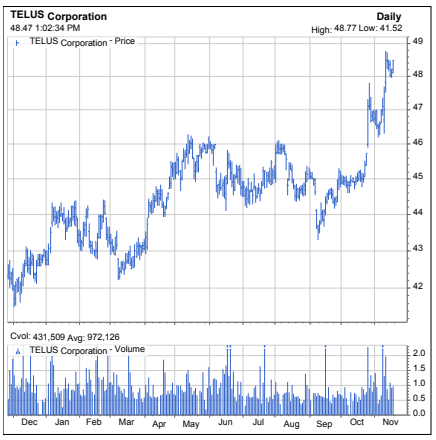
We are adding a 5% position in TELUS to the List

- **Entering an inflection period on key metrics:** RBC Capital Markets expects capital intensity to ease as TELUS passes key milestones on its accelerated fibre-to-the-home (FTTH) build-out. This should lead to improved free cash flow and, with that, an improvement in key financial metrics. RBC Capital Markets forecasts the dividend payout ratio in 2018 will fall to 88% (from 108% in 2017) and financial leverage will fall back within the company's target range of 2.0x–2.5x (from 2.7x in 2017).
- **Well positioned to weather competitive threats:** We expect Shaw's stated desire to balance growth and profitability to lead to manageable competitive conditions in the telecommunications industry. That said, we believe TELUS is well positioned to weather any uptick in competitive intensity given its ability to offer a compelling bundle in Western Canada, management's track record of strong execution, and the company's leadership position in customer satisfaction.
- **Attractive valuation relative to peers:** TELUS, BCE, and Rogers all trade at approximately 8x EBITDA. We believe TELUS' favourable asset mix (i.e., nearly 70% EBITDA contribution from wireless) and robust capital return program suggest that the company should trade at a premium to peers.

Risks

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

1-year pricing chart



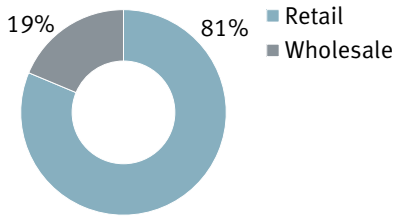
Source - FactSet; data as of 2:02pm ET 11/28/17

Portfolio companies

Agrium Inc. (AGU) – 2.5%

- Agrium is a major producer and distributor of agricultural products and services in North America, South America, Australia, and Egypt through its agricultural retail distribution and wholesale nutrient businesses.
- With major capital projects completed, we believe Agrium is positioned for a step-up in free cash flow generation.
- The company expects its merger with PotashCorp to close later this year pending regulatory approval.

AGU 2016 revenue mix

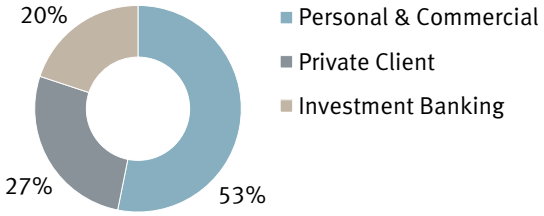


Source - Bloomberg, Company reports

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 2016 net revenue mix

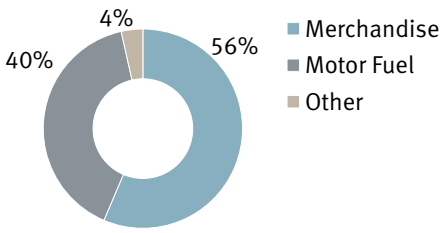


Source - Bloomberg, Company reports

Alimentation Couche-Tard Inc. (ATD.B) – 5.0%

- Couche-Tard is one of the largest convenience store retailers in North America. It operates a network of more than 7,800 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 2016 gross profit mix

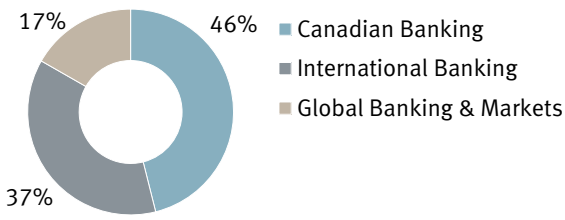


Source - Bloomberg, Company reports

The Bank of Nova Scotia (BNS) – 5.0%

- We believe that the Bank of Nova Scotia's international banking division should grow faster than domestic franchises over time. We expect earnings in this division to improve once restructuring initiatives have run their course.
- RBC Capital Markets believes the bank is progressing well on its efficiency and restructuring initiatives, which should provide an earnings tailwind through fiscal 2019.

