THE ABC PERSPECTIVE

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Investment Opportunity:

Common Stock Dividends and Negative Interest Rates

It is no secret that global short and long term interest rates are at generational lows. In fact, in a number of recent instances certain new fixed income financings have been offered and successfully sold at negative rates of return. Although such financial money-raising might sound absolutely absurd to a rational investment individual, negative interest rate securities have become increasingly prevalent in 2016.

But how does one account for negative interest rates and what has caused investors to eagerly agree to purchase debt securities which will repay them less than they have lent? It might be a simplistic explanation of credit fears or supply and demand, however, many financial writers attribute negative interest rates largely to European Central banks and the Bank of Japan which have tried to stimulate anemic global economic growth via an excessively easy monetary policy. In fact, according to a June 2016 Fitch Ratings report there were over $10 trillion in negative yielding sovereign bonds outstanding. Furthermore, 26% of the total value of J.P. Morgan's Global Bond Index had below zero interest rates.

While it is not our intent to debate negative interest rates, we believe an anomalous investment opportunity exists due to the current record low interest rate environment. Specifically, there is now a surprisingly wide interest rate spread between corporate debt securities and the common stock dividend yield of the same company. We believe this circumstance presents an interesting portfolio management opportunity for our ABC Funds.

In mid-July the Canadian Imperial Bank of Commerce (CIBC) became the first Canadian bank to sell bonds with a negative interest rate return. CIBC raised almost $1.8 billion via a Euro-denominated six-year bond issue at minus .009%. The bond if held to its 2022 maturity date guarantees that its investors would lose money. This point is hard to fathom, yet strangely enough, the financing was over two times oversubscribed. By extension, the purchase of these negative interest rate CIBC bonds appears incomprehensible when compared to the attractive 4.75% dividend yield of the CIBC common stock. Admittedly, there is a difference in risk, however, the CIBC as a top Canadian bank, is a prime quality financial credit. Moreover, the CIBC common stock offers annual dividend increases via dividend growth which should magnify the yield differential between now and the 2022 bond maturity date.

Clearly, with the global low interest rate overhang, "perhaps lasting lower for longer", high quality dividend yielding stocks offer an interesting investment opportunity for investors. Consequently, our five ABC Funds are taking advantage of the current low interest rate environment and have aligned our portfolios to include:

- Liquid, high quality, larger capitalization dividend-paying stocks in diverse industries
- Dividend-paying stocks with good dividend growth opportunities
- A reduction and significant underweight of low-yielding bonds in our balanced fund portfolio replacing them with large, high quality dividend paying stocks

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Economic Perspectives

Consumer Spending: Good for Stocks

While U.S. economic growth slowed in the first half of 2016, consumer spending, which accounts for 70% of American business activity, grew at a 4.2% annual rate.

In commenting on the state of the American economy, Mark Zandi, chief economist at Moody's Analytics stated: "it is amazing how resilient the U.S. economy has been in the face of all the uncertainties and shocks.... the job market is just incredible and those gains will boost incomes and support consumer spending in the second half of the year". We agree.

In fact, it is our view that with the completion of the U.S. presidential election process in early November, greater economic and financial clarity will result. This resolution should further boost consumer spending, U.S. economic activity, employment and common stock prices.

Investment Perspectives

Common Stocks: Grinding Higher

Despite all the known negativity of Brexit, global political and economic uncertainty, currency volatility and periodic worrisome market declines, U.S. common stocks have grinded higher to set new record highs. In short, the present investment anxiety is begrudgingly giving way to steady U.S. economic growth, record low interest rates and generally positive corporate earnings results.

Although American common stocks are not dirt cheap, they do offer good relative value with high dividend yields as well as respectable dividend and earnings growth. When compared to low-yielding fixed income securities, they appear particularly attractive. While we anticipate continued market variability for the balance of 2016, we expect common stocks to grind higher as they climb the "proverbial wall of worry".

