



A Quarterly Report of Large-Cap Equity Investment Ideas

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market close, (unless otherwise
stated).

**For Important Disclosures,
see pages 14-15.**

Guided Portfolio: Large Cap
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Guided Portfolio: Large Cap

Guided Portfolio: Large Cap is designed to provide a disciplined approach to selecting large-cap stocks within the S&P 500, diversified by sector. The underlying investment strategy is a combination of top-down economic analysis and bottom-up company screening to ensure the portfolio holds quality companies that have passed a multi-disciplinary (fundamental, technical, and quantitative) screening process. Guided Portfolio: Large Cap seeks to own the highest-quality companies that have attractive potential within their peer groups, diversified by sector, and based upon the RBC Investment Strategy Committee's assessment of which industry sectors offer attractive potential. The global economy, equity market, industry sectors, and individual stocks in the portfolio are reviewed quarterly, and more often when necessary, to help ensure the portfolio reflects the current outlook.

Summer Quarter Changes

Relative changes to our outlook for the ten sectors that comprise the S&P 500 have led us to remove one net position from the Health Care sector and adding one to Industrials. Details on those changes, as well as our Economic and Market Commentary, start on page 3.

This quarter's changes break down as follows, priced as of May 28, 2010, when the changes were made:

Additions:

American Tower Corporation (NYSE: AMT, \$40.99)
Amgen, Inc. (Nasdaq: AMGN, \$51.43)
Bank of America Corporation (NYSE: BAC, \$16.18)
CME Group Inc. (NYSE: CME, \$318.94)
Union Pacific Corporation (NYSE: UNP, \$71.55)

Removals:

American Electric Power Company Inc. (NYSE: AEP, \$31.99)
Quest Diagnostics Inc. (NYSE: DGX, \$52.87)
JPMorgan Chase & Co. (NYSE: JPM, \$40.42)
Pfizer Inc. (NYSE: PFE, \$15.32)
The Travelers Companies Inc. (NYSE: TRV, \$49.73)

Further thoughts on our quarterly outlook on the global economy, U.S. equity market, industry sectors, and stocks in the Portfolio can be found in the following pages. More details on each of the individual portfolio changes are contained in separately issued reports, which are available upon request.

(Continued on page 3)

Guided Portfolio: Large Cap

| | Symbol | Company Name | Price | Calendar Year EPS | | | P/E | | Dividend |
|--------------------|-------------------------------------|-----------------------------------|----------|-------------------|-------|-------|-------|-------|----------|
| | | | 6/30/10 | 2009A | 2010E | 2011E | 2010E | 2011E | Yield |
| CONSUMER | Consumer Discretionary | | | | | | | | |
| | MCD | McDonald's Corp. | \$65.87 | 3.98 | 4.50 | 4.86 | 14.6x | 13.6x | 3.34% |
| | VIA.B | Viacom Inc. (CI B) | \$31.37 | 2.56 | 2.88 | 3.19 | 10.9x | 9.8x | 1.91% |
| | Consumer Staples | | | | | | | | |
| | CL | Colgate-Palmolive Co. | \$78.76 | 4.37 | 4.85 | 5.31 | 16.2x | 14.8x | 2.69% |
| | CVS | CVS Caremark Corp. | \$29.32 | 2.64 | 2.80 | 3.08 | 10.5x | 9.5x | 1.19% |
| | Health Care | | | | | | | | |
| | AMGN | Amgen Inc. | \$52.60 | 4.91 | 5.12 | 5.44 | 10.3x | 9.7x | 0.00% |
| | MHS | Medco Health Solutions Inc. | \$55.08 | 2.83 | 3.37 | 4.01 | 16.4x | 13.8x | 0.00% |
| INTEREST SENSITIVE | Financials | | | | | | | | |
| | BAC | Bank of America Corp. | \$14.37 | -0.29 | 0.99 | 1.89 | 14.5x | 7.6x | 0.28% |
| | CME | CME Group Inc. (CIA) | \$281.55 | 13.29 | 15.64 | 17.76 | 18.0x | 15.9x | 1.63% |
| | PNC | PNC Financial Services Group Inc. | \$56.50 | 4.36 | 4.55 | 5.63 | 12.4x | 10.0x | 0.71% |
| INDUSTRIAL | Industrials | | | | | | | | |
| | HON | Honeywell International Inc. | \$39.03 | 2.85 | 2.48 | 3.00 | 15.7x | 13.0x | 3.10% |
| | UNP | Union Pacific Corp. | \$69.51 | 3.60 | 4.74 | 5.63 | 14.7x | 12.4x | 1.90% |
| | UTX | United Technologies Corp. | \$64.91 | 4.12 | 4.66 | 5.34 | 13.9x | 12.2x | 2.62% |
| | Information Technology | | | | | | | | |
| | CSCO | Cisco Systems Inc. | \$21.31 | 1.45 | 1.66 | 1.91 | 12.8x | 11.2x | 0.00% |
| | EMC | EMC Corp. | \$18.30 | 0.90 | 1.19 | 1.37 | 15.3x | 13.4x | 0.00% |
| | HPQ | Hewlett-Packard Co. | \$43.28 | 3.96 | 4.57 | 5.06 | 9.5x | 8.6x | 0.74% |
| | MSFT | Microsoft Corp. | \$23.01 | 1.87 | 2.18 | 2.46 | 10.6x | 9.4x | 2.26% |
| | Telecommunication Services | | | | | | | | |
| | AMT | American Tower Corp. | \$44.50 | 0.59 | 0.86 | 1.03 | 51.7x | 43.3x | 0.00% |
| RESOURCE | Energy | | | | | | | | |
| | OXY | Occidental Petroleum Corp. | \$77.15 | 3.78 | 5.81 | 7.58 | 13.3x | 10.2x | 1.97% |
| | SLB | Schlumberger Ltd. | \$55.34 | 2.78 | 2.83 | 3.82 | 19.6x | 14.5x | 1.52% |
| | Materials | | | | | | | | |
| FCX | Freeport-McMoRan Copper & Gold Inc. | \$59.13 | 5.86 | 8.01 | 9.04 | 7.4x | 6.5x | 2.03% | |

