

NEW VALUE: A DEPENDABLE PATH TO OUTPERFORMANCE

Value investing has evolved significantly over time. Traditionally, value investing emphasized such factors as book value, replacement cost, hidden real estate, tax loss carry forwards, and low P/E and cash flow multiples. However, over the past few years, the investment world experienced a remarkable metamorphosis as profound technological, social, political, and environmental changes revolutionized the financial industry. As a result, over six years ago, we repositioned our five ABC Funds' portfolios to capitalize on this perceived transformation and shifted to what we called "new value".

Our new value investment approach placed less emphasis on conventional value investing metrics and more importance on revenue and earnings growth, strong company cash flows, appreciating valuations, and growth initiatives with potential value catalysts. We sought out companies with high quality assets, strong brands, powerful digital presences, and robust balance sheets. We favoured names that were "industry disruptors" innovating in their respective fields.

We revitalized our portfolios with new value equity selections exhibiting expanding market share, tangible earnings growth, increasing dividends and company share buybacks, and incorporating sound environmental, social, and corporate governance policies (ESG). Among our favoured investment selections included: Apple, Amazon, Microsoft, Activision Blizzard, NVIDIA, Home Depot, Algonquin Power, Mastercard, Visa, and Tencent Holdings.

Additionally, we avoided speculative IPOs and trendy conceptual investment financings. We concluded that a well diversified portfolio of new value selections combining growth, fair value, stability and income would provide solid investment returns and a dependable path to outperformance.

Looking forward, we believe the global equity markets remain in a secular bull market and despite periodic volatility there are a number of favourable factors underpinning common shares. Firstly, common stocks remain attractive relative to historically low interest rates and comparable fixed income securities. Secondly, the yield curve is continuing to steepen, which is indicative of positive economic growth. Thirdly, extraordinarily accommodative central bank monetary policies and immense fiscal government stimulus should reenergize consumer and business activity.

We believe our "new value" focus will be a major beneficiary of the global economic recovery as corporate earnings expand into 2021. Furthermore, this investment compass will continue to provide our portfolios with a dependable path to outperformance and an attractive risk/reward profile.

A handwritten signature in black ink, appearing to read "Tom", with a horizontal line underneath the name.



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FEATURED ABC COMMON STOCK HOLDINGS:

Mastercard & Visa: are particularly attractive businesses and core holdings in the ABC Funds. Both companies possess dominant positions in their industry, facilitating over \$18T USD of digital payments. The companies operate as virtual toll booths, taking a small cut of every transaction in their immense networks. They maintain formidable moats, with barriers to entry being very high as a result of their enormous scale, vast merchant networks, and extensive infrastructure. We are very optimistic on the long-term prospects of Visa and Mastercard due to several notable factors. Firstly, the core consumer payments sector will continue to expand with e-commerce, the continued decline of cash usage, and the shift towards a digital economy. In fact, there is a notable opportunity in emerging markets where cash holds a dominant position. Secondly, both companies are driving new flows into their networks, especially in areas such as business-to-business. Thirdly, the return of international travel will be a key driver for Visa and Mastercard as cross-border fees are especially lucrative. With strong margins and free cash flow, share buybacks, and strong near-term growth, we remain very optimistic on Visa and Mastercard.

Tencent Holdings: is a Chinese technology conglomerate with a diverse range of businesses. The company's two core segments are social networking and online gaming. The social networking segment includes WeChat, China's largest smart phone community with over 1.2 billion monthly active users. Tencent's dominance in social media powers its online advertising business, as well as their fintech business, WeChat Pay, the #1 mobile payment platform in China. Tencent holds a dominant position in online gaming, as the world's largest game vendor by revenue. It is the #1 smartphone game publisher with 52% market share in China on iOS and has developed 5 of the top 10 smartphone games by monthly active users (MAU) globally. The company is also the #1 PC games publisher with 60% market share in China, holding key stakes in well recognized companies including Riot Games and Epic Games. Tencent is aggressively expanding its video games interests through acquisitions, having completed 31 deals in 2020 of both Chinese and Western developers. The company intends to expand beyond its core businesses with a plan to invest \$70B USD over the next five years into new technology infrastructure. With strong brands, resilient new economy businesses, and a long-term runway for future growth, Tencent is a quintessential ABC Funds "new value" stock selection.



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Administrative Information

- As RBC Investor Services is no longer able to accept or issue physical cheques, please contact our office to make alternative arrangements.
- 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.
- Only unitholders of the North American & Global Equity Funds within non-registered accounts will receive T3 tax slips by the end of March 2021 as there were distributions in 2020 for those funds. Unitholders of our other funds will not receive T3 tax slips for 2020.
- T4s will be mailed out mid-February 2021.
- The Capital Gains/Losses Report for redemptions made in 2020 is included with your December 31, 2020 statement.
- All directly-held accounts will receive their 2020 Annual Performance Report via mail in January 2021.
- Contribution slips for RRSP contributions made in 2020 will be mailed at the end of January 2021.
- Contribution slips for RRSP contributions made in the first 60 days of 2021 will be mailed by the end of March 2021.
- The ABC RSP contribution deadline for 2020 contributions is February 26, 2021. All contributions must reach our office no later than this date.

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 Email: invest@abcfunds.com

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