

## MOVING AHEAD... WITH NEW VALUE

Investing over the past few years has gone through a remarkable shift. This transformation was largely based upon technological innovation, expanding globalization, and evolving consumer preferences of the burgeoning millennial generation.

Several years ago, upon considerable reflection, we concluded that with these macro technological improvements, many wide-ranging financial opportunities would accrue to the pliable investor. Consequently, we opportunistically repositioned our five ABC Funds toward what we viewed as “new value”. The concept of new value wasn’t necessarily novel, as macro changes are never ending. This investment metamorphosis, however, pointed our research efforts toward those sectors which we expected to outperform over the next half dozen years.

More importantly, this transformational shift brought us to the realization that new value would place less emphasis on book value or replacement cost (are the assets really worth it?) and more importance on cash flow, appreciating valuations, and growth initiatives. For instance, traditional department store retailing, which we had favoured in earlier years, we now believed would become vulnerable, as changing purchasing habits brought the ascendancy of online retailers, such as Amazon and Alibaba. Hence, both Amazon and Alibaba became significant additions to our ABC portfolios, as well as Mastercard and Visa, the payment processors facilitating online transactions.

Six favoured new value industries and a partial listing of our ABC preferred holdings include:

1. Technology: Activision Blizzard, Adobe Systems, Alphabet (Google), Apple, Microsoft, NVIDIA, and Salesforce.com
2. Healthcare: Anthem, Becton Dickinson, Boston Scientific, Thermo Fisher Scientific, and Johnson & Johnson
3. Fintech: Mastercard and Visa
4. Financial Services: East West Bancorp, First Republic Bank, and SVB Financial Group
5. Consumer Discretionary: Amazon.com, Alibaba, Brunswick, Facebook, Home Depot, Netflix, and Six Flags Entertainment
6. Industrials: Honeywell, Northrop Grumman, The Boeing Company, United Technologies, and Waste Management

Looking ahead, while we expect periodic stock market volatility over the summer largely due to ongoing tariff concerns, incessant U.S. presidential tweeting, and interest rate uncertainty, we remain optimistic. This view is mainly due to solid U.S. and global economic growth, rising corporate earnings, increasing dividends, and company share buybacks. As a result, we are confident that this diversified, new value portfolio should continue to offer above average investment returns into 2019.





ABC Funds

INVEST YOUR MONEY  
WHERE WE INVEST OURS

TM

Economic

Perspectives

## THE AMERICAN ECONOMY: STILL GROWING

Despite investors' persisting fears of an inverted yield curve leading to an eventual U.S. economic recession, the American economy is still growing. In fact, recent statistics indicate particular strength in employment, business activity, and consumer spending. Interestingly, it is the U.S. economy that appears to be leading global growth and that this unbroken expansion is, at least, sustainable

into 2019. While increasing American economic activity should lead to rising interest rates, we believe such increases will be gradual and still relatively low enough not to impact business activity.

Investment

Perspectives

## CONSUMER DISCRETIONARY: AN EMPLOYMENT BENEFICIARY

North American employment since the start of 2018 continues to improve. In the United States, for example, not only is there greater employment with average monthly payrolls additions of over 200,000, but also, wage growth has continued to rise. By extension, with increasing employment, gradually elevating wages, lower taxes, and subdued inflation, the American consumer now has "more money in his pocket".

Consequently, the consumer discretionary sector has become and will continue to be a significant beneficiary of rising employment. Companies such as Amazon, Activision Blizzard, Brunswick, Home Depot, Netflix, and Six Flags Entertainment have been prime recipients of this incremental, discretionary cash flow.

Portfolio

Perspectives

## STILL OPTIMISTIC

All five ABC portfolios are fully invested in a diversified mix of larger capitalization, dividend-paying Canadian and American equities. Our optimism is predicated on sound U.S. economic growth, lower taxation, rising corporate earnings, increasing dividends, and company share buybacks.

Although we expect periodic stock market volatility largely due to ongoing international tariff issues and interest rate uncertainty, we remain quite optimistic.



**ABC Funds**™

INVEST YOUR MONEY  
WHERE WE INVEST OURS

## TWO FAVOURED ABC COMMON STOCK HOLDINGS

**Alibaba Group Holdings Ltd.:** is a Chinese e-commerce, technology, and financial giant, focused on facilitating online business for both consumers and corporations. Alibaba is particularly attractive as it provides direct exposure to China's rapidly expanding consumer sector, led by a flourishing middle class, steady increases in personal consumption, and e-commerce penetration. In fact, according to Citron Research, China is projected to account for 58% of global e-commerce sales by 2020. Alibaba is well positioned for this growth as it currently holds an 80% market share of Chinese online retail sales. Despite rising international trade tensions and protectionist political rhetoric, Alibaba's strong domestic business is well insulated, as the bulk of its sales are made in China. Furthermore, Alibaba has become a dominant force in banking and financial technology. Its affiliate, Ant Financial operates AliPay, a widely popular online payments platform, with over 870 million active users. The company's cloud computing business, Alibaba Cloud, is growing at an impressive 103% pace year over year and now ranks as the world's fourth largest provider of cloud computing services and infrastructure.

**Thermo Fisher Scientific Inc.:** is a world leader in biotechnology product development and genetic testing. The company develops and manufactures laboratory products, analytical instruments, life science solutions, and specialty diagnostics to serve customers such as biotech and pharmaceutical companies, laboratories, and hospitals. Thermo Fisher has established itself as a prime one-stop shop and "go-to" provider to the healthcare sector, through its long history of organic growth and strategic acquisitions. Thermo Fisher is well-positioned due to a number of secular tailwinds. For instance, shifts in demographics, including the aging baby boomer population and rising wealth in emerging markets, will boost the demand for healthcare products. Additionally, technological innovations and advancements in the biotechnology and pharmaceutical industries will continue to benefit Thermo Fisher, as they provide the needed "picks and shovels" in an ever important healthcare sector.

### Administrative Information

- 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 31 transaction date. If you need assistance with either of these options, please do not hesitate to contact our office.
- 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 our clients with account statements, tax slips and requested funds. We ask that you retain all statements for your records as there may be additional costs for retrieving historical data.
- Please contact our office to inform us of any changes in mailing or email addresses. If we do not have your current contact information, you may not receive the information we are sending out.

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

18 King Street East, Suite 1010 Toronto, Ontario M5C 1C4 Telephone: (416)365-9696 Toll Free: 1-888-OPEN ABC Fax: (416)365-9705  
Web site: [www.abcfunds.com](http://www.abcfunds.com) Email: [invest@abcfunds.com](mailto:invest@abcfunds.com)

The information contained in this investment letter is not and under no circumstances is to be construed as a solicitation or recommendation to buy or sell securities, including, without limitation, any units of any of the ABC Funds. While the information contained in this newsletter has been drawn from sources believed to be reliable, its accuracy or completeness cannot be guaranteed, nor in providing it does I.A. Michael Investment Counsel Ltd. assume any responsibility or liability. I.A. Michael Investment Counsel Ltd., its directors, officers, and other employees may, from time to time, have positions in securities mentioned in this letter. I.A. Michael Investment Counsel Ltd. is the manager and investment advisor of the ABC Funds, and as such, receives from the Funds certain management and investment advisory fees based on the net asset value of the Funds from time to time. Irwin Michael is the sole shareholder of I.A. Michael Investment Counsel Ltd.