



Guided Portfolio: Large Cap Update

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All values in U.S. dollars unless otherwise noted.

Priced as of November 29, 2010, market close (unless otherwise stated).

For Important Disclosures, see pages 17-18.

Guided Portfolio: Large Cap

Guided Portfolio: Large Cap is designed to provide a disciplined approach to selecting large-cap stocks in 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 that 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 as necessary, to help ensure the portfolio reflects the current outlook.

Changes to the Guided Portfolio: Large Cap

Additions (see pages 3-9)

CA Inc. (Nasdaq: CA; \$23.19)
Eastman Chemical Co. (NYSE: EMN; \$79.27)
Limited Brands Inc. (NYSE: LTD; \$33.47)
State Street Corp. (NYSE: STT; \$43.70)
T. Rowe Price Group Inc. (Nasdaq: TROW; \$58.34)
Texas Instruments Inc. (NYSE: TXN; \$32.20)
Yum! Brands Inc. (NYSE: YUM; \$50.02)

Deletions (see pages 10-16)

Bank of America Corporation (NYSE: BAC; \$11.31)
Cisco Systems, Inc. (Nasdaq: CSCO; \$19.44)
CME Group Inc. (NYSE: CME; \$285.90)
Edison International (NYSE: EIX; \$36.95)
Hewlett-Packard Company (NYSE: HPQ; \$42.60)
McDonald's Corp (NYSE: MCD; \$78.26)
Viacom Inc., Class B (NYSE: VIA.B; \$37.47)

Guided Portfolio: Large Cap

	Symbol	Company Name	Price	Calendar Year EPS			P/E		Dividend
			11/29/10	2009A	2010E	2011E	2010E	2011E	Yield
CONSUMER	Consumer Discretionary								
	LTD	Limited Brands Inc.	\$33.47	1.23	1.96	2.19	17.1x	15.3x	1.79%
	YUM	Yum! Brands, Inc.	\$50.02	2.17	2.50	2.81	20.0x	17.8x	2.00%
	Consumer Staples								
	CL	Colgate-Palmolive Co.	\$77.19	4.37	4.81	5.05	16.0x	15.3x	2.75%
	KFT	Kraft Foods Inc.	\$30.19	2.03	2.03	2.32	14.8x	13.0x	3.84%
	Health Care								
AMGN	Amgen Inc.	\$53.32	4.91	5.12	5.31	10.4x	10.0x	0.00%	
MHS	Medco Health Solutions Inc.	\$60.99	2.83	3.41	4.06	17.9x	15.0x	0.00%	
INTEREST SENSITIVE	Financials								
	PNC	PNC Financial Services Group Inc.	\$54.32	4.36	5.40	5.62	10.1x	9.7x	0.74%
	STT	State Street Corp.	\$43.70	4.11	3.39	3.72	12.9x	11.7x	0.09%
	TROW	T. Rowe Price Group Inc.	\$58.34	1.65	2.47	2.99	23.6x	19.5x	1.85%
Utilities									
		None at this time.							
INDUSTRIALS	Industrials								
	UNP	Union Pacific Corp.	\$90.65	3.60	5.42	6.41	16.7x	14.1x	1.68%
	UTX	United Technologies Corp.	\$74.80	4.12	4.72	5.29	15.8x	14.1x	2.27%
	Information Technology								
	CA	CA Inc.	\$23.19	1.58	1.77	2.04	13.1x	11.4x	0.69%
	EMC	EMC Corp.	\$21.66	0.90	1.25	1.43	17.3x	15.1x	0.00%
	MSFT	Microsoft Corp.	\$25.31	1.90	2.27	2.57	11.1x	9.9x	2.53%
	TXN	Texas Instruments Inc.	\$32.20	1.15	2.49	2.54	12.9x	12.7x	1.61%
	Information Technology								
	AMT	American Tower Corp.	\$50.82	0.59	0.93	1.14	54.4x	44.6x	0.00%
RESOURCE	Energy								
	OXY	Occidental Petroleum Corp.	\$88.98	3.78	5.56	6.81	16.0x	13.1x	1.71%
	SLB	Schlumberger Ltd.	\$77.00	2.78	2.76	3.78	27.9x	20.4x	1.09%
	Materials								
	EMN	Eastman Chemical Co.	\$79.27	\$3.63	\$7.25	\$7.61	10.9x	10.4x	2.22%
FCX	Freeport-McMoRan Copper & Gold Inc.	\$101.30	5.86	8.18	9.44	12.4x	10.7x	1.18%	

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.

CA Inc. (NYSE: CA, \$23.19)

We are adding CA Inc. to the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Not Rated
Credit Suisse	Neutral
RBC Capital Markets	Outperform
Standard & Poors	Hold

2011E/2012E EPS*:	\$1.93 / \$2.08	2011E/2012E P/E*:	12.0x / 11.1x
Market Cap (MM):	\$11,720	52-Week Range:	\$18 - \$24
Total Debt/Total Cap:	23%	S&P Total Debt Rating:	BBB
Dividend Yield:	0.69%	Fiscal Year End:	March



* Consensus estimates; Source: FactSet

Source: FactSet

Company Description

CA Inc. is an Information Technology (IT) management software and solutions company with expertise across all IT architectures, from mainframe and distributed systems to virtual and cloud environments. Its products and services are designed to manage and secure enterprise IT systems by detecting, diagnosing, and fixing problems as they emerge. This enables corporate IT departments the control and flexibility essential for many businesses today. Approximately 60% of sales are to customers in the United States, with 25% coming from Europe, and the remainder from other parts of the globe.

Investment Thesis

- **IT management software and services appear essential in delivering operating cloud computing environments.** One of the fastest-growing areas of the IT market is in hosted software, also called cloud computing. This software delivery model consists of hosting software on centralized servers rather than within the user's PC, as is traditionally the case. The cloud model, when properly implemented, offers businesses lower overall IT costs, but also requires an added level of performance when it comes to network security and operating efficiency. The IT management software CA offers can provide that solution. We think businesses that prefer to have the flexibility of integrating multiple vendors' most suitable IT components (as opposed to a one-vendor platform) could find CA's software and services especially appealing.
- **We anticipate new sales orders to accelerate over the next few quarters.** In its most recent quarter, International Business Machines (NYSE: IBM) revealed its mainframe hardware business experienced an uptick in order growth, with a new product cycle selling well. In most instances when this is the case, CA's mainframe software sales (~60% of revenues) experience a similar uptick on a two- to three-quarter lag. Additionally, during 2011 we expect CA to have the opportunity to sign new and larger contracts with some of its existing customers, such as Accenture PLC (NYSE: ACN) and the Electronic Data Systems division of Hewlett-Packard (NYSE: HPQ). Should CA also win some of the large bids it has pending for new customers, EPS estimates for 2011 and years beyond could be revised upward.
- **We suspect the potential for growth over the next couple of years has not been fully recognized by the market.** Current consensus earnings call for year-over-year earnings growth to slow from its current mid- to high-teens clip to high-single digits in the latter half of 2011. We think the factors cited above offer a reasonable likelihood those estimates will need to be brought higher. With the stock trading at a discount to the market at 12.0x fiscal 2011 EPS estimates and a free cash flow yield in the high-single digits, we think the shares have ample room to run upon such upward revisions before running into valuation concerns.

