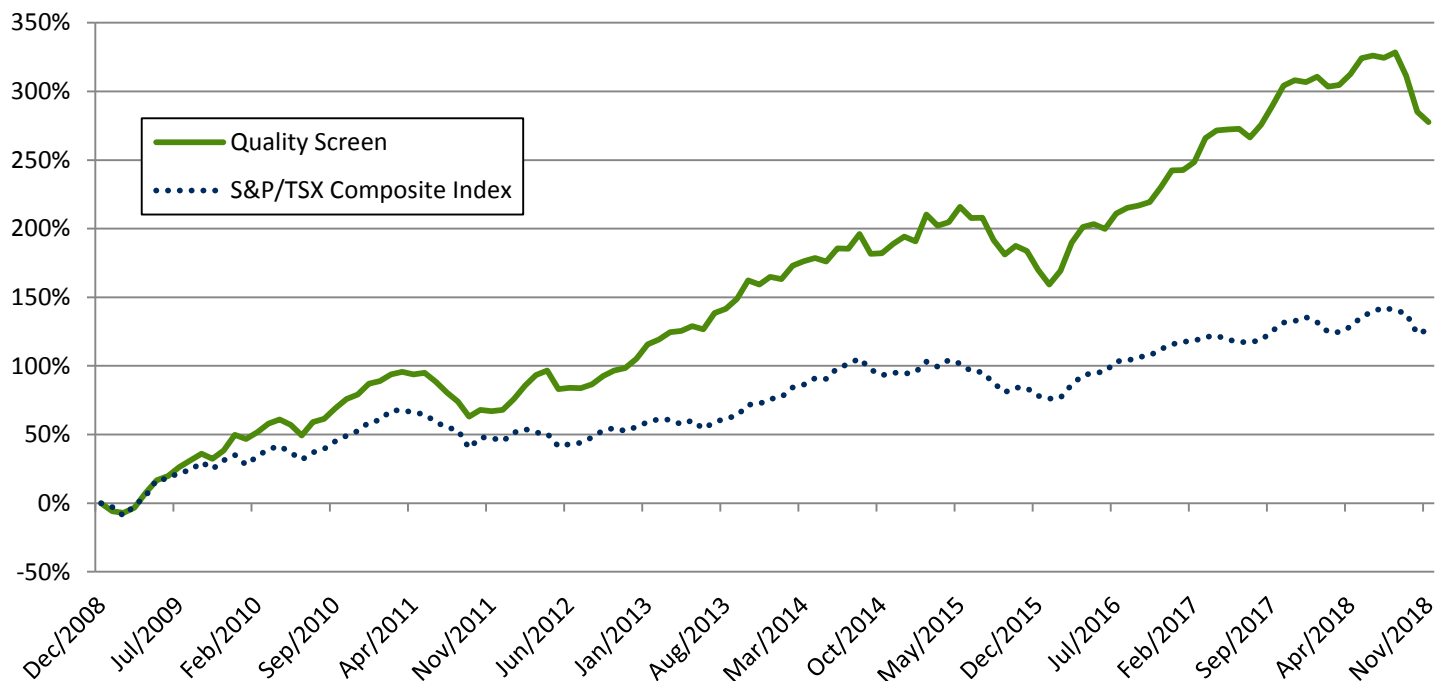


Finding Koala Tea

Here's something you may have not known: Koalas are very picky about their habitat and only live in areas with fertile soil and tons of Eucalyptus trees. Just like Koalas, we too are becoming picky about the equities we invest in and look for stocks in the market that are of quality especially with October experiencing the worst monthly drop on the S&P/TSX Composite Index since September 2011. Despite the US mid-term election overhang out of the way, the subsequent market rally lacked breadth and volume and was driven by defensives over cyclicals. As such, during our Q4/18 Asset Allocation Update we recognized increased risk factors in the market and have recommended that investors move from growth to value and focus on quality names. The companies we look for have quality assets, solid balance sheet, are free cash flow generators, return cash to their shareholders and have been experiencing positive earnings momentum.

In order to find these companies, we back-tested quantitative factors including 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 10 years, the top two deciles of the "Quality" screen outperformed the S&P/TSX Composite Index by ~150%, or 729 bps annualized. The following page shows 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. Since the last time we ran the screen in February 2018, there have been five additions and six removals to/from the screen.