BNS 2016 net revenue mix



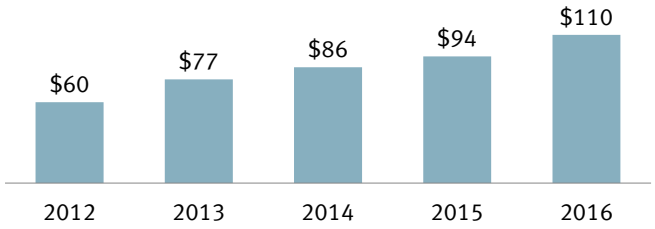
Source - Bloomberg, Company reports

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

Brookfield Asset Management Inc. (BAM.A) – 5.0%

- Brookfield Asset Management is a global alternative asset manager focused on property, power, and infrastructure assets with approximately $265B of assets under management ($120B 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)

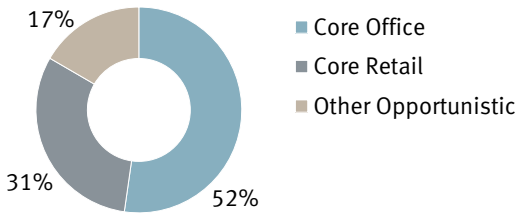


Source - Company reports

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 2016 invested capital

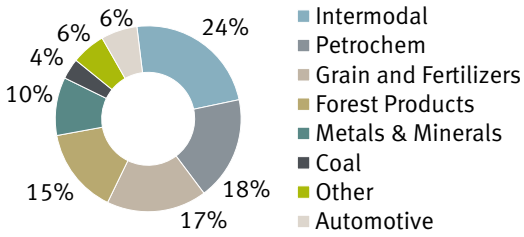


Source - Company reports

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, 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 2016 revenue mix

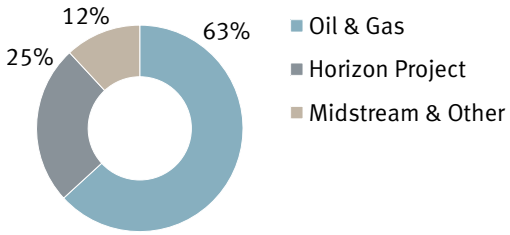


Source - Bloomberg, Company reports

Canadian Natural Resources Ltd. (CNQ) – 5.0%

- 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 2016 revenue mix



Source - Bloomberg, Company reports

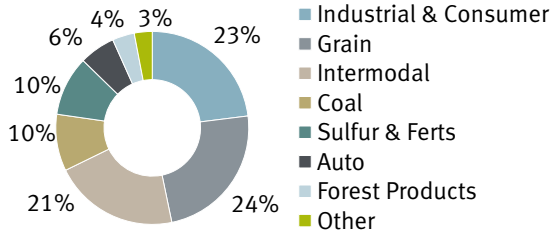
Canadian Pacific Railway Ltd. (CP) – 5.0%

- 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 also believe cost containment initiatives implemented during the downturn in carloads set the stage for margin expansion.

Dollarama Inc. (DOL) – 2.5%

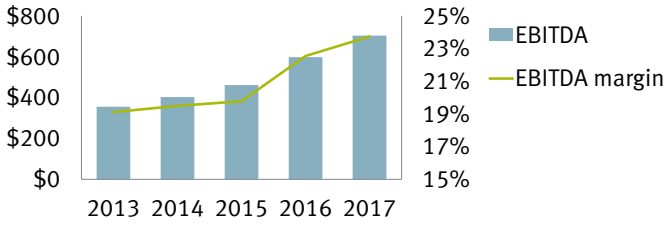
- Dollarama is Canada's leading fixed-price point retailer. With over 1,000 stores across the country, DOL is four times larger than its closest competitor.
- The dollar store format remains underpenetrated relative to the U.S. market, which provides a significant fairway for square-footage growth over 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 defensively positioned in the case of weak GDP growth, in our opinion.