Risks

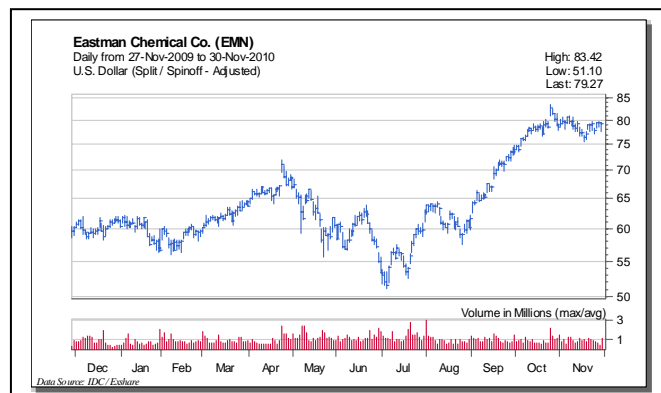
Large, well-financed integrated IT hardware and services vendors are likely to continue to offer more IT management software products and services as part of their own platforms that will compete with CA. With 60% of its business in mainframes and a slowly shrinking end market, CA must continue to be successful in winning new business in distributed systems and cloud computing to remain competitive. As with most IT companies, CA's sales are largely dependent on business IT spending, which is heavily influenced by global economic activity.

Eastman Chemical Co. (NYSE: EMN, \$79.27)

We are adding Eastman Chemical Co. to the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Not Rated
Credit Suisse	Not Rated
RBC Capital Markets	Not Rated
Standard & Poors	Buy

2010E/2011E EPS*:	\$7.25 / \$7.61	2010E/2011E P/E*:	10.9x / 10.4x
Market Cap (MM):	\$5,711	52-Week Range:	\$51 - \$83
Total Debt/Total Cap:	47%	S&P Total Debt Rating:	BBB
Dividend Yield:	2.22%	Fiscal Year End:	December



* Consensus estimates; Source: FactSet

Source: FactSet

Company Description

Eastman Chemical Co. is a global chemical company, which manufactures and sells a portfolio of chemicals, plastics, and fibers. The company operates in five business segments: Coatings, Adhesives, Specialty Polymers, and Inks segment (24% of 2009 sales), Fibers (20%), Performance Chemicals and Intermediates (PCI) (26%), Performance Polymers (14%), and the Specialty Plastics segment (15%). Eastman manufactures various resins, polymers, solvents, and fibers used in a variety of consumer and industrial products ranging from cigarette filters to baby diapers.

Investment Thesis

- Valuation appears compelling as the growth outlook remains intact.** Eastman Chemical is forecast to double its earnings per share this year from \$3.63 in 2009 to roughly \$7.25 (consensus expectations). Looking ahead to 2011, there are a number of opportunities available to allow the company to continue to grow its earnings, including the restart of an idle ethylene plant, the accretive affects from the company's Genovique acquisition, and expectations that Eastman's Tritan copolyester operation will become profitable in 2011. The combination of these three factors could contribute up to \$0.65 to 2011 EPS. In spite of the attractive earnings growth opportunities, the shares currently trade at 5.5x consensus 2011 EV/EBITDA and 10.9x consensus 2011 earnings, versus the chemical peer group average of 7.9x and 13.7x, respectively. Our research sources estimate that every point of EBITDA expansion should result in roughly \$16-\$17 of price appreciation for Eastman. In our view, the valuation of Eastman does not sufficiently reflect the company's robust earnings performance at the current share price.
- Volume and pricing growth are evidence of a robust recovery in chemical demand.** Eastman's sales have grown roughly 35% year over year, comprised of approximately 20% in volume improvements and a 13% benefit from improved pricing. The rapid growth in volumes largely reflects a robust recovery in end-market demand. With capacity utilization in the industrial chemicals industry currently in the low-to-mid 90% range, pricing could remain firm over the near term as new capital projects are slow to come on line. Additionally, operating margins should remain at above-average levels in the near term as low natural gas prices (a key input in the processing of propylene) and a tight propylene market are expected to be supportive to earnings of the PCI division. It is estimated that a \$1.00 decline in the price of natural gas represents a \$0.45 EPS tailwind to Eastman.
- We are drawn to the company's attractive cash flow profile.** Eastman's financial flexibility leaves it attractively positioned to return cash to shareholders and explore tuck-in acquisitions aimed at upgrading the quality of the company's portfolio. Free cash flow is projected to total \$6.00 per share in 2010 and \$7.20 in 2011, translating into a free cash flow yield of 7.5%. Last quarter, Eastman sold its PET resin business for \$600 million (~\$8.00/share), an amount twice what many analysts had been forecasting. Following the sale of the PET operations, management authorized a \$300 million share repurchase plan.

Risks

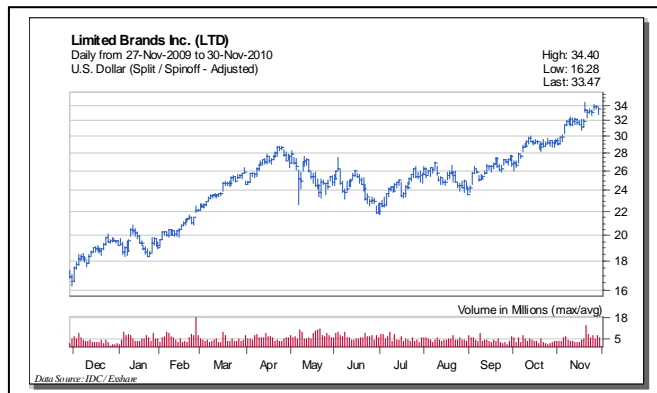
Risks include the potentially higher costs of raw materials and energy inputs as well as sensitivity to global economic activity. Eastman's earnings are sensitive to raw materials, including ethane, propane, ethylene, and propylene. Should natural gas prices rise relative to the price of oil, profitability for Eastman would come under pressure.

Limited Brands Inc. (NYSE: LTD, \$33.47)

We are adding Limited Brands Inc. to the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Buy
Credit Suisse	Not Rated
RBC Capital Markets	Outperform
Standard & Poors	Hold

2011E/2012E EPS*:	\$1.96 / \$2.19	2011E/2012E P/E*:	17.1x / 15.3x
Market Cap (MM):	\$10,811	52-Week Range:	\$16 - \$34
Total Debt/Total Cap:	55%	S&P Total Debt Rating:	BB
Dividend Yield:	1.79%	Fiscal Year End:	January



* Consensus estimates; Source: FactSet

Source: FactSet

Company Description

Limited Brands Inc. is a specialty retailer of women's intimate and other apparel, beauty and personal care products, and accessories under various trade names. The company retails its merchandise primarily through more than 1,000 Victoria's Secret stores, more than 1,600 Bath & Body Works stores nationwide, as well Asvia the Victoria's Secret Catalog, and online. It also sells upscale accessory products through its Henri Bendel flagship and 10 accessory stores. Through its La Senza, Bath & Body Works, and Pink brands, products are also available in retail venues in Canada. Additionally, La Senza has franchising relationships in 49 countries around the globe. Victoria's Secret products are also made available on a wholesale basis to duty-free stores and other international retail locations.

