



Guided Portfolio: Large Cap

Portfolio Update

May 3, 2012

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 high-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.

Guided Portfolio: Large Cap Spring Quarter Highlights

The Investment Committee expects a period of increased equity market volatility driven by heightened macro concerns with regards to Europe and domestic economic data that appears to be leveling off. Overall, the Large Cap Portfolio remains well balanced, with a combination of exposure to both defensive and cyclical sectors. We continue to tilt the portfolio weighting towards economically sensitive components of the economy including Technology, Industrials, and Financials.

This quarter we highlight the following companies:

Apple (AAPL) – Delivered a second straight quarter of robust earnings. Despite the recent strength in the shares, we remain comfortable with the name fundamentally because strong product momentum is likely to continue to drive earnings growth in our view.

Freeport McMoRan (FCX) – Remains attractive from a valuation standpoint. The company continues to execute well in spite of ongoing operational challenges

McKesson Corp (MCK) – The removal of a key contract headwind has been a positive catalyst for the stock. We continue to have conviction in the long-term earnings power of McKesson given the acceleration of the generic drug cycle.

PNC Financial (PNC) – Financial stocks benefitted from the successful bank stress test in late March. With the recent closing of the RBC U.S. bank asset sale, we believe PNC Financial is well positioned to drive earnings growth throughout 2012 and beyond.

Guided Portfolio: Large Cap Investment Committee

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Symbol	Company Name	Price	52-Wk	Calendar Year EPS			P/E		Dividend	Market
		4/30/12	Range	2011A	2012E	2013E	2012E	2013E	Yield	Cap (B)
Consumer Discretionary										
TWX	Time Warner Inc.	\$37.48	39 - 28	2.89	3.18	3.63	11.8x	10.3x	2.78%	\$36.19
YUM	Yum! Brands Inc.	\$72.73	74 - 47	2.87	3.31	3.80	22.0x	19.1x	1.57%	\$33.50
Consumer Staples										
KFT	Kraft Foods Inc.	\$39.87	40 - 32	2.29	2.52	2.80	15.8x	14.2x	2.91%	\$70.65
WFM	Whole Foods Market Inc.	\$83.07	86 - 53	2.03	2.43	2.81	34.2x	29.6x	0.67%	\$15.15
Energy										
CVX	Chevron Corp.	\$106.56	112 - 87	13.19	13.25	13.45	8.0x	7.9x	3.38%	\$210.21
SLB	Schlumberger Ltd.	\$74.14	96 - 55	3.66	4.31	5.32	17.2x	13.9x	1.48%	\$98.87
Financials										
AMT	American Tower Corp	\$65.58	66 - 46	0.98	1.68	1.99	39.0x	32.9x	1.28%	\$25.88
PNC	PNC Financial Services Group Inc.	\$66.32	67 - 43	6.04	6.20	6.88	10.7x	9.6x	2.41%	\$35.02
USB	U.S. Bancorp	\$32.17	33 - 20	2.41	2.77	3.00	11.6x	10.7x	2.42%	\$61.47
Health Care										
AMGN	Amgen Inc.	\$71.11	72 - 48	5.33	6.15	6.79	11.6x	10.5x	2.03%	\$55.54
MCK	McKesson Corp.	\$91.41	93 - 67	6.04	6.97	7.72	13.1x	11.8x	0.88%	\$22.50
Industrials										
UNP	Union Pacific Corp.	\$112.44	117 - 78	6.72	8.11	9.28	13.9x	12.1x	2.13%	\$53.55
UTX	United Technologies Corp.	\$81.64	92 - 67	5.30	5.53	6.69	14.8x	12.2x	2.35%	\$74.31
Information Technology										
AAPL	Apple Inc.	\$583.98	644 - 310	32.37	48.17	55.36	12.1x	10.5x	0.00%	\$546.06
ADP	Automatic Data Processing Inc.	\$55.62	57 - 45	2.64	2.89	3.19	19.2x	17.4x	2.84%	\$27.29
EMC	EMC Corp.	\$28.21	30 - 20	1.51	1.74	1.98	16.2x	14.2x	0.00%	\$59.23
MA	MasterCard Inc. CI A	\$452.27	462 - 254	18.70	21.99	25.89	20.6x	17.5x	0.27%	\$54.86
TXN	Texas Instruments Incorporated	\$31.94	36 - 24	2.21	1.76	2.36	18.1x	13.5x	2.13%	\$36.48
Materials										
FCX	Freeport-McMoRan Copper & Gold Inc.	\$38.30	57 - 29	4.84	3.98	5.23	9.6x	7.3x	3.26%	\$36.32
Utilities										
CNP	CenterPoint Energy Inc.	\$20.21	21 - 17	1.27	1.15	1.24	17.6x	16.3x	4.01%	\$8.62
Average										\$78.08