CP 2016 revenue mix



Source - Bloomberg, Company reports

DOL EBITDA (millions) & EBITDA margin



Source - Company reports

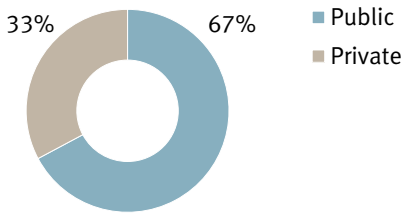
Constellation Software Inc. (CSU) – 2.5%

- 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.

Franco-Nevada Corp. (FNV) – 2.5%

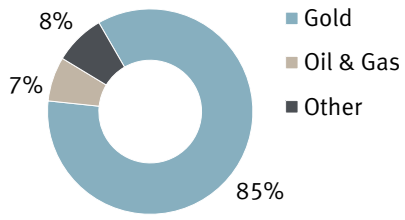
- Franco-Nevada is a diversified resource royalty and metal streams company with ongoing revenues from 46 active precious and base metal royalties/streams, and 63 active oil and gas royalties.
- Franco-Nevada's royalty and metal streams business model offers leverage to commodity prices but largely shields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

CSU 2016 revenue mix



Source - Bloomberg, Company reports

FNV 2016 revenue mix

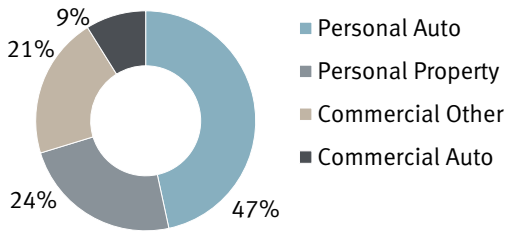


Source - Company reports

Intact Financial Corp. (IFC) – 5.0%

- 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 2016 net premiums earned

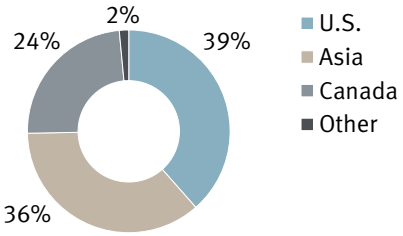


Source - Bloomberg, Company reports

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 achieve its medium-term return on equity target of 13% or greater.
- 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 2016 revenue mix

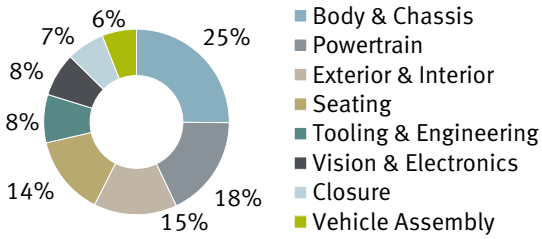


Source - Bloomberg, Company reports

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 approached the long-term trend line while RBC Capital Markets projects global production to grow at a 1.5% CAGR through 2021. 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 2016 revenue mix

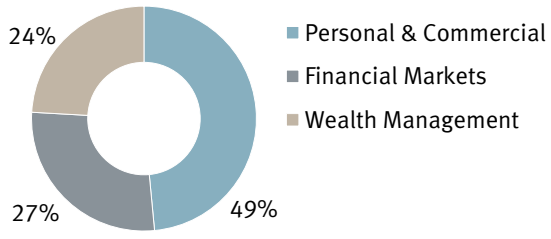


Source - Bloomberg, Company reports

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%).
- National Bank's current valuation leaves further scope for expansion in the event that business performance normalizes and the bank's capital position improves.

NA 2016 net revenue mix

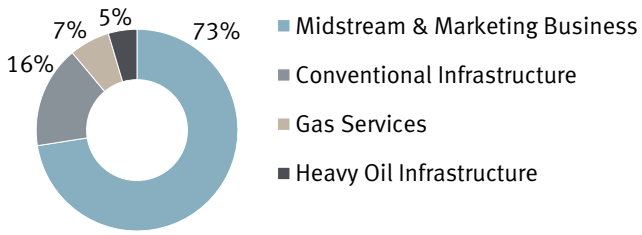


Source - Bloomberg, Company reports

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. The 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 2016 revenue mix