Investment Thesis

- **Strong sales momentum suggests earnings estimates could be too conservative.** Victoria's Secret and Bath & Body Works recently posted very strong same-store sales in a challenging retailing environment. Victoria's Secret (nearly 62% of total revenue) in the last fiscal year saw same-store sales surge over 13% in the most recent quarter versus a year ago. Bath & Body Works (27% of revenue) delivered 6% gains on a same-store basis. Recent channel checks by RBC Capital Markets suggest sales momentum has remained strong entering the crucial holiday shopping season, with very little discounting taking place. Robust same-store trends represent proof the company has a better understanding of consumer trends and preferences than its peers at the current time, which should translate into robust earnings in the upcoming quarter.
- **Returning cash to shareholders is a key to our thesis.** In November, the company announced it would pay a special dividend of \$3/share on December 21 to shareholders of record as of December 7. This special dividend is in addition to the \$1/share special dividend paid earlier this year as well as the regular quarterly dividend of \$0.15/share. Management also announced a \$200 million share buyback program at the time. Each of these steps illustrates how strong business trends will not only result in robust earnings growth, but also how returning excess cash to shareholders remains a priority. Ongoing strength in the company's core business could provide the potential for future special dividend distributions through 2011.
- **Expanding margins should provide an additional boost to future earnings.** Limited Brands wants 15% operating margins in each of its major operating segments by 2012. Recent performance suggests this could be achieved well in advance of that goal. In the most recent quarter, operating margins more than doubled for both Victoria's Secret and Bath & Body Works. Current consensus earnings estimates (\$2.21/share) for 2011 imply operating margins of just over 13%. The shares trade at just 15.3x this estimate. Better-than-expected margins would boost the company's earnings power and share price potential.

Risks

Risks include a lack of merchandise assortment with the consumer, fashion trend misses, underperformance of new stores, distribution center disruptions, an overly-promotional selling environment, and a prolonged slowdown in consumer spending.

State Street Corp. (NYSE: STT, \$43.70)

We are adding State Street Corp. to the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Buy
Credit Suisse	Outperform
RBC Capital Markets	Outperform
Standard & Poors	Strong Buy

2010E/2011E EPS*:	\$3.39 / \$3.72	2010E/2011E P/E*:	12.9x / 11.7x
Market Cap (MM):	\$21,920	52-Week Range:	\$32 - \$49
Total Debt/Total Cap:	67%	S&P Total Debt Rating:	A+
Dividend Yield:	0.09%	Fiscal Year End:	December



* Consensus estimates; Source: FactSet

Source: FactSet

Company Description

State Street Corporation is a financial holding company which provides a range of products and services for institutional investors worldwide. The company operates two lines of business: Investment Management and Investment Servicing. It provides a wide array of services to support institutional investors, including custody, daily pricing, record keeping and administration, shareholder services, foreign exchange, brokerage, and other trading platform services. Operations include: securities finance, deposit and short-term investment facilities, loan and lease financing, investment manager and hedge fund operations outsourcing, performance measurement, risk and compliance analytics, investment research and investment management (including passive and active U.S. and non-U.S. equity), and fixed-income strategies.

Investment Thesis

- **State Street's core servicing business possesses a superior revenue generating profile.** The core elements of this business provide an annuity-like revenue stream at a time when top-line growth in the Financial Sector is challenged. Although earnings are still vulnerable to further compression of net-interest margin spreads, given State Street accepts deposits of cash from commercial customers, it is less susceptible to this than its trust and non-trust banking peers. Revenue generation in the core servicing business (custody, product accounting, daily pricing, and recordkeeping) is expected to grow modestly in the near term as the company broadens its market-leading position at the expense of industry peers. Rising operating costs, and an increasingly complex regulatory environment have stimulated demand from institutional money managers.
- **We think dividend hikes are likely in 2011 as management deploys excess capital.** High levels of capital generation combined with capital raised during the financial crisis have resulted in State Street having billions of dollars of excess capital. Management has indicated that returning cash to shareholders in the form of higher dividends is a priority, with hikes in the quarterly payment occurring as early as the first half of 2011. Management has also indicated that its long-term goal is eventually to return to its historical dividend payout ratio of 20%-25%. An increase in the dividend would confirm the stability of State Street's earnings power and the strength of the company's competitive position.
- **Addition of State Street represents a timely idea in the Financial Sector, in our view.** Shares currently trade under 12x the consensus 2011 earnings estimate of \$3.72, which represents a significant discount to the long-term average of 17x-18x. While a valuation re-rating isn't part of our investment case, it is important to note that shares currently trade at a low multiple of consensus earnings, which in turn have been ratcheted down nearly 20% in the last 12 months. STT shares began outperforming the rest of the financial sector in the summer and appear poised to continue. In our 3D scoring model, shares of State Street are currently in the top 5% of all stocks in the Financial sector.

Risks

Significant depreciation in the equity capital markets, narrower interest rate spreads, lower trading volumes, and lower market volatility and spreads are all risks. State Street also possesses counterparty credit risk as a settlement bank. Longer term, the company could be vulnerable to fee erosion and pricing pressure from increased competition.

T. Rowe Price Group Inc. (Nasdaq: TROW, \$58.34)

We are adding T. Row Price Group Inc. to the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Hold
Credit Suisse	Outperform
RBC Capital Markets	Not Rated
Standard & Poors	Hold

2010E/2011E EPS*:	\$2.47 / \$2.99	2010E/2011E P/E*:	23.6x / 19.5x
Market Cap (MM):	\$14,957	52-Week Range:	\$43 - \$61
Total Debt/Total Cap:	0%	S&P Total Debt Rating:	N/A
Dividend Yield:	1.85%	Fiscal Year End:	December

* Consensus estimates; Source: FactSet



Source: FactSet

Company Description

T. Rowe Price Group Inc. is a financial services holding company that provides investment advisory services to individual and institutional investors in sponsored T. Rowe Price mutual funds and other investment portfolios. The company's assets under management are accumulated from a client base across four primary distribution channels: third-party financial intermediaries that distribute its managed investment portfolios in the United States and other countries, individual U.S. investors on a direct basis, U.S.-defined contribution retirement plans, and institutional investors in the United States and other countries. The company also provides certain administrative and ancillary services to its investment advisory clients.