	Most Recent Quarter (1Q12)	Year to Date 4/30/12	Last 12 Months Through 4/30/12	Since Inception Through 4/30/12
GPLC Cumulative Performance:	12.4%	14.2%	6.0%	21.0%
S&P 500 Cumulative Performance:	12.6%	11.9%	4.8%	35.1%

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. 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 the client's overall return.

Source: FactSet and our national research correspondents.

Economic and Market Commentary and Recommended Sector Allocations

U.S. equity markets maintained their upward trajectory, buoyed by continued strong U.S. economic data and the release of the U.S. bank stress tests result. Year to date, the S&P 500 has returned 11.9%. We continue to expect sluggish, albeit positive, economic growth from the U.S. economy in 2012. Nevertheless, issues outside of the U.S. have tempered investor sentiment. More specifically, investors remain focused on the European Debt Crisis, uncertainty about slowing growth in China, and recent data that showed the United Kingdom falling into an official recession. Recent economic numbers out of the U.S., such as manufacturing data, employment data, and consumer confidence, have shown signs the relative torrid pace of growth in the first quarter may be easing. Trading volumes for April have contracted noticeably as investors moved to the sidelines in the face of global macro uncertainty including Chinese, German, and U.S. growth as well as whether Spain and Portugal will need a Greek-like bailout.

Looking at individual sector performance, the Financials have significantly outperformed the broader market on the back of a successful round of bank stress tests. The Fed demonstrated that under a stressed economic scenario, the U.S. banking industry has the ability to withstand massive losses and remain adequately capitalized. Of the banks tested, 18 out of 19 passed, with all but four companies allowed to execute their return of capital plans. Seven of the 19 banks examined announced increases in dividends of 44% on average. Consumer Discretionary stocks continued to move higher, led by the retailing component. Many names in the sector continue to push to new 52-week highs despite rich valuations and earnings headwinds such as increasing gasoline prices.

The major catalyst for the markets over the past month has been the first-quarter earnings season, which is close to wrapping up. Of the companies that have reported, nearly 75% have topped earnings expectations, with an average beat of approximately 9%. The largest earnings beats have come from the Financial Sector with an average increase of nearly 15%. Earnings growth has also been very strong in the Technology sector with an average of 10% upside. Apple (AAPL) delivered another quarter of phenomenal earnings, with year-over-year growth approaching 60%. Other bellwether technology names such as IBM (IBM), Intel (INTC), and Microsoft (MSFT) delivered strong earnings results with mixed reactions from investors. The weakest earnings results have come from the Consumer Staples and Energy Sectors thus far, with a large number of energy companies slated to report earnings in the first week of May.

Looking ahead to the summer months, the Investment Committee expects a period of increased equity market volatility driven by heightened macro concerns with regards to Europe and domestic economic data that appears to be leveling off. Overall, the Large Cap Portfolio remains well balanced, with a combination of exposure to both defensive and cyclical sectors. We continue to tilt the portfolio weighting towards economically sensitive components of the economy including Technology, Industrials, and Financials.

Company Highlights

Apple (AAPL)

- Despite investor concerns leading into Apple's second-quarter results, the company was able to exceed forecasts, driven in particular by strength of the iPhone. More specifically, the company benefitted from strong international sales of the iPhone, particularly in China, where they sold five times more handsets than the year-ago quarter. iPad results were solid, though the company indicated it remains supply constrained. Mac results were a bit lower than expected, though generally good.
- Apple continues to benefit from strong product momentum. We believe further growth of the Chinese smartphone market and penetration into the enterprise PC market provide further growth opportunities. Furthermore, we expect a Mac product refresh, potentially this summer, and an announcement possibly as early as the fall pertaining to a new iPhone.