Portfolio Perspectives

Bulking Up with Solid Dividend-Paying Stocks

With interest rates at record lows, we have concentrated our portfolio purchase selections in solid, dividend-paying common stocks. Interestingly, many of these shares offer sustainable dividend yields of 3%-5%, good trading liquidity and the potential for both earnings and dividend growth. Considering that the present low interest rate environment could last significantly longer than most investors' expectations, we believe that these securities offer a combination of stability, liquidity, and a generous current yield. Recent portfolio additions include: Algonquin Power & Utilities Corp., Brookfield Renewable Partners, Keyera Corp., Royal Bank of Canada, Suncor Energy and Toronto-Dominion Bank.

Five Favoured ABC Common Stock Holdings

Five favoured ABC Funds common stock holdings which we believe are relatively undervalued and provide good growth opportunities include:

Stingray Digital Group Inc. provides business-to-business multi-platform music and media solutions worldwide. Stingray Music delivers music products and services via television, web and mobile. The company offers access to its extensive collection of music videos and songs including many genres, concerts and festivals through several cable providers. Stingray has been growing its earnings and revenues organically and through opportunistic acquisitions. Additionally, most of Stingray's revenue is recurring due to its subscription-based business and as a result has regularly increased its dividend. Looking ahead, we expect continued growth for Stingray, as it has numerous global acquisition targets. More importantly, it is run by a very motivated, young management team with a large ownership stake.

Suncor Energy Inc. is a Calgary-based integrated energy company. The company produces, markets, transports, and refines oil and natural gas in Canada and abroad. Suncor produces synthetic oil via its partnership in Syncrude Canada and has recently boosted its stake by acquiring Canadian Oil Sands Ltd. The primary attraction of Suncor is that it is a fully-integrated oil company involved in every aspect of oil production, from exploration to refining and marketing via Petro-Canada. Consequently, this diversification makes Suncor less dependent on commodity prices. Suncor pays a 3.3% dividend, has many years' worth of conventional and non-conventional oil production and has a proven management team.

Facebook Inc. is the mobile application and website best known for enabling people worldwide to connect, share, discover and communicate with each other through mobile devices and personal computers. The company has been a consolidator of social media as a result of its acquisitions of popular photo sharing and messaging applications, including Instagram and WhatsApp. Facebook, for the last two quarters released earnings and revenue results that significantly beat analysts' expectations while also growing its monthly active users. Additionally, we see much more advertising opportunities as a growing number of businesses are adopting Facebook's social media platforms.

Activision Blizzard Inc. is a developer and publisher of video games for PCs and gaming consoles. The company has consistently generated revenue and earnings growth and is well known for several popular video game franchises such as Call of Duty, Overwatch and World of Warcraft. The company also diversified into mobile gaming with its recent acquisition of King Digital, which is best known for the hit game Candy Crush. Many of these blockbuster games bring in recurring revenue as users buy new editions as they are released. Furthermore, Activision has taken advantage of digital downloading as a distribution channel resulting in greater margins and is well positioned for continued growth opportunities.

Uni-Select Inc. distributes automotive replacement parts and paints in Canada and operates FinishMaster, a paint distribution network in the United States. Uni-Select has grown its top and bottom lines through steady organic growth and tuck-in acquisitions. We believe the company's strategy of acquiring businesses in the fragmented replacement parts market and rebranding them into its Bumper to Bumper banner should bring long-term success. Uni-Select is free cash flowing, pays a dividend and is buying back shares. We like the prospects of the company and the defensive nature of the replacement parts business.

CVS Health Corp.

CVS Health is an integrated healthcare company that operates in multiple business lines. Its most prominent segment is CVS Pharmacy, which is the largest pharmacy chain in the United States, operating more than 9,600 stores across the country. This division sells prescription drugs and a large assortment of general merchandise, beauty products and cosmetics. Another segment is MinuteClinic, which runs 1,135 walk-in clinics. A third division is CVS/Caremark, which offers pharmacy benefit management services (PBM). The PBM service provides prescription benefit management services to organizations including health plans, corporations, insurance companies, unions and government entities. The fourth division is CVS Speciality, the speciality pharmacy segment, which provides services to treat complex diseases such as multiple sclerosis, hepatitis C and cancer.

