

## AN EXTENDED GOLDILOCKS ECONOMY

The strong 2017 U.S. investment returns have been particularly surprising to the market given the negativity and skepticism which accompanied the unexpected Donald Trump election victory on November 8, 2016. By comparison, the Canadian S&P/TSX total return index's appreciation of approximately 9% lagged the U.S. benchmarks' performance. Clearly, Canadian investment managers who meaningfully overweighted U.S. equities in 2017, relative to Canadian common stocks, added significant incremental returns to their portfolios.

Of particular note is that this elongated American "Goldilocks" economic cycle, now in its ninth year, has been neither too weak nor too strong. Moreover, it has generated very little inflation, particularly labour inflation, despite the lowest unemployment rate in 17 years. In fact, the economy has benefited from the most accommodative global central bank policy in decades. It is our view that these benign conditions have unlocked considerable pent-up business and consumer demand for goods and services which could extend the present economic cycle to the end of the decade.

Our optimistic 2018 investment outlook is a conglomeration of a number of factors, but in particular, our persisting belief in an extended North American "Goldilocks" economic growth cycle. This view is strengthened by a number of positive tailwinds which should assist in prolonging worldwide economic activity:

- U.S. tax reform, corporate deregulations, and a repatriation of offshore capital should boost U.S. company profits and push common stock valuations higher.
- Subdued global inflation combined with relatively low, albeit, gradually rising interest rates, should

encourage business optimism and expansion.

- Reduced American unemployment is enhancing both the consumer and business outlook which should lead to elevated capital investment and consumer spending. Lower unemployment and increased consumer and business spending should theoretically reduce government deficits.
- The confluence of expanding global economic growth should magnify worldwide trade and business activity.

Overall, although we anticipate periodic stock market volatility, which will test one's bullish resolve, we do expect that the numerous positive investment tailwinds will lead common share prices higher.

Following through with our 2018 investment optimism, we have skewed our ABC investment portfolios to a fully invested equity position. Our portfolios are primarily composed of larger capitalization, dividend paying industry leaders, primarily in the United States, Canada and Asia, while fully hedging our non-Canadian currency exposure.

Irwin A. Michael, CFA





**ABC Funds**™

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Economic

Perspectives

## THE GLOBAL ECONOMY: THE GLASS IS HALF FULL

At the beginning of 2017, many market commentators were concerned about the strength of the U.S. and worldwide economies. However, the past 12 months' employment gains as well as consumer and business activity have demonstrated steady and consistent growth. In fact, the global economy has continued to advance with the IMF estimating 2018 world growth of at least 3.7%. This synchronized global economic expansion, which is now being recognized by investors, has transformed the

anxiety of mid-2017 toward a positive, "the glass is half full" 2018 mentality. Overall, it is our expectation that the worldwide realization of an elongated business cycle should positively influence consumer spending and business capital expansion. We believe these factors will positively impact common share prices this year.

Investment

Perspectives

## COMMON STOCKS: POWERFUL TAILWINDS

We believe that there are numerous macro tailwinds which could propel equities to meaningfully higher levels in 2018.

Many of these positive influences have been building over the past 6-12 months. Finally, they are now manifesting in steadily higher American stock prices as investor skepticism has shifted toward a "fear of missing out". The macro tailwinds positively impacting common stocks include: relatively low interest rates; synchronized global

economic expansion; U.S. tax reforms and corporate deregulations; increasing prospects of rising business earnings, dividend increases, and higher common stock valuations; and an all-important asset mix shift from fixed income securities to equities.

Portfolio

Perspectives

## STILL FULLY INVESTED

Our five ABC portfolios were fully invested in equities throughout 2017 and have entered 2018 with continued optimism. We have concentrated our common stock holdings with a diversified mix of larger capitalization dividend paying American, Canadian and International companies. We believe that these securities will outperform bonds over the next 12 months.

Although we favour equities over bonds, not all common stocks will appreciate uniformly, and consequently, stock selection will be paramount to investment success. Of particular interest to us include North American financial services, technology, health care and industrials. Additionally, we have added fundamentally undervalued Asian securities over the past year such as Alibaba Group, Tencent Holdings, and YY Inc.