Investment Thesis

- **We expect robust fund flows to drive organic growth.** T. Rowe Price is enjoying strong fund flows into its institutional and third-party channels, which should drive organic growth at a time when many of its competitors continue to experience asset outflows. In the third quarter the company saw better-than-expected net in-flows of \$8.0 billion, which was contrary to industry experience. Sustained sales growth combined with expense control and firm pricing may allow T. Rowe Price to organically grow its business in the mid-to-high single-digit range over the next several years. We also expect the company to benefit from rising equity values as its book of assets has a higher bias to equities than do most peers.
- **Strong fund investment performance provides an opportunity to gain additional market share.** We expect T. Rowe Price to benefit from the strong relative outperformance of its investment funds. Currently, 89%, 86%, and 71% of the company's funds are outperforming the relevant Lipper averages on a one-, three- and five-year basis, respectively. With a nascent recovery in industry fund flows into equities currently underway, led by the institutional segment, we expect outperformance to position the company to gain share at the expense of peers over the next 12-month period.
- **T. Rowe Price currently stands above its peers in the asset management industry on a number of key metrics.** While the company has experienced robust fund flows and strong performance, large-cap peer Janus Capital Group Inc. (NYSE: JNS) has seen net redemptions through September and currently has over 50% of its funds in the lowest quartile (performance-wise) over the last year. While T. Rowe Price has been identified as a beneficiary of its higher exposure to equities, concern continues to hang over competitors, such as Franklin Resources Inc. (NYSE: BEN), that have high exposure to U.S. municipal bonds. With no debt on its balance sheet and a management team recognized for its track record of execution, T. Rowe Price currently represents what we view as the best method to gain exposure to the asset management industry in the S&P 500.

Risks

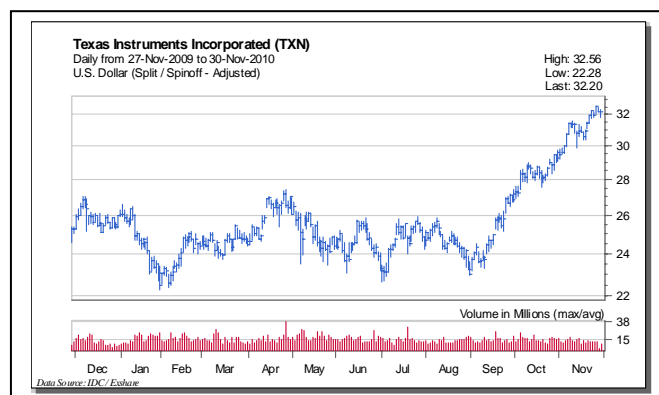
Risks include changes in the regulatory environment, poor relative fund performance, lower-than-expected fund flows, higher-than-anticipated marketing expenses, and deteriorating equity markets.

Texas Instruments Inc. (NYSE: TXN, \$32.20)

We are adding Texas Instruments Inc. to the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Buy
Credit Suisse	Outperform
RBC Capital Markets	Not Rated
Standard & Pooors	Hold

2010E/2011E EPS*:	\$2.49 / \$2.54	2010E/2011E P/E*:	12.9x / 12.7x
Market Cap (MM):	\$37,808	52-Week Range:	\$22 - \$33
Total Debt/Total Cap:	0%	S&P Total Debt Rating:	A+
Dividend Yield:	1.61%	Fiscal Year End:	December



* Consensus estimates; Source: FactSet

Source: FactSet

Company Description

Texas Instruments Inc. is a semiconductor company with a diverse offering of products in the analog, digital signal processor (DSP), and application processor categories. Approximately 97% of sales are from semiconductors, with the other 3% coming from their brand-name calculators. The company is divided into four segments, with its Analog division comprising about 41% of sales, Wireless at 25%, Embedded Processing with 14% and Other at 20%. The company sells into a variety of end markets, including wireless handsets and networking gear, machinery, electronics, and automotive. The majority of its chips (~63%) are sold to Asian manufacturers for assembly into finished products.

Investment Thesis

- We expect Texas Instruments' industry leadership and share repurchases to be viewed favorably by the market.** Texas Instruments is the market share leader in a multitude of analog and DSP chips. Its huge size and diversity offer it a competitive advantage in an industry in which it is hard to gain one. Texas Instruments' size and breadth of product allow the company a lower cost structure than most competitors, and it has the ability to hire a huge sales force able to meet a wide portion of its customers' needs. Its solid cash flows and balance sheet (\$2.9 billion cash with no debt) gives Texas Instruments the opportunity to actively buy back its shares, having reduced share count by over 30% since the end of 2004. With it currently in the midst of a \$7.5 billion share buyback program, we believe that activity will continue.
- We expect recent corporate initiatives to boost profitability.** Texas Instruments has decided to get out of the baseband chips business. The company believes these devices, which are used primarily in cellphone handsets, will continue to offer lower profit margins. While this decision will serve as a sales headwind through 2013, we think its decision to get out of that business, while still selling other handset chips, is likely to increase the company's overall profitability. Additionally, Texas Instruments was able to take advantage of its strong balance sheet and the global recession by purchasing cutting-edge production equipment at a very attractive price from semiconductor companies that had been driven into bankruptcy. We expect this to reduce production costs and increase production yields.
- Valuation leaves plenty of room for upside should the global economy and sector recover as we expect.** At 12.7x 2011 consensus EPS forecasts, shares of Texas Instruments sit significantly below their post-tech bubble average of around 17x. While we have observed share price performance to be more a function of sector and company results, which can be volatile, we view the current valuation as sufficiently inexpensive to allow for the stock to participate if current expectations are attained or exceeded.

Risks

Semiconductors tend to be very sensitive to the global economic cycle as well as to production capacity. In the event global demand would fall and/or production supply grow relative to expectations, Texas Instruments could experience difficulty meeting sales and profitability estimates. The company's decision to drop its baseband business places it in a direct platform competition in its handsets business, with the company betting a sufficient number of cell phone designers will continue to incorporate a design of discrete semiconductors as opposed to an integrated multi-functional processor design.

Yum! Brands Inc. (NYSE: YUM, \$50.02)

We are adding Yum! Brands Inc. to the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Buy
Credit Suisse	Outperform
RBC Capital Markets	Outperform
Standard & Poors	Hold

2010E/2011E EPS*:	\$2.50 / \$2.81	2010E/2011E P/E*:	20.0x / 17.8x
Market Cap (MM):	\$23,409	52-Week Range:	\$32 - \$52
Total Debt/Total Cap:	70%	S&P Total Debt Rating:	BBB-
Dividend Yield:	2.00%	Fiscal Year End:	December



* Consensus estimates; Source: FactSet

Source: FactSet

Company Description

YUM! Brands, Inc. (NYSE: YUM) is a quick service restaurant (QSR) with over 37,000 units in more than 110 countries and territories. Through the five concepts of KFC, Pizza Hut, Taco Bell, LJS, and A&W (the Concepts), the company develops, operates, franchises, and licenses a worldwide system of restaurants that prepare, package, and sell a menu of food items. In addition, the company owns non-controlling interests in entities in China, which operate similar to franchisees of KFC, and a non-controlling interest in Little Sheep, a hot pot concept.

