

## Viewpoint

September 17, 2014

Toronto, Ontario

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Director of Canadian Equity Research

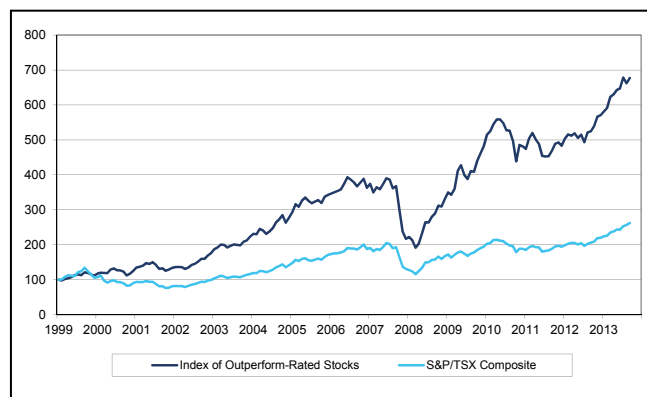
BMO Nesbitt Burns Inc.

As our 115th *Red Book* goes to print, we have decided to lean down and focus the publication on all things Canadian. Continuously published since 1983, the BMO Capital Markets Research *Red Book* has been a go-to resource for investors by summarizing the research views of all of our Canadian-based analysts. However, as BMO Capital Markets has expanded its coverage of U.S. stocks and global resource companies, our Canadian analysts have added many non-Canadian companies to this already lengthy publication. The net effect was that the *Red Book* got a bit too large.

*Red Book* will now focus purely on Canadian companies. In this edition, we provide commentaries on all of the 251 companies in the S&P/TSX Composite Index. As well, there are research summaries on 120 additional small cap Canadian companies that are not yet constituents of the Composite Index. We will continue to tie all of this research together through insightful articles on Canada's economy and financial markets from our team of leading strategists.

At BMO Capital Markets our commitment to research excellence is unwavering. Our goal is for BMO Capital Markets Research to be viewed as a leading provider of thought-provoking, money-making and innovative ideas. Our universe of Outperform-rated stocks continues to outperform the benchmark with a return over the benchmark of 7.1% per annum over the past 15 years. The BMO Top 15 Lists are designed to provide investors with actionable investment ideas. Since the last *Red Book*, we have added CP Rail, Canadian Tire, Encana (Restricted) and CNQ to the Large Cap Top 15 List, as well as

**Chart 1**  
**BMO Capital Markets Research**  
**Outperforms Versus S&P/TSX Composite**



Note: Rebalanced at each month-end; equally weighted.

Outperforms up 573.81% versus TSX up 162.18%.

Last data point: August 2014

Source: BMO Capital Markets

Ritchie Brothers, Dominion Diamond, Leisure World, Phoenix Energy and Altus Group to the Small Cap Top 15 List. Both of these Top 15 Lists have widely outperformed their respective benchmarks over longer-term periods.

We continue to grow and strengthen our research department. We recently announced two new additions to our Global Materials team. **Mark Wilde**, also known as Dr. Paper to many of our clients, has joined us to cover the North American Paper, Packaging & Forest Products sector. Mark has a deep knowledge of the industry, covering the space on the sell side for 25 years. For over two decades, he has repeatedly been recognized

as one of the sector's best stock pickers and a frequently quoted sector expert. He garners top rankings in Institutional Investor (including #3 in 2013) and in the Greenwich surveys (also #3 in 2013). He recently launched coverage of 23 U.S. names and we look forward to his launch on the Canadian companies in the coming months.

**David Gagliano** recently joined our Global Metals & Mining Team and will cover the U.S. coal and steel sector as well as a few base materials names. David has a deep knowledge of the industry, covering the space on the sell side for 15 years. He has been recognized by the Institutional Investor survey in Top 3 or Runner Up positions in each of the last six years, including #3 in 2013. David brings added depth and breadth to our already industry-leading Global Mining Research franchise.

Turning to Financial Services, we have hired **James Fotheringham** to cover Large Cap U.S. Banks & Specialty Finance, adding depth to our North American Financials Team. James has a deep knowledge of the broader financial industry, with over 15 years of experience on both the sell side and buy side. He recently spent six years on the buy side, including two years as co-founder of a global financials-focused investment management firm and four years with Paulson & Company. Prior to that, he spent nine years as an analyst at a U.S. bulge bracket firm.

While these hires are U.S. focused, we believe they provide a more robust North American perspective that benefits our Canadian analysts' recommendations and our clients. We are also showcasing our crossborder capabilities with analyst roundtables and more innovative events for clients. Our sector teams are becoming increasingly cohesive and we are excited about our broader push for collaborative research and thoughtful idea generation.

BMO Equity Research has been at the forefront of providing analysis on the transportation of crude oil from the Bakken and Western Canada by rail as seen in our [Crude by Rail](#) reports. This complex subject required detailed analysis of numerous industries, including the Oil and Gas producers, pipeline projects and the North American rail and transportation infrastructure. BMO's comprehensive approach to covering these industries from a cross-border perspective has resulted in numerous detailed reports that have been recognized by North American and Global investors.

In keeping with BMO Equity Research's leadership in materials research, we have published several thoughtful reports, including a recent report, "[Gold & Silver Seasonality: Buy in June & Sell in September](#)," that provided trading ideas for the volatile precious metals stocks based on the performance of these stocks over the past 20 years.