| | Most Recent Quarter (2010) | Year to Date 6/30/10 | Last 12 Months 6/30/10 | Since Inception 6/30/10 |
|--|-------------------------------|-------------------------|---------------------------|----------------------------|
| GPLC Cumulative Performance: | -12.3% | -8.6% | 8.9% | -9.2% |
| S&P 500 Cumulative Performance: | -11.4% | -6.7% | 14.3% | -4.2% |

Inception date is June 23, 2005.

Dividend yield is calculated based on the most recent distribution (not the most recent declaration). A stands for actual earnings, E stands for estimated earnings based on First Call Consensus estimates. Information regarding returns is presented as total return and therefore includes dividends as well as capital appreciation and presumes reinvestment of dividends. Return is calculated on an equal-weighted, total return basis, and includes dividends, which are assumed to be reinvested. Return calculations do not include the deduction of commissions, advisory program fees, interest charges or other expenses that would be associated with an investment in the securities mentioned that are paid to RBC Wealth Management will reduce client's overall return. Return calculations for the Guided Portfolio: Large Cap include securities that have been removed from the portfolio. Performance information on removed stocks is available upon request. Prices utilized for performance calculation purposes are closing prices one full trading session following additions to or removals from the Guided Portfolio: Large Cap. S&P 500 index in an unmanaged index of 500 widely held common stocks and Real Estate Investment Trusts (REITS) of domestic operating companies traded on the New York Stock Exchange, American Stock Exchange or NASDAQ National Market List and is often used as a measure of large capitalization-weighted common stock performance in the United States. An investment cannot be made directly into an index. Past performance should not be viewed as an indicator of future results. Portfolio P/E ratios are derived from a simple average of individual stock P/E ratios.

Source: FactSet and our national research correspondents.

Economic and Market Commentary, and Recommended Sector Allocations

We have long expected a half-speed economic recovery to materialize once the initial rebound ran its course, and now that appears more certain. The “V-shaped” recovery is moving into history and being replaced with a new, slower growth phase. However, we believe the odds of a double-dip recession are low. In some regions, such as Europe and Japan, embedded vulnerabilities have surfaced as an impediment to expansion. In other regions, such as Canada, Australia, and many emerging markets, fiscal flexibility and healthy domestic demand should ensure that the recession will soon become a distant memory.

Still, headwinds to a recovery remain strong. Though Europe’s fiscal crisis is dominating the headlines, investors are still wrestling with challenges from China’s slowing economy, the still-troubled U.S. housing market, and concerns over the health of U.S. consumers. These headwinds appear to us to be manageable, and with time we expect them ultimately to abate.

The recent preponderance of bearish signs, both within markets and from the global economy, has temporarily drowned out the more positive signals coming from the global economy. This noise has overshadowed some of the more constructive picture coming from a gradual rise in U.S. employment and incomes, ongoing low borrowing costs, unusually attractive stock market valuations, and surging profit growth. Still, with concerns often dominating sentiment, we expect there to be more short-term dislocations in the market, such as the May sell-off in equities, until these positive signs become more established and predominant.

We estimate U.S. GDP growth forecast to be 3.00% for 2010 and 2.50% for 2011. Inflation remains subdued in most developed economies, including the United States. In fact, it is the risk of deflation, particularly in Europe, that has emerged as a near-term concern. In North America, deflation has so far proven to be transitory, and we believe this will continue as long as a double-dip recession is avoided.