Investment Thesis

- **We expect earnings growth potential in China to continue for the foreseeable future.** YUM! Brands is expected to realize operating earnings growth in excess of 15% for the next 24 months, according to our research sources, due in large part to its growth strategy in China. In China, which already represents nearly 40% of the company's operating earnings, YUM continues to see robust same-store sales growth as it concurrently aims to add nearly 500 new KFC restaurants per year in the country. With KFC, it has established a Western quick-service-restaurant (QSR) to which Chinese consumers are increasingly showing brand loyalty as their disposable incomes rise. With the company's growth phase still in its early stages in that country, we think prospects are good that robust earnings growth for YUM! Brands could bring valuation for the stock higher than current levels.
- **U.S. refranchising provides a potential catalyst for higher valuations.** By the end of 2011, management expects to have refranchised so its domestic company-owned stores are approximately just 10% of locations. Company-owned stores currently stand at ownership of 17% of the outstanding KFC system and 11% of the Pizza Hut, which we expect to drop to less than 5%, eventually. Refranchising efforts will allow management to realign its operational efforts on its more profitable international segments while helping to improve company-wide operating margins through reduced direct exposure to commodity costs. Yum! Brand's focus on reducing costs and improving profitability should help support earnings growth through 2011 and could act as a catalyst for a higher earnings multiple valuation.
- **Valuation appears compelling in context of the consensus earnings estimate.** While shares of YUM! Brands currently trade 17.8x the consensus 2011 earnings estimate, we view it as likely estimates will rise following the company's update with the analyst community on December 4. The combination of momentum in the company's emerging markets business, along with refranchising in the United States, could result in earnings growth above current forecasts. Shares currently trade at a modest 2 multiple-point premium to McDonalds, which could expand in the near term, given what we view as the company's better growth profile and more favorable geographic exposure.

Risks

Risks include slower-than-expected growth in China, execution risk on the U.S. re-franchising, higher commodity costs, unforeseen increases in labor costs, and a change in consumer preferences and tastes for the company's product.

Bank of America Corp. (NYSE: BAC, \$11.31)

We are deleting Bank of America Corp from the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Hold
Credit Suisse	Outperform
RBC Capital Markets	Outperform
Standard & Poors	Hold

2010E/2011E EPS*:	\$1.02 / \$1.47	2010E/2011E P/E*:	11.1x / 7.7x
Market Cap (MM):	\$113,481	52-Week Range:	\$11 - \$20
Total Debt/Total Cap:	78%	S&P Total Debt Rating:	A
Dividend Yield:	0.35%	Fiscal Year End:	December



* Consensus estimates; Source: FactSet

Source: FactSet

Company Description

Bank of America Corp. is both a bank and financial holding company serving individual consumers, small- and middle-market businesses, large corporations, and governments, with a range of banking, investing, asset management, and other financial and risk management products and services. It provides a range of banking and nonbanking financial services and products through six business segments: Deposits, Global Card Services, Home Loans & Insurance, Global Banking, Global Markets, and Global Wealth & Investment Management (GWIM).

Investment Thesis

- Removal from Guided Portfolio: Large Cap reflects our expectation that large-cap banks may underperform the market.** The confluence of headwinds facing the large-cap banking industry in general—net interest margin compression, lack of credit demand, unquantifiable impact of regulatory changes, and protracted foreclosure process—has created a situation where predicting the outlook for BAC shares has become increasingly difficult. Bank of America continues to be a stock that offers considerable scope for long-term improvement; however, shares could struggle to make gains until the current challenges are resolved.
- Lack of transparency with regard to earnings power could delay Bank of America's recovery.** Shares continue to trade at a material discount to key peers JP Morgan (NYSE: JPM) and Citigroup (NYSE: C) on a number of important metrics. This reflects uncertainty on the part of investors with regard to the true earnings power of its franchise, and in some cases, whether the balance sheet will require additional capital. The shares currently trade at 7.6x the consensus 2011 EPS estimate versus JP Morgan at 8.1x and Citigroup at 9.0x. From a price-to-book perspective, Bank of America trades at 0.5x, which compares with 0.8x for JP Morgan and 0.67x for Citigroup. A narrowing of the valuation gap between Bank of America and its peers was a primary tenet of the original thesis to add it to the Guided Portfolio: Large Cap, and it is one we still expect to play out over time. However, the number of headwinds facing the industry in general and the company specifically, in some cases, leaves investors unconvinced of the Bank of America's true earnings power.
- Absence of top-line growth opportunities suggests banking industry underperformance could continue.** Shares of U.S. banks have lagged the performance of other areas of the Financial sector for several quarters, in part due to a lack of revenue opportunities. While loan officers are becoming somewhat less restricted with credit, demand from consumers remains restrained. In addition, the Federal Reserve's latest round of quantitative easing has resulted in a fresh headwind for the banks as net interest margin compression has continued. Within the capital markets business, trading volumes have remained uninspiring, while competition for transactions among investment banks has risen. Given the lack of near-term catalysts for revenue growth in multiple business segments, we think it may be likely bank stocks will continue to underperform other areas of the sector.

Risks

Risks include higher-than-expected loan losses, an unforeseen change in the regulatory environment, deterioration in overall credit markets, a change in the company's credit worthiness as determined by a credit ratings agency, interest rate risk, loss of key personnel, as well as litigation and potential investor recourse from flawed procedures undertaken during home mortgage foreclosures.

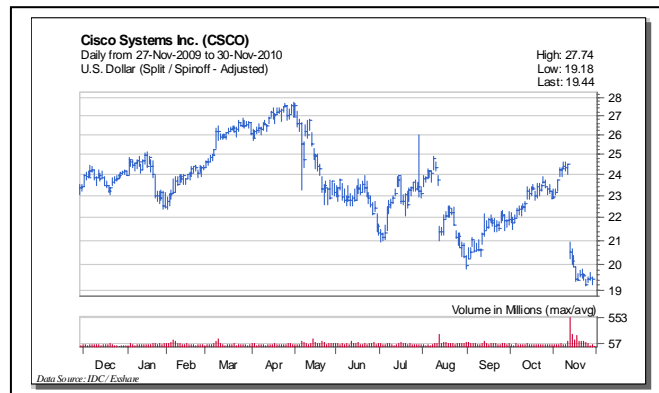
Cisco Systems Inc. (Nasdaq: CSCO, \$19.44)

We are deleting Cisco Systems Inc. from the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Buy
Credit Suisse	Outperform
RBC Capital Markets	Outperform
Standard & Poors	Buy

2011E/2012E EPS*:	\$1.61 / \$1.84	2011E/2012E P/E*:	12.1x / 10.6x
Market Cap (MM):	\$108,416	52-Week Range:	\$19 - \$28
Total Debt/Total Cap:	25%	S&P Total Debt Rating:	A+
Dividend Yield:	0.00%	Fiscal Year End:	July

* Consensus estimates; Source: FactSet



Source: FactSet

Company Description

Cisco Systems is the world's largest supplier of computer networking products as well as communications products and services, designed to transport data, voice and video signals for private enterprises, and telecommunication service providers. Cisco's products and services help customers build their own network infrastructure and provide the tools that allow communication among customers, business partners, suppliers, and employees. Products are divided into five segments: switches (34% of Fiscal Year 2008 sales), routers (20%), advanced technologies (25%), services (16%), and other (5%, consisting primarily of communications software). Approximately 25% of sales are to service providers, with most of the remaining 75% going to enterprises and government entities.