**FULLY  
MANAGED FUND**  
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**STATEMENT OF INVESTMENT PORTFOLIO**

**DECEMBER 31, 2017**

**CASH -- 1.45%**

Cash - CAD  
Cash - USD

1.42%  
0.03%

**CONSUMER DISCRETIONARY -- 8.11%**

Amazon.com Inc. **US**  
Brunswick Corp. **US**  
Six Flags Entertainment Corp. **US**  
The Home Depot Inc. **US**

1.44%  
1.86%  
1.78%  
3.03%

**HEALTH CARE -- 11.08%**

Aetna Inc. **US**  
Amgen Inc. **US**  
Becton, Dickinson and Co. **US**  
Danaher Corp. **US**  
Johnson & Johnson **US**

3.04%  
1.64%  
2.89%  
1.04%  
2.47%

**UTILITY -- 15.27%**

Algonquin Power & Utilities Corp.  
AltaGas Ltd., subscription receipts  
Brookfield Renewable Partners L.P.  
Emera Inc.  
Fortis Inc.  
Hydro One Ltd.  
Northland Power Inc.

2.92%  
2.04%  
1.79%  
2.04%  
2.58%  
1.91%  
1.99%

**CONSUMER STAPLES -- 3.60%**

PepsiCo Inc. **US**  
The Kraft Heinz Co. **US**

1.68%  
1.92%

**MATERIALS -- 2.84%**

CCL Industries Inc., Class B

2.84%

**TELECOMMUNICATION -- 1.71%**

Rogers Communications Inc., Class B

1.71%

**FINANCIAL SERVICES -- 14.81%**

Bank of Montreal  
Canadian Imperial Bank of Commerce  
East West Bancorp Inc. **US**  
Manulife Financial Corp.  
Royal Bank of Canada  
The Bank of Nova Scotia  
The Toronto-Dominion Bank

2.36%  
2.09%  
1.42%  
1.85%  
2.63%  
1.99%  
2.47%

**REAL ESTATE -- 1.60%**

Brookfield Property Partners L.P.

1.60%

**ENERGY -- 7.75%**

Inter Pipeline Ltd.  
Keyera Corp.  
Suncor Energy Inc.  
TransCanada Corp.

1.71%  
1.30%  
2.43%  
2.31%

**TECHNOLOGY -- 21.70%**

Activision Blizzard Inc. **US**  
Alphabet Inc., Class A **US**  
Apple Inc. **US**  
Broadcom Ltd. **US**  
MasterCard Inc., Class A **US**  
Microsoft Corp. **US**  
NVIDIA Corp. **US**  
Visa Inc., Class A **US**

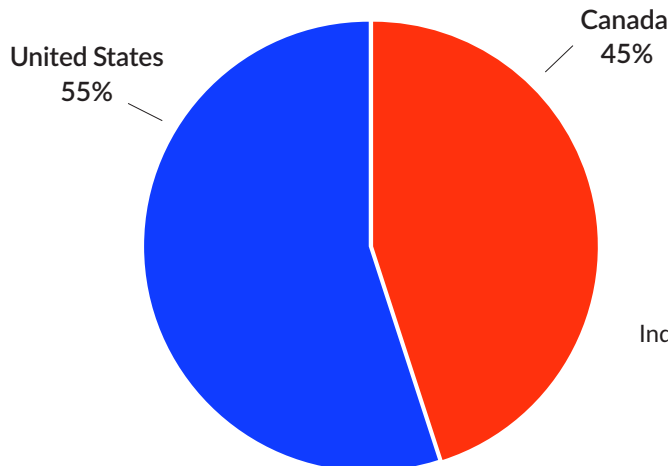
1.61%  
1.83%  
3.00%  
2.75%  
3.39%  
3.07%  
2.96%  
3.09%