We expect the recent strength in the U.S. dollar to prevail for at least the time being. In a world of risk aversion and uncertainty, currencies have again proven to be the most liquid way for investors to pass judgement on the relative merits of national and regional economic policies. The verdict is clear: the U.S. dollar, which only six months ago was written off as the main reserve currency, has solidified its status—at least for now. Foreign investors realized that while the Eurozone consisted of a single currency zone, it did not represent a single bond market or fiscal policy and thus did not offer a true alternative to the U.S. dollar and Treasury bonds.

We expect central bank policy rates to remain at very low levels. The central banks remain solely focused on supporting growth and battling against any threat of deflation. Eventually, with the return of sustained growth, employment gains, reinflating asset values, and confidence in the financial system, pressure on central banks to boost rates will begin to build, but all of that remains in the distance.

After the worst earnings recession in a half century, profits have already recovered half the ground they lost on a peak-to-trough basis. More remarkable still is the fact that this has occurred even as revenues have only recently begun to move above recessionary lows. The main reason for these soaring profits is that companies responded to what many expected to be another Great Depression with sharp cost cuts, particularly in labor and other general expenses. Even if revenue growth remains sluggish, the high degree of earnings leverage suggests a small gain in sales would be enough to push profits significantly higher. If revenue growth continues to build momentum, an epic profit cycle could be upon us.

Such a scenario appears lightly considered by the market, given the level of equity valuations, which remain near the most conservative levels of the post-war era across the major economies. Our normalized earnings-driven valuation models show that most markets are trading below, and in some cases far below, fair value.

The winners in the market environment of the past year were small, value-tilted equities, especially companies with the most volatile financial metrics and those that rank lowest across fundamental, technical, and a broad range of quantitative attributes. This has resulted in a period

of under-performance for the Guided Portfolio: Large Cap, in that our stock selection model favors companies that rank high in these attributes. Over time, markets tend to reward companies with relatively high and stable profitability, reasonable amounts of leverage, and a record of rising earnings, revenues, and dividends. While this wasn't at all the case through the recovery period, we believe these factors will dominate returns again once the crisis environment that distorted markets and valuations moderates and normal valuation gaps between the extremes are restored. Our 12-month target for the S&P 500 stands at 1,250.

Interest-Sensitive Sectors

Financial Services

Recommended Weighting: 15.0% S&P 500 Weighting: 15.9%

The Financials sector outperformed the S&P 500 index until recently, despite the overhang of regulatory reform, fraud charges against Goldman Sachs and the so-called "Flash Crash" of May 6, 2010, when the Dow Jones Industrial Index dropped 1,000 points in a short period of time before recovering much of the loss almost immediately. On the positive side, loan provisions and delinquencies appear to have peaked, and this is counter-balancing the numerous headwinds facing the sector. We maintain an Underweight position, because we believe the burdens of regulatory reform and their drag on sector profits will eventually outweigh the improvement in credit quality.

Financial Services Recommendations

Bank of America Corporation (NYSE: BAC, \$14.37); Added May 28, 2010

Bank of America Corporation is a bank and financial services holding company. It serves individual consumers, businesses, and governments with a large range of banking, investing, asset management, and other financial products and services.

- With a new CEO and recent round of capital raising, the company appears to be on better financial and strategic footing than it had been previously.
- As concerns with the company's financial health and credit exposure fade away, we think the stock's valuation will close much of the current discount the shares trade to industry leaders.
- With approximately 66% of Bank of America's loan portfolio exposed to the U.S. consumer, the company's earnings are more sensitive to personal income trends and employment levels. Should those trends improve, we think delinquencies and loan-loss provisioning could fall, potentially leading to a significant increase in earnings.

CME Group Inc. (NYSE: CME, \$281.55); Added May 28, 2010

CME Group Inc. serves the risk management and investment needs for clients around the globe by offering access to trading markets in futures contracts from a single electronic trading platform and on trading floors in Chicago and New York City. Futures and options contracts traded include those related to equity indexes, foreign exchange rates, agricultural commodities, energy, metals, and interest rates.

- CME Group represents one of the few companies in the Financial sector that could benefit from financial reforms since, as proposed, large banks would likely have to give up some of their over-the-counter trading business and instead execute it over an exchange.
- A recent spike in the volatility of the equity markets (as well as others) led to trading volumes in late May for CME that were close to record levels. With volatility expected to have remained high through the rest of the June quarter, we suspect CME could deliver results ahead of consensus estimates.
- While shares of CME currently trade at a P/E premium to the S&P 500 average, we think the current price represents an attractive entry point, given the company's solid growth forecast.

PNC Financial Services Group Inc. (NYSE: PNC, \$56.50); Added April 28, 2010

PNC Financial Services Group is a diversified financial company engaged in retail banking, corporate and institutional banking, asset management, residential mortgage banking, and global investment servicing.

