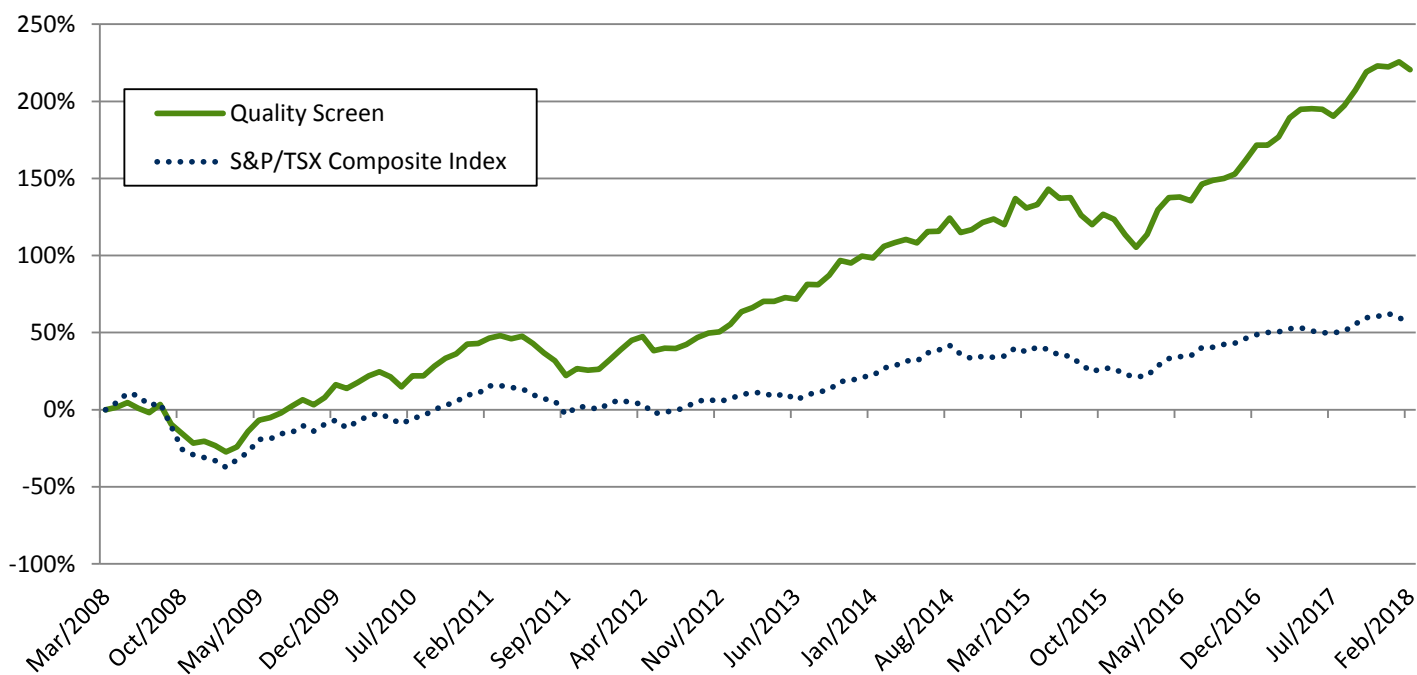


## Quality for the Win

Increased volatility on the back of inflation and rate concerns drove markets to pull back in February. The S&P 500 dropped 3.9% during the month while the S&P/TSX Composite Index declined 3.2%, the largest monthly declines over the past couple of years. Given that our positive global macro view has not changed (positive earnings momentum, supportive monetary policy and increased capex), we believe this to be an opportune time to add to quality companies that look more attractive on the most recent pullback. As such, we revisit the “Quality” screen ran in the past. Here, we look for companies that stand out as having quality assets, a good balance sheet, generate free cash flow, return cash to their shareholders and are experiencing positive earnings momentum.