Similar to several other healthcare companies in the ABC Funds, we expect that CVS will experience strong sustained organic growth due to the fact that the American population is aging. Between 2011 and 2030, the number of Americans over the age of 65 is expected to expand from 41.4 million to 72.8 million, an increase of over 75%. The added senior population is resulting in steadily growing demand for medical care services and products, particularly prescription drugs. CVS Health is well positioned to benefit from this trend, being the largest pharmacy chain. In fact, over the past 5 years, CVS has captured 39% of prescription drug growth. Moreover, the company's pharmacy benefit management business, CVS/Caremark is also expected to benefit from this trend. The PBM business is operating well, with a 2016 retention rate of 97.3%.

CVS Health is well aware of the expanding opportunities in healthcare and has made a series of acquisitions and business initiatives which are driving growth. Most notable was the acquisition of Omnicare for $12.7 billion in 2015. This business added to both the PBM and retail segments while enlarging the pharmacy distribution channel through long-term speciality care. The long-term care segment does significant business with retirement and nursing homes and is expected to provide significant growth.

Another notable acquisition was Target's pharmacy and clinic business in 2015, which included 1672 pharmacies across 47 states. This purchase enhanced CVS's customer base and added a new retail channel. CVS is also ramping up its walk-in clinic business through MinuteClinic. The company's 1,135 U.S. walk-in clinics can potentially service more than 50% of the American population living within 10 miles of each location. More importantly, the walk-in clinic business adds valuable synergies, including more customer traffic into CVS pharmacies.

Along with its important organic growth pipeline, CVS has done an excellent job of returning cash to shareholders. The business is a high quality free cash flow enterprise, and management is endeavouring to increase returns to shareholders. At current prices CVS offers a dividend yield of 1.8%, with steady increases each year. Additionally, share repurchases have totaled $5 billion over the last twelve months. We expect these trends to continue, as we anticipate further buybacks and increasing dividends. Finally, with CVS trading at a price earnings ratio of under 17 times, we believe that its common shares offer attractive growth and excellent value.

Electronic Arts Inc.

Electronic Arts Inc. (EA) develops, publishes, and distributes interactive entertainment software for a variety of platforms, including video game consoles and cellular handsets. The company owns many popular franchises, such as EA Sports and The Sims. Moreover, their recent deal with Disney allows them to produce video game software under the Star Wars banner.

We believe EA is an attractive investment for several reasons. Firstly, the company's business model generates significant free cash flow due to high gross margins. For instance, in the fiscal 2016 year, the gross profit margin was 71.4%. Over the past four years, EA has executed a remarkable turn-around strategy that created the cash flow business model that we see today. Operating cash flow grew from $324 million in fiscal 2013 to over $1.2 billion in 2016. Furthermore, the company reconfigured its business segments to realize higher earnings, as diluted EPS grew to $3.14 in FY16 from $0.84 in FY13.

Secondly, EA's strong financial performance can be credited to its masterful development of high-quality entertainment. Some of these titles are original content that EA produces internally, such as Mass Effect and Battlefield. But, the company has also been very successful in producing licensed products within sports, as well as its new deal with Disney. The company is a proven leader within sports entertainment, as EA Sports generates a significant part of the company's operating cash flow. This division has an annuity-like revenue model, considering the company releases new sports games every year under the FIFA, Madden and NHL franchises.

In 2013, EA and Disney signed a deal that gave EA exclusive rights to producing Disney content. Most notably was EA's release of Star Wars Battlefront across multiple platforms. Since its release last year, the company has sold 14 million copies, which was a remarkable success. We believe that EA will continue to leverage their high quality franchises and licenses to produce more games and increase revenue, EPS and free cash flow.

Thirdly, EA is only beginning to benefit from positive industry trends. These trends include the interactive software's estimated 10% annual growth, EA's business model transformation, as well as a push into digital sales. More importantly, EA's digital revenue has been accelerating, increasing its margins, which we believe will ensure an even stronger business model.

