Viewpoint

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As we look back over the past six months, the slowing Chinese economy, weakening oil prices, and the potential for a rate hike from the U.S. Federal Reserve, and the resulting volatility in the capital markets have dominated the news flow. At BMO, our commitment to consistent, high-quality equity research remains paramount, especially during times of turbulence, as seen in our thought-leading research on these themes from our core segments, mining, energy, and financials. In addition, we remain relentless in our quest for new money-making ideas. Since the second quarter of 2015, our North American equity research analysts have initiated coverage of 71 stocks, of which 18 are Canadian stocks, including Sleep Country Canada, Stingray Digital, Cara Operations, David's Tea, Spin Master, and Royal Gold.

Our people represent the core of BMO's Equity Research platform. In that vein, we are delighted that Carl Kirst has taken on the position as the U.S. Director of Equity Research. Many of you are already familiar with Carl given his highly effective and insightful coverage of the North American Pipelines. Ben Pham, who is no stranger to the sector given his coverage of the pipelines as a fixed income analyst, will now cover the Canadian pipeline stocks, in addition to his existing coverage of the Canadian Power & Utilities stocks. We continue to streamline and strengthen our core mining franchise. Andrew Kaip, our highly ranked small cap gold and silver analyst, has assumed coverage of the senior gold producers and royalty stocks. Brian Quast and Andrew Breichmanas have added to their existing coverage of the small-mid cap gold stocks, while Jessica Fung will be assuming coverage of the small cap silver stocks in addition to her focus on commodity strategy. Finally, Ed Sterck and David Gagliano have assumed joint coverage of the global diversified miners in addition to their existing coverage.

BMO Research's mining team has been calling for a "lower for longer" scenario for the base metals (*Surplus, Interrupted – but Not for Long*) for several months, citing anemic global growth, structural slowdown in China, and inconsequential supply cut announcements. China's much-publicized stimulus programs are aimed at stabilizing growth and are unlikely to spur additional demand for base metals. Iron ore, coal, and steel remain heavily out of favour, as global steel demand and production expectations continue be revised down. Large-cap diversified producers, which usually offer the most defensive opportunities globally, were not immune to the "lower for longer" environment, due to their exposure to iron ore, and thermal coal in some cases. The base metals team remains bearish on copper until 2017 at least, based on expectations of an oversupplied market. They suggest that a significant recovery in the underlying commodity prices is necessary to trigger a recovery in stock prices, given the combination of incremental downward revision risk, uninspiring spot market valuations, and vulnerable balance sheets. The base metals team has resisted the temptation to "call a bottom" following the recent weakness, and counsels a selective stance (*Base and Bulk Producers: Is Now the Summer of Our Discontent?*). The highest upside potential in the equities is seen in the diamonds, zinc, and selected PGM and copper producers (despite the cautious view on copper) following the recent pullback. Headwinds are projected for coal, upstream aluminum, and integrated U.S. steel producers.

The past few months have proven to be equally challenging for precious metals, as investors contemplate the potential for a U.S. rate increase. In contrast to the prior cycle when rising gold prices and the prospects for margin expansion drove investor interest, BMO Research's precious metals team expects the price of gold to remain flat for the next several years. Under such conditions, cost reductions, and the rationalization of operations are expected to provide the catalyst for margin expansion and a rekindled interest in the sector. Andrew Kaip (BMO Research's precious metals analyst/senior golds) is constructive on the senior gold miners for the next 12 months, as most of these companies have made progress in trimming down head offices, realigning the capital budgets and mine plans, and optimizing operating costs. Andrew and Brian Belski (BMO Research's Chief Investment Strategist) predict that senior gold miners could start to screen positively in early 2016. Accordingly, Andrew recommends that investors exploit the current weakness to establish positions in anticipation of a potential rebound in investor interest in gold through the end of 2015 and into 2016. The precious metals team views the gold and silver miners as better positioned for lower metal prices compared to market perception (*Are Miners Prepared for Lower Metal Prices?*). They demonstrate that one-half of the gold miners generate free cash flow below $1,150/oz, while 86% could generate free cash flow at prices below spot gold during 2016-2020. We also point to other excellent thematic reports on the valuation of producers and developers (*No Revenue, No Worries: Building a Defensive Portfolio by Building Mines*) and underground mines (*Deeper Value in Gold: A Comparison of Six Underground Developers*).