In order to find quality names, we backtested (rebalanced monthly) 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 “Quality” screen outperformed the S&P/TSX Composite Index by ~165%, or 996 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 July 2017, there have been five additions and eight 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	February Decile	FCF Yield	Net Debt To Shareholders Equity	Average Asset Turnover	Average Operating Margin	16Q Growth of Shares Outstanding	4-Week EPS Change
CM	Can Imperial Bk Of Commerce	1	45%	-47.0	0.0	32%	12%	4.3%
FFH	Fairfax Financial Hldgs Ltd	1	41%	22.0	0.2	9%	31%	-0.9%
RY	Royal Bank Of Canada	1	17%	-133.9	0.0	35%	0%	2.6%
IFP	Interfor Corp	1	9%	14.0	1.4	3%	5%	3.9%
CFP	Canfor Corp	1	9%	4.9	1.3	8%	-8%	11.1%
WFT	West Fraser Timber Co Ltd	1	8%	13.9	1.2	11%	-9%	8.4%
MG	Magna International Inc	1	7%	24.2	1.7	7%	-18%	-0.2%
WEF	Western Forest Products Inc	1	7%	-6.3	1.5	9%	1%	0.0%
CIGI	Colliers International Group	1	7%	32.5	1.5	5%	8%	5.4%
BYD-U	Boyd Group Income Fund	1	5%	39.5	2.1	6%	25%	0.0%
PJC/A	Jean Coutu Group Inc-Class A	1	4%	-14.8	2.1	10%	-3%	0.0%
MRU	Metro Inc	1	4%	44.7	2.2	6%	-14%	0.7%
EMP/A	Empire Co Ltd 'A'	1	4%	44.9	2.3	-1%	-2%	-0.2%
ATD/B	Alimentation Couche-Tard -B	1	3%	45.1	3.1	4%	0%	0.9%
NWC	North West Co Inc/The	1	3%	54.1	2.3	6%	1%	0.0%
CMG	Computer Modelling Group Ltd	1	3%	-107.7	0.9	44%	2%	-3.8%
CLS	Celestica Inc	1	2%	-23.0	2.2	2%	-12%	-0.3%
Average			11%	0.4	1.5	12%	1%	1.9%
UNS	Uni-Select Inc	2	14%	83.0	1.4	4%	-1%	-9.0%
WN	Weston (George) Ltd	2	11%	71.5	1.3	4%	0%	0.4%
LNR	Linamar Corp	2	10%	39.7	1.3	11%	1%	0.0%
ARE	Aecon Group Inc	2	7%	10.4	1.5	2%	11%	-0.3%
MRE	Martinrea International Inc	2	6%	79.8	1.7	4%	2%	-0.6%
MFI	Maple Leaf Foods Inc	2	6%	-9.5	1.1	4%	-10%	-3.2%
TIH	Toromont Industries Ltd	2	5%	65.4	1.5	11%	5%	2.9%
ENGH	Enghouse Systems Ltd	2	5%	-41.7	0.7	16%	3%	0.0%
WPK	Winpak Ltd	2	4%	-34.6	1.0	18%	0%	6.3%
CSU	Constellation Software Inc	2	4%	-25.8	1.2	14%	0%	4.1%
SAP	Saputo Inc	2	3%	31.1	1.6	9%	-1%	-1.2%
RUS	Russel Metals Inc	2	-6%	45.8	1.8	3%	1%	-1.3%
Average			6%	26.3	1.3	8%	1%	-0.2%
<b>ADDITIONS SINCE LAST SCREEN (JULY 2017)</b>								
CM	Can Imperial Bk Of Commerce		45%	-47.0	0.0	32%	12%	4.3%
FFH	Fairfax Financial Hldgs Ltd		41%	22.0	0.2	9%	31%	-0.9%
RY	Royal Bank Of Canada		17%	-133.9	0.0	35%	0%	2.6%
ENGH	Enghouse Systems Ltd		5%	-41.7	0.7	16%	3%	0.0%
WPK	Winpak Ltd		4%	-34.6	1.0	18%	0%	6.3%
Average			22%	-47.0	0.4	22%	9%	2.5%
<b>REMOVALS SINCE LAST SCREEN (JULY 2017)</b>								
POW	Power Corp Of Canada		44%	9.2	0.1	11%	1%	0.0%
LB	Laurentian Bank Of Canada		25%	431.8	0.0	22%	45%	-2.1%
TCL/A	Transcontinental Inc-Cl A		14%	8.3	1.0	12%	-1%	0.2%
DII/B	Dorel Industries-Cl B		12%	40.1	1.1	2%	17%	0.0%
FTT	Finning International Inc		3%	43.9	1.2	4%	-2%	2.8%
PBH	Premium Brands Holdings Corp		1%	94.4	1.8	5%	36%	0.0%
ITP	Intertape Polymer Group Inc		1%	65.4	1.6	9%	-3%	0.0%
GEI	Gibson Energy Inc		-1%	123.1	1.9	-1%	17%	-3.4%
Average			12%	102.0	1.1	8%	14%	-0.3%

Source: Bloomberg, Raymond James Ltd. Screen as of February 28, 2018.

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