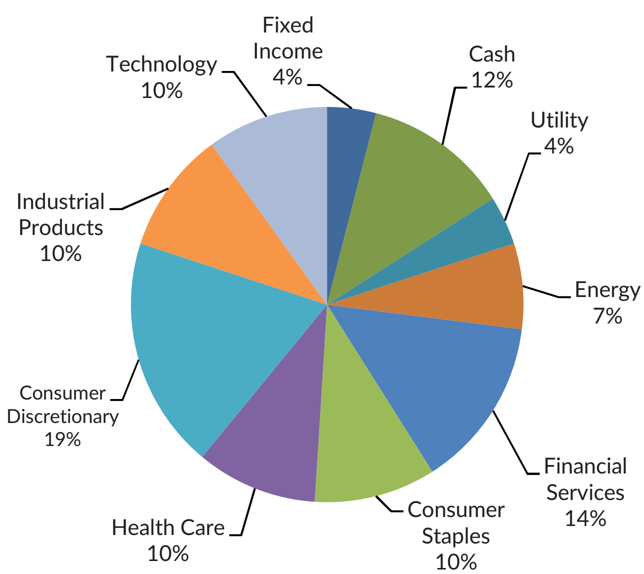
Lastly, EA has an impressive management team and earnings consistency. EA's CEO, Andrew Wilson has been instrumental in the company's achievement with regard to its strong EPS growth, improved margins and efficiencies. With expansive product offerings, excellent management and a promising industry outlook, we believe that EA offers significant value and excellent growth potential.

ABC Fully-Managed Fund is a diversified Canadian balanced fund. The investment objective of the Fund is to seek long-term capital appreciation by investing primarily in a diversified portfolio of Canadian and American equity and fixed income securities. While our long-term asset mix target is 50% fixed income and 50% North American equities, in practice, our portfolio mix of stocks versus bonds is quite flexible to take advantage of periodic investment opportunities.

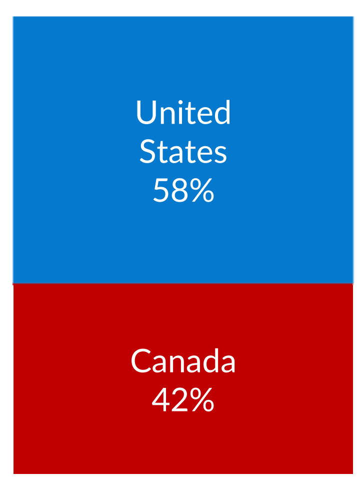
Top Ten Holdings

- Exco Technologies Ltd.
- Stingray Digital Group Inc.
- Loblaw Companies Ltd.
- Uni-Select Inc.
- TransCanada Corp.
- Fortress Paper Inc., 7.0%, Dec. 31/2019
- Broadcom Ltd.
- Microsoft Corp.
- Becton, Dickinson and Co.
- Algonquin Power & Utilities Corp.