**INDUSTRIAL PRODUCTS -- 10.08%**

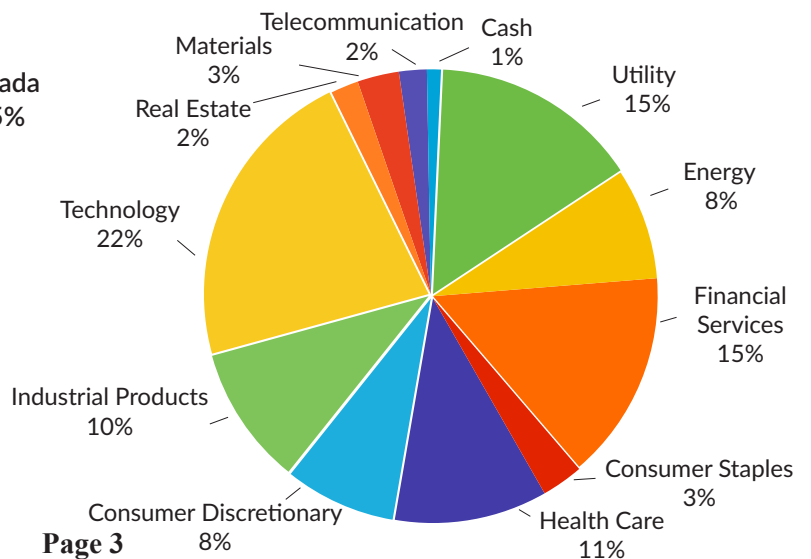
Canadian National Railway  
Honeywell International Inc. **US**  
Northrop Grumman Corp. **US**  
Republic Services Inc. **US**  
United Technologies Corp. **US**  
Waste Management Inc. **US**

1.35%  
2.34%  
1.80%  
1.68%  
1.06%  
1.85%

**Geographic Allocation**



**Sector Allocation**





# FUNDAMENTAL VALUE FUND

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## STATEMENT OF INVESTMENT PORTFOLIO

DECEMBER 31, 2017

### CASH -- 1.75%

Cash - CAD	1.70%
Cash - USD	0.05%

### HEALTH CARE -- 9.69%

Aetna Inc. <b>US</b>	3.06%
Amgen Inc. <b>US</b>	1.60%
Becton, Dickinson and Co. <b>US</b>	3.02%
Boston Scientific Corp. <b>US</b>	2.01%

### CONSUMER STAPLES -- 3.05%

The Coca-Cola Co. <b>US</b>	1.43%
The Kraft Heinz Co. <b>US</b>	1.62%

### FINANCIAL SERVICES -- 15.86%

Bank of Montreal	1.81%
Canadian Imperial Bank of Commerce	2.04%
East West Bancorp Inc. <b>US</b>	1.57%
Morgan Stanley	1.44%
National Bank of Canada	1.74%
Royal Bank of Canada	2.48%
The Bank of Nova Scotia	2.09%
The Toronto-Dominion Bank	2.69%

### UTILITY -- 9.57%

Algonquin Power & Utilities Corp.	2.27%
AltaGas Ltd., subscription receipts	2.39%
Brookfield Renewable Partners L.P.	1.33%
Emera Inc.	1.65%
Hydro One Ltd.	1.93%

### MATERIALS -- 3.89%

Albemarle Corp. <b>US</b>	1.24%
CCL Industries Inc., Class B	2.65%

### INDUSTRIAL PRODUCTS -- 9.14%

Canadian National Railway	1.42%
Honeywell International Inc. <b>US</b>	1.38%
Northrop Grumman Corp. <b>US</b>	2.48%
United Technologies Corp. <b>US</b>	1.77%
Waste Management Inc. <b>US</b>	2.09%

### CONSUMER DISCRETIONARY -- 10.07%

Alibaba Group Holding Ltd. ADR <b>US</b>	1.26%
Amazon.com Inc. <b>US</b>	3.67%
Netflix Inc. <b>US</b>	1.86%
The Home Depot Inc. <b>US</b>	3.28%

### ENERGY -- 8.47%

Enbridge Inc.	2.03%
Inter Pipeline Ltd.	1.33%
Suncor Energy Inc.	2.78%
TransCanada Corp.	2.33%