Freeport McMoRan (FCX)

- Freeport reported first-quarter 2012 results that were better than the street's expectations on an adjusted basis. Core adjusted EPS was \$0.96 vs. consensus of \$0.85. Stronger-than-expected copper sales and higher price realizations drove the earnings beat. During the quarter, the

company sold 827 million lbs. of copper vs. revised guidance for 795 million lbs., resulting in a positive impact on earnings of \$0.12.

- Freeport has been a difficult performer in the portfolio over the past three months as concerns of a slowdown in China's economy and geopolitical headlines concerning new Indonesian mining laws have weighed on investor sentiment. Currently, FCX shares are trading at a roughly 30% discount to their net asset value based on the forward curve for copper and gold. In spite of macro-related headline risks, the quarterly results indicate demand for copper remains robust. We also note that Freeport has a 40-year working relationship with the government in Indonesia and is currently compliant with all contracts of work. We continue to view copper as the base metal with the most attractive fundamentals because total global production remains insufficient relative to demand, and this should continue to support pricing in the near term.

McKesson Corp (MCK)

- In April, McKesson's pharmaceutical vendor contract with the U.S. Department of Veterans Affairs was renewed. This decision by the government agency helped remove a meaningful overhang for McKesson and its peers due to some concern the company could lose the contract because of more aggressive pricing by its competitors. The contract is for eight years, close to \$4 billion per year, and forecasted to represent ~2-4% of earnings.
- McKesson is benefitting from an acceleration in the generic drug cycle that has contributed to margin gains at its pharmaceutical distribution business. Furthermore, the company's acquisition of U.S. Oncology continues to provide meaningful long-term opportunities given its higher growth and margin profile.

PNC Financial Services Group, Inc. (PNC)

- PNC reported first-quarter 2012 EPS of \$1.44 compared with consensus of \$1.41. Results included \$0.18 per share from integration costs related to the RBC Bank (U.S.) acquisition. Our sources placed adjusted EPS for the quarter in a range of \$1.64 to \$1.71.
- The acquisition of RBC Bank was immediately accretive, excluding acquisition costs. The southeastern U.S. retail platform offers opportunities for cross-marketing of PNC services, cost take-out, and fill-in branch expansion. PNC management anticipates EPS accretion approaching \$0.40 per share (excluding acquisition costs) from the acquisition in 2012. We believe the rapid cost reductions that have been undertaken and cross-marketing opportunities in areas such as treasury management could provide upside to management's assessment of 2012 accretion. PNC management believes a two- or three-year opportunity exists to execute on business line introductions.

Guided Portfolio: Large Cap Company Rationale and Summary

Interest-Sensitive Sectors

Financial Services

Recommended Weighting: Market Weight

Financials were one of the better-performing groups over the last two months. The sector largely benefitted from the Federal Reserve's Comprehensive Capital Analysis and Review that concluded in March. The Fed reviewed the capital plans of the largest banks, and the results demonstrated the industry was well capitalized and could withstand major losses in the event of a stressed economic scenario, based on the banking industry's capital levels. This paved the way for some banks to raise their dividends, which helped to improve sentiment in the banking sector. With the U.S. labor market continuing to show signs of modest improvement, the group may benefit from moderate growth.

American Tower Corp. (NYSE: AMT, \$65.58)

American Tower is a leading wireless and broadcast communications infrastructure company whose primary business is renting space on its tower structures to wireless telecommunications providers on which to install their transmission equipment.

- The significant growth in the use of mobile devices has resulted in an explosion in data consumption, which in turn has placed stress on wireless networks, necessitating continued investment in equipment by wireless carriers. This has led to consistent leasing demand for American Tower.
- American Tower's business model combines low maintenance costs, rising lease rates, and an increasing number of tenants per site, resulting in highly profitable and recurring cash flows.
- The company converted into a REIT at the beginning of 2012. With expectations for strong cash flow, we expect the dividend to grow meaningfully over time.