Sector Allocation



Geographic Breakdown



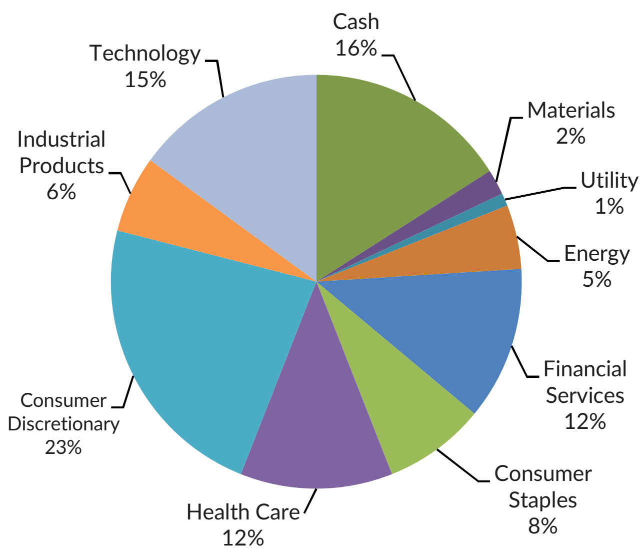
FUNDAMENTAL
VALUE FUND
INVEST YOUR MONEY
WHERE WE INVEST OURS

ABC Fundamental-Value Fund seeks out fundamentally attractive North American equities. The investment objective of the Fund is to seek long-term capital appreciation by investing primarily in a diversified portfolio of Canadian and American equity securities. Our extensive "value research" style attempts to ferret out North American equities with appealing valuations. With these discerning selections we cobble a diversified portfolio of all-capitalization North American value stocks. When fully invested and having discovered new, fundamentally attractive securities, our sell discipline forces us to cull our portfolios to liquidate the most expensive holdings.

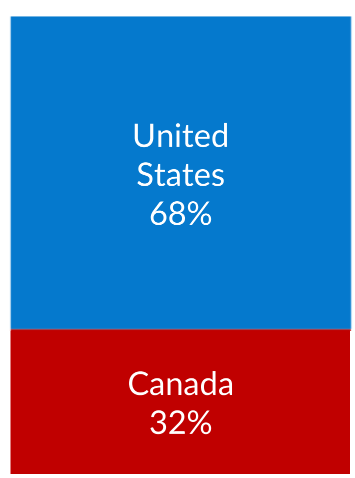
Top Ten Holdings

- Exco Technologies
- Stingray Digital Group Inc.
- Loblaw Companies Ltd.
- Uni-Select Inc.
- Alphabet Inc. Class A
- Nike Inc.
- Microsoft Corp.
- Aetna Inc.
- Becton, Dickinson and Co.
- MasterCard Inc., Class A

Sector Allocation



Geographic Breakdown



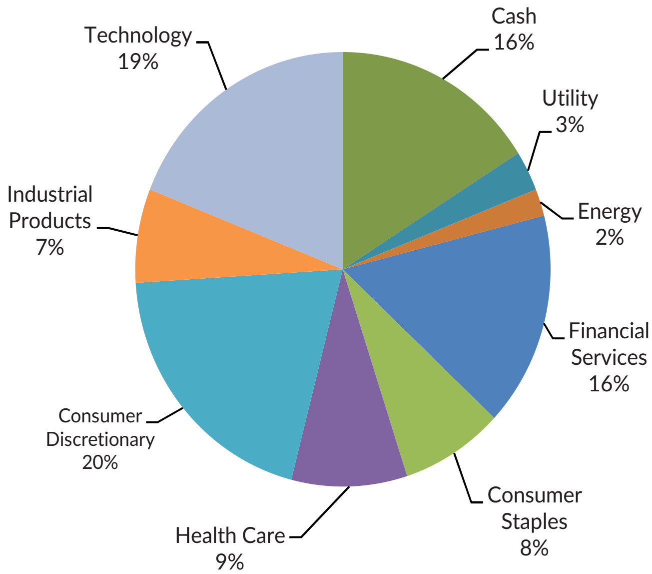
AMERICAN
VALUE FUND
INVEST YOUR MONEY
WHERE WE INVEST OURS

ABC American-Value Fund searches out fundamentally attractive American common shares. The investment objective of the Fund is to seek long-term capital appreciation by investing primarily in a diversified portfolio of American equity securities. While using the same investment techniques as our two Canadian ABC Funds, the American market due to its sheer size provides us with extensive value opportunities.

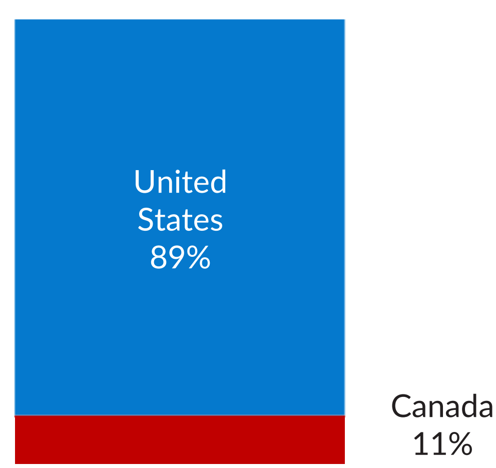
Top Ten Holdings

- O'Reilly Automotive Inc.
- Alphabet Inc. Class A
- Broadcom Ltd.
- Microsoft Corp.
- Nike Inc.
- Visa Inc. Class A
- The Home Depot Inc.
- Amazon.com Inc.
- MasterCard Inc., Class A
- Apple Inc.