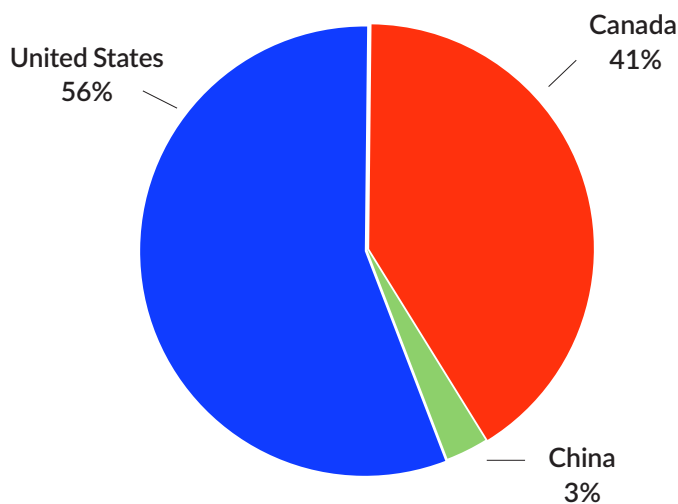
### REAL ESTATE -- 2.34%

Brookfield Property Partners L.P.	1.60%
RioCan REIT	0.74%

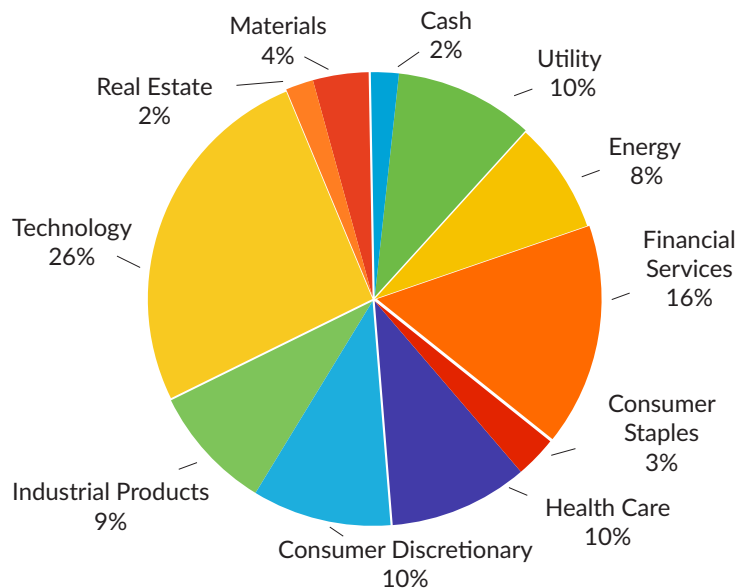
### TECHNOLOGY -- 26.17%

Alphabet Inc., Class A <b>US</b>	2.79%
Apple Inc. <b>US</b>	3.36%
Facebook Inc. <b>US</b>	1.88%
MasterCard Inc., Class A <b>US</b>	3.83%
Microsoft Corp. <b>US</b>	3.31%
NVIDIA Corp. <b>US</b>	2.29%
Salesforce.com Inc. <b>US</b>	1.88%
Skyworks Solutions Inc. <b>US</b>	2.49%
Tencent Holdings Ltd. ADR <b>US</b>	2.16%
Visa Inc., Class A <b>US</b>	2.18%

## Geographic Allocation



## Sector Allocation





# AMERICAN VALUE FUND

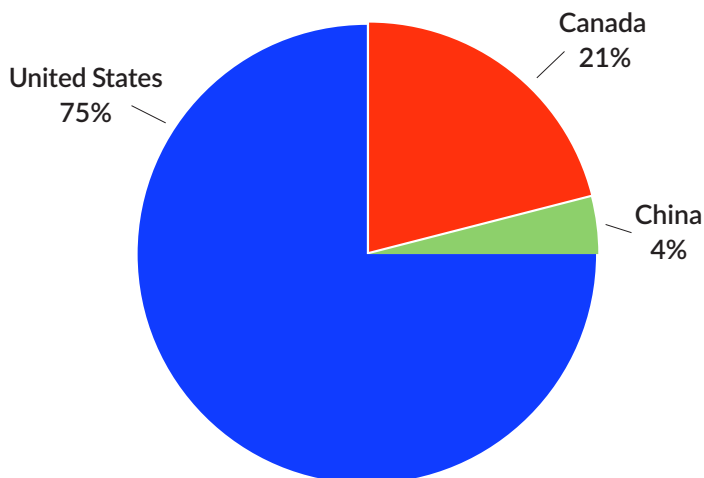
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## STATEMENT OF INVESTMENT PORTFOLIO