Investment Thesis

- **Cisco Systems has experienced a slowdown in new orders, which we think goes beyond a general slowdown in its industry.** In the July quarter conference call, Cisco Chairman/CEO John Chambers expressed concern over the outlook for new sales orders from customers in the coming quarters. At the time, it appeared likely to us that this softening outlook was more a matter of industry-related weakness than company-specific, with Cisco closing its books a month after most of its sector peers, offering insight into the month of July where the others did not. Chambers had specifically mentioned that July had been especially weak. Thus, when peers came around to report very strong September quarters, we expected Cisco would announce strong results for its October quarter. It was not the case. One of the aspects that created the weak results was Cisco's exposure to state, county, and municipal governments, which comprise almost 25% of sales. We expect ongoing budgeting problems with these governments to persist for several years, presenting an ongoing headwind for Cisco.
- **The decision to develop and sell hardware products appears to be creating an undesirable competitive response.** Over the last couple of years, Cisco has expanded its product offerings beyond its networking equipment focus into servers and other enterprise hardware devices. With enterprise IT systems becoming more integrated, this makes a degree of strategic sense. However, these new products compete directly with the offerings of companies such as International Business Machines (NYSE: IBM), EMC Corp. (NYSE: EMC), and Hewlett-Packard Co. (NYSE: HPQ), all of which have partnered significantly with Cisco in the past. We think Cisco's new status as a hardware competitor has offered these partners competitive incentive to find alternate networking gear partners. We view the strong recent results of several of these competitors as evidence of this trend.
- **Shares are not expensive, and Cisco is still the network technology leader.** It would be difficult for most customers and partners to abandon Cisco's offerings altogether, even if they had a desire to do so, since no other network technology company presents a wider offering of equipment, software, ongoing service, and scale. At 12.1x fiscal year 2011 EPS estimates, Cisco shares trade at a significant discount to its post-tech-bubble average of about 17.0x. The soft sales outlook for 2011 makes it less likely CSCO shares will be among the best performers in the industry over the next twelve months as we had previously believed. However, more diverse, conservative, or value-oriented portfolios could continue to hold the shares.

Risks

A slowing in demand for networking equipment market would be among the primary risks for Cisco. Competition in the networking technology market tends to be intense, and while Cisco has maintained dominant market share in most of its product categories, competitive forces could bring down sales volumes and/or profit margins.

CME Group Inc. (NTSE: CME, \$285.90)

We are deleting CME Group Inc. from the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Not Rated
Credit Suisse	Outperform
RBC Capital Markets	Not Rated
Standard & Poors	Hold

2010E/2011E EPS*:	\$15.29 / 17.08	2010E/2011E P/E*:	18.7x / 16.7x
Market Cap (MM):	\$19,097	52-Week Range:	\$235 - \$353
Total Debt/Total Cap:	11%	S&P Total Debt Rating:	AA
Dividend Yield:	1.61%	Fiscal Year End:	December



* Consensus estimates; Source: FactSet

Company Description

CME Group Inc. offers access to all asset classes for futures products from a single electronic trading platform and on trading floors in Chicago and New York City. The company offers markets in futures and options on futures contracts based on equity indexes, foreign exchange, agricultural commodities, energy, metals, the United States interest rate yield curve, and alternative investment products. Its products are traded through the CME Globex electronic trading platform, its open outcry auction markets in Chicago and New York City, or through privately negotiated transactions the company clears. It serves the risk management and investment needs of customers around the globe. As of December 31, 2009, the CME Group had approximately 140 clearing firms.

Investment Thesis

- **The share price has made a strong recent recovery.** Shares of CME have rallied through the fall, rising more than 20% since late August, outpacing the broader Financial sector, which was up over 8.5%. We attribute the strength to renewed inflation fears and volatility driven by the Federal Reserve's quantitative easing program. Investors believe CME may benefit from rising volumes for interest-rate-based futures contracts. However, we believe volumes may not recover in a sustainable fashion to the degree the market has anticipated.
- **We view the interest rate environment as unfavorable.** Interest rate futures contracts represent more than 40% of CME's average daily trading volume. While volatility has increased recently due to the moderate rise in long-term rates, we believe short-term interest rates—a key driver of trading volume—are unlikely to change any time soon. The Federal Reserve has repeatedly suggested that monetary policy will remain accommodative for an extended period of time, pushing out any short-term interest-rate hikes until at least the second half of 2011. We believe anticipation of a change in short-term interest rates remains the key catalyst for CME's stock price.
- **We expect derivatives clearing to be a meaningful but gradual source of growth.** Part of the rationale for adding CME Group to the Guided Portfolio: Large Cap was the potential opportunities created by the Dodd-Frank Act, a bill signed into law this summer. The legislation requires that most of the \$580 trillion in over-the counter (OTC) derivative transactions be processed by clearinghouses and traded on exchanges or similar systems and reported to regulators. While the opportunities remain large, we believe implementation of OTC derivative clearing will take longer to materialize, given higher complexity and lower liquidity relative to current standardized exchange-traded contracts. As a result, we believe the benefit to earnings will be more gradual than initially expected.
- **We think CME Group remains an interesting long-term opportunity.** We believe CME remains an interesting long-term opportunity based on the view that short-term interest rates are likely to be higher in a couple of years. We also believe CME will eventually benefit from new market opportunities, including OTC derivatives and other new exchange-based financial and commodity products.

Risks

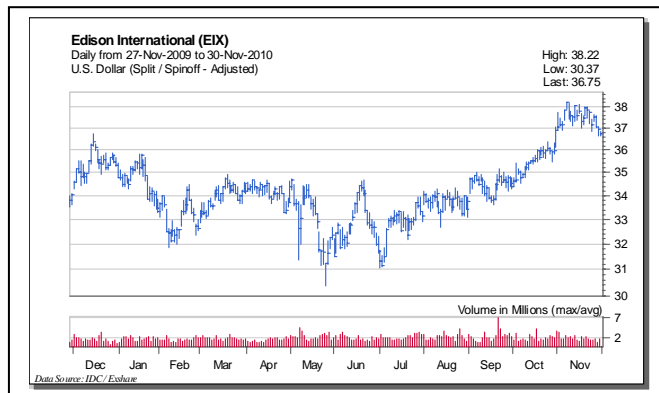
Risks include higher levels of price competition, unexpected changes on the regulatory landscape, lower market volatility, technology and system failures, loss of key personnel, and clearing and settlement risk.

Edison International (NYSE: EIX, \$36.95)

We are deleting Edison International from the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Buy
Credit Suisse	Neutral
RBC Capital Markets	Outperform
Standard & Poors	Buy

2010E/2011E EPS*:	\$3.46 / \$3.06	2010E/2011E P/E*:	10.7x / 12.1x
Market Cap (MM):	\$12,039	52-Week Range:	\$30 - \$38
Total Debt/Total Cap:	52%	S&P Total Debt Rating:	BBB-
Dividend Yield:	3.41%	Fiscal Year End:	December



* Consensus estimates; Source: FactSet

Source: FactSet

Company Description

Edison International is a holding company of regulated and non-regulated utility assets. The regulated utility, Southern California Edison (SCE), supplies electricity to more than 13 million customers through coastal, central, and southern California (excluding Los Angeles and San Diego). End markets consist primarily of commercial and residential customers, with company-owned generating capacity divided among nuclear (43%), hydroelectric (21%), natural gas (23%), and coal (13%). SCE accounted for approximately 80% of total revenue in 2009. The unregulated assets, known as Edison Mission Group, consist primarily of coal-fired merchant generation capacity in Illinois and Pennsylvania and a capital arm that invests primarily in energy and infrastructure projects.

