

THE

ABC

PERSPECTIVE

Volume 17, No.3

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PRESENT

PERSPECTIVES

## Toughing It Out

*When you go in search of honey  
...you must expect to be stung by bees.*

**Kenneth Kaunda,**  
Former President of Zambia

The past two months have been brutal for virtually all marketable securities and commodities. Previously, the stock market, gold, silver, oil and basic commodities had all experienced spectacular 12-month price run-ups until about mid-April when the market suddenly stalled. The months of May and June followed with white-hot investor greed and bravado melting into utter fear.

A tug of war then erupted between the forces of optimism and pessimism. Eventually, a growing investor fear led to a massive buyers' boycott. The few buyers of securities were blind-sided by seemingly endless and very motivated suppliers of common stocks. Looking back, it is our view that the stock market's recent weakness was a long-expected and healthy correction. No market goes straight up or straight down without a pause or adjustment. Analogously speaking, just as trees do not grow to the sky, major common stock rallies, regardless of contemporaneously bullish sentiments, demand some sort of market correction. This, we believe, is what is presently occurring after the past year's market exuberance.

Naturally, we are trying to adjust to the present difficult market conditions. We hold to the view that this period represents an excellent opportunity to selectively take profits, add new fundamentally undervalued securities and upgrade our ABC Funds portfolios. Accordingly, we have been patiently restocking our investment holdings while adhering to our strict deep-value analytical disciplines. Although we realize that these deep-value purchases might be a little early or

premature we intend to patiently abide by our fundamental-value principles and to "tough it out." In the context of a 6-12 month time horizon, we believe that these investments should provide for excellent portfolio returns.

Most encouraging to us, particularly over the past six months, are the growing number of takeovers, mergers and acquisitions. These include: Dofasco, Placer Dome, Hudson Bay Company, Sears Canada, Inco and Falconbridge. Clearly, the acquirers are not foolish; they envision financial opportunity. Furthermore, notwithstanding these takeovers we continue to believe that it is cheaper to buy companies trading on the stock market as opposed to starting an enterprise from scratch. These takeover developments confirm our investment view that there is, in fact, value in the marketplace.

In conclusion, we remain unshaken in our optimism and fundamental convictions. We will continue to abide by our investment disciplines and intend to tough it out during this volatile, yet exciting, investment period.



**ECONOMIC PERSPECTIVES****Rising Interest Rates: Moderating Economic Activity**

With the 17<sup>th</sup> consecutive short-term interest rate increase since 2004 Ben Bernanke and the U.S. - Federal Reserve are attempting to achieve a number of objectives. They include: to moderate U.S. economic growth, contain inflationary pressures, stabilize a weak U.S. dollar but, more importantly, in our view, to demonstrate strong financial leadership and control. Although U.S. dollar trading has been weak and volatile, the U.S. economy, due to a higher interest rate policy, is

starting to exhibit moderating economic activity. In consequence, we expect second half 2006 U.S. GNP growth to decline toward a range of 2¼-2¾ %.

In Canada, we also expect economic activity to moderate with a time lag of three to six months. Although we do not foresee a severe North American economic downturn we do anticipate that economic growth will weaken but will remain positive for at least the next 12 months.

**INVESTMENT PERSPECTIVES****Canadian Equities: The Big Shrink**

With the continued trend toward mergers, acquisitions, and takeovers, the Canadian public equity market continues to shrink. For instance, the recent takeovers of Dofasco, Fairmont Hotels, Hudson Bay Company and the proposed deals for Sears Canada, Falconbridge and Inco are leading to the gradual vaporization of publicly-trading mid to large capitalization Canadian corporations.

Furthermore, due to the present and growing attraction of Canadian equities by international investors we expect the contraction of Canadian equities to resume. This event will result in the availability of fewer and fewer Canadian equities. In consequence, we believe there will be increasing pressure upon Canadian investment managers to explore worldwide for undervalued U.S., European and Asian equities.