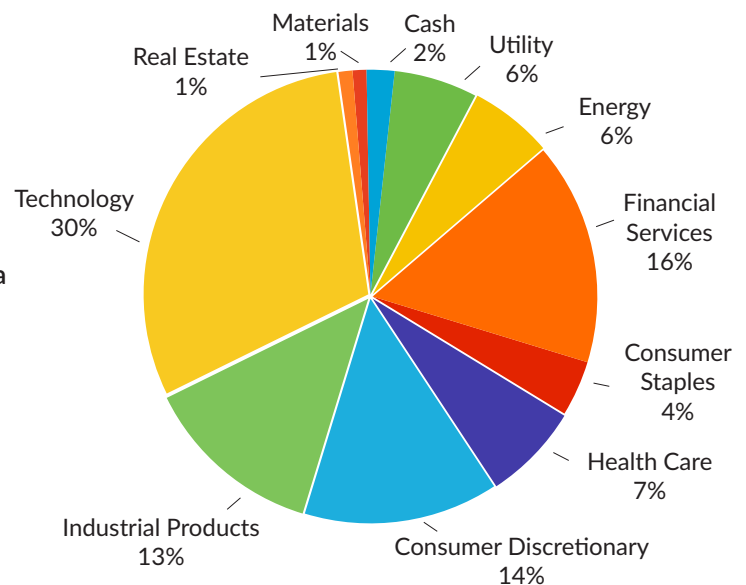
DECEMBER 31, 2017

<b>CASH -- 2.18%</b>		<b>HEALTH CARE -- 6.62%</b>	
Cash - CAD	2.07%	Anthem Inc. <b>US</b>	2.95%
Cash - USD	0.11%	Boston Scientific Corp. <b>US</b>	1.78%
		Danaher Corp. <b>US</b>	1.89%
<b>CONSUMER STAPLES -- 3.69%</b>		<b>UTILITY -- 6.37%</b>	
PepsiCo Inc. <b>US</b>	2.10%	Algonquin Power & Utilities Corp.	2.50%
The Kraft Heinz Co. <b>US</b>	1.59%	AltaGas Ltd., subscription receipts	2.17%
		Emera Inc.	1.70%
<b>INDUSTRIAL PRODUCTS -- 12.73%</b>		<b>FINANCIAL SERVICES -- 16.44%</b>	
3M Company <b>US</b>	2.10%	Canadian Imperial Bank of Commerce	2.62%
Honeywell International Inc. <b>US</b>	2.18%	First Republic Bank <b>US</b>	2.43%
The Boeing Co. <b>US</b>	4.63%	Goldman Sachs Group <b>US</b>	1.25%
United Technologies Corp. <b>US</b>	1.82%	JPMorgan Chase & Co. <b>US</b>	1.91%
Waste Management Inc. <b>US</b>	2.00%	Prudential Financial Inc. <b>US</b>	2.57%
		SVB Financial Group <b>US</b>	3.25%
<b>CONSUMER DISCRETIONARY -- 14.05%</b>		The Toronto-Dominion Bank	2.41%
Alibaba Group Holding Ltd. ADR <b>US</b>	1.97%	<b>TECHNOLOGY -- 29.60%</b>	
Amazon.com Inc. <b>US</b>	3.66%	Adobe Systems Inc. <b>US</b>	1.03%
McDonald's Corp. <b>US</b>	1.29%	Alphabet Inc., Class A <b>US</b>	2.90%
Netflix Inc. <b>US</b>	1.70%	Apple Inc. <b>US</b>	3.61%
Six Flags Entertainment Corp. <b>US</b>	2.11%	Broadcom Ltd. <b>US</b>	2.93%
The Home Depot Inc. <b>US</b>	3.32%	Facebook Inc. <b>US</b>	1.87%
		MasterCard Inc., Class A <b>US</b>	3.59%
<b>ENERGY -- 5.76%</b>		Microsoft Corp. <b>US</b>	3.10%
Enbridge Inc.	1.78%	NVIDIA Corp. <b>US</b>	2.98%
Suncor Energy Inc.	2.23%	Salesforce.com Inc. <b>US</b>	1.31%
TransCanada Corp.	1.75%	Tencent Holdings Ltd. ADR <b>US</b>	2.69%
		Visa Inc., Class A <b>US</b>	3.59%
<b>REAL ESTATE -- 1.52%</b>			
Brookfield Property Partners L.P.	1.52%		
<b>MATERIALS -- 1.04%</b>			
DowDuPont Inc. <b>US</b>	1.04%		

### Geographic Allocation



### Sector Allocation





# NORTH AMERICAN EQUITY FUND

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## STATEMENT OF INVESTMENT PORTFOLIO

DECEMBER 31, 2017

### CASH -- 4.11%

Cash - CAD 4.09%  
Cash - USD 0.02%

### CONSUMER STAPLES -- 4.80%

Constellation Brands Inc., Class A **US** 1.70%  
Jamieson Wellness Inc. 1.84%  
The Coca-Cola Co. **US** 1.26%

