THE ABC PERSPECTIVE

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Looking Ahead Optimistically

Looking ahead to the end of 2015 we are quite optimistic with regard to the direction of our ABC portfolios. For instance, since the start of 2015 we repositioned our funds having substantially reduced our natural resource exposure to focus on the healthcare, technology, consumer discretionary and special situation sectors. Our macroeconomic and investment thesis formulated at the beginning of 2015, which we continue to adhere to today, included the following assumptions:

- *a slow, but steady U.S. economic recovery moving ahead in fits and starts. Due to the slower pace of growth compared to previous economic cycles it was our opinion that this upturn could be elongated by several years*
- *a difficult oil & gas/mining recovery contending with oversupply issues*
- *quite positive on selective retailers selling basic necessities, discretionary services and special situations*
- *with an aging North American population and, in particular, 60-70 year-old baby boomers, we planned to focus on well-placed opportunistic healthcare companies which would provide essential, high demand services over the next 10-20 years*
- *with major advances in computers and research we believed that selective, free-cash flowing technology innovators would perform exceedingly well*

Bearing these views in mind we reset our portfolios with attractive, dividend-paying, low debt North American selections and targeted a 50-50 Canadian-U.S. common share mix. Admittedly, while the Canadian equity market does not provide investors with the vast diversification potential of the U.S. market place we, nonetheless, purchased and continue to favour the following Canadian common stocks: Com Dev International, Information Services Corp., Leon's Furniture, Telus Corporation, Exco Technologies, Stingray Digital Group, Loblaw Companies, Uni-Select Inc., and Transforce Inc.

Despite the currency risk, the U.S. equity market provides Canadian investors with numerous diversification opportunities. We have mitigated the U.S. dollar risk by hedging 80% of our ABC Funds' American currency exposure with the Royal Bank of Canada. Since the start of 2015 we have purchased a number of attractive U.S. common stocks including: Foot Locker Inc., PepsiCo Inc., Southwest Airlines, Carriage Services Inc., Express Scripts Holdings, East West Bancorp Inc., Gilead Sciences, H+R Block, SVB Financial Group, The Cheesecake Factory Inc., Mentor Graphics Corp., Anthem Inc., and Google Inc.

Additionally, we have trimmed a number of our holdings on price strength but also we have purchased and subsequently sold a few American stocks including Big Lots Inc., Cooper Tire + Rubber Inc., Encore Wire Corp., and Flexsteel Industries, which reached our price targets. Last fall we bought three undervalued Canadian REITs: Pure Industrial REIT, InterRent REIT and Plaza Retail REIT and sold all three this past spring for a modest profit. Notwithstanding these numerous portfolio changes we have also purchased and continue to hold a number of undervalued equity laggards. In spite of their present underperformance we remain optimistic and intend to retain this group, which includes: Polaris Materials, Las Vegas Sands, Superior Industries International, Zimmer Biomet Holdings, Waste Management Inc., and American Express Co.

Clearly there are numerous macro uncertainties overhanging the global markets such as Greece, decelerating Chinese economic growth, U.S. Federal Reserve intentions, a weak Canadian dollar and a pending Canadian federal election. Nevertheless, we remain extremely confident with our relatively liquid and diversified portfolios. We believe that our extensive and very positive security changes since the beginning of 2015 have set our five ABC Funds on the right path toward our goal of investment excellence.

Economic Perspectives

A Rebounding U.S. Economy

The U.S. economy advanced at a 2.3% annual growth rate in the Q2/2015 quarter and the previous Q1/2015 estimated decline of -0.2% was revised upward to a 0.6% growth rate. This improvement was largely due to increased housing and consumer spending, which we expect to persist with a steady lift in American employment and subdued inflation.

While a rebounding U.S. economy, rising employment and increased consumer spending should eventually precipitate an initial U.S. Federal Reserve interest rate increase sometime before year end, we believe that such increases will be measured and gradual. Moreover, we expect a moderate 2015 U.S. GDP growth rate of approximately 2½% to continue into 2016 and probably beyond as this very unusual low growth/low inflation economic cycle stretches further than most observers expect. This occurrence, we believe, should be quite positive for North American common stock prices.