**PORTFOLIO PERSPECTIVES****Still Optimistic**

Despite all the considerable economic, currency and market uncertainty, especially over the past couple of months, we remain relatively optimistic. With the recent market weakness we are now uncovering an increasing number of fundamentally-undervalued Canadian and U.S. common stocks as well as out-of-favour income/royalty trusts.

Over the past three months we have been selectively adding new portfolio holdings such as Pioneer Natural Resources, Keynote Systems and African Copper PLC as well as eliminating certain relatively overvalued securities including Canfor Corp., Eurozinc Mining Corp., Harvest Natural Resources and Quadra Mining Ltd.

## ABC Funds Value Favourites

### LEGACY HOTELS REIT

Legacy Hotels REIT owns 24 hotels with over 10,000 guest rooms in both Canada and the United States. The REIT owns several of Canada's landmark hotels, including the Fairmont Chateau Frontenac and Toronto's Fairmont Royal York. In addition to its luxury properties, Legacy's portfolio includes 11 Delta hotels and the Sheraton Eau Claire in Calgary, Alberta.

Legacy is now starting to achieve traction as the Canadian hotel industry recovers from 9/11 and SARS. Legacy's Q1 2006 revenue was the highest in its history, and more importantly, gross margins reached levels not seen since 2001. Despite this good news, the REIT still faces challenges such as a high Canadian dollar and rising labour and energy costs. Legacy's units are still down over 15% from its \$10/unit 1997 initial public offering.

Despite the Trust's near-term challenges, we believe the units are fundamentally undervalued at current prices. Indeed, Legacy is an example of the market failing to see the forest for the trees. Recent market data suggests that asset values in many of Legacy's markets have appreciated significantly since its 1997 offering. We see an opportunity to unlock even greater value through strategic alternatives such as condo conversions, selling excess land, and joint venture development projects that will surface the hidden value of these historic properties. We believe that Legacy's net asset value is approximately \$9.50 unit.

Kingdom's purchase of Fairmont early in the year garnered much media attention and led to speculation about its 24% stake in Legacy. At that time, we argued that both Legacy and Fairmont stakeholders would benefit from either a sale of this interest or the acquisition of Legacy in its entirety. Now, only four months later, with the announcement that Fairmont will convert its 9.8 million exchangeable shares into trust units, it appears the sale of its 24% stake is imminent. In a related announcement, Kingdom revealed that it is close to selling 15 hotels for \$3 billion, including Canadian landmarks such as the Fairmont Jasper Park Lodge and Fairmont Chateau Lake Louise.

As Kingdom starts to sell its Canadian properties, we believe it will highlight the disconnect between Legacy's current market value and net asset value. Fairmont was purchased for more than \$370,000 per hotel door. In comparison, Legacy's current unit price implies a valuation of around \$175,000 per door (below its book value of \$190,000 per door). In addition, we believe that a competitive bidding process will also demonstrate that hotel assets with third party management contracts are not only desirable, but in strong demand.

### KEYNOTE SYSTEMS

Keynote Systems is a California-based leading provider of measurement and monitoring systems for e-commerce websites with a market share of approximately 80%. Its customers range from small web-based companies to large Fortune 500 companies such as Amazon, American Express, Cisco, Dell, EBay and Microsoft. The company is headed by Umang Gupta, one of Keynote's largest shareholders owning approximately 1.8 million shares or 10% of the company.

Keynote went public in September 1999 at \$14 a share and didn't look back. Five months later it did a secondary offering at \$105. The shares rose to an incredible \$163.75 in March 2000 before succumbing to the bursting technology bubble. By December 2000, Keynote shares had given back all it had gained and eventually fell below its original IPO price. For the last five years, Keynote's stock has been virtually flat in comparison to its amazing rise and fall in 1999-2000. During this time, however, the Company has quietly improved its product and service offerings and managed to remain the dominant monitoring company in the industry. It is also interesting to note that since 2000, Keynote's share base has declined from 23 million to just under 19 million today.