### FINANCIAL SERVICES -- 17.02%

Bank of Montreal 2.27%  
BB&T Corp. **US** 1.78%  
Canadian Imperial Bank of Commerce 2.73%  
Morgan Stanley **US** 1.61%  
Royal Bank of Canada 2.15%  
SVB Financial Group **US** 1.53%  
The Bank of Nova Scotia 2.06%  
The Toronto-Dominion Bank 2.89%

### HEALTH CARE-- 10.21%

Anthem Inc. **US** 3.86%  
Becton, Dickinson and Co. **US** 3.07%  
Boston Scientific Corp. **US** 2.96%  
Organigram Holdings Inc., Warrants 0.32%

### ENERGY -- 5.66%

Inter Pipeline Ltd. 1.50%  
Suncor Energy Inc. 2.22%  
TransCanada Corp. 1.94%

### MATERIALS -- 4.79%

Avery Dennison Corp. **US** 2.49%  
CCL Industries Inc., Class B 2.30%

### CONSUMER DISCRETIONARY -- 12.08%

Amazon.com Inc. **US** 3.91%  
Brunswick Corp. **US** 2.13%  
Netflix Inc. **US** 1.47%  
Tesla Inc. **US** 1.94%  
The Home Depot Inc. **US** 2.63%

### TECHNOLOGY-- 25.48%

Activision Blizzard Inc. **US** 2.24%  
Alphabet Inc., Class A **US** 2.14%  
Apple Inc. **US** 3.51%  
Facebook **US** 3.37%  
MasterCard Inc., Class A **US** 2.86%  
Salesforce.com Inc. **US** 1.83%  
Skyworks Solutions Inc. **US** 2.44%  
Taiwan Semiconductor Manufacturing Co. ADR **US** 1.68%  
Tencent Holdings Ltd. ADR **US** 1.74%  
Visa Inc., Class A **US** 3.67%

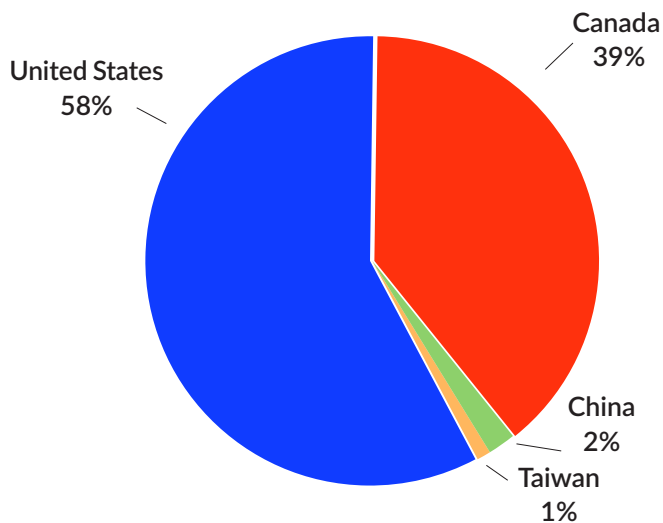
### INDUSTRIAL PRODUCTS -- 4.94%

Ingersoll-Rand PLC **US** 1.67%  
Raytheon Co. **US** 2.05%  
Waste Management Inc. **US** 1.22%

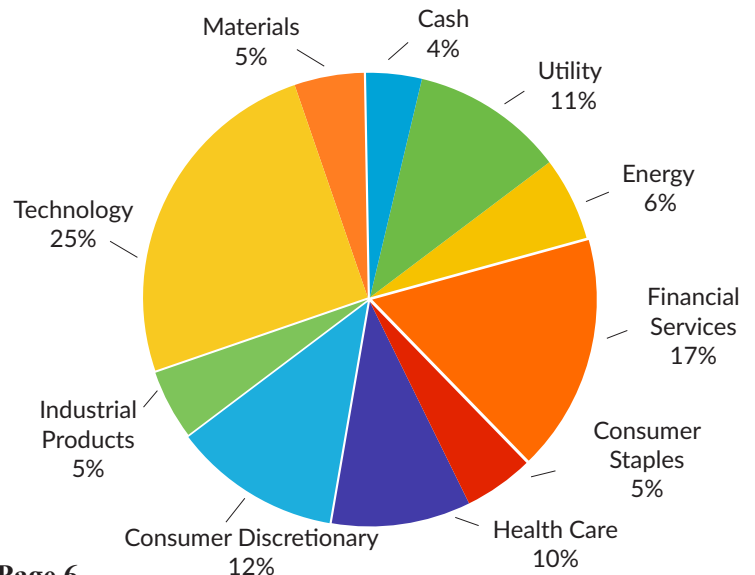
### UTILITY -- 10.91%

Algonquin Power & Utilities Corp. 2.70%  
AltaGas Ltd., subscription receipts 1.94%  
Emera Inc. 1.45%  
Hydro One Ltd. 2.53%  
Northland Power Inc. 2.29%

