

OPTIMISTICALLY ASCENDING A WALL OF WORRY

2019 was a very rewarding year for holders of common stocks, with major equity indices ascending a significant wall of worry. Serious market concerns such as an inverted yield curve, U.S. economic recession worries, the ongoing U.S./China trade dispute, Brexit, and the U.S. presidential impeachment process were overwhelmed by a meaningfully positive buying maelstrom sending the S&P 500 to its best advance since 2013.

Despite the uncertainty, we remained committed to a fully invested equity portfolio position comprised of large capitalization, dividend paying, U.S. and Canadian common stocks. This approach produced materially positive returns for all five ABC Funds, as they outperformed their respective index benchmarks for the year.

While 2020 could usher in unforeseen political, economic, or investment issues, we expect equity prices to continue to ascend a wall of worry. Moreover, although we anticipate periodic market sell-offs, we view them as excellent buying opportunities to accumulate undervalued, high quality, common stocks. Furthermore, in comparison to low yielding fixed income securities, we believe that a well diversified equity portfolio will outperform in 2020.

The basis of our optimism includes a number of positive factors. Firstly, we believe that global interest rates will remain low for an extended period of time largely due to our expectation of steady, but unspectacular worldwide economic growth of about 1.5% - 2.5%. Additionally, we do not expect any surprising interest rate increases, which,

coupled with muted inflation and reduced recession fears should comfort corporate managers. Secondly, with prolonged low interest rates, stable corporate profit growth, and increasing dividend payouts, price/earnings ratios should rise. Thirdly, in this positive investment environment increased merger and acquisition activity due to cheap financing and stock for stock deals should elongate this secular bull market. Lastly, we foresee the U.S. economy continuing to drive worldwide economic activity and the American dollar maintaining its relative strength.

As we enter 2020, we remain optimistic on the economy and common stocks. We intend to maintain similar ABC portfolio compositions to that of 2019, following the same allocations of 60% U.S. / 40% Canada in a diversified sector mix of banking and financial services, industrials, health care, real estate, utilities, pipelines, and U.S. technology. To mitigate any currency risk we continue to hedge 100% of our U.S. dollar currency exposure with a major Canadian bank.

A handwritten signature in black ink, appearing to read "Tom." with a period at the end. The signature is written in a cursive, slightly slanted style.



ABC Funds

INVEST YOUR MONEY
WHERE WE INVEST OURS

TM

Economic

Perspectives

EXTENDING THE GOLDILOCKS ECONOMY

A primary concern of investors over the past year has been a pervasive fear of an approaching U.S. economic recession. Fortunately, the worst investor fears were never realized and, instead, North American equity markets produced exceptional investment performance in 2019. Interestingly, the longevity of this economic cycle now in its eleventh year of economic growth and the longest in modern history, can be partially attributed to a Goldilocks American economy of “not too strong and not too weak”.

More importantly, this non-threatening, middle of the road economic activity, along with subdued inflation has enabled the U.S. Federal Reserve to maintain an easy monetary policy, which should extend American economic growth to at least 2021.

Investment

Perspectives

COMMON STOCKS: STILL OFFERING GOOD VALUE

Although North American common stocks performed surprisingly well over the past year we believe that they continue to represent good relative value. Moreover, larger capitalization, dividend paying equities such as the Canadian banks, pipelines, utilities, and REITs, we believe, are attractive bond proxies and portfolio stabilizers. They offer increasing dividend payouts and are attractive alternatives compared to extraordinarily low yielding fixed income securities.

On the other hand, unique large capitalization American technology, consumer discretionary, financial service, and industrial companies, such as Alphabet, Amazon, Apple, Mastercard, Microsoft and NVIDIA offer excellent growth potential and liquidity.

Portfolio

Perspectives

FULLY INVESTED FOR 2020

All five ABC Funds are fully invested for 2020 due to our optimistic economic and stock market outlook. Our portfolios hold high quality, larger capitalization dividend paying U.S. and Canadian equities combining value, stability, income, and growth potential.

During the past quarter we initiated purchases of Minto Apartment REIT, Roper Industries, and WPT Industrial REIT, while adding to our existing holdings of McDonalds and JP Morgan Chase on price weakness.



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FEATURED ABC COMMON STOCK HOLDINGS:

Broadcom Inc.: is a vertically integrated global technology company at the forefront of many emerging innovations and key secular themes. The company designs, develops, and supplies semiconductor and infrastructure solutions, serving a number of critical markets, which include data centres, enterprise networking, cybersecurity solutions, industrial automation, and advanced mobile network technology, such as 5G. Broadcom has added value through recent strategic acquisitions of Brocade, CA Technologies, and Symantec, which diversified Broadcom's business and added economies of scale. The company recently reported excellent Q4 2019 results, topping analyst expectations, achieving record profitability, and generating over \$9 billion in free cash flow for the year. Additionally, Broadcom raised its quarterly dividend to \$3.25 per share, and now yields over 4.2% annually. We believe Broadcom is well positioned across their many technology franchises and is a compelling investment due to its attractive valuation, acquisition opportunities, strong free cash flow, and commitment to dividend growth.

Minto Apartment REIT: Minto Apartment REIT is an owner of multi-residential properties located in urban markets in Canada. We think Minto is an attractive investment for several reasons. Firstly, over 90% of the company's properties are located within three of Canada's strongest rental markets of Ottawa, Toronto, and Montreal. These cities are exhibiting very strong fundamentals, as robust population growth primarily driven by immigration and a lack of new supply is leading to low vacancy rates and strong rental revenue growth. These factors are expected to continue into the foreseeable future due to continued demographic and economic trends. Secondly, the REIT benefits from a strategic relationship with the Minto Group, a fully integrated real estate company that has a 40% ownership interest in the REIT. The Minto Group provides administrative services and they have a Strategic Alliance Agreement, which supplies the REIT with acquisition opportunities. The REIT is also creating value in its existing properties, through continuous renovation of suites leading to higher rents, and the development of new apartments on its excess land. As the supply of new housing is not keeping pace with population growth, the company is extremely well positioned to expand net asset value and cash flow.

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 2020 as there were distributions in 2019 for those funds. Unitholders of our other funds will not receive T3 tax slips for 2019.
- T4s will be mailed out mid-February 2020.
- The Capital Gains/Losses Report for redemptions made in 2019 is included with your December 31, 2019 statement.
- All directly-held accounts will receive their 2019 Annual Performance Report via mail in January 2020.
- Contribution slips for RRSP contributions made in 2019 will be mailed at the end of January 2020.
- Contribution slips for RRSP contributions made in the first 60 days of 2020 will be mailed by the end of March 2020.
- The RSP contribution deadline for 2019 contributions is February 28, 2020. 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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