We do not usually purchase shares in technology companies because they are often too expensive on a book or net asset value basis. However, when we discovered Keynote trading below its tangible book value of \$10.43, we felt it warranted further investigation. After doing our homework, we found that Keynote was in fact an ABC-type stock. With a market capitalization of close to \$200 million, Keynote was debt free with cash in the bank of \$137 million. It also owned its headquarters in San Mateo, California. The building, which was purchased for \$85 million in 2000, had been subsequently written down in 2002 to just \$35 million. When we added the cash and real estate together, we found that it accounted for nearly the entire market capitalization of the Company. In effect, we were getting the remaining technology business for next to nothing.

Today, CEO Umang Gupta is focused on expanding Keynote's service offerings and increasing its customer base. With the company's large war-chest of cash, he is also on the prowl for opportunistic acquisitions. But with its share price continuing to trade at such low valuations, the hunter could become the hunted. Given its large cash position, hidden real estate, and dominant market position, we think Keynote might just end up being sold to a larger industry player. If it was to be purchased, we think an acquirer would have to pay a premium price to where the stock is currently trading.

**Irwin A. Michael, CFA**

## Administrative Updates

### RSP/RRIF Transfers

Transferring RSPs or RIFs from one institution to another can be very tedious. We encourage all clients wanting to transfer funds to ABC Funds to start the process as early as possible since relinquishing institutions can legally hold funds for 45 days before releasing them. We will try to speed up transfers, however, we need your assistance. In practice the onus is on the clients as they control their funds. Nonetheless, we will try our best since the relinquishing institution does not necessarily have to respond to the receiving institution in a timely manner.

To speed up the process we have outlined a few key pointers. Firstly, it is important that the transfer forms be filled out correctly; for instance, fill out Area 1(annuitant) and include all pertinent information. Furthermore if you are opening an RSP/RIF account with ABC Funds the account will be held with our trustee/custodian, RBC Dexia. We require not only the T2033 to be filled out correctly but also an RSP/RIF application must be filled out for each RSP/RIF plan. If you ever have any questions or concerns please call our office at (416) 365-9696 or our toll free number 1-888-673-6222. We will gladly assist you in filling out the necessary forms.

When sending the T2033 to ABC Funds, we need to make sure that you have put the RSP/RIF account into a CASH position. Simply put, if you are requesting ALL Cash or a certain amount of money to be transferred over to us, please ensure that the RSP/RIF has that exact amount in a CASH position, otherwise, the transfer may be rejected.

It's also important that you, the client, stay on top of the logistics of the transfer. Call the transfer office of the relinquishing institution and inquire if they have received the transfer form (T2033). You may have to call a number of times; ask them about the status of the transfer. Again, the onus is on the client to keep tracking the transfer and questioning the relinquishing institution. In the end you will probably fast track the process.

### RBC Dexia

On January 1<sup>st</sup>, 2006 our trustee/custodian formerly named Royal Trust Company of Canada merged into a joint venture with Dexia Banque Internationale of Luxembourg. Once together they combined their operations and renamed themselves RBC Dexia. In relation to the ABC Funds, they are still our custodian and trustee. Nothing has changed. All new agreements have been signed and approved by our lawyers and auditors. Again, all operations are the same and the only change is the new name. We are aware that our recordkeeping has had problems in certain areas. Along with RBC Dexia we are doing our best to improve the administration.

We welcome any comments or suggestions you may have to improve our client service. We would like to have a Questions and Answers (Q & A) section in our future newsletters so that we may improve the quality of our service.

### Our Websites

Our two websites – [www.abcfunds.com](http://www.abcfunds.com) and [www.valueinvestigator.com](http://www.valueinvestigator.com) – are in the midst of a redesign. We anticipate that by late September we will have completed a makeover of both sites. Some areas will be completely reorganized while others will receive a facelift – so to speak. Our ultimate goal is to improve both sites in terms of function, content and organization while maintaining their ease of use.

Our recently launched French portals were much to the delight of our bilingual clients. We have always been astonished with how many website visitors we get from all over the world.

In the past, we have received quite a few suggestions from our clients and website visitors; we hope to implement many of them. Once again, we encourage all comments.