In the report "[Out of Sight, Out of Mine: Mining Distorts the Economic Reality of Oil Sands](#)," BMO Capital Markets' Energy Team provides a thoughtful rebuttal to the pervasive view that Canadian oil sands projects are less profitable than conventional projects.

With a department of 70 analysts across North America and the U.K., distribution and technology are going to be critical factors for a successful research effort. The distribution of research has changed significantly in recent years due to relentless advances in technology. Our goal is to seamlessly deliver our product on our App, website, tablets, handhelds, laptops and PCs. No matter where you consume our products, we want the BMO brand to be represented uniformly across all media as a positive and productive experience. We were one of the first Canadian banks to develop a Research App. We are gratified that our App has received considerable acclaim. Our 2.0 version is due out this fall. This version will include an enhanced search function and a variety of new features, including Stock Screener – stay tuned!

## Top 15 Lists: Current Composition and Historical Performance

### Canadian Large Cap Top 15 List

Selected from BMO Capital Markets  
Large Cap Coverage Universe

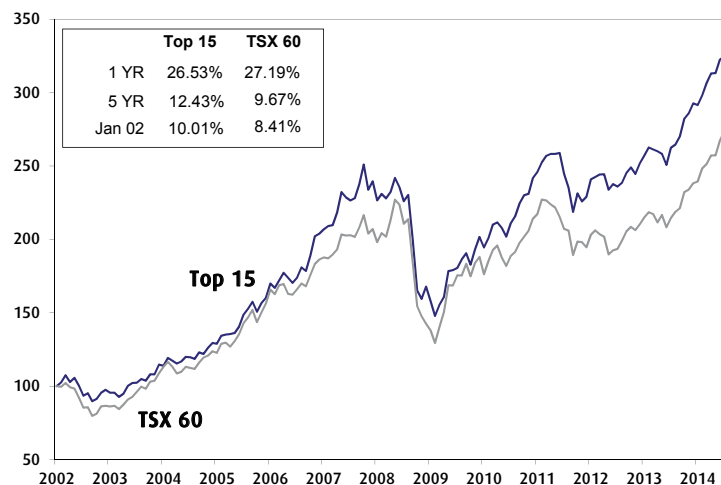
- Alimentation Couche-Tard (ATD.B)
- CAE (CAE)
- Canadian Natural Res. (CNQ)
- Canadian Pacific Railway (CP)
- Canadian Tire (CTC.A)
- Cineplex (CGX)
- Encana (ECA)\*
- Intact Financial (IFC)
- Magna International (MGA)
- Manulife Financial (MFC)\*
- Scotiabank (BNS)
- Suncor Energy (SU)
- TD Bank (TD)
- TELUS (T)
- TransCanada (TRP)\*\*

\* Stock is Restricted.

\*\* Covered by BMO Capital Markets Corp.; all other stocks in table covered by BMO Nesbitt Burns Inc.

Source: BMO Capital Markets, IHS Global Insight

**BMO Capital Markets Top 15 Canadian Large Cap List**  
Total Return vs. TSX 60 Index (for period ending August 31, 2014)



### Canadian Small Cap Top 15 List

Selected from BMO Capital Markets  
Small Cap Coverage Universe

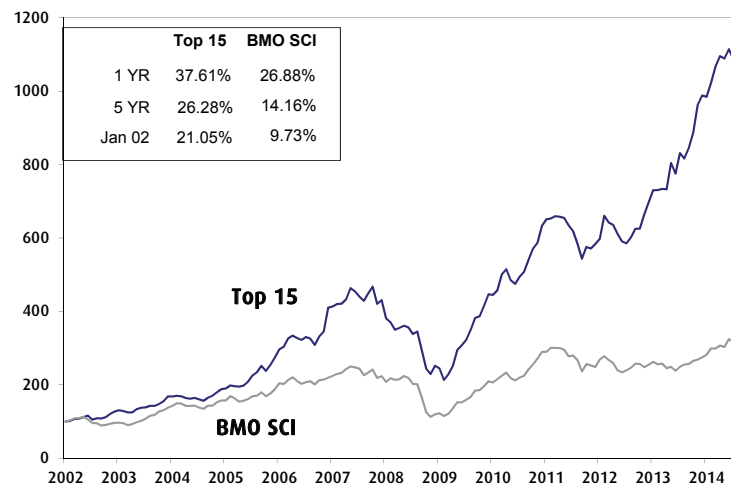
- Absolute Software (ABT)
- Aeon Group (ARE)
- Algonquin Power & Utilities (AQN)\*
- Altus Group (AIF)
- Computer Modelling Group (CMG)
- Dominion Diamond (DDC)
- Element Financial (EFN)
- FirstService (FSRV)
- Leisureworld Senior Care (LW)
- Linamar (LNR)
- PHX Energy Services (PHX)
- Pure Industrial REIT (AAR.UN)
- Raging River Exploration (RRX)
- Ritchie Bros. Auctioneers (RBA)
- Whitecap Resources (WCP)\*

\* Stock is Restricted.

\*\* Covered by BMO Capital Markets Corp.; all other stocks in table covered by BMO Nesbitt Burns Inc.

Source: BMO Capital Markets, IHS Global Insight

**BMO Capital Markets Top 15 Canadian Small Cap List**  
Total Return vs. BMO SCI Weighted (for period ending August 31, 2014)



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**Distribution of Ratings (June 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis;

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;

(S) = Speculative investment;

NR = No rating at this time; and

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Rating System (January 4, 2010 – April 4, 2013)**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

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