- Improvements in PNC's credit portfolio could help earnings continue to recover, with the company having reported financial results that suggest credit losses and loan loss provisions may have peaked.
- The 2008 acquisition of National City Corporation doubled PNC's asset base, expanded its geographic footprint into the Midwest, and opened up the potential for sales and cost synergies.
- PNC's sound and improving capital position may lead to future acquisitions and dividend increases.

Telecommunication Services

Recommended Weighting: 2.0% S&P 500 Weighting: 2.9%

The Telecommunications Services sector was the biggest laggard in 2009 and continued to be until very recently. The group is weighed down by intense wireless competition and the erosion of demand in the wireline business. Valuations and relatively high dividend yields are attractive, but we would have to become much more negative on the global economy to make this defensive sector look relatively appealing. We maintain our Underweight recommendation.

Telecommunications Services Recommendations

American Tower Corporation (NYSE: AMT, \$44.50); Added May 28, 2010

American Tower is a leading wireless and broadcast communications infrastructure company. It develops, owns, and operates communications towers and antenna systems networks. The company's primary assets consist of 20,000 towers in the United States and more than 7,000 in Mexico, Brazil, and India.

- The growth in smartphone handsets has increased the need for wireless data services, and as a result, wireless carriers continue to spend aggressively on improving and modernizing their networks. This requires they purchase more equipment and rent more space on towers.
- The low maintenance costs American Tower enjoys offer high returns on investments and cash flows that tend to be rare with companies growing this fast.
- We expect American Tower may convert to a Real Estate Investment Trust (REIT) within the next few years and appears undervalued to us versus similar REIT structures.

Utilities

Recommended Weighting: 3.0% S&P 500 Weighting: 3.6%

Utilities were shunned by investors during much of the stock market recovery due to a lack of operational leverage to the economy. However, the sector was a leader in the recent quarter as investors lowered risk levels. We expect underperformance to resume once the correction has run its course, and we maintain our Underweight position.

Utilities Recommendations

None at this time.

Consumer Sectors

Consumer Discretionary

Recommended Weighting: 10.9% S&P 500 Weighting: 10.4%

The Consumer Discretionary sector has been a leader for the better part of the past year, because until very recently consumption has continued to be stronger than expected. Performance has been the best in selective retailers, gaming and lodging, and home improvement, while office supply companies and home builders have had a more difficult time. Given the cuts to capital

spending and overhead in the sector, we expect cash flows to remain strong and outperformance to continue. We move to a slight Overweight position in the sector.

Consumer Discretionary Recommendations

McDonald's Corporation (NYSE: MCD, \$65.87)

McDonald's is the world's largest fast-food restaurant chain, with approximately 31,000 locations throughout the world, generating about 65% of its system-wide sales internationally. McDonald's restaurants offer a substantially uniform menu worldwide, consisting of hamburgers, french fries, chicken, fish, salads, and specialty sandwiches.

- The initiative of adding healthy meal alternatives to the menu, along with the effective marketing effort surrounding it, drove sales growth out of a multi-year slump. Tweaks to its healthy offerings and coffee sales have helped sustain strong same-store sales.
- International sales are likely to drive revenue and profit growth, in our view. In the United States, extended hours, a wider variety of menu items, and good value (consumers may choose McDonald's over other restaurants in a modest economy) are expected to continue to assist same-store sales.
- A strategy centered on enhancing shareholder value has seen a significant increase in share repurchase and dividends. In both 2006 and 2007, the company raised its dividend by 50%, then followed with a 33% increase in 2008, and recently raised it again by 10%. The stock currently yields 3.34%, the highest in the U.S. restaurant group.

Viacom Inc. (CI B.) (NYSE: VIA.B, \$31.37)

Viacom Inc. is an entertainment content company that operates in two segments: Media Networks and Filmed Entertainment. Its Media Networks segment provides entertainment content for consumers. It creates and acquires programming, video games, and other content for distribution to its audiences. The Filmed Entertainment segment produces, finances, and distributes motion pictures and other entertainment content under the Paramount Pictures, Paramount Vantage, Paramount Classics, MTV Films, and Nickelodeon Movies brands. The Filmed Entertainment segment also releases certain pictures under the DreamWorks brand.

- We are starting to see evidence of improving ratings on some of Viacom's networks and a general upturn in advertising rates. We expect this to support earnings growth in 2010.
- Viacom's management has identified cost containment as an initiative for 2010, particularly in the Filmed Entertainment segment where expenses have come down by approximately \$125 million over the last 24 months.
- Trading at just 10.9x 2010 earnings, shares are below the low end of the historic 12x to 22x range. While we believe the higher end of that range is not achievable, we do think shares can garner a multiple of 15x if the company executes properly on its business plan.