Sector Allocation



Geographic Breakdown



NORTH AMERICAN EQUITY FUND

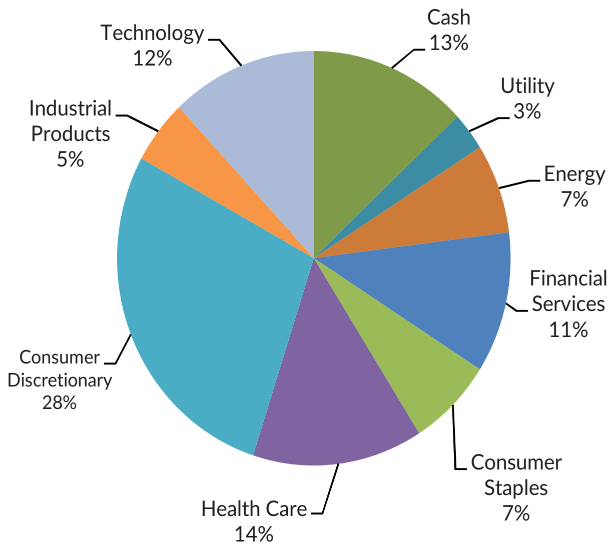
INVEST YOUR MONEY WHERE WE INVEST OURS

ABC North American Equity Fund searches out fundamentally attractive Canadian and American stock exchange-listed common shares. The investment objective of the Fund is to seek long-term capital appreciation by investing primarily in a diversified portfolio of Canadian and American equity securities. This closed-end fund has maximum flexibility to invest in a diversified mix of value securities. The country and asset mix, as well as currency exposure, can vary and has no set limits. The portfolio, ordinarily, will have a mix of 40 to 50 holdings.

Top Ten Holdings

- Stingray Digital Group Inc.
- Boston Scientific Corp.
- Brunswick Corp.
- Loblaw Companies Ltd.
- Dave & Buster's Entertainment Inc.
- Uni-Select Inc.
- Amazon.com Inc.
- Becton, Dickinson and Co.
- Visa Inc. Class A
- Facebook Inc.

Sector Allocation



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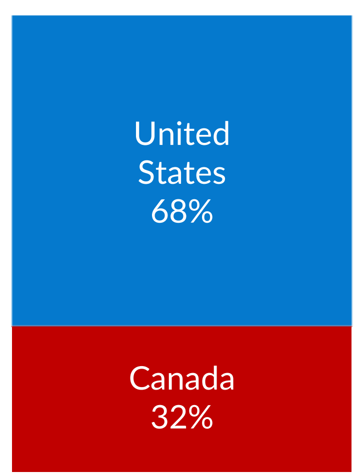
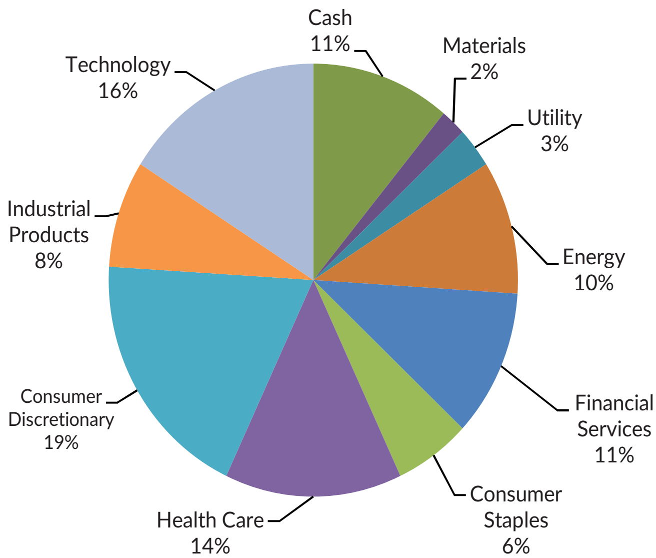


ABC Global Equity Fund is a "go-anywhere in the world" equity fund with unlimited investment flexibility. The investment objective of the Fund is to seek long-term capital appreciation by investing primarily in a diversified portfolio of Canadian and American equity securities with a bias to international exposure.