Investment Perspectives

Dividend Paying Equities Versus Bonds

It is interesting to note that the Government of Canada bond yield curve continues to trade at generationally low interest rates of:

1 year	0.45%
2 year	0.65%
10 year	1.45%
30 year	2.10%

These low interest rates, when compared to good quality, high yielding, dividend-paying equities, highlight the present relative attraction of common stocks versus bonds. Furthermore, this attraction explains the rationale of a number of our recent high yielding/potential capital gain equity purchases, such as Telus (3.75%), Information Services Corp. (5.3%) and Leon's Furniture (2.7%). In effect, the significant positive dividend differential versus 1-30 year Canadian bond yields gives our ABC Funds a meaningful incremental return until our expected capital appreciation occurs.

Portfolio Perspectives

Diversifing Our Portfolios

Since the beginning of 2015 we have been diversifying our ABC portfolios. We have concentrated on healthcare, technology, consumer discretionary and special situation securities while significantly reducing our natural resource exposure. With this strategy we have not only reduced portfolio risk but also improved our relative performance against our index benchmarks.

Over the past few months we have purchased such Canadian stocks as Loblaw, TD Bank, Telus Corp., Bank of Montreal, Information Services Corp., Com Dev International and Stingray Digital. In the U.S. a partial list of our purchases include: The Cheesecake Factory, Pepsico Inc., Amgen Inc., East West Bancorp, Google, H+R Block, Valero Energy, SVB Financial and Southwest Airlines. Furthermore, with recent price strength of a number of these purchases we have trimmed a few of these holdings and have completely liquidated a mix of Canadian and American stocks comprising InterRent REIT, Plaza Retail REIT, Pure Industrial REIT, Big Lots Inc., Cooper Tire & Rubber, Flexsteel Industries and Encore Wire.

Favoured ABC Selections

Since the Fall of 2014 we have searched for a blend of small to large capitalization common stocks possessing free cash flow, strong balance sheets and attractive valuations for 2015 and beyond. Over the past ten months we have purchased a number of Canadian and American equity selections and have added to a few undervalued existing holdings. A sampling of these positions and some brief comments include:

Com Dev International Ltd: is a leading global designer of space hardware equipment, with equipment present on over 950 satellites. The company stands to benefit from the introduction of large LEO (Low Earth Orbit) constellations, having long-term relationships with every prime satellite contractor. The company's ExactEarth division is the market leader in Global Maritime Vessel tracking, which is characterized by recurring revenue and rapid growth. The division turned EBITDA positive in 2014 with strong growth expected to continue.

SVB Financial Group: is a California-based financial corporation engaged in serving companies in the technology, life science, venture capital and private equity industries. The company has $39.3 billion in total assets with 28 U.S. and seven international offices. With a high quality loan portfolio and strong loan growth, SVB is poised to benefit from advances in global technology innovation.

Pepsico Inc: is a well-known global food and beverage company which markets numerous brands under its Frito Lay and Pepsi segments. The company sells many household names including Lays Potato Chips, Doritos, Pepsi and Diet Pepsi soft drinks. Pepsico produces strong free cash flow, regularly increases its dividend and continues to repurchase stock. Most importantly, Pepsi has demonstrated consistent earnings power while holding a dominant market position in many of its key brands.

East West Bancorp Inc: is a California regional bank which offers a wide selection of banking products and services to retail and commercial clients. The company has 130 locations mainly in California, as well as five full service branches in China. East West Bank is a top performing commercial bank and is becoming increasingly important to the global economy. The bank has a leading market share in the Asian-American market and represents an important financial bridge between the greater China area and American business. East West has had a strong record of deposit growth, loans and net income.

Google Inc: is a technology company and is the clear leader in Internet searches, deriving its revenue from ad placements online. The company has a dominant market share on mobile operating systems which has become a huge driver toward attracting increased advertising. Google has proven itself year after year by reporting top and bottom line growth while significantly building cash on its pristine balance sheet. The company's high quality assets include the Android mobile operating system, YouTube and Google Maps. Google has been producing a considerable stream of free cash flow each year, which we expect will be used to reinvest in new growth initiatives, R&D, or returned to shareholders via dividends and share buybacks.

Microsoft Corporation: is a technology company known for its world-class Windows operating system. We see Microsoft as a key player in the cloud computing market, which is poised to grow for years to come. Additionally, its computing and gaming hardware segment is a leader in the growing gaming market through its Xbox console. We are attracted to the company's earnings and free cash flow generation, as well as its strong hold on the operating system for the personal and commercial use market.

Uni-Select Inc.