Consumer Staples

Recommended Weighting: 11.6% S&P 500 Weighting: 11.6%

The Consumer Staples sector lagged the market over the last quarter but trimmed some of its underperformance when investor concerns regarding Europe's sovereign debt crisis made the sector appear more attractive. We expect to make a bigger move into the sector when the market becomes expensive or corporate profits appear to contract. For now, we remain Market Weight.

Consumer Staples Recommendations

Colgate-Palmolive Co. (NYSE: CL, \$78.76)

Colgate-Palmolive Company (Colgate) is a consumer products company whose products are marketed in over 200 countries and territories globally. Colgate's Oral Care products include Colgate Total and Colgate Max Fresh toothpastes and Colgate Plax oral rinses. Personal Care products include Palmolive and Softsoap brand shower gels; Palmolive, Irish Spring, and Protex bar soaps, and Speed Stick deodorants and antiperspirants. The company manufactures and markets a range of products for Home Care, including Palmolive and Ajax dishwashing liquids, Fabuloso and Ajax household cleaners, and Murphy's Oil Soap. Through its Hill's Pet Nutrition segment, Colgate offers specialty pet nutrition products for dogs and cats with products marketed in over 90 countries globally.

- Colgate-Palmolive is currently one of the few stocks in the Consumer Staples sector we believe can increase earnings at a double-digit pace over the near term.
- Colgate currently generates just under 50% of its revenue from developing markets but notes that current per capita consumption is less than half what it is in developed markets, which we view as an opportunity for significant growth within those regions.
- Shares of Colgate currently trade 16.2x consensus 2010 earnings, which is toward the lower end of its historical range over the last decade (15x to 31x).

CVS Caremark Corp. (NYSE: CVS, \$29.32)

CVS Caremark Corp. is a domestic provider of prescriptions and related health care services. The company operates 6,900 CVS Pharmacy and Longs Drug retail stores; CVS Caremark's pharmacy benefit management (PBM), mail order and specialty pharmacy division, Caremark Pharmacy Services; its retail-based health clinic subsidiary, MinuteClinic, and its online pharmacy, CVS.com.

- Following disappointing results for much of 2009 in its PBM business, CVS recruited an experienced veteran of 30 years (Per Lofberg) to run the business in time for the 2011 selling season, in which several PBM contracts are up for bid.
- With an aging U.S. population and new health care legislation adding to the rolls of insured as well as covering up the "donut hole" in Medicare Part D coverage, we expect prescription volume for the industry and at CVS to grow steadily over the next several years.
- Shares of CVS currently trade at 10.5x consensus 2010E EPS, having sold off in late 2009 as a result of challenges in its Pharmacy Benefits (PBM) business. We regard the current entry point to be very compelling since the downside is likely limited, and we believe the upside potential to the stock from earnings growth and/or a valuation re-rating is significant.

Health Care

Recommended Weighting: 12.5% S&P 500 Weighting: 11.8%

In the prior quarter, we moved to Overweight from Market Weight in Health Care, noting that relative strength was improving and the sector would likely benefit from a more favorable legislative environment. While sector outperformance has failed to materialize since that call, we are seeing very attractive entry points for generic drug distributors and some biotechnology companies. We expect improved relative performance for the remainder of the year and maintain our Overweight stance.

Health Care Recommendations

Amgen Inc. (NYSE: AMGN, \$52.60); Added May 28, 2010

Amgen is a global biotechnology company focused on the development, manufacturing, and commercialization of pharmaceuticals, primarily in the treatment of cancer, nephrology, inflammatory disease, and bone disease.

- Amgen has three drug trials underway, which may serve as a catalyst for the stock price. We expect data from these trials in the second half of the year.
- We estimate potential peak sales for the drug in development (Dmab/Prolia) to be \$3 billion annually if approved for all indications under trial. This could offer the company the opportunity to grow earnings at around 8% per year, rather than the lack of growth seen over the last few.
- Shares of Amgen are currently trading at 9.7x 2011 EPS estimates, which we view as an attractive valuation, particularly should Dmab/Prolia gain approval.

Medco Health Solutions Inc. (NYSE: MHS, \$55.08)

Medco Health Solutions is the largest pharmacy benefit manager (PBM) in the United States. A PBM acts as an intermediary between pharmaceutical manufacturers, health insurers, managed care companies, corporations, government plans, and pharmacies, with the objective of keeping drug costs contained. Last year Medco administered 533 million prescriptions.

- Medco's profitability tends to expand with generic drug introductions. Over the last three-plus years, the dispensing rate of generics as a percentage of total prescriptions has expanded by 26%, while operating income per adjusted prescription has advanced 33%.
- A strong outlook for the second half of this year, along with a rebound in cash flow per claim and subsiding health care reform issues, could serve as a catalyst for the stock.
- At 15.4x 2010 consensus EPS estimates, shares of MHS may, on the surface, appear expensive; however, we believe the P/E could actually expand further as investors factor in the likelihood that drug patent expirations could sustain a high growth rate for several years.