**ABC DIRT CHEAP STOCK FUND**

We are pleased to announce that the launch of the ABC Dirt-Cheap Stock Fund was a success. Since the start of the fund on April 1, 2006 and up until June 30<sup>th</sup>, 2006, we have raised over 90 million dollars in subscriptions. We currently have two dates remaining to purchase the fund before it closes to new investors on September 1<sup>st</sup>, 2006. The two remaining dates are July 31<sup>st</sup>, 2006 and August 31<sup>st</sup>, 2006. Once the fund closes the only way to purchase the fund will be through our virtual exchange (a similar but separate market to the ABC North American Deep-Value Fund). We are already queuing interested investors on this list. If interested you can send in your name and phone number and we will add your name to the ABC Dirt-Cheap Stock Fund virtual exchange. At the time of printing, we already have over 30 people registered in the queue for the \$50,000 minimum. If you wish to add your name please contact our office by phone or e-mail us at [info@abcfunds.com](mailto:info@abcfunds.com).

For those of you who are not aware of the parameters of this Fund, it is a closed-end, RSP-eligible fund. It is open to new purchases at a minimum of \$150,000 and is available to new investors until September 1<sup>st</sup>, 2006. After this date it is available only through our virtual exchange in minimum amounts of \$50,000.

**VIRTUAL EXCHANGE**

The virtual exchange is a trading mechanism which we created at I.A. Michael Investment Counsel Ltd. in conjunction with our lawyers. Simply explained, we, at ABC Funds, run a list of interested buyers and sellers to facilitate a no-cost exchange of our two closed –end funds. This process takes place at net asset value at the end of each month. The minimum trade amount is \$50,000 and both buyer and seller transact anonymously. All transaction costs are paid by I.A. Michael Investment Counsel Ltd. with RBC Dexia handling all administration of the transaction. It is interesting to note that most TSX-listed closed-end funds trade at a discount to their actual net worth. At ABC Funds, we administer a queue for potential buyers and sellers and when we match them up, a transaction is completed at the actual net asset value. So far this process has been quite successful. Please contact us via e-mail, fax, or phone to let us know if you would like to be listed as a buyer or a seller for either of our two closed-end funds.

**RESP (Registered Education Savings Plans)**

As many of you may know, the ABC Funds qualify for RESP plans. We have made an agreement with RBC Dominion Securities (RBCDS) to administer and hold the ABC Funds for our clients at no cost. We have been working with RBCDS to further simplify the process. If you are interested in moving your RESP plans over to ABC Funds, please contact our office so that we can instruct you on the contacts and processes required by RBCDS.

**CLIENT AND PROSPECT MEETINGS**

As you know we encourage all client and prospects to attend our regular monthly meetings held in our office. They are conducted by Mr. Irwin Michael, portfolio manager of the ABC Funds. These meetings are also open to our clients who cannot attend any of the set quarterly meetings we have designated for clients only.

The remaining 2006 meetings are as follows:

Friday July 21, 2006 – Client/Prospect

Friday July 28, 2006 – Client

Friday August 18, 2006 – Client/Prospect

Friday September 15, 2006 – Client/Prospect

Friday October 13, 2006 – Client/Prospect

Friday October 20, 2006 – Client

Friday November 17, 2006 – Client/Prospect

Friday December 08, 2006 – Client/Prospect

All meetings are held at the ABC Funds offices located at 8 King Street East, Suite 700, Toronto, Ontario and they start at 12:00 noon. We serve a light lunch so please call in advance to confirm your attendance.

**ABC NEWS**

Irwin Michael and the ABC Staff would like congratulate two of our colleagues who were married this past month: Ian D'Souza was married on June 10<sup>th</sup>, 2006 to his wife Pooja Negandhi; and, Steve Hall was married on July 8<sup>th</sup>, 2006 to Susan Hrchak. We wish them all good health, prosperity and happiness in their future together.