PNC Financial Services Group Inc. (NYSE: PNC, \$66.32)

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.

- Continued improvements in PNC's credit are helping earnings recover. We believe PNC is well positioned to deliver robust earnings growth once measurable loan growth in the U.S. materializes since the company has exhibited strong organic growth in a difficult operating environment.
- PNC completed its acquisition of RBC's U.S. bank assets in early 2012. We believe the purchase enhances PNC's footprint through over 400 additional branches, particularly in the Southeast. Furthermore, we believe there are significant opportunities for PNC to cross sell its products across its newly acquired customers.
- PNC maintains a strong capital position despite the RBC acquisition. We expect steady dividend increases over time.

U.S. Bancorp (NYSE: USB, \$32.17)

U. S. Bancorp is a bank holding corporation with \$340 billion in assets. Banking and investment services are offered through over 3,000 offices, primarily in the Midwest and West regions, and combined subsidiaries represent the 5th largest commercial bank in the United States.

- Our sources believe U.S. Bancorp is taking market share and is in an excellent position relative to peers to increase loans, maintain credit quality, defend margins, and benefit from economic recovery.
- We see the potential for U. S. Bancorp to increase its dividend steadily. Management has a stated goal of returning 60% to 80% of earnings to shareholders in the form of cash dividends and share repurchases. The company raised the annual cash dividend to \$0.78 in March.
- We expect U. S. Bancorp to be able to generate a higher ROE than many of its peers given its highly profitable payment processing business. In a period where ROEs may remain depressed given the economic and regulatory backdrop, we believe USB shares deserve to trade at a premium.

Telecommunications Services

Recommended Weighting: Market Weight

We maintain our market weight positioning and continue to seek out investment themes with favorable earnings growth opportunities over low growth, high dividend yield positions. The large carriers continue to generate attractive cash flow, but an intensely competitive market, a saturated market, and high capital spending needs continue to represent challenges for the group.

Utilities

Recommended Weighting: Market Weight

While the sector offers attractive dividend yields, pricing power remains limited, and costs to comply with pending regulations are considerable. Still, given investor demand for dividend income, we believe allocation to this sector is prudent.

CenterPoint Energy Inc. (NYSE: CNP, \$20.21)

CenterPoint Energy is an electric utility based in Houston, Texas, serving approximately two million customers. The company also owns and operates natural gas utilities in Arkansas, Louisiana, Minnesota, Missouri, Oklahoma, and Texas, serving more than three million customers. CenterPoint also owns pipelines and natural gas-gathering and processing assets.

- CenterPoint's regulated electric utility, which accounts for almost half of its operating income, operates in a territory benefitting from better economic activity than most of the rest of the nation.
- The expansion of natural gas-gathering services to a growing number of production fields, coupled with the prospect of a number of old coal-fired power plants potentially coming off line, offer CenterPoint the potential to grow in excess of its peer group or pursue the creation of a Master Limited Partnership, which could create meaningful value for shareholders.
- The company has a strong cash position, and we expect it to seek out investments for long-term growth. Clarity on these investments could act as a catalyst in our view.

Consumer Sectors**Consumer Discretionary****Recommended Weighting:**

The sector tends to react well in an environment of falling commodity prices and low interest rates, given their positive implications for consumer spending. Importantly, management teams remain cautious about expansion plans and are keeping inventory levels lean, which bodes well for investor returns.

Time Warner Inc. (NYSE: TWX, \$37.48)

Time Warner Inc. is a media and entertainment company with three reporting segments: Networks, Filmed Entertainment, and Publishing.

- We think TWX shares represent a compelling investment opportunity, particularly in light of growth in its highly profitable affiliate fees, as well as a favourable outlook for advertising trends.
- With distribution partners such as Apple Inc. (AAPL), Netflix (NFLX), and Amazon.com (AMZN), media companies appear to be in the early stages of monetizing content through non-traditional mediums. We believe this avenue of distribution will continue to grow over time.
- Return of capital remains a priority for management since the company recently increased its dividend by 11% and authorized nearly \$2.8 billion in share repurchases.

