

THE STAY AT HOME ECONOMY

In the wake of the COVID-19 pandemic, our daily lives have endured a number of challenges. The spread of the virus has prompted unprecedented closures of businesses, government mandated stay at home orders, and established the widespread practice of social distancing and self-isolation. As consumers adapt to this new “stay at home” paradigm, they have shifted their consumption habits and changed the way they live, shop, socialize, entertain themselves, and invest.

The evolution towards the stay at home economy is nothing new. We first highlighted this economic and investment metamorphosis in the January 2016 edition of the ABC Perspective, entitled “Investing in the New World”:

“There have been many far-reaching economic, financial, and lifestyle changes in the past half-decade that have transformed the investing environment. Due to factors such as technological innovation, advances in mobile and connectivity technology, and globalization, we are in the midst of a transformation into an asset-light, digital, and service-based economy.”

Over the past five years we repositioned our ABC portfolios to capitalize on this emerging investment theme, investing in e-commerce, digital media, fintech, and gaming. We sought out “new value” companies with strong brands, defensible moats, powerful digital presences, and robust balance sheets. The COVID-19 pandemic has expedited this transformation and the global economy is rapidly adopting significant structural reforms. These changes favour ABC Funds’ holdings in a number of key sectors:

- E-commerce has been embraced by consumers for years as it offers convenience, competitive prices, and the ability to shop wherever and whenever. In today’s environment, online shopping has thrived as consumers look to avoid crowds. ABC Funds’ holdings, Amazon and Alibaba are the two global behemoths in the e-commerce space.

- Video game developers, including ABC Funds’ holdings of Activision Blizzard, Electronic Arts, Take-Two Interactive, and Tencent Holdings, should emerge as big winners.

- Digital media streaming, video chatting, and the cloud are thriving as consumers are spending more time and money online. Our holdings of Facebook, Apple, Microsoft, and Alphabet should continue to solidify their dominant position in digital technology.

- As consumers focus on keeping their hands clean, they are reducing their use of cash as a form of payment. ABC Funds’ holdings of Mastercard and Visa should continue to gain market share as consumers make more purchases from home.

- With more people working from home, companies are recognizing the need to rethink their workforce and footprint, and as a result will need to invest in data infrastructure. ABC Funds’ holdings of NVIDIA and Broadcom should be major beneficiaries in the semiconductor space.

- Healthcare companies providing essential, high demand products and services should continue to outperform. Our portfolios are well positioned with industry leaders including Thermo Fisher, Becton Dickinson, and Boston Scientific.

Looking ahead, investors must pay attention to the economic, social, and technological changes affecting the world. We believe that our ABC Funds’ portfolios are well-positioned to thrive in this new stay at home economy.





ABC Funds

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WHERE WE INVEST OURS

TM

Economic

Perspectives

RESUSCITATING THE GLOBAL ECONOMY

Up until early 2020, the North American “Goldilocks” economy was in the process of extending its record business cycle expansion into its twelfth year. However, given the extent of the unexpected COVID-19 pandemic, there is little doubt that the economy is now in a consumer and business recession. As a result, central banks and governments worldwide are entrusted with resuscitating the global economy with whatever monetary and fiscal firepower they can muster. So far, policy makers have committed to trillions of dollars in stimulus

through significant unemployment benefits, tax credits, and a historic lending program. Additionally, central banks around the world have implemented zero interest rate policies to spur economic activity and encourage consumer and business spending. We expect easy monetary policy and extraordinary fiscal spending to continue into the future as authorities use all available tools to support a sustained economic recovery and to reset the economy on a positive trajectory.

Investment

Perspectives

PATIENCE, PATIENCE, PATIENCE

Although the COVID-19 black swan event has overtaken the global economic expansion and deeply impacted investor sentiment, we believe that low interest rates, massive government spending, and reflation will ultimately have a very positive economic and investment outcome.

While certain sectors, such as travel, restaurants, brick and mortar retailers, and oil and gas will encounter difficulties in their

recovery, we believe that technology, healthcare, utilities, banking, and fintech equities offer excellent risk/reward in this environment. Moreover, with many blue chip companies offering dividend payouts north of 5% compared to ten year North American government bonds yielding ¾%, we believe investor patience will be deeply rewarded.

Portfolio

Perspectives

SHORT-TERM PAIN: LONG-TERM GAIN

Despite the present short-term pain overhanging the securities markets, we believe our investment selections of “stay at home” stocks will provide excellent long-term gains. Our portfolios are extremely well positioned as they are comprised of high quality, large capitalization, dividend paying U.S. and Canadian equities combining value, stability, income, and growth potential.

We believe the challenges of this pandemic will be overcome, resulting in a meaningful economic and common stock recovery.



ABC Funds™

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FEATURED ABC COMMON STOCK HOLDINGS:

Amazon.com: is a core ABC Funds holding, held in all five of our funds. We are particularly bullish on Amazon as they are on the forefront of a revolution in retailing and are direct beneficiaries of the “stay at home economy”. As a result of the COVID-19 pandemic, consumers are doing the bulk of their purchasing online. Amazon has reported a surge in demand for customer orders, especially in groceries and basic household products. Amazon now holds a dominant position in online grocery sales, largely due to their opportunistic 2017 acquisition of Whole Foods. While many companies are laying off workers, Amazon is hiring 100,000 new full and part-time delivery and logistics workers to keep up with the expanding business. We see this current period as a great opportunity for Amazon to expand their customer base and to acquire additional Amazon Prime subscribers to its over 150 million paying members. The company should continue to see this figure increase, as many new consumers who were not Amazon Prime subscribers have now signed up for the membership to take advantage of free and fast shipping, as well as video and music streaming. In addition to being the world's largest retailer, Amazon is a leader in cloud computing, digital media, and artificial intelligence.

Thermo Fisher Scientific: is a world leader in biotechnology product development and genetic testing. The company develops laboratory products, analytical instruments, and software for pharmaceutical companies, laboratories, and hospitals. We are bullish on the company for a number of reasons. Firstly, increased spending from pharmaceutical and biotech companies is a secular tailwind as they continue to spend more money on R&D for new drugs. Secondly, Thermo Fisher has established itself as the major player in serving science, as a “go-to provider” and one-stop shop. Thirdly, through its long history of organic growth and strategic acquisitions, Thermo Fisher has gained exposure to a multitude of important growth areas and created a defensible moat around existing businesses. For example, in early March, Thermo Fisher announced the \$11.9 billion acquisition of QIAGEN NV, a Dutch company specializing in molecular testing. Thermo Fisher expects this acquisition to be immediately accretive, to generate significant cost and revenue synergies, and to advance their capabilities in the research and treatment of cancer and infectious diseases. Later in the month, Thermo Fisher became one of two companies to receive emergency use authorization from the FDA for coronavirus testing. The company is on pace to produce over 5 million tests per week.

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 close-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.
- 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 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.
- 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

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