## ABC Fully-Managed Fund (ABC FMF)

June 30, 2006

|                   |                   |
|-------------------|-------------------|
| <b>NAVPS</b>      | <b>10.4205</b>    |
| <b>C.G. Dist.</b> | <b>\$0.000000</b> |
| <b>Inc. Dist.</b> | <b>\$0.006834</b> |

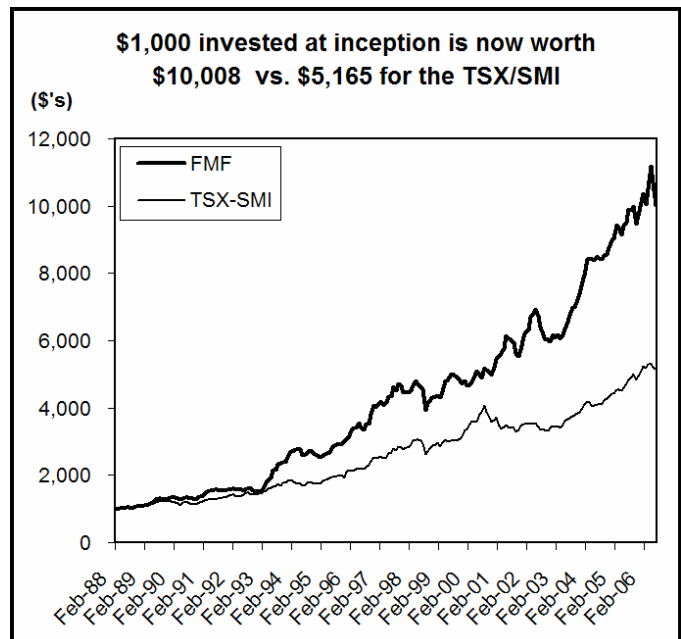
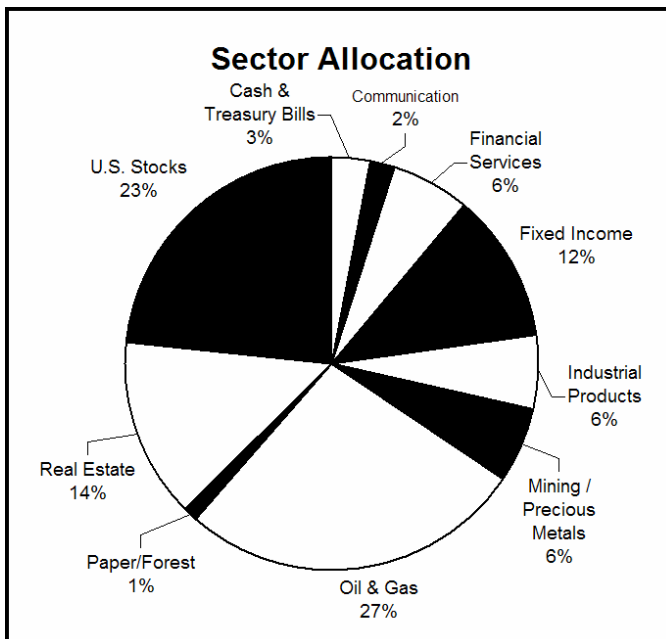
### Objective

ABC Fully-Managed Fund is a diversified Canadian balanced fund. While our long-term asset mix target is 50% fixed income and 50% Canadian equities, in practice, our portfolio mix of stocks versus bonds is quite flexible to take advantage of periodic investment opportunities.