Industrial Sectors

Industrials

Recommended Weighting: 12.0% S&P 500 Weighting: 10.7%

Operating leverage in the Industrials sector has been the key to the sector's outperformance to date in 2010. The potential for an economic slowdown in China and Europe could temper earnings expectations for the group, but we believe the operational leverage story has further room to run, leading to eventual earnings estimate revisions. We remain Overweight, with a focus on railroads, aerospace and certain machinery makers with emerging market exposure.

Industrials Sector Recommendations

Honeywell International Inc. (NYSE: HON, \$39.03)

Honeywell International is a diversified manufacturing and technology company that provides products and services for the aerospace, defense, construction, industrial, automotive, and chemical markets, among others.

- Since 2006, Honeywell has entered into a series of transactions intended to give it exposure to larger end markets and improve profit margins. These initiatives bore fruit in the form of stronger profit margins last year, which we believe are sustainable.
- The soft economy has challenged sales, which fell 15.5% in 2009 from 2008 levels. Stronger margins, however, allowed the company to exceed operating earnings expectations last year.
- With its exposure to cyclical industries, we expect sales to slow, but with the stock trading at just 13.0x consensus 2011 EPS estimates, we think an expectation of a slowdown is already reflected in the share price.

Union Pacific Corporation (NYSE: UNP, \$69.51)

Union Pacific is the largest railroad in North America in terms of track miles (at 32,205) and is the largest publicly held, pure-play railroad in terms of market capitalization. Its network covers the western two-thirds of the United States, linking every West Coast and Gulf Coast port to the Midwest as well as offering connections to the Mexican and Canadian rail systems.

- Union Pacific has won renewals on existing contracts at a higher rate than the industry average. Should this trend continue, we think its prices can grow at a swifter rate than that for competitors.
- Given the rail industry's high barriers to entry, we think the industry can continue its trend of steady price increases, aided by supportive economic conditions, continued favorable industry regulation, and sustained cost advantages over trucking.
- From 2004 through 2008, industry return on equity (ROE) more than tripled. In 2009, the recession drove lower volumes, and led to a break in the higher ROE trend. With the improving economy, we forecast improving volume trends, and aided by anticipated cost reductions and pricing increases, we think ROE will return to its upward trending pattern.

United Technologies Corp. (NYSE: UTX, \$64.91)

United Technologies Corp. is a diversified industrial corporation with worldwide exposure to several end markets through its six operating divisions. These end markets include heating, ventilation, and air conditioning (HVAC), elevators and escalators, jet engines, aerospace, helicopters, fire safety, and security.

- Many of United Technologies' end markets tend to recover late in an economic cycle, but the nature of some of these divisions, such as the Otis elevator and escalator business and Pratt & Whitney jet engine business, allows room for upside surprise against modest expectations.
- Nearly 64% of sales are to customers outside the United States, which has helped cushion the blow from the sharp decline in commercial construction in North America.
- Cash flows continue to exceed earnings, and the company's cash balance has increased by 52% in the past two years. As the economy improves, United Technologies may resume its prior pattern of significant share repurchases.

Information Technology

Recommended Weighting: 20.0% S&P 500 Weighting: 18.8%

The Information Technology sector was the leader in 2009 and continues to be among the leaders thus far in 2010. However, that position is showing evidence of waning as economic growth slows. Despite the uncertainty, we continue to like the sector, given high cash levels, minimal debt, and significant exposure to emerging markets. We are upgrading the sector this quarter to an Overweight position.

Information Technology Sector Recommendations

Cisco Systems Inc. (Nasdaq: CSCO, \$21.31)

Cisco Systems is the world's largest supplier of computer networking products, communication products, and services designed to transport data, voice, and video signals for businesses (~75% of sales), and telecommunication services companies (~25%).

- With more than 50% market share in the router market and about 70% of Ethernet-switching market share, Cisco appears to be a beneficiary of an ongoing trend of large businesses consolidating technology purchases among fewer vendors in an effort to save money.
- Cisco has historically demonstrated an ability to reduce its cost structure rapidly in a poor technology revenue environment, having surpassed peak-year 2000 EPS after just two years of decline in 2003, two years earlier than the fastest of its large-cap technology peers.
- The corporate technology market is stabilizing, and we believe the bottom is behind us. Its recently-signed partnerships with companies such as EMC (NYSE: EMC) and VMware (NYSE: VMW), help ensure Cisco's preservation as networking equipment leader while the network infrastructure shifts to a cloud computing model.

EMC Corp. (NYSE: EMC, \$18.30)

EMC is the global leader in information storage systems, software, and services. Its offerings are designed around the concept of information lifecycle management, which seeks to maximize the utility and security of a company's electronic data and information throughout its lifecycle, while minimizing cost and risk. EMC owns 84% of VMware Inc. (NYSE: VMW), a separately traded server virtualization software company.