Quality Screen Outperforms the Market over last 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 – Ranked by FCF Yield

Ticker	Name	November Decile	FCF Yield	Net Debt To Shareholders Equity	Average Asset Turnover	Average Operating Margin	16Q Growth of Shares Outstanding	4-Week EPS Change
POW	Power Corp Of Canada	1	63%	9.4	0.1x	10.4%	1.0%	-1.7%
ARE	Aecon Group Inc	1	47%	48.0	1.4x	2.6%	6.7%	0.0%
OSB	Norbord Inc	1	20%	30.1	1.1x	15.6%	62.3%	0.6%
WFT	West Fraser Timber Co Ltd	1	15%	13.9	1.2x	13.0%	-15.3%	-0.1%
TIH	Toromont Industries Ltd	1	12%	65.4	1.4x	10.8%	5.4%	0.0%
MG	Magna International Inc	1	11%	24.2	1.7x	7.3%	-17.9%	-0.3%
EMP/A	Empire Co Ltd 'A'	1	8%	27.6	2.4x	-1.1%	-2.0%	-0.1%
BYD-U	Boyd Group Income Fund	1	6%	49.8	2.0x	6.2%	13.9%	-2.2%
WEF	Western Forest Products Inc	1	6%	-6.3	1.5x	9.0%	-1.6%	2.0%
CMG	Computer Modelling Group Ltd	1	6%	-114.7	0.8x	42.1%	2.4%	-5.8%
ATD/B	Alimentation Couche-Tard -B	1	5%	104.5	2.9x	4.3%	-0.3%	4.0%
MRU	Metro Inc	1	4%	42.7	2.1x	5.7%	1.4%	0.1%
NWC	North West Co Inc/The	1	2%	75.5	2.3x	6.0%	0.6%	0.1%
RCH	Richelieu Hardware Ltd	1	2%	-5.7	1.8x	9.9%	-2.2%	-0.8%
CLS	Celestica Inc	1	0%	-23.0	2.2x	2.1%	-21.3%	0.0%
RUS	Russel Metals Inc	1	-6%	45.8	1.8x	3.6%	0.7%	0.0%
Average			12%	24.2	1.7x	9.2%	2.1%	-0.3%
IFP	Interfor Corp	2	19%	14.0	1.4x	4.2%	4.0%	-6.8%
UNS	Uni-Select Inc	2	17%	83.0	1.3x	3.8%	-0.6%	1.5%
DII/B	Dorel Industries-CI B	2	12%	42.9	1.1x	0.7%	0.4%	0.0%
CIGI	Colliers International Group	2	7%	32.5	1.6x	5.8%	9.5%	0.0%
RY	Royal Bank Of Canada	2	6%	-141.4	0.0x	35.9%	-0.2%	0.0%
ENGH	Enghouse Systems Ltd	2	5%	-41.7	0.8x	18.6%	3.9%	0.0%
SAP	Saputo Inc	2	4%	31.2	1.5x	8.6%	-0.6%	0.0%
SW	Sierra Wireless Inc	2	4%	-6.1	1.1x	0.9%	13.1%	-0.2%
CSU	Constellation Software Inc	2	4%	-25.8	1.2x	15.1%	0.0%	0.0%
WPK	Winpak Ltd	2	3%	-34.6	1.0x	18.2%	0.0%	0.0%
MFI	Maple Leaf Foods Inc	2	3%	-9.5	1.2x	5.3%	-13.3%	0.0%
MRE	Martinrea International Inc	2	0%	60.8	1.6x	5.3%	1.6%	-1.2%
Average			7%	0.4	1.2x	10.2%	1.5%	-0.6%
ADDITIONS SINCE LAST SCREEN (February 2018)								
POW	Power Corp Of Canada		63%	9.4	0.1x	10.4%	1.0%	-1.7%
OSB	Norbord Inc		20%	30.1	1.1x	15.6%	62.3%	0.6%
DII/B	Dorel Industries-CI B		12%	42.9	1.1x	0.7%	0.4%	0.0%
SW	Sierra Wireless Inc		4%	-6.1	1.1x	0.9%	13.1%	-0.2%
RCH	Richelieu Hardware Ltd		2%	-5.7	1.8x	9.9%	-2.2%	-0.8%
Average			20%	14.1	1.1x	7.5%	14.9%	-0.4%
REMOVALS SINCE LAST SCREEN (February 2018)								
CFP	Canfor Corp		20%	4.9	1.3x	9.4%	-3.2%	-2.1%
WN	Weston (George) Ltd		12%	70.1	1.3x	4.7%	-0.2%	0.8%
CM	Can Imperial Bk Of Commerce		10%	-51.1	0.0x	34.3%	11.5%	-0.2%
LNR	Linamar Corp		6%	27.8	1.3x	11.1%	0.4%	-1.5%
FFH	Fairfax Financial Hldgs Ltd		-15%	22.0	0.3x	5.7%	29.3%	0.0%
PJC/A	Jean Coutu Group Inc-Class A		NA	-14.8	2.1x	9.8%	-2.9%	0.0%
Average			6%	9.8	1.0x	12.5%	5.8%	-0.5%

Source: Bloomberg, Raymond James Ltd. Screen as of November 30, 2018.

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