## Geographic Allocation



## Sector Allocation





# GLOBAL EQUITY FUND

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## STATEMENT OF INVESTMENT PORTFOLIO

DECEMBER 31, 2017

### CASH -- 4.11%

Cash - CAD 4.08%  
Cash - USD 0.03%

### UTILITY -- 8.72%

Algonquin Power & Utilities Corp. 2.67%  
AltaGas Ltd., subscription receipts 1.85%  
Fortis Inc. 2.13%  
Hydro One Ltd. 2.07%

### TECHNOLOGY-- 31.31%

Adobe Systems Inc. **US** 2.82%  
Alphabet Inc., Class A **US** 1.95%  
Apple Inc. **US** 3.15%  
Baidu Inc., ADR **US** 1.17%  
Broadcom Ltd. **US** 2.70%  
Facebook Inc. **US** 1.62%  
MasterCard Inc., Class A **US** 3.38%  
NVIDIA Corp. **US** 2.25%  
Salesforce.com Inc. **US** 1.41%  
SAP SE ADR **US** 1.92%  
Taiwan Semiconductor Manufacturing Co. ADR **US** 1.20%  
Tencent Holdings Ltd. ADR **US** 2.49%  
Visa Inc., Class A **US** 1.60%  
YY Inc. ADR **US** 3.65%

### HEALTH CARE-- 9.20%

Aetna Inc. **US** 2.70%  
Amgen Inc. **US** 1.60%  
Becton, Dickinson and Co. **US** 2.62%  
Boston Scientific Corp. **US** 2.28%

### MATERIALS -- 3.30%

Albemarle Corp. **US** 1.25%  
CCL Industries Inc., Class B 2.05%

### CONSUMER DISCRETIONARY -- 11.09%

Alibaba Group Holding Ltd. ADR **US** 2.56%  
Amazon.com Inc. **US** 2.73%  
Netflix Inc. **US** 1.59%  
Six Flags Entertainment Corp. **US** 2.33%  
The Home Depot Inc. **US** 1.88%

### CONSUMER STAPLES -- 3.09%

Jamieson Wellness Inc. 1.95%  
The Coca-Cola Co. **US** 1.14%

### FINANCIAL SERVICES -- 14.69%

Bank of Montreal 2.12%  
Canadian Imperial Bank of Commerce 1.55%  
East West Bancorp Inc. **US** 1.73%  
First Republic Bank **US** 1.59%  
National Bank of Canada 1.04%  
Royal Bank of Canada 2.16%  
The Bank of Nova Scotia 1.88%  
The Toronto-Dominion Bank 2.62%

### INDUSTRIAL PRODUCTS -- 7.10%

Rockwell Automation **US** 1.56%  
Siemens AG, ADR **US** 1.74%  
The Boeing Co. **US** 3.80%