- The tendency for companies to spend early in the economic cycle on enterprise hardware positions EMC stock to benefit sooner than most cyclical companies from a global economic recovery, in our view.
- Intel Corp's (Nasdaq: INTC) new Xeon 5500 server microprocessor, which was released in June and is used in EMC's latest generation of servers, dramatically increases the electrical efficiency of the server systems it powers. It is the type of rapid-payback, cost-reducing IT spending we believe corporate financial officers will be most likely to approve.
- Through its ownership in VMware Inc. and a recently formed partnership with Cisco Systems, EMC is in an excellent position to see long-term growth from the gradual change in computer networks to "cloud computing" architecture.

Hewlett-Packard Co. (Nasdaq: HPQ, \$43.28)

Hewlett-Packard Co. is a provider of computer hardware, printing solutions, IT services, and software to businesses and consumers worldwide. In late 2008, Hewlett-Packard acquired Electronic Data Systems, making it the second-largest IT services firm in the world.

- Hewlett-Packard is gaining market share in all three of its major business categories (computer hardware, printing, and IT services) as a new IT spending cycle appears to be beginning its early stages.
- The announced acquisition of Palm Inc. (Nasdaq: PALM), has, in our opinion, created an added risk stemming from our anticipation that the company will devote significant resources into a new and unproven business (mobile computing), though if successful, the initiative could serve as a source for long-term unanticipated growth.
- Trading at just 9.5x FY2010 estimates, Hewlett-Packard is the least expensive of the computer hardware companies, trading at a 27% discount to its historical average.

Microsoft Corp. (Nasdaq: MSFT, \$23.01)

Microsoft, the world's largest software company with over \$58 billion in calendar 2009 sales, has the dominant market position in both operating systems software (Windows brand) and business productivity solutions software (Office brand). The company is divided into five divisions: Client; Server and Tools; Online Services Business; Microsoft Business Division; and the Entertainment and Devices Division.

- Personal computer (PC) sales appear to be in a significant recovery, with a recent survey showing shipments rising 22.1% in the final quarter of 2009 vs. the same quarter in the prior year.
- A weak uptake in Microsoft's prior operating system, Windows Vista, leaves much of the installed base of PCs with a very old operating system. We believe this could lead to an especially strong product cycle for Windows 7.
- Historically, Microsoft has not been strong in cost containment, but over the last 12 months, selling, general and administrative costs have been reduced by 345 basis points. Sustaining this efficiency could lead to upward EPS revisions throughout the year.

Resources Sectors

Materials

Recommended Weighting: 3.0% S&P 500 Weighting: 3.4%

The Materials sector continues to be under pressure as investors focus on moves by the Chinese to cool their domestic economy. This move could cause a reduction in demand for base metals. Steel, aluminum, agricultural chemicals, and industrial metals have underperformed the sector, while specialty chemicals and gold miners have fared better. We expect the sector to continue to underperform, given the uncertainty surrounding global growth, and move to an Underweight stance from Market Weight.

Materials Sector Recommendation

Freeport McMoRan Copper & Gold Inc. (NYSE: FCX, \$59.13)

With its 2007 acquisition of Phelps Dodge, Freeport McMoRan became the largest publicly-held copper miner in the world. As of December 31st, 2009, proven and provable mineral reserves totalled 104.2 billion pounds of copper, 37.2 million ounces of gold, 2.59 billion pounds of molybdenum, 270.4 million ounces of silver, and 0.78 billion pounds of cobalt.

- With nearly 80% of its sales coming from copper, we think Freeport stands to benefit from long-term supply-demand dynamics in the copper market that are conducive to higher pricing.
- Freeport appears to be in a position to increase its own production from existing mines. Many of these mines are at the lower end of the cost curve, potentially amplifying the earnings impact of higher volumes.
- We believe the company is in a position to return a substantial amount of its cash flows to shareholders. Notably, the company's dividend was recently doubled, and lowered its debt levels in the wake of the financial crisis.

Energy

Recommended Weighting: 10.0% S&P 500 Weighting: 11.0%

The Energy sector has lagged the broader market during the quarter, and year to date. Rising crude oil inventories and concern about the strength of the recovery in Europe have driven down the price of oil since early May. In general, large, integrated companies have fared better than smaller exploration companies, oilfield service providers, and coal producers as refining margins temporarily turned upward. In addition, several stocks have been hit hard due to their association with the well that exploded in the Gulf of Mexico, which we see as an ongoing risk to growth prospects for some exploration and oilfield services operations. We have lowered our rating to Underweight.

Energy Sector Recommendations

Occidental Petroleum Corp. (NYSE: OXY, \$77.15)

Occidental is a leading international oil and gas company, with exploration and production operations in the U.S., Middle East, Africa, and Latin America. It also owns chemical and midstream operations.