Yum! Brands Inc. (NYSE: YUM, \$72.73)

Yum! Brands is a quick-service restaurant corporation doing business through five primary restaurant concepts: KFC, Pizza Hut, Taco Bell, LJS, and A&W, with over 37,000 locations in 110 countries.

- We believe the combination of exposure to China (40% of earnings), limited exposure to Europe, and opportunities in India position Yum! as one of the best international growth stories in the quick-service restaurant industry.
- We view the company's decisions to create a separate segment for its Indian operations as a major positive for the company as it will allow management to better focus its efforts on expansion across India.
- Any improvement in U.S. sales could provide another potential driver of upside as expectations remain relatively low.

Consumer Staples**Recommended Weight: Market Weight**

While the sector's relatively stable earnings and high dividend yields appeal to many retail investors, the group faces a challenging backdrop, marked by fierce competition and high input costs. We continue to favor select food and drug retailers and some food producers, along with tobacco and global soft-drink makers.

Kraft Foods Inc. (NYSE: KFT, \$39.87)

Kraft Foods manufactures and markets packaged food products, including snacks, beverages, cheese, convenient meals, and various packaged grocery products in approximately 160 countries.

- Steps management has taken to improve Kraft's portfolio continue to pay off, with the company having delivered better organic sales growth. We believe Kraft will continue to benefit from increased productivity and cost synergies related to its Cadbury acquisition.
- We believe the pending split-off of Kraft's Grocery business from the snack business, which is expected to occur sometime in third-quarter 2012, could unlock value for shareholders.

Whole Foods Market Inc. (Nasdaq: WFM, \$83.07)

Whole Foods Market is the operator of 316 natural and organic food supermarkets. These stores are supported by its company-owned distribution centers, bakeries, commissary kitchens, seafood-processing facilities, and procurement centers.

- Whole Foods continues to deliver strong execution, with sequential quarters of same-store sales growth of more than 8.5%. Increased customer traffic, higher spending per visit, and square footage growth, remain core to the company's growth strategy.
- We continue to view management's goal of expanding to 1,000 stores as a longer-term driver for Whole Foods. New store metrics have been impressive with productivity of 80% of existing locations and give us confidence in the company's ability to execute on its expansion strategy.
- The potential for moderating inflationary pressures could act as an earnings tailwind for Whole Foods since the company has demonstrated attractive pricing power in the grocery industry.

Health Care**Recommended Weighting: Market Weight**

We believe prospects for the Health Care sector remain mixed. Utilization levels have shown some signs of reacceleration through the first half of 2012 as data suggests hospital and doctor visits have improved. Meanwhile, there remains a lack of major new product introductions in both pharmaceuticals and medical devices. Nevertheless, valuations in some areas are attractive, dividends are rising, and demographic trends remain favourable. We continue to prefer stocks with attractive valuations and favourable capital allocation as well as companies that can benefit from rising generic drug utilization.

Amgen Inc. (Nasdaq: AMGN, \$71.11)

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.

- We continue to expect a solid uptake of newly launched drugs Xgeva and Prolia in the area of bone fracture and osteoporosis.
- Despite the company's most recent \$10 billion share buyback, Amgen still has a \$5 billion repurchase program in place and has shown a willingness to raise its relatively new dividend.
- Amgen's drug pipeline has numerous catalysts in second-half 2012 and beyond, any of which could serve as a meaningful catalyst for the share price.

McKesson Corporation (NYSE: MCK, \$91.41)

McKesson Corporation is one of the largest drug and medical supplies distributors in the United States. The company's Distributions segment distributes branded and generic drugs, medical-surgical supplies and equipment, and health and beauty care products throughout North America. The company's Technology Solutions segment delivers a wide profile of health care software and technology services.

- With the generic drug pipeline expected to accelerate in 2012 through 2015, we expect to see significant margin expansion at McKesson as the company typically negotiates higher markups on generic drugs vs. branded drugs.

- McKesson's late 2010 acquisition of U.S. Oncology provided it with the largest cancer network in the United States (700,000 patients, 1,400 affiliated physicians). We believe the specialty and chronic care services this business offers provide potential for above-average growth and profitability over the next several years.
- As one of the largest providers of information technology services and products to health care organizations, we believe it can benefit as more facilities adopt expanded health care IT.

