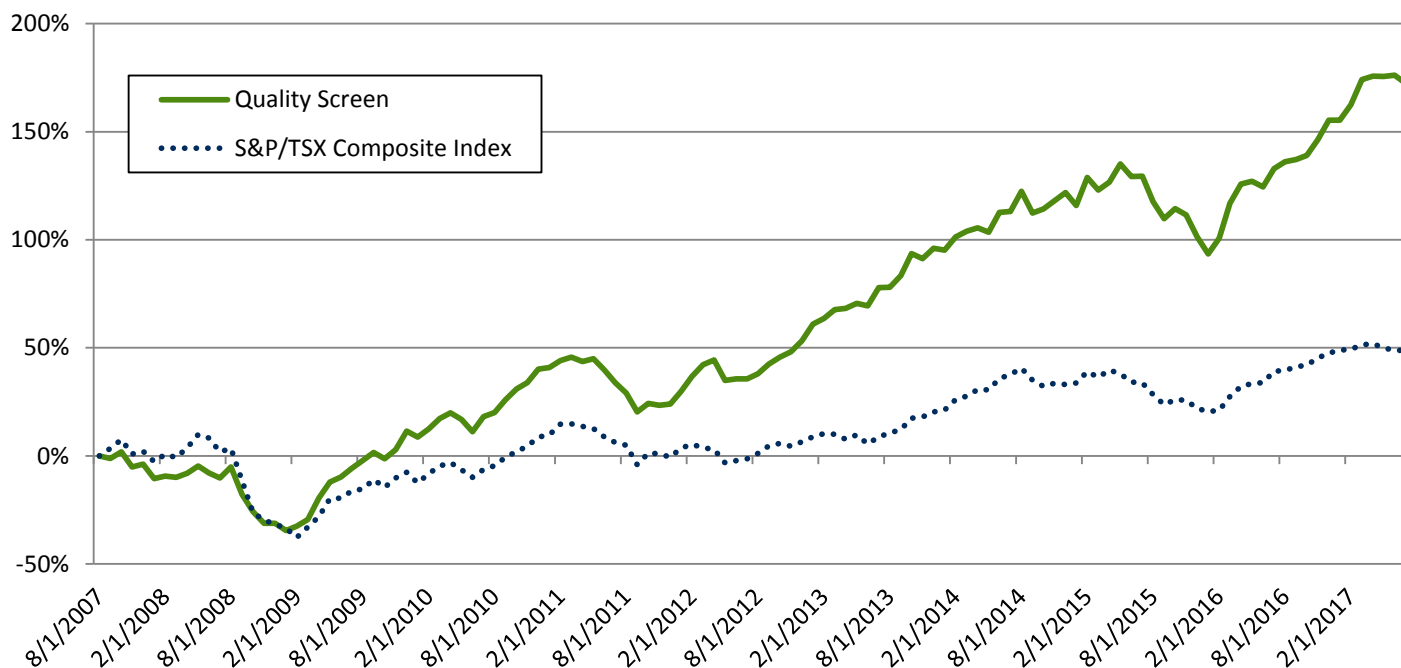


Buying Quality on the Dip

Rising geopolitical tensions, fiscal impasse down south, commodity price volatility and housing bubble concerns have contributed to the Canadian market's most recent declines; over the past six months the S&P/TSX Composite Index is down 4.9%. With the recent pull back, we look for quality companies that appear attractive based on a combination of quantitative factors. In order to find quality names, we created and backtested a screen (rebalanced monthly), which involves buying profitable companies that have quality assets, a good balance sheet, generate free cash flow and return cash to their shareholders. We then overlaid this output with a momentum factor.

We used metrics such as higher operating margins, higher asset turnover, lower leverage, higher free-cash-flow yield, employing stock buybacks and having positive EPS estimate revisions over a 4-week period. Over the past ten years, this quality screen has outperformed the S&P/TSX Composite Index by ~123%, or 820 bps annualized. Over the past five year period, the strategy outperformed the market by ~50%, or 841 bps annualized. On the following page, we show the list of names that have consistently screened in the top two deciles (or top 20%) of our screen (using the S&P/TSX as our universe) over the past three months.