Investment Thesis

- **We are reducing our exposure to the Utilities sector.** This quarter, the RBC Investment Strategy Committee has lowered its weighting to the Utilities sector in favor of more attractive investment opportunities within the Materials sector. The decision was due in part to a more optimistic outlook for the U.S. economy and equity markets following improvements seen in recent U.S. data releases, together with the Federal Reserve's decision to undertake a second round of quantitative easing.
- **We consider Edison International an attractive long-term holding.** While our near-term view on Edison International is less upbeat relative to other investment opportunities in the United States, we continue to believe shares of the company offer investors an attractive long-term holding in the Utilities sector. The company is expected to benefit from strong rate-base growth at its regulated utility SCE in the range of 8%-11% over the next couple of years that should fuel above-average earnings growth relative to most of its regulated utility peers. Furthermore, its merchant power business, EME, may benefit from higher power prices in the event the U.S. economy continues to recovery. We also would note the Utilities Sector offers investors above-average dividend yields that are attractive in the current environment, given long-term U.S. government bond yields have fallen well below 3.0%. Edison International has a dividend yield of 3.41%.

Risks

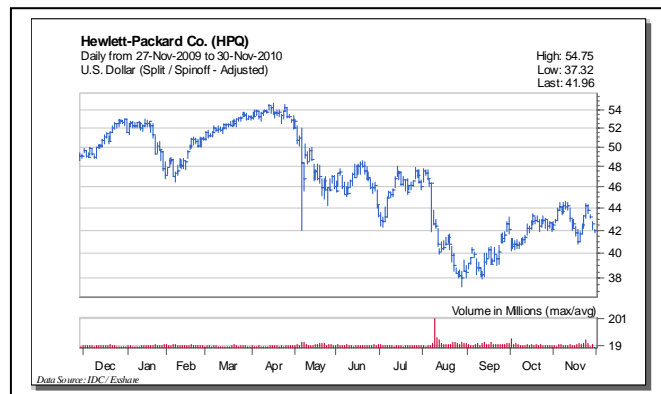
Risks include the unregulated operation's sensitivity to natural gas price volatility, the risk of higher capital spending to comply with stricter emission standards, ageing plants, and rate-case approvals from the California regulators.

Hewlett-Packard Co. (NYSE: HPQ, \$42.60)

We are deleting Hewlett Packard Co. from the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Buy
Credit Suisse	Not Covered
RBC Capital Markets	Outperform
Standard & Poors	Strong Buy

2011E/2012E EPS*:	\$5.18 / \$5.71	2011E/2012E P/E*:	8.2x / 7.5x
Market Cap (MM):	\$97,810	52-Week Range:	\$37 - \$55
Total Debt/Total Cap:	36%	S&P Total Debt Rating:	A
Dividend Yield:	0.75%	Fiscal Year End:	October



Source: FactSet

* Consensus estimates; Source: FactSet

Company Description

Hewlett-Packard Co. is a provider of computer hardware, IT services, and software to businesses and consumers worldwide. The company's Personal Systems Group, which comprises about 31% of revenues, sells personal computers (PCs) and other end-user hardware devices to consumers and businesses. HP Services (~31% of sales), which was significantly bolstered by the late 2008 acquisition of Electronic Data Systems (EDS), is now the second-largest IT services company in the world, with 210,000 employees worldwide. The Imaging and Printing Group (~21% of sales) supplies the home, office, and graphics markets with printers and accessories. Enterprise Storage and Servers sells to businesses and comprises about 14% of revenues. HP Software sells business technology optimization and business intelligence software, among other offerings. Its sales make up 3% of the total. The rest of the business is the Financial Services and Corporate Investment divisions. Nearly 64% of sales come from outside the United States, and the customer base is diverse, with no single customer accounting for over 10% of revenues.

Investment Thesis

- Recent corporate decisions lead us to believe the direct return of cash to shareholders is not a priority.** Hewlett-Packard sells into end markets, such as enterprise hardware, that are generally slowing down on a secular basis. When we added the shares to the portfolio, we had done so believing the company would continue to buy back shares, reducing shares outstanding at a rate at least as rapidly as it has over the last five years (at 4.4%). We also felt the company could afford to raise the dividend, which has stood at \$0.08 per quarter for more than a decade. What has happened in that time, however, is that share repurchases have slowed, and the company made a significant acquisition in buying Palm Inc., with the intent of plowing cash flows into new electronic devices, such as tablet computers and cellphone handsets. We view this use of company resources as out of step with common stock investors' best interests.
- We are concerned that leadership at the company has been weakened in recent months.** In August, Chairman and CEO Mark Hurd was let go over events surrounding his personal relationship with a consultant hired by the company. Mr. Hurd had engineered what we view as an impressive turnaround in the company's operations. At the end of September, Hewlett-Packard announced the hiring of Leo Apotheker, former Chief Executive of SAP AG (NYSE: SAP) as CEO and former Oracle Corp. (NYSE: ORCL) Chief Operating Officer Ray Lane as non-executive Chairman. In light of the ongoing convergence of hardware, software, and services into singular platforms, we understand the justification for hiring a former software company CEO at a company that sells primarily hardware and services. However, we think Mr. Hurd's departure may jeopardize continuity of business and quality of execution and strategy going forward.
- Shares are inexpensive, and we found the most recent quarter's results impressive.** At just 8.2x fiscal year 2011 EPS estimates, shares of Hewlett-Packard trade at a significant discount to their post-tech-bubble average of closer to 12.0x. However, we think until the company either demonstrates through results that its strategy is an appropriate one or changes course to better focus on returning cash to shareholders, the shares are likely to remain at a discount. In the most recent quarter, the company surpassed consensus sales forecasts by almost 2%, and EPS of \$1.33 beat Street estimates of \$1.27. Guidance for the January quarter was on the high side of expectations. This strength may carry through for into 2011 (we think it will for many enterprise-focused Information Technology companies) as corporate spending on technology ramps up as economies emerge from the recession.

Risks

Most of Hewlett-Packard's end markets are sensitive to the economic cycle, so if the global recovery falters, results could fall short of expectations. The same could hold true if businesses do not ramp up IT spending as we expect.

