

## SURVIVAL OF THE FITTEST

*"It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change."*

*Attributed to Charles Darwin*

Reflecting on a very turbulent first half of 2020 with bifurcating common stock returns of both weak and strong share prices, superior investment performance has been achieved through "survival of the fittest".

From the depths of the March lows, those companies that were adaptable to the profoundly changing economic and social circumstances have not only survived, but have thrived in this extraordinary global pandemic environment. In fact, the leaders of the present business resurgence are those companies whose modus operandi was one of change, technological innovation, and disruption. Ultimately, they epitomized "survival of the fittest".

For instance, many thriving companies were fortuitously positioned in businesses facilitating the "stay at home economy". They were adaptable to the unprecedented changes emerging from a prolonged period of lockdowns and social distancing. Consequently, they have seen their common share prices appreciate substantially. Conversely, companies whose business models continued to rely on their customers congregating in large groups have felt the brunt of the negative pandemic effects.

Facebook's release of Shops, is the quintessence of adaptability in the current environment. The company's new e-commerce feature enables small businesses and entrepreneurs to set up virtual storefronts and create online shopping experiences. We see this platform as a

substantial new business opportunity for Facebook, as they can leverage their technology and family of apps which is home to over 1.7 billion daily active users.

Additionally, COVID-19 has been a serendipitous event for video game developers. In fact, video game sales have been booming as consumers turn to new forms of entertainment to keep themselves occupied. To this point, Statistics Canada recently announced that sales of electronic gaming consoles increased by an astounding 39.9%. We expect this trend to continue. ABC Funds holdings in the gaming space include Activision Blizzard, Electronic Arts, and Take Two Interactive.

Other sector beneficiaries include: communications (Alphabet, Netflix, and Tencent Holdings); information technology (Apple, NVIDIA and Broadcom); fintech (Mastercard and Visa); and consumer discretionary (Amazon, Alibaba, and The Home Depot).

In summation, investors must pay heed to the evolving trends of this new economic paradigm. More importantly, businesses must expeditiously adapt to these extraordinary global circumstances to not only survive, but to prosper.





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Economic

Perspectives

## THE STOCK MARKET: A LEADING ECONOMIC INDICATOR

It is notable that in spite of the overwhelming financial and social negativity resulting from the COVID-19 pandemic there has been an astounding stock market surge over the past three months. For instance, the TSX has risen almost 17% whereas the main American stock indices have appreciated in a range of 17% to over 30%.

business activity over the coming year. Moreover, of additional importance is the very positive psychological wealth effect of this capital appreciation to North American businesses, consumers, and investors. This point also portends to better economic times ahead.

This price advance is significant since the equity market is a leading economic indicator and, as such, is predicting improved

Investment

Perspectives

## SELECTIVELY INVESTED

The North American stock markets have made a remarkable recovery from the price lows of late March 2020. This recovery, however, has not been uniform, but rather quite bifurcated. Specifically, those companies that have been COVID-19 resistant have performed extremely well. Examples include the technology and fintech sectors, healthcare device manufacturers, and video game developers, whereas, poorly performing industries have included the airlines, Canadian and American banks, and oil and gas producers.

Today, companies must be prudently selected in this unprecedented investment environment. Accordingly, we have been mindful in our stock selection process to not only hold companies which have strong balance sheets and a positive growth outlook, but also have the ability to withstand and thrive in the event of an elongated COVID-19 period.

Portfolio

Perspectives

## STILL OPTIMISTIC AND FULLY INVESTED

Our ABC Funds have been fully invested for the past five years and since the start of 2020, in particular. Despite the extreme February/March 2020 share price declines, we remained optimistic and believed that global monetary easing, elevated government fiscal spending, record low interest rates, and subdued inflation would extend the present stock market run.

Consequently, we are maintaining our fully invested equity portfolio positioning. We believe that our ABC Funds are well-positioned, holding a mix of high quality, large capitalization, dividend paying U.S. and Canadian equities that combine value, stability, income, and growth potential.



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## FEATURED ABC COMMON STOCK HOLDINGS:

**Activision Blizzard:** is a developer and distributor of interactive entertainment including popular video game franchises, such as Call of Duty, World of Warcraft, Overwatch, StarCraft, and Candy Crush. ATVI released exceptionally strong financial results for Q1/2020, beating both earnings and sales estimates, and reaffirming our belief that the video game industry will be a beneficiary of the stay at home economy. Interestingly, Activision Blizzard experienced a surge in users this spring, largely due to government mandated lockdowns, social distancing, and self-isolation. We think this trend should continue throughout the year, as people around the world remain indoors and seek new ways to entertain themselves. Call of Duty: Modern Warfare's physical unit sales increased over 300% YoY, and Call of Duty: Warzone, it's free-to-play battle royale experience, had over 60 million players by the end of May. Looking forward, ATVI possesses a robust pipeline of new games including the latest expansion of World of Warcraft, Overwatch 2 and Diablo 4. Moreover, the company intends to expand its very profitable mobile game offering beyond Candy Crush, with the launch of Diablo Immortal. We believe that Activision Blizzard is well positioned in the current investment environment, and its exceptional pipeline of new products should keep consumers very busy during the COVID-19 recovery.

**Algonquin Power & Utilities:** operates regulated water, natural gas, and electrical utility and renewable power assets. Algonquin is a core holding in all five ABC Funds and we believe it is an attractive investment for several reasons. Firstly, the company's businesses are defensive and stable, with earnings coming from diversified regulated utilities or long-term contracted power assets. Secondly, the growth outlook is strong, with the company planning \$9.2 billion of spending through 2024, primarily on regulated utility investments. Management anticipates this will produce 10% EPS growth per year. Additionally, as governments and consumers demand more action on climate change, we believe there is enormous opportunity in renewable energy. Algonquin is planning large investments in solar and wind power and the runway for growth could be decades-long. With stable earnings, a strong growth outlook, and a 4.5% dividend yield, we believe Algonquin remains a very attractive long-term investment.

### 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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