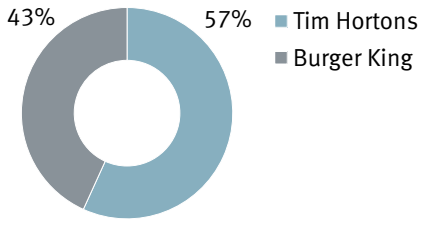


Source - Bloomberg, Company reports

Restaurant Brands International Inc. (QSR) – 5.0%

- 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 2016 adjusted EBITDA mix

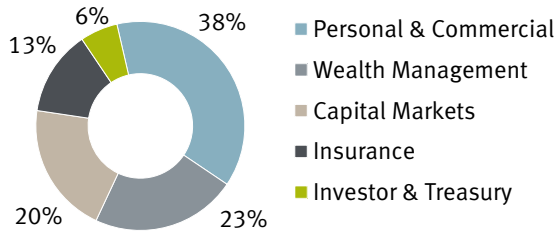


Source - Bloomberg, Company reports

Royal Bank of Canada (RY) – 5.0%

- 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 2016 net revenue mix

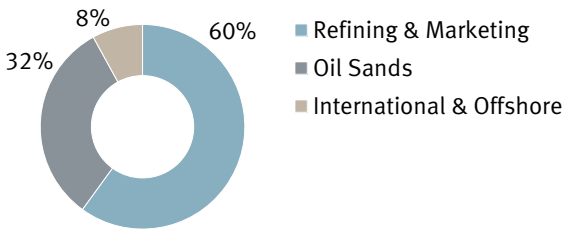


Source - Bloomberg, Company reports

Suncor Energy Inc. (SU) – 5.0%

- 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 brought online in late 2017.

SU 2016 revenue mix

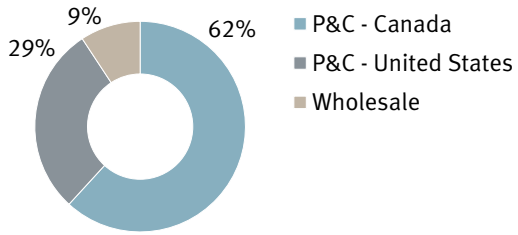


Source - Bloomberg, Company reports

TD Bank (TD) – 7.5%

- 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 2016 net revenue mix

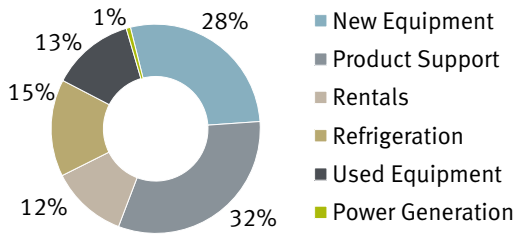


Source - Bloomberg, Company reports

Toromont Industries Ltd. (TIH) – 5.0%

- 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 2016 revenue mix

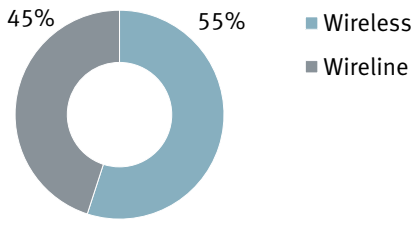


Source - Bloomberg, Company reports

TELUS Corp. (T) – 5.0%

- 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 2016 revenue mix

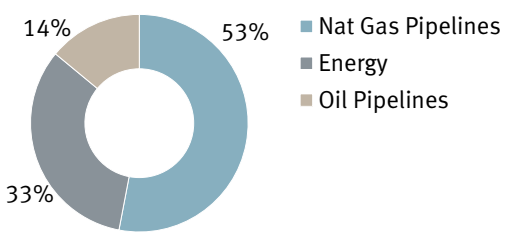


Source - Bloomberg, Company reports

TransCanada Corporation (TRP) – 2.5%

- 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 2016 revenue mix



Source - Bloomberg, Company reports

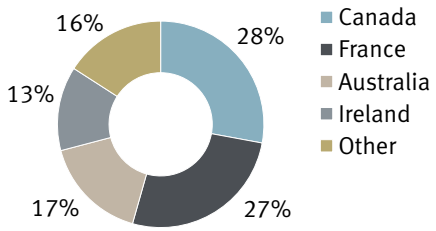
Vermilion Energy Inc. (VET) – 2.5%

- Vermilion's production base is almost one-half oil weighted. The company's strategy is focused on the execution of full cycle growth via acquisition, exploration, development, and optimization of producing properties across a geographically diverse footprint.
- Vermilion generates substantially higher netbacks relative to its peer group due to significant exposure to Brent crude oil prices and European natural gas prices.