Uni-Select Inc. specializes in the distribution of automotive replacement parts, equipment, tools and accessories. The company has two business segments: FinishMaster, an automotive paint and related products distribution business in the U.S. and its Canadian automotive parts distribution business, represented under Auto Plus, Auto Parts Plus and Bumper to Bumper brands. Uni-Select is the market leader in both of its business segments and collectively has 13 distribution centres and 189 corporate stores across North America.

Uni-Select trades below a forward P/E ratio of 16.0x and at a considerable discount to its peers. We believe that this valuation is highly justified given the company's dominant position in its markets and its debt-free balance sheet. Moreover, the company is free cash flowing due to minimal capital requirements and pays out a 1.2% dividend yield. Uni-Select offers unique diversification for Canadian investors, but also presents great potential for future catalysts after the transformational sale of its U.S. auto parts distribution division to Icahn Enterprises in February 2015.

Uni-Select's main business segment is FinishMaster which accounts for about 60% of its sales. This business is the paint and related products distribution leader in the United States and has produced excellent organic results. During Q1/2015, the company announced a 6.6% year-over-year growth in sales building on its extremely valuable brand, lucrative business model, and very strong reputation. Uni-Select's Canadian automotive parts distribution division should account for approximately 40% of its sales with over 3,900 auto service shops, collision centres and auto parts stores operating under its banner programs in Canada. Both U.S. and Canadian businesses are free cash flowing and offer appreciating value in a very concentrated industry.

Uni-Select's business model changed signficantly after the sale of its U.S. automotive parts distribution. On June 1, 2015, the company announced the closing of this transaction for approximately $340 million and stated that it would use the proceeds of this transaction to repay its outstanding debt and to invest in organic and acquisition growth opportunities. Post-transaction, the company will have sales of approximately $1.1 billion annually, an EBITDA margin of 7-8%, and capital expenditure requirements of only $15 million. It is our view that this transformative sale creates immense value for the company. Although it may appear that Uni-Select is packaging itself for a take-out, we believe that its debt free balance sheet and impressive free cash flow can be leveraged to make attractive acquisitions.

Interestingly, Uni-Select recently announced a reorganization of its corporate management structure. Firstly, we believe that Uni-Select's new CEO, Henry Buckley, possesses a strong entrepreneurial spirit and can propel the company to new heights. Furthermore, Uni-Select announced more corporate management changes including a simplification of its company structure and the retirement of its current CFO. Clearly, Uni-Select is an entirely different company than it was six months ago. After reporting very favourable earnings results for Q2/15, the company attained a market capitalization of $1.3 billion and is attracting greater investor attention. Uni-Select now exhibits a new, appealing business model and has an invigorated, highly motivated management team. In fact, Henry Buckley has stated that the company is actively seeking growth opportunities, which we believe could offer extensive synergies and earnings accretion to the company.

Notwithstanding its recent significant price appreciation Uni-Select offers considerable value as an industrial play in the Canadian market. The company has an attractive valuation, a 1.2% dividend yield, but most importantly, a number of interesting growth opportunities. Also, Uni-Select has two highly lucrative assets with significant cash flow generation, zero debt and a formidable balance sheet to fund organic growth and to make strategic acquisitions. In the interim, Uni-Select could even find itself becoming the "acquired".

Carriage Services Inc.

Carriage Services Inc. is a provider of death care services and merchandise in the United States. Founded in 1991 and headquartered in Houston, Texas, the company operates 165 funeral homes in 27 states and 32 cemeteries in 11 states. Carriage operates in two segments, funeral homes and cemeteries. The Funeral Home segment generates roughly 75% of revenue, and involves goods and services related to their funeral homes including transportation and use of facilities for viewing. The Cemetery segment accounts for approximately 25% of revenue and generates cash flow through the sale and maintenance of cemetery plots.

Carriage Services is attractive for several reasons. Firstly, industry fundamentals are quite interesting. The death care industry can be characterized by low technology, modest growth and stable earnings. Growth in industry revenue is highly linked to the number of deaths per year. The company expects the number of deaths to slowly rise each year as the American population grows and as the average age increases. Management expects the industry to expand at an average annual rate of 1.6% during the next five years to $17.2 billion. While Americans are living longer, deaths are simply delayed and are expected to be eventually captured by the industry. Secondly, the industry is attractive through the high fragmentation. The top three public consolidators account for only 20% of industry revenue, with most of America's 24,000 funeral homes being locally owned and operated. These funeral homes are reliant on goodwill within the community, with many funeral homes being an integral part of a neighbourhood. This point is particularly true in rural areas where the reputation of a funeral home and operating family have come to be of prime importance. The high fragmentation creates excellent growth opportunities through acquisitions. We believe that Carriage Services is becoming a prime consolidator in an overlooked industry.