### Performance of the Fund vs. the Benchmark

| Annualized Compounded Rates of Return |             |             | Annual Returns |             |             |
|---------------------------------------|-------------|-------------|----------------|-------------|-------------|
|                                       | ABC FMF (%) | Benchmark** |                | ABC FMF (%) | Benchmark** |
| 1 Month                               | -1.82       | -0.65       | 1989           | 23.68       | 17.20       |
| Q2 2006                               | -4.72       | -2.38       | 1990           | 2.17        | -4.32       |
| YTD                                   | -0.86       | 1.51        | 1991           | 14.69       | 17.35       |
| 1 Year                                | 5.01        | 9.35        | 1992           | -1.48       | 4.75        |
| 2 Year                                | 8.48        | 12.08       | 1993           | 64.35       | 24.36       |
| 3 Year                                | 15.09       | 12.22       | 1994           | 2.82        | -2.64       |
| 5 Year                                | 10.53       | 8.73        | 1995           | 17.25       | 17.97       |
| 10 Year                               | 11.35       | 8.95        | 1996           | 31.99       | 19.5        |
| 15 Year                               | 13.12       | 9.72        | 1997           | 10.56       | 12.22       |
| Since Inception*                      | 13.39       | 9.72        | 1998           | -2.02       | 3.84        |
|                                       |             |             | 1999           | 10.37       | 14.29       |
|                                       |             |             | 2000           | 8.31        | 8.71        |
|                                       |             |             | 2001           | 17.62       | -2.96       |
|                                       |             |             | 2002           | 0.77        | -1.47       |
|                                       |             |             | 2003           | 25.52       | 15.27       |
|                                       |             |             | 2004           | 15.89       | 10.42       |
|                                       |             |             | 2005           | 12.47       | 15.25       |

\*Inception date for the Fund was February 22nd, 1988  
 \*\*Benchmark consists of 50% of the TSE300 Total Return Index and 50% of the Scotia Capital Markets Universal Bond Index



# ABC FUNDS

## ABC Fully-Managed Fund, Statement of Investment Portfolio

*June 30th, 2006*

*all dollar amounts in thousands (cdn\$)*

*exchange rate used is 1.1120996*

| No. Of Shares            | Description                      | Total Cost (\$) | Market Value (\$) |
|--------------------------|----------------------------------|-----------------|-------------------|
| <b>CASH -- 2.95 %</b>    |                                  |                 |                   |
| 2,356,472                | C\$ Cash                         | 2,356           | 2,356             |
| 108,208                  | U\$ Cash                         | 120             | 120               |
| 25,265                   | RT CAP Cash In Action Fund       | 2,526           | 2,526             |
| 0                        | RT CAP Cash In Action Fund US \$ | -               | -                 |
| <b><u>TOTAL CASH</u></b> |                                  | <b>5,003</b>    | <b>5,003</b>      |

| No. Of Shares                 | Description                              | Total Cost (\$) | Market Value (\$) |
|-------------------------------|--|-----------------|-------------------|
| <b>FIXED INCOME -- 11.52%</b> |  |                 |                   |
| 1,500,000                     | Aecon Group Inc. conv., 8 1/4%, 03/17/10 | 1,444           | 1,500             |
| 2,500,000                     | Aecon Group Inc. conv., 8 1/4%, 11/02/09 | 2,494           | 2,500             |
| 2,000,000                     | Nexen Inc., 6.85%, 11/15/2006            | 1,960           | 2,016             |
| 2,500,000                     | First Nickel Inc, 11%, 06/01/2007        | 2,500           | 2,500             |
| 4,000,000                     | Frontera Copper, 10%, 06/15/2010         | 3,324           | 3,920             |
| 2,500,000                     | Gerdau Ameristeel, conv. 6.5%, 4/30/2007 | 2,216           | 2,516             |
| 2,500,000                     | Magellan Aero., conv. 8.5%, 01/31/2008   | 2,478           | 2,522             |
| 2,000,000                     | Nova Chemical, 7.85%, 08/30/2010         | 1,984           | 2,039             |
| <b><u>TOTAL</u></b>           |  | <b>18,400</b>   | <b>19,513</b>     |

| No. Of Shares                      | Description         | Total Cost (\$) | Market Value (\$) |
|------------------------------------|---------------------|-----------------|-------------------|
| <b>COMMON STOCKS -- 85.52%</b>     |                     |                 |                   |
| <b>FINANCIAL SERVICES -- 6.31%</b> |                     |                 |                   |
| 13,038                             | E-L Financial Corp. | 3,469           | 8,177             |
| 250,000                            | Renasant Financial  | 2,321           | 2,508             |
| <b><u>TOTAL</u></b>                |                     | <b>5,790</b>    | <b>10,684</b>     |