Waste Connections, Inc. (WCN) – 5.0%

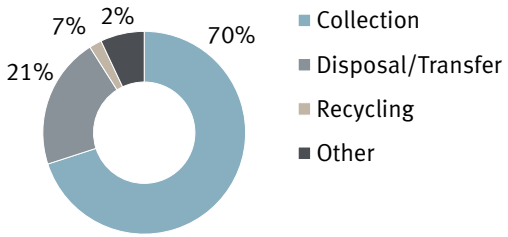
- Waste Connections is an integrated solid waste services company serving residential, commercial, industrial, and energy-producing customers across the U.S. and Canada.
- The company's focus on market selection and its operational expertise have resulted in a track record of peer-leading margins and 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.

VET 2016 revenue mix



Source - Bloomberg, Company reports

WCN 2016 revenue mix



Source - Bloomberg, Company reports

Portfolio companies risks

Agrium: Risks include, but are not limited to, regulatory approval of the pending PotashCorp merger, unpredictable weather affecting agricultural inputs, foreign exchange impact on earnings and cash flows, volatile nature of input costs and realized prices, and fluctuations in sales of its retail division.

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: Risks include, but are not limited to, the health of the overall economy, sustained deterioration in Latin America and the capital markets environment, greater-than-anticipated impact from off-balance sheet commitments, rising Canadian dollar, and increasing business loan losses.

Brookfield Asset Management: Risks include, but are not limited to, rising interest rates, 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.

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.

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.

Vermilion: Risks include, but are not limited to, unexpected changes in commodity prices, inability to replace production and reserves in a cost-effective manner, reservoir performance, foreign exchange, and government legislation.

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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Distribution of Ratings - RBC Capital Markets, LLC Equity Research
As of September 30, 2017

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Top Pick & Outperform]	859	52.92	294	34.23
Hold [Sector Perform]	660	40.67	154	23.33
Sell [Underperform]	104	6.41	7	6.73

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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.

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RBC Capital Markets has fundamental research of the following companies:

Agrium Inc. (AGU; Outperform; $141.76)
Air Canada (AC; Outperform, Speculative Risk; $24.59)
Alimentation Couche-Tard Inc. (ATD.B; Outperform; $65.79)
Bank of Montreal (BMO; Sector Perform; $99.27)
The Bank of Nova Scotia (BNS; Outperform; $81.51)
Brookfield Asset Management Inc. (BAM.A; Outperform; $53.62)
Brookfield Property Partners L.P. (BPY.UN; Outperform; $28.20)
Canadian National Railway Company (CNR; Outperform; $100.71)
Canadian Natural Resources Ltd. (CNQ; Top Pick; $43.76)
Canadian Pacific Railway Ltd. (CP; Outperform; $225.80)
Constellation Software Inc. (CSU; Outperform; $755.68)
Dollarama Inc. (DOL; Outperform; $157.71)
Franco-Nevada Corporation (FNV; Outperform, $105.11)
Intact Financial Corporation (IFC; Sector Perform; $108.24)
Magna International Inc. (MG; Outperform; $72.37)
Manulife Financial Corporation (MFC; Outperform; $27.11)
National Bank of Canada (NA; Outperform; $63.57)
Pembina Pipeline Corporation (PPL; Outperform; $44.93)
Restaurant Brands International Inc. (QSR; Outperform; $80.13)
Rogers Communications Inc. (RCI.B; Sector Perform; $66.96)
Suncor Energy Inc. (SU; Outperform; $44.75)
TELUS Corporation (T; Outperform; $47.68)
Toronto-Dominion Bank (TD; Sector Perform; $73.24)
TransCanada Corporation (TRP; Outperform; $61.88)
Vermilion Energy Inc. (VET; Outperform; $45.50)
Waste Connections, Inc. (WCN; Outperform; $88.82)

Toromont Industries Ltd. (TIH; Not Rated; $56.75)

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