To grow earnings and revenue more rapidly than the industry, Carriage employs a consolidation strategy. Over the next ten years the company plans to acquire larger and higher margin funeral home and cemetery businesses in strategic markets. This will be accretive to the company's financial results as fixed regional costs and corporate overhead can be spread over a larger revenue base, which should have a large impact on EBITDA and free cash flow. Carriage operates new acquisitions under a decentralized model that retains the home's reputation within the community, but also brings in the synergy benefits. In addition to acquisitions, the company is also constructing new funeral homes, with two funeral homes presently under development in Texas.

Additionally, Carriage is building on its strong free cash flow model. In fiscal year 2015, analysts expect the company will generate roughly $35 million in free cash flow. The company is reinvesting this free cash in the business through acquisitions and new capital investments that will grow revenues. Presently, Carriage Services pays a small dividend and trades at an attractive valuation. Analyst consensus expects the company to generate $1.54 in EPS producing a PE ratio of 15x, which is a discount to its peers.

Finally, Carriage Services has a solid balance sheet that enables the company to carry out its consolidation strategy. Moreover, Carriage has taken advantage of low interest rates to finance its debt at favourable levels, including a 2.75% convertible subordinated note and a bank credit facility with a competitive rate. Interest costs are approximately $8.5 million yearly, which is easily covered by the company's EBITDA.

In summary, we are quite optimistic on the longer term outlook for Carriage Services. The stable and growing death care industry combined with a consolidation strategy should lead to higher free cash flow generation and will likely deliver value to shareholders over time.

ABC FUNDS

Distracting Noise

I have written and talked about this topic many times over the past 15 years. Given that the securities markets thrive on news, analysts are constantly searching for information so as to make multi-million dollar investment decisions. However, not all the news is important to the investment process. In fact, there is a lot of misinformation, irrelevant data and distracting noise that simply serves to cloud investors' minds and to set them off on a fruitless tangent.

As analysts it is our job to hunt for undervalued equity selections to insert in our portfolios. While not without risk we may use computer screens, comparative analysis, management interviews or research reports to ferret out attractive new common stock picks. During the course of a determined search we may be set off track by distracting noise such as irrelevant economic or political news. This news may create increased common stock price volatility and undermine an investor's conviction. In reality, however, the news may have little real effect on a particular company's balance sheet or quarterly earnings results.

For instance, investors heightened preoccupation with the Greek financial crisis this summer created extreme market price volatility and extraordinary anxiety. The swelling media publicity grew in crescendo alarming many investors and precipitating considerable liquidation of perfectly good common stocks. The point is not to belittle the Greek financial crisis, referendum and the frenetically negative mass media comments. The issue is what was going on in Greece had little effect on the business operations, financial results and subsequent performance of many companies. Canadian companies such as Loblaws, Telus or Uni-Select Inc. as well as American consumer discretionary providers like Foot Locker and The Cheesecake Factory were barely impacted. In effect, the distracting noise of the Greek financial turmoil and the resulting short-term negative psychological effect on common stock prices provided an excellent buying opportunity for numerous fundamentally undervalued common stocks.

In summation, as difficult as it may be in the heat of the battle, we must stick to our basic analytical tools including price/earnings multiples, cash flow and free cash flow yields, net asset values, replacement cost, etc. We must blot out the thunderous distracting noise that may cloud our investment minds to opportunistically purchase significantly undervalued common stock during times of extreme investor duress.

Irwin A. Michael, CFA

Administrative Information

· All cheques are to be made payable to RBC Investor Services.

· All client requests are to be directed to ABC Funds.

· There are units of the ABC North American Deep-Value Fund & ABC Dirt-Cheap Stock Fund available for purchase. Contact our office for more information.

· We continue to request that clients assist in updating their "Know Your Client" forms. This information is a regulatory requirement to assess the suitability of our various ABC Funds to individual client's needs.

· Purchase requests must reach our office by the last business day of the month and redemption requests (for our open funds) must reach our office no later than ten business days before the last business day of the month. Our closed-end funds have their own liquidation options. Please contact our office for more information.

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