Industrial Sectors

Industrials

Recommended Weighting: Market Weight

Global leading indicators continue to paint a mixed picture. In some parts of the world, such as China and Europe, the data suggests either a growth slowdown or downright recession. Meanwhile, data in the U.S. continues to point to an economy that is still growing. As a result, the outlook for the Industrial sector is mixed, with some industries expected to outperform others. In particular, companies with higher exposure to Europe likely face more headwinds as the growth outlook continues to deteriorate in that region. We continue to favor industries where we have more conviction in earnings visibility, including the railroads and later-cycle businesses like aerospace.

Union Pacific Corporation (NYSE: UNP, \$112.44)

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. With a sizeable amount of legacy contracts up for re-pricing over the next few quarters, we expect the current trend to continue.
- Given the rail industry's high barriers to entry, we think Union Pacific can continue its trend of steady price increases, aided by supportive economic conditions, continued favorable industry regulation, and sustained cost advantages over trucking.
- We expect coal shipments to remain a source of concern for investors given the depressed levels for natural gas prices. However, we believe the company has less exposure than some of its peers.

United Technologies Corp. (NYSE: UTX, \$81.64)

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 expectations in the earlier stages.
- The pending acquisition of Goodrich Co. (GR) will position United Technologies as the largest manufacturer of aerospace after-market content, a more defensive business in nature than OEM sales. The deal faces regulatory approval, but we expect it to pass.
- UTX has pursued various asset sales to help fund the acquisition of Goodrich. We believe this is a positive because it has eliminated the need for a dilutive equity raise.

Information Technology

Recommended Weighting: Overweight

In general, many large-cap technology companies are cash rich, carry little debt, and have little or no pension liabilities, making the sector more defensive than many investors would suspect. Business spending on technology remains a source of strength, given the need to increase productivity and lower costs. Our focus is on select semiconductors, storage, wireless, and services outsourcing.

Apple Inc. (Nasdaq: AAPL, \$583.98)

Apple Inc. is a California-based designer of personal computers, consumer electronics, software, and services. Its major products include the iPhone smartphone handset, Macintosh personal computer, iPod digital media player, and iPad wireless tablet computing device.

- We still see significant growth drivers in the near term for Apple, including continued expansion into Asian markets and penetration in the Enterprise market.
- We expect a potential Mac product refresh this summer, followed by a potential iPhone 5 launch this fall.
- Apple continues to benefit from strong operating momentum, marked by high levels of cash flow. Earlier this year, the company announced it will pay its first-ever dividend of \$2.65 in September. The company continues to be in a strong financial position, with more than \$100 per share in cash (foreign and domestic) on its balance sheet.

Automatic Data Processing Inc. (NYSE: ADP, \$55.62)

Automatic Data Processing Inc is the world's largest provider of payroll and human resources outsourcing solutions, serving 570,000 clients worldwide. Services include payroll processing, human resources outsourcing, data processing, tax filing, and benefits administration.

- We view Automatic Data Processing as more defensive than most in the Information Technology sector, due largely to its mix of long-term contracts providing the company with a high degree of recurring revenue. In the recent recession, EPS fell less than 1% from fiscal 2009 to 2010, and then posted 6% growth in fiscal 2011.
- We believe the company could drive outperformance in the event employment materially improves and interest rates begin to move higher.

EMC Corp. (NYSE: EMC, \$28.21)

EMC is the global leader in 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.

- We believe EMC's product suite is less discretionary in nature, relative to other technology end markets, given the need for companies to store and retrieve increasing amounts of data effectively.
- EMC's research and development efforts in the solid-state disk-drive market allow customers faster, higher capacity and more energy-efficient storage networks than competitors.
- Through its ownership in VMware Inc. and a recently formed partnership with Cisco Systems (Nasdaq: CSCO), EMC is in an excellent position to see long-term growth from the gradual change in computer networks to "cloud computing" architecture.