| No. Of Shares                | Description                          | Total Cost (\$) | Market Value (\$) |
|------------------------------|--------------------------------------|-----------------|-------------------|
| <b>REAL ESTATE -- 14.20%</b> |                                      |                 |                   |
| 2,000,000                    | Huntingdon Real Estate Inv. Trust    | 5,230           | 4,200             |
| 750,000                      | Lanesborough Real Estate Inv. Trust  | 4,568           | 3,975             |
| 600,000                      | Legacy Hotels Real Estate Inv. Trust | 4,272           | 5,100             |
| 175,000                      | Morguard Corp., common shares        | 3,595           | 5,950             |
| 800,000                      | Royal Host Real Estate Inv. Trust    | 4,394           | 4,824             |
| <b><u>TOTAL</u></b>          |                                      | <b>22,058</b>   | <b>24,049</b>     |

| No. Of Shares                       | Description                           | Total Cost (\$) | Market Value (\$) |
|-------------------------------------|---------------------------------------|-----------------|-------------------|
| <b>INDUSTRIAL PRODUCTS -- 5.79%</b> |                                       |                 |                   |
| 600,000                             | Atlas Cold Storage Income Trust Units | 3,677           | 3,684             |
| 500,000                             | Canam Manac Group Inc.                | 3,290           | 4,995             |
| 75,000                              | Wescast Industries Inc., "A"          | 2,741           | 1,121             |
| <b><u>TOTAL</u></b>                 |                                       | <b>9,708</b>    | <b>9,800</b>      |

| No. Of Shares                 | Description                   | Total Cost (\$) | Market Value (\$) |
|-------------------------------|-------------------------------|-----------------|-------------------|
| <b>COMMUNICATION -- 1.96%</b> |                               |                 |                   |
| 400,000                       | CanWest Global Communications | 4,120           | 3,320             |
| <b><u>TOTAL</u></b>           |                               | <b>4,120</b>    | <b>3,320</b>      |

| No. Of Shares                         | Description        | Total Cost (\$) | Market Value (\$) |
|---------------------------------------|--------------------|-----------------|-------------------|
| <b>PAPER/FOREST PRODUCTS -- 1.12%</b> |                    |                 |                   |
| 250,000                               | Fraser Papers Inc. | 3,973           | 1,900             |
| <b><u>TOTAL</u></b>                   |                    | <b>3,973</b>    | <b>1,900</b>      |

| No. Of Shares                  | Description                           | Total Cost (\$) | Market Value (\$) |
|--------------------------------|---------------------------------------|-----------------|-------------------|
| <b>OIL &amp; GAS -- 26.92%</b> |                                       |                 |                   |
| 350,000                        | Avenir Diversified Income Trust       | 2,126           | 2,755             |
| 1,500,000                      | Caribou Resources Corp., common       | 3,299           | 2,925             |
| 250,000                        | Caribou Resources Corp., warrants     | 0               | 1                 |
| 350,000                        | Daylight Energy Trust, units          | 3,869           | 3,850             |
| 2,750,000                      | Endev Energy Inc.                     | 4,067           | 4,070             |
| 175,000                        | Essential Energy Services Trust Units | 1,689           | 1,514             |
| 1,200,000                      | Grey Wolf Exploration                 | 3,351           | 5,340             |
| 150,000                        | Nexen Inc.                            | 2,381           | 9,435             |
| 1,250,000                      | Pulse Data Inc., common               | 3,075           | 3,625             |
| 750,000                        | Saxon Energy Services Inc, units      | 3,675           | 3,165             |
| 375,000                        | Saxon Energy Services Inc, warrants   | 0               | 158               |
| 150,000                        | Talisman Energy Inc.                  | 2,691           | 8,766             |
| <b><u>TOTAL</u></b>            |                                       | <b>30,223</b>   | <b>45,603</b>     |