Quality Screen Outperforms the Market over 10 Years



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 3.

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Consistent Quality Names – Sorted by Decile

Ticker	Name	July Decile	FCF Yield	Net Debt To Shareholders Equity	Average Asset Turnover	Average Operating Margin	16Q Growth of Shares Outstanding	4-Week EPS Change
LB	Laurentian Bank*	1	218.9	443.9	0.0	20.2	20%	0.2
ATD/B	Alimen Couche-B*	1	3.4	45.1	3.3	4.0	1%	0.1
CLS	Celestica Inc	1	12.7	-25.2	2.2	2.4	-13%	-2.1
MRU	Metro Inc	1	3.9	45.3	2.3	5.5	-17%	-1.7
PJC/A	Jean Coutu Grp-A	1	4.6	-14.8	2.1	10.2	-13%	-1.5
NWC	North West Co In*	1	4.7	54.1	2.3	6.1	1%	0.0
MG	Magna Intl	1	8.8	21.4	1.8	7.0	-17%	1.8
EMP/A	Empire Co Ltd A*	1	2.8	44.9	2.2	(0.9)	33%	0.0
WEF	Western Forest	1	14.0	2.9	1.5	8.6	1%	-0.8
BYD-U	Boyd Group Incom	1	5.4	39.5	2.2	5.8	43%	-4.9
MRE	Martinrea Intern	1	8.7	79.8	1.7	4.0	2%	3.2
RUS	Russel Metals	1	1.3	18.1	1.8	2.9	1%	12.7
CFP	Canfor Corp	1	14.7	18.4	1.2	7.3	-6%	-1.8
SAP	Saputo Inc	1	3.5	31.1	1.6	9.0	-1%	0.6
GEI	Gibson Energy	1	-3.1	123.1	2.0	(0.5)	17%	11.8
Average			20.3	61.8	1.9	6.1	3.5%	1.2
ARE	Aecon Group Inc	2	11.8	10.4	1.5	2.6	12%	-20.6
UNS	Uni-Select Inc	2	13.4	24.5	1.4	3.5	-1%	2.5
POW	Power Corp Cda	2	43.0	9.2	0.1	11.0	1%	2.3
LNR	Linamar Corp	2	13.0	39.7	1.4	11.0	1%	0.7
TIH	Toromont Inds	2	3.9	-4.1	1.5	11.1	2%	-2.6
WFT	West Fraser Timb	2	9.0	16.9	1.2	9.6	-9%	1.5
WN	Weston (George)	2	12.7	71.5	1.3	4.0	0%	-1.5
ITP	Intertape Polymr	2	2.3	65.4	1.6	8.7	-2%	-13.5
PBH	Premium Brands H	2	2.2	94.4	1.8	5.3	35%	1.9
DII/B	Dorel Inds-B	2	13.8	40.1	1.1	1.4	2%	-8.2
TCL/A	Transcontinent-A*	2	12.3	31.0	1.0	9.3	-1%	0.0
CSU	Constellation So	2	4.0	-2.4	1.2	13.4	0%	0.3
FTT	Finning Intl Inc	2	1.2	47.4	1.2	3.8	-2%	6.1
CIGI	Colliers Interna	2	6.0	43.0	1.5	5.2	9%	-0.7
MFI	Maple Leaf Foods	2	5.0	-18.9	1.1	2.4	-8%	3.3
CMG	Computer Modell	2	2.2	-107.7	0.9	45.7	3%	-3.4
IFP	Interfor Corp	2	10.5	36.8	1.4	2.4	11%	-3.0
Average			9.8	23.4	1.3	8.8	3.1%	-2.0

Source: Bloomberg, Raymond James Ltd. Screen as of July 31, 2017. * = 16-quarter averages as of March 31, 2017

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