MasterCard Inc. (NYSE: MA, \$452.27)

MasterCard Inc. is a global payments company that provides an economic link among financial institutions, businesses, merchants, cardholders, and governments worldwide, enabling them to use electronic forms of payment instead of cash and checks.

- Mastercard is expected to benefit from strong earnings growth. Based on consensus forecasts, EPS growth is expected to be in the mid-to-high double digits over the next few years.
- MasterCard's core business carries high barriers to entry and a limited number of competitors while avoiding credit card payment risk, which is shouldered by the issuing financial institutions. We expect the company to benefit from new payment technologies, such as online and mobile.
- MasterCard earns a higher mix of revenues from non-U.S. sources (58%) and is less exposed to U.S. debit business than Visa—16% of volumes vs. 32% for Visa—which provides the company with operational advantages, in our view.

Texas Instruments Inc. (NYSE: TXN, \$31.94)

Texas Instruments Inc. is a semiconductor company with a diverse offering of products in the analog, digital signal processor, and application processor categories.

- The acquisition of National Semiconductor holds significant potential to unlock both higher margins and higher sales as a result of its portfolio now being sold through Texas Instrument's top-quality sales force. We expect margins to benefit in particular.
- Texas Instruments' huge size and product diversity offer it a competitive advantage in an industry in which it is hard to gain an edge, with a lower cost structure than most of its competitors and the ability to hire a huge sales force able to meet a wide variety of customers' needs.
- We are encouraged by management's recent commentary that the semiconductor cycle is likely through its trough period. Orders are accelerating across most end markets at a time when inventories remain very low.

Resources Sectors**Materials****Recommended Weighting: Market Weight**

The backdrop for the global economy remains mixed, with some regions seeing improvements and others witnessing a further slowing in growth. Concerns remain about the outlook for emerging market economies, namely China, though recent data has been more encouraging. However, valuations appear to reflect current uncertainty and negative investor sentiment.

Freeport McMoRan Copper & Gold Inc. (NYSE: FCX, \$38.30)

Freeport McMoRan is the world's second-largest copper producer, with operations in Indonesia, North and South America, and Africa. The company also mines gold and molybdenum.

- With the labor issues at the company's Grasberg mine resolved, we believe the company should be well positioned to return production to normal levels.
- We believe the Chinese government is slowly engaging in more stimulative policy aimed at manufacturing a soft landing. Further easing could create a more positive back drop for the Materials sector. We continue to view copper as the hard commodity with the most attractive near-term fundamentals and believe Freeport's low-cost international assets and strong balance sheet provide investors with a good quality investment vehicle.
- We expect the shares to benefit from favourable capital allocation. Earlier this year, the company raised its dividend by 25%. In our view, the increase is a reflection of management's confidence in its outlook and its robust free cash flow generation. We believe the company remains well positioned to raise the dividend further or pursue a special dividend.

Energy**Recommended Weighting: Market Weight**

The energy markets remain volatile though crude oil has generally remained above \$100/barrel through most of the year to date. Conversely, an abnormally warm winter across North America has resulted in a substantial deterioration in the price of natural gas as the supply remains elevated and the market lacks a meaningful clearing mechanism to balance the market in the short term. From a fundamental standpoint, global demand remains strong as consumption in developing countries continues apace. We continue to favor many of the international integrated oil companies.

Chevron Corp. (NYSE: CVX, \$106.56)

Chevron Corporation is the third-largest oil company and the United States and the fifth-largest publicly held oil company globally. Chevron separately manages three divisions: Exploration and production (87% of sales), marketing and transportation (12%), and chemicals (1%). Assets are evenly spread throughout the globe, with 27% of its operations in North America, 25% in Europe and the Middle East, 24% in Africa and Latin America, and 24% in Asia.

- Of the major integrated oil producers, Chevron provides investors with the highest level of exposure to crude oil, roughly 69% of production. Chevron has consistently ranked as one of the most profitable integrated oil companies in recent years on a net income per barrel basis.

- Chevron has a significant product pipeline under development and has guided production growth to reach the 4%-5% level in 2014. We believe proper execution on these projects could deliver much better growth relative to peers.
- With over \$20 billion in cash and strong operating cash flow, Chevron has one of the strongest balance sheets among the super majors, providing the company with considerable capacity to fund its exploration program and dividend.