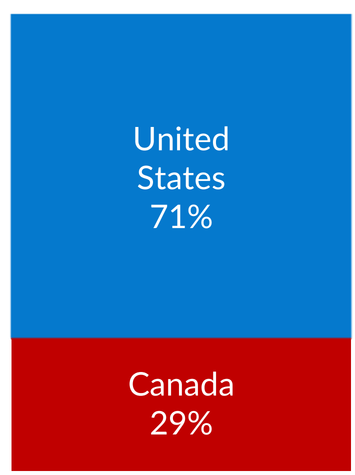
Top Ten Holdings

- Exco Technologies
- Six Flags Entertainment Corp.
- Broadcom Ltd.
- Adobe Systems Inc.
- Petrowest Corp.
- Boston Scientific Corp.
- Aetna Inc.
- Becton, Dickinson and Co.
- Algonquin Power & Utilities Corp.
- TransCanada Corp.

Sector Allocation



Geographic Breakdown



Stock Picking In A Very Challenging Environment

Stock picking over the past year has been quite challenging for investors given the economic, financial and political turmoil overhanging international securities markets. Fear, negative surprises, unexpected Black Swan events such as Grexit and Brexit, along with the uncertainty of a pending U.S. presidential election have produced unprecedented share price volatility and investor angst. But this is not all bad. We believe that the resulting investor indecision and lack of commitment is providing opportunities for those who are open-minded and investigative.

Recently, many investors have largely shied away from dividend-paying common stocks and gravitated to the perceived safety of record low-yielding short-term treasury bills, bank paper and 10-30 year government bonds. Looking back, who could fault these investors who were provided with price stability and capital gains for longer-dated paper? But today, with 10-year and 30-year government of Canada bonds yielding 1.0% and 1.6% respectively, we believe investors are overlooking good quality common stocks yielding 3%-5% with capital gains potential via elevated dividends and earnings growth.

Many underappreciated companies include selective utilities, energy transmission businesses and Canadian banks. Recent ABC Funds' common share purchases over the past several months include Suncor Energy Inc., Inter Pipeline Corp., Brookfield Renewable Partners and Enbridge Inc. In fact, although these common stocks may be perceived by investors to be risky, low yielding 1%-2% bonds with the prospect of rising interest rates are relatively more vulnerable to significant capital loss in a higher interest rate environment.

Interestingly, the present financial setting has caused Jeff Gundlach, the respected CEO of Doubleline Capital, to comment:

> *"There is something of a mass psychosis going on related to the so-called starvation for yield…… but I don't like investments where if you're right you don't make any money."*

This point is particularly true for negative yielding bonds. Accordingly, in the context of the present topsy-turvy investment environment we are quite comfortable with our stock picking which has been concentrating on a combination of relative value, liquidity, balance sheet strength and sustainable dividend-paying companies with growth potential.

Administrative Information

- All cheques are to be made payable to RBC Investor Services.
- All client requests are to be directed to ABC Funds.
- 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.
- RBCITS is the custodian of the ABC Funds and is responsible for providing account statements to all our clients. We ask that you retain these statements for your records as there may be additional costs for retrieving historical data.
- There are units of the ABC North American Equity Fund & ABC Global Equity Fund available for purchase. Contact our office for more information.
- 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.
- Clients that are invested in our closed-end funds are able to redeem their reinvested distribution units on a monthly basis. Also, you can participate in the annual 10% redemption right if you provide the completed form by November 30 for a December 30 transaction date. If you need assistance with either of these options, please do not hesitate to contact our office.

This newsletter is published by I.A. Michael Investment Counsel Ltd. and the ABC Funds
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