Our North American and increasingly global perspective on Oil & Gas has been of tremendous value to investors during this period of sharp decline in oil prices. BMO Research's energy team has been recommending that investors stay on the sidelines for much of the year. Randy Ollenberger (BMO Research's Canadian E&P analyst) notes that despite a strong showing in 2014, North American M&A activity in 2015 has been all but absent, as a result of the debate surrounding the "right" oil price to use, and the high market valuations (*M&A in 2015: Waiting for Godot*). The report suggests that the cost of "doing it yourself" has generally been lower than pursuing acquisitions, especially in the Bakken, Permian, Viking, and Montney.

In *Back to Basics: Returns Matter*, Randy examines the returns in the global oil and gas industry since 2007, and concludes that returns have declined despite strong oil prices. The industry delivered an underwhelming ROCE of 7% in 2014 and a three-year weighted average global ROCE of less than 9%. Randy estimates that costs would need to decline 50% to raise industry returns to 10% by 2016, and that industry multiples should contract to reflect the industry's lower profitability.

In the U.S., Phil Jungwirth (BMO Research's U.S. E&P analyst) answers the question of when and at what oil price growth will resume. While his analysis focuses on the Bakken, his conclusions have read-throughs to the broader U.S. E&P sector. Phil's analysis demonstrates that current oil spot prices are unsustainable, but that upside beyond $55-60/Bbl WTI is limited if capex continues at the historical benchmark of 135-140% of cash flow.

We also point readers to other thematic reports, including hedging (*Hedging Review: Rolling (Off) Into 2016*), emissions (*Clearing the Air: Emissions Regulation in Alberta*), policy issues (*Royalty Review: Alberta Needs a Hand, Not a Hammer*), dividends (*Do High Yields Predict More Cuts Ahead?*), services (*Oilfield Services Primer – So You Want to Know About Canadian Oilfield Services?*), and the global landscape (*International vs. U.S. E&Ps; Competing With the "Land of Plenty"*).

Banks fall into our sweet spot for cross-border coverage given our strong U.S. and Canadian equity research teams. In a joint report (*Six Years After: A Comparison of Canadian versus US Banks Since the Peak of the Financial Crisis*), Sohrab Movahedi (Canadian Banks analyst) and James Fotheringham (U.S. Large Cap Banks and Specialty Finance analyst) observe that the U.S. and Canadian banks have come a long way from the depths of March 2009. While the system is more robust than it was pre-crisis, multiples remain depressed, with upside coming from future clarity in banking regulation. They conclude that both banking systems offer compelling risk-adjusted investment returns, with Canadian banks delivering more steady returns, and the U.S. banks more likely to benefit from re-rating.

In *Canadian Bank Valuations and Declining Oil Prices*, Sohrab looks at the potential for credit quality deterioration at oil prices in the low US$40s/boe range. He points out that direct lending exposure remains very manageable for the banks (low single digits of the total portfolio), while on-balance sheet lending exposure is skewed to higher-quality, investment-grade borrowers. Looking over the horizon, Sohrab explores the implication of technology on branch banking and the opportunities to re-visit the delivery model in retail banking (*Gotta Serve Somebody: Branch-Banking Conundrums*). He expects that the bank branch will be, for the foreseeable future, an important component of distribution in Canada. The banks will need to focus on productivity and capability as well as the number of branches. While technology investments can help bridge scale deficiencies over time, the advantage remains with the larger players (e.g., Royal and TD) for the time being.

In the U.S., James Fotheringham re-evaluates his newly introduced Financials Investment Framework (*First Test of the Financials Investment Framework*), which utilizes proprietary measures of system-wide credit and capital, as well as a value versus growth analysis to evaluate the U.S. Large Cap Banks and Specialty Finance stocks. During the three-month period February to May 2015, his six best ideas generated from this framework delivered returns of +6-7% versus the U.S. Financials sector (XLF +1%) and the S&P 500 (+2%).

Our goal is for BMO Capital Markets Research to be viewed as a leading provider of innovative and money-making ideas. Our Top 15 lists and portfolios have posted excellent performances year to date. Since the last *Red Book* in the second quarter of 2015, we have added First Capital Realty and George Weston to the Large Cap Top 15 list, and removed Goldcorp, and TransCanada. We added Genworth Canada, Tricon Capital (Restricted), WestJet, Exco Technologies, and Toromont Industries to the Small Cap Top 15 list, and removed Absolute Software, Altus Group, Dominion Diamond, Whitecap Resources, and Raging River. Both of these Top 15 lists outperformed their respective benchmarks year to date, and over virtually all time frames.