| No. Of Shares                            | Description               | Total Cost (\$) | Market Value (\$) |
|--|---------------------------|-----------------|-------------------|
| <b>MINING / PRECIOUS METALS -- 5.96%</b> |                           |                 |                   |
| 1,500,000                                | Amerigo Resources Ltd.    | 3,697           | 3,435             |
| 500,000                                  | Anvil Mining Ltd., common | 3,250           | 3,650             |
| 495,000                                  | Lionore Mining Ltd.       | 2,889           | 3,000             |
| <b><u>TOTAL</u></b>                      |                           | <b>9,837</b>    | <b>10,085</b>     |

| No. Of Shares                | Description                            | Total Cost (\$) | Market Value (\$) |
|------------------------------|--|-----------------|-------------------|
| <b>U.S. STOCKS -- 23.26%</b> |  |                 |                   |
| 30,000                       | Amer. National Ins. Co.                | 3,244           | 4,328             |
| 150,000                      | Bassett Furniture Industries Inc.      | 3,388           | 3,088             |
| 200,000                      | Covenant Transport Inc.                | 3,094           | 3,385             |
| 150,000                      | Dominion Homes Inc.                    | 3,611           | 1,500             |
| 65,000                       | General Motors Corp.                   | 3,702           | 2,153             |
| 175,000                      | Handleman Co., common                  | 2,918           | 1,586             |
| 75,000                       | Kansas City Life Insurance Co., common | 4,439           | 3,517             |
| 200,000                      | Phoenix Companies Inc.                 | 3,583           | 3,132             |
| 75,000                       | Pioneer Natural Resources Co.          | 3,445           | 3,871             |
| 175,000                      | Presidential Life Corp.                | 3,738           | 4,784             |
| 175,000                      | Sea Containers Ltd., "A"               | 3,221           | 924               |
| 175,000                      | Seaspan Corp., common                  | 4,443           | 4,077             |
| 150,000                      | Superior Industries Intl.              | 3,760           | 3,051             |
| <b><u>TOTAL</u></b>          |  | <b>46,584</b>   | <b>39,396</b>     |

|                                  |  |                |                |
|----------------------------------|--|----------------|----------------|
| <b><u>TOTAL COMMON STOCK</u></b> |  | <b>132,293</b> | <b>144,837</b> |
|----------------------------------|--|----------------|----------------|

|                               |  |                |                |
|-------------------------------|--|----------------|----------------|
| <b><u>TOTAL PORTFOLIO</u></b> |  | <b>155,696</b> | <b>169,353</b> |
|-------------------------------|--|----------------|----------------|

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

## ABC Fundamental-Value Fund (ABC FVF)

June 30, 2006

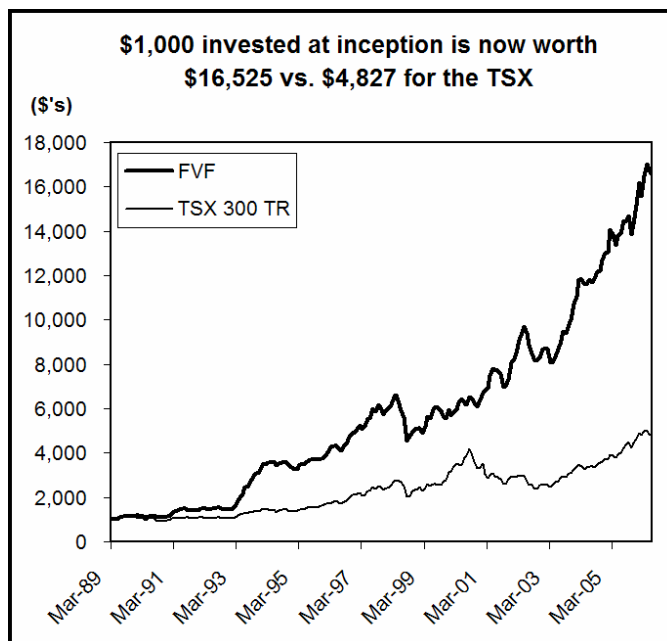