- Occidental's earnings are the most levered to the price of oil among the integrated oil and gas companies. With the price of crude oil having recently recovered with signs of a global economic recovery, we believe this can lead to share outperformance vs. peers.
- Due to its focus on the development of large, long-lived resource plays (as opposed to more speculative exploration), Occidental posts one of the highest returns on capital in the industry.

Schlumberger Ltd. (NYSE: SLB, \$55.34)

Schlumberger Ltd. is the largest supplier of technology, integrated project management, and information solutions to customers working in the oil and gas industry. The company operates in two business segments: Schlumberger Oilfield Services, which generated approximately 91% of revenues in 2009, and WesternGeco (9% 2009 revenues). The company is focused largely on international operations, with only 18% of oilfield services revenues coming from North America in 2009.

- The recently announced pending acquisition of Smith International (NYSE: SII) provides the company with a wider product offering, positioning Schlumberger as the leading player in the rapidly growing deepwater and shale drilling services arena.
- We believe the prospects for a reacceleration in oil and gas exploration and production spending and drilling activity look strong as companies have become more comfortable with the global economic outlook and their abilities to sustain cash flows.
- We believe the weakness related to the announcement of the Smith International acquisition has provided investors with a rare opportunity to acquire shares of Schlumberger Ltd. at a highly attractive valuation.

Removed Positions

American Electric Power Co. Inc. (NYSE: AEP, \$32.30); Removed May 28, 2010

American Electric Power reported first-quarter results in April. Weak sales in the company's service territories continue to weigh on results. There were some signs of improvement, but they were largely driven by colder weather, and the more cyclical commercial and industrial revenues saw a decline. While we think modest improvements may lie ahead, they ultimately may not be enough to drive meaningful share outperformance through the rest of the year. We consider American Electric Power an attractive long-term holding, particularly for dividend-oriented investors, with the shares yielding 5.20%.

JPMorgan Chase & Co. (NYSE: JPM, \$36.61); Removed May 28, 2010

JPMorgan stock trades at a premium to its peer group. While we regarded this premium as justified through the financial crisis, due to the higher quality of the company's balance sheet, it may narrow now that the economy is improving and credit quality for more distressed banks is

bottoming. We think as investors gain confidence in the strength of the recovery, a shift to more credit-sensitive Financial sector stocks could result in a narrowing of valuations in the large-cap bank industry. At the same time, we do not view JPMorgan as a relative safe haven from proposed bank regulatory changes, which appear to be more burdensome for the country's very largest banks than for smaller ones.

Pfizer Inc. (NYSE: PFE, \$14.26): Removed May 28, 2010

This quarter, the RBC Investment Strategy Committee lowered its weighting to the Health Care sector, necessitating the removal of one of our three positions in the sector. Also, Pfizer experienced setbacks in drug trials for Alzheimer's disease, non-small-cell lung cancer, and breast cancer. The company generates about 30% of its sales in Europe, and we think concerns over a decline in the euro may lead to downward EPS estimate revisions. At current valuations, however, we believe shares of Pfizer could work well over the long term and remain appropriate to hold in more diversified portfolios.

Quest Diagnostics (NYSE: DGX, \$49.77): Removed May 28, 2010

This quarter, the RBC Investment Strategy Committee lowered its weighting to the Health Care sector, necessitating the removal of one of our three positions in the sector. Quest's first-quarter results were marred by weak sales growth, with testing volumes declining by 2.6% over the same quarter last year. The company lowered its revenue guidance to 1%-2% from 3%-4%, attributing it to a lower level of physician office visits and indicating that the near-term environment is likely to remain challenging. Despite the unfavorable short-term outlook, we believe the valuation is very attractive, and shares have the potential to benefit from higher testing levels once employment levels improve, more Americans receive health care insurance coverage, and the government undertakes its preventative medicine measures.

Travelers Cos. Inc. (NYSE: TRV, \$49.25): Removed May 28, 2010

We believe Travelers stock, while trading at an attractive valuation in absolute and historical terms of 0.9x book value, may have more limited appreciation prospects than other insurance companies. The outlook its management provided at the recent investor meeting was indicative of the stable, predictable nature of its underlying business, but the tone of the outlook did little, in our opinion, to reverse the apparent unenthusiastic nature of investor sentiment towards Travelers. In recent months, evidence has emerged that price competition within certain insurance lines, especially automotive insurance, has intensified. While Travelers' higher customer retention rates may mean lower revenue sensitivity for the company, investors may remain more cautious until there is more evidence this is actually the case.

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| Rating | Count | % | Investment Banking | |
|------------|-------|-------|--------------------|-------|
| | | | Count | % |
| Buy (TP/O) | 640 | 51.12 | 187 | 29.22 |
| Hold (SP) | 558 | 44.57 | 126 | 22.58 |
| Sell (U) | 54 | 4.31 | 8 | 14.81 |

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Ratings:

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Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

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