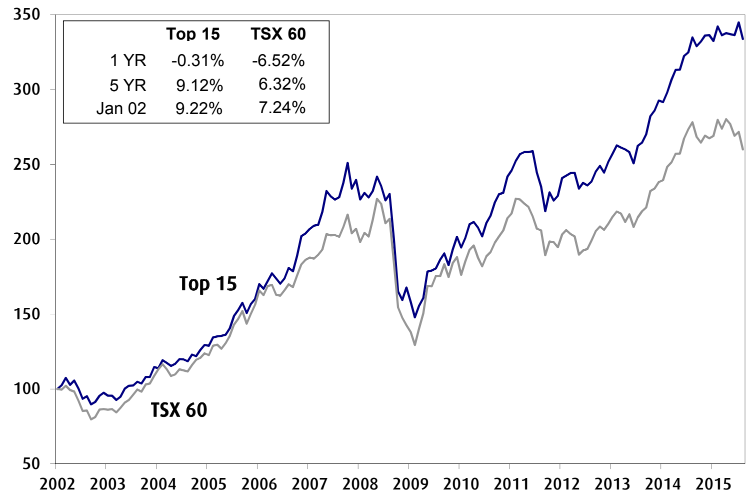
Top 15 Lists: Current Composition and Historical Performance

Canadian Large Cap Top 15 List
Selected from BMO Capital Markets
Large Cap Coverage Universe

- Alimentation Couche-Tard (ATD.B)
- BCE (BCE)
- Canadian Pacific Railway (CP)
- Canadian Tire (CTC.A)
- CIBC (CM)
- First Capital Realty (FCR)
- George Weston (WN)
- Gildan Activewear (GIL)
- Intact Financial (IFC)
- Magna International (MGA)
- Manulife Financial (MFC)
- Scotiabank (BNS)
- Suncor Energy (SU)
- TD Bank (TD)
- TELUS (T)

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, 2015)

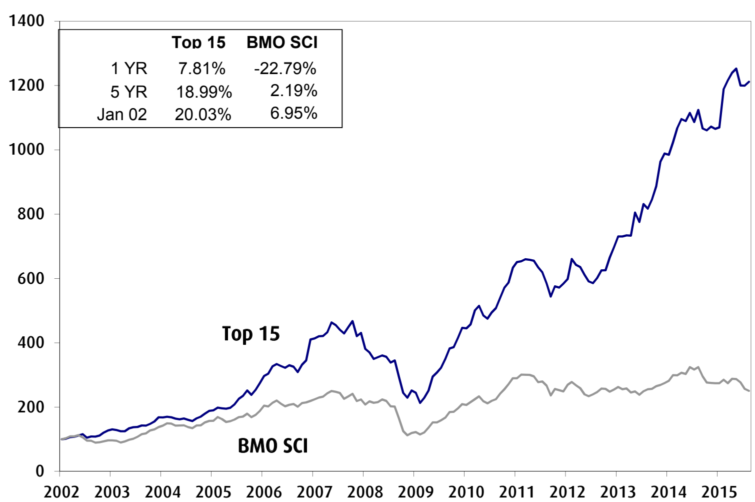


Canadian Small Cap Top 15 List
Selected from BMO Capital Markets
Small Cap Coverage Universe

- Boralex (BLX)
- Colliers (CIGI)
- Computer Modelling Group (CMG)
- Element Financial (EFN)
- Exco Technologies (XTC)
- Genworth MI Canada (MIC)
- Kinaxis (KXS)
- Linamar (LNR)
- Progressive Waste Solutions (BIN)
- Pure Industrial REIT (AAR.UN)
- Sienna Senior Living (SIA)
- Summit Industrial Income REIT (SMU.UN)
- Toromont Industries (TIH)
- Tricon Capital Group (TCN)*
- WestJet Airlines (WJA)

* Stock is Restricted.
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, 2015)



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Buy	Outperform	42.0%	21.9%	53.3%	41.9%	54.3%	54.6%
Hold	Market Perform	53.5%	14.4%	44.8%	53.3%	44.4%	40.0%
Sell	Underperform	4.4%	7.4%	1.9%	4.7%	1.3%	5.4%

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

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