Schlumberger Ltd. (NYSE: SLB, \$74.14)

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 five business segments: Schlumberger Oilfield Services, which generated approximately 81% of revenues in 2010, WesternGeco (7%), M-I Swanco (6%), Smith Oil Field (4%), and Distribution (3%). The company is focused largely on international operations, with only 22% of revenues coming from North America in 2010.

- We believe Schlumberger's strong presence in international markets (~67% of revenues) could bode well for the company as pricing in the international markets could be nearing an inflection point. Additionally, investors remain cautious on the outlook for the North American services market in the wake of natural gas price weakness. We believe companies with a higher degree of earnings from domestic markets could be at risk of relative underperformance.
- A rebound in service activity in deepwater basins could be a source of strength for Schlumberger given the company's industry-leading exposure to the deepwater industry. In its recent quarter, the company indicated demand and pricing were improving in this area. We expect this trend to continue through the year.

Methodology of the Guided Portfolio: Large Cap

The Investment Committee members listed on the front page of this report select and monitor the companies included in Guided Portfolio: Large Cap.

The portfolio is constructed using a combination of top down sector allocation and bottom-up stock selection. The sector allocation is driven by the U.S. Equity Strategy group at RBC Capital Markets, and designed to structure the portfolio according to expectations of the economic and investment outlook. The portfolio will generally offer exposure to most of the 10 GICS sectors underlying the S&P 500 index.

The bottom-up stock selection is based off a multi-disciplined approach that involves fundamental, quantitative, and technical research. Furthermore, a qualitative analysis is undertaken by the Committee, with a particular focus on risk assessment given the concentrated nature of the portfolio.

The Portfolio will have 20-23 positions. Most positions are assigned a 5% weight, though half positions (ie. 2.5%) are also possible up to a maximum of 15% of the portfolio (ie. 6 positions). The universe of companies available for selection encompasses stocks under fundamental research coverage by RBC Capital Markets and third-party research providers. A minimum rating of Hold, or equivalent, is necessary for inclusion. There is no minimum market capitalization for stock eligibility, though the portfolio is expected to be broadly large cap in nature. Additions to the portfolio require an average daily reported trading in excess of \$10 million over the prior five days as a minimum liquidity requirement. Cash can be held up to a 5% weighting, short-term in lieu of a stock position.

Annual portfolio turnover is targeted to be less than 100% in typical market conditions, but potential for higher turnover exists in periods of unusual market volatility. Given the desire to create a Portfolio and not a list of companies, equity selection may be influenced by diversification decisions including industry weightings, relative valuations, and macro economic considerations associated with cyclical markets.

Implementation of Changes to the Guided Portfolio: Large Cap

The Investment Committee for the Guided Portfolio: Large Cap will make changes to the Portfolio for any of the following reasons: (1) The fundamentals and business outlook of the included company appear to be diminished compared with prior expectations; (2) the Investment Committee deems the current valuation of the shares as above our fundamental valuation and suggests a switch to another company with a more compelling valuation or to cash; 3) a

deterioration in a stock's multi-disciplined score; (4) a fundamental downgrade or elimination of opinion by our research sources (noted in the prior section) that warrants removal in the estimation of the Investment Committee; and (5) the desire to include a company whose fundamentals are superior to that of a company currently included in the Portfolio. Stocks will be monitored on these criteria.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

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For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Wealth Management's ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Rating	Count	%	Investment Banking Services Provided During Past 12 Months	
			Count	%
Buy (TP/O)	768	51.58	226	29.43
Hold (SP)	653	43.85	153	23.43
Sell (U)	68	4.57	4	5.88

Definitions of Rating Categories

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector, but does not attempt to provide the analyst's view of how the stock will perform relative to: (i) all companies that may actually exist in the company's sector, or (ii) any broader market index.

Ratings:

Top Pick (TP): Represents analyst's best ideas in Outperform category; expected to significantly outperform sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

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.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers:

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; and/or fairly liquid.

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When RBC Wealth Management assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Price Target Impediment" respectively.

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