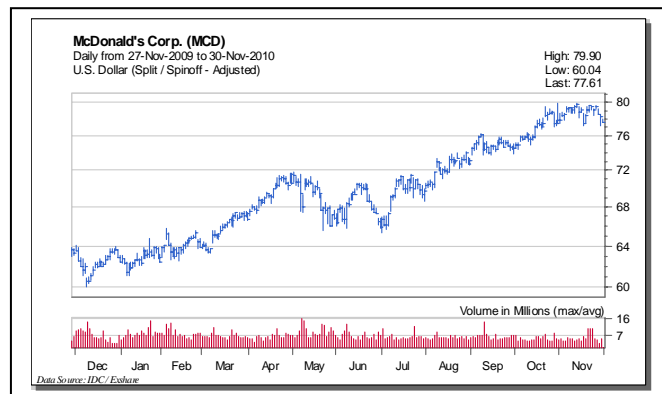
McDonald's Corp. (NYSE: MCD, \$78.26)

We are deleting McDonald's Corp from the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Buy
Credit Suisse	Outperform
RBC Capital Markets	Sector Perform
Standard & Poors	Hold

2010E/2011E EPS*:	\$4.60 / \$5.03	2010E/2011E P/E*:	17.0x / 15.6x
Market Cap (MM):	\$82,682	52-Week Range:	\$60 - \$80
Total Debt/Total Cap:	46%	S&P Total Debt Rating:	A
Dividend Yield:	3.12%	Fiscal Year End:	December

* Consensus estimates; Source: FactSet



Source: FactSet

Company Description

McDonald's is the world's largest and most recognized quick-service restaurant company, with more than 32,500 restaurants in over 100 countries. All restaurants are operated either by McDonald's or by franchisees, with over 70% of franchised restaurants operating under conventional franchise arrangements in which the company earns the payment of rent and royalties based upon a percent of sales. The company's restaurants offer a uniform menu, although there are variations based on geography. The offering typically includes a full breakfast menu, and a lunch and dinner menu consisting of hamburgers, sandwiches, french fries, salads, sundaes, and an assortment of beverages including soft drinks, milk shakes, and coffee. In recent years, the company has undertaken a significant reimagining of its restaurants and launched its McCafé concept, upscale coffee areas inside its existing restaurants. In 2009, revenue was broken down by geography as follows: Europe (~44%), US (~28%), Asia Pacific, Middle East & Africa (~24%), and other (~4%).

Investment Thesis

- **Outperformance may prove more difficult in an economic recovery.** Shares of MCD have performed admirably through the global economic downturn, up over 20%, excluding dividends, since December 31, 2007, while the S&P 500 index has declined by just over 18%. We attribute the stock's strong performance to its relatively stable business, strong international growth, and renewed commitment to returning cash to shareholders through share repurchases and dividend increases. We believe the company remains committed to menu innovation, international opportunities, and dividends and buybacks. However, with economic indicators in the United States showing signs of some moderate improvement, we believe investors are more likely to favor other stocks in the consumer sector whose businesses are more directly influenced by employment trends and consumer sentiment.
- **Above-average European exposure may create an earnings headwind.** Over 40% of McDonald's revenue now comes from Europe. While the region has been a source of strong growth over the years, we believe sales growth in the region could underperform because of an outlook for a weaker European economy and a weaker Euro. We prefer consumer stocks with less exposure to Europe and more to the United States and emerging economies, such as those in much of Asia.
- **McDonald's Corp. remains an attractive core portfolio holding.** We recommend more diverse portfolios continue to hold the stock. Its removal from the Guided Portfolio: Large Cap is based predominantly on the preference for alternative consumer stocks for new money. While outperformance relative to more economically-leveraged companies may prove to be more difficult if economic conditions in the United States continue to improve, we believe McDonald's has proven that consistent menu innovation and shareholder-friendly initiatives can be successful drivers of stock performance. Shares of MCD trade at 15.7x 2011 EPS estimates and pay a sustainable dividend that currently delivers a yield of 3.12%.

Risks

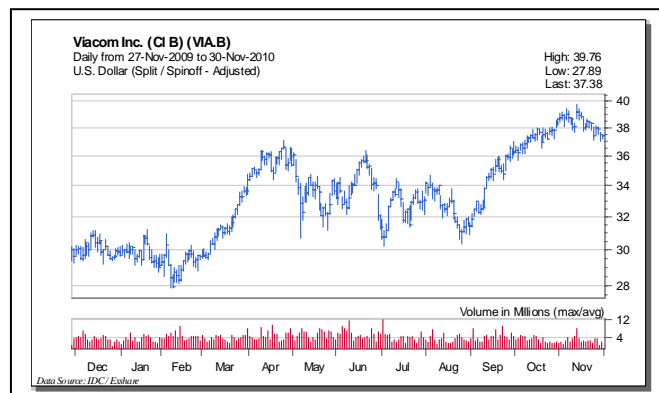
McDonald's operating profits can be affected by higher food costs. The high percentage of revenues from overseas exposes the company to currency exchange rate risk.

Viacom Inc. (NYSE: VIA.B, \$37.47)

We are deleting Viacom Inc. from the Guided Portfolio: Large Cap.

Research Provider	Ranking
Argus Research	Hold
Credit Suisse	Neutral
RBC Capital Markets	Outperform
Standard & Poors	Hold

2011E/2012E EPS*:	\$3.29 / \$3.73	2011E/2012E P/E*:	11.4x / 10.0x
Market Cap (MM):	\$22,801	52-Week Range:	\$28 - \$40
Total Debt/Total Cap:	42%	S&P Total Debt Rating:	BBB+
Dividend Yield:	1.60%	Fiscal Year End:	September



* Consensus estimates; Source: FactSet

Source: FactSet

Company Description

Viacom Inc. (Viacom) is an entertainment content company that operates in two segments: Media Networks and Filmed Entertainment. Media Networks creates and acquires programming, video games, and other content for distribution to consumer 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.

Investment Thesis

- **Strong recent share price performance may limit near-term upside.** Shares of Viacom are up over 20% for the most recent three-month period, about a 12% gain for the company's Entertainment Media peer group. Through 2010, the shares have benefitted from a network ratings recovery, an improved domestic advertising spending backdrop, and higher return of capital to shareholders in the form of share buybacks. Until Viacom can prove its recent earnings growth is sustainable longer term, outperformance relative to other consumer stocks may prove more challenging. In our view, more relatively attractive investment opportunities exist within the Consumer Discretionary sector.
- **More difficult comps in advertising revenue growth leaves us less enthused about near-term performance.** Domestic advertising trends have been strong through fiscal year 2010, helped by a robust audience at its MTV franchise driven by strong programming, which drew a 17% increase in viewership. While domestic advertising growth is likely, in our view, to be in line with the broader industry for fiscal 2011, we have become concerned that Viacom's current pace of advertising revenue growth will not be sustainable over the longer term. Moving into 2011, advertising sales comparables could become more difficult for Viacom, which may leave the shares headed toward a period of underperformance relative to the sector.
- **We think the current valuation remains attractive.** Shares of Viacom currently trade at less than 11.4x consensus 2011 earnings, which is a discount to the historical range of 12x to 22x. While it is true the high end of that range was typical in the higher growth period of the 1990s, we believe it is still reasonable for shares of VIA.B to trade within the 12x-15x range. As a result, we remain comfortable with Viacom as a holding for longer-term-oriented and more diverse portfolios.

Risks

Key risks for Viacom include a slower-than-expected recovery in the global economy, which would hinder advertising revenue growth. Additionally, Viacom has a history of pursuing acquisitions in both traditional and new media markets. Dilutive acquisitions would present a risk to earnings and revenue estimates.

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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References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Prime Income List (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL 9). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Distribution of Ratings

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)	650	49.70	194	29.85
Hold (SP)	599	45.80	123	20.53
Sell (U)	58	4.40	11	18.97

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.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; and/or low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; and/or risk of being delisted.

Valuation and Price Target Impediments

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