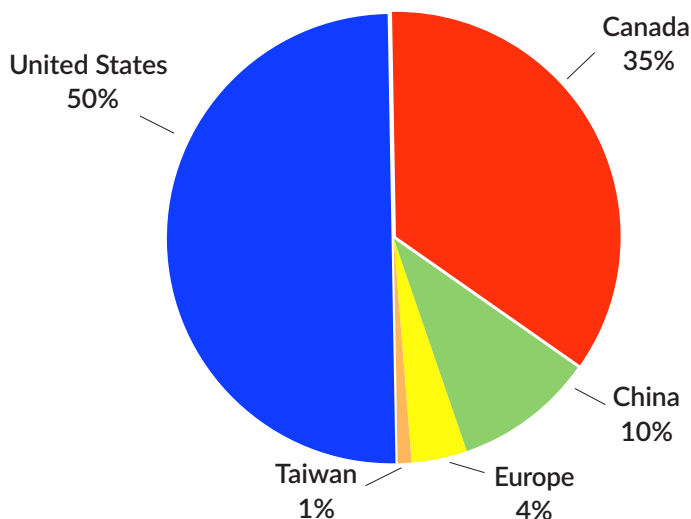
### ENERGY -- 5.91%

Keyera Corp. 1.61%  
Suncor Energy Inc. 2.21%  
TransCanada Corp. 2.09%

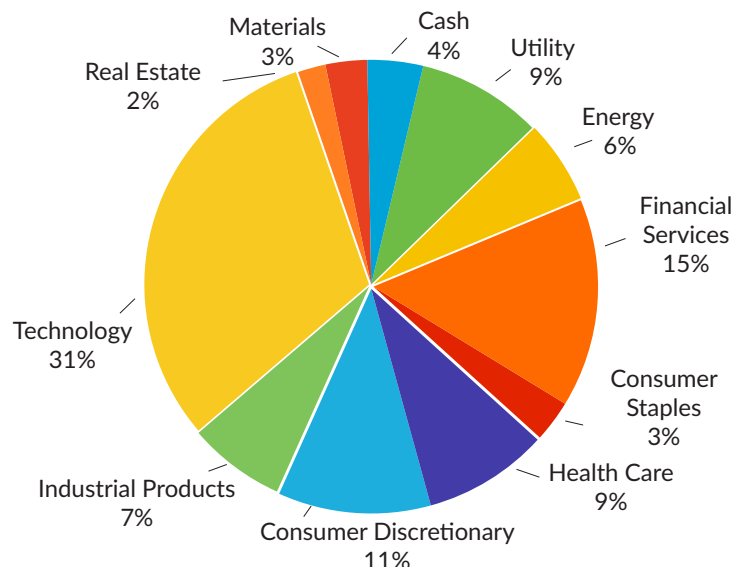
### REAL ESTATE-- 1.48%

Brookfield Property Partners L.P. 1.48%

## Geographic Allocation



## Sector Allocation





**ABC Funds**™

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## TWO FAVOURED ABC COMMON STOCK HOLDINGS

**Tencent Holdings Ltd.:** is a Chinese investment conglomerate focused on delivering value added Internet services to consumers. The company offers online and mobile gaming, social media platforms, payment services and online advertising. Gaming is Tencent's main growth driver as revenue from smart phone and PC games gained 84% and 27% growth respectively versus the previous year. The company produces popular titles such as League of Legends and Honour of Kings and operates large mobile e-sports live streaming platforms. Additionally, Tencent is a world leader in social media. WeChat, Tencent's mobile chat service, is an instant messaging and social entertainment app. With over 980 million monthly active users, it is the world's largest social network and continues to add users at an impressive 16% year-over-year rate. Through Tencent's social media platforms, the company offers mobile payment services, such as WeChat Pay and QQ Wallet, which are linked to over 300 million bank accounts. Other important business segments include e-commerce, on-demand video and music, artificial intelligence, robotics, and cloud services. Furthermore, Tencent owns stakes in Didi, the Chinese ride-sharing giant, as well as Tesla, Snapchat, and Supercell.

**Algonquin Power & Utilities Corp.:** is a utility and power generation company. The company operates 33 regulated utilities across 12 U.S. states in electricity, gas, and water distribution, as well as numerous renewable and clean energy facilities. Algonquin is a favoured ABC Funds investment for several reasons. Firstly, the company has a diversified, stable, and predictable business model, with earnings generated by either regulated utilities or long-term power contracts. Secondly, the company has a strong growth outlook, with both organic investment and acquisition opportunities. Furthermore, there is considerable green power growth potential as rapidly falling costs have created conditions for significant buildouts of wind and solar generation. The company pays an attractive dividend of 4.3% with targeted annual increases of 10%. Algonquin is a core holding in all five ABC Funds, providing stability, yield and growth.

### Administrative Information

- All cheques are to be made payable to RBC Investor Services.
- All client requests are to be directed to ABC Funds.
- Only unitholders of the North American & Global Equity Funds within non-registered accounts will receive T3 tax slips by the end of March 2018 as there were distributions in 2017 for those funds. Unitholders of our other funds will not receive T3 tax slips for 2017.
- T4s will be mailed out mid-February 2018.
- The Capital Gains/Losses Report for redemptions made in 2017 is included with your December 31, 2017 statement.
- All directly-held accounts will receive their 2017 Annual Performance Report via mail in January 2018.
- Contribution slips for RRSP contributions made in 2017 will be mailed at the end of January 2018.
- Contribution slips for RRSP contributions made in the first 60 days of 2018 will be mailed by the end of March 2018.
- The RSP contribution deadline for 2017 contributions is February 28, 2018. All contributions must reach our office no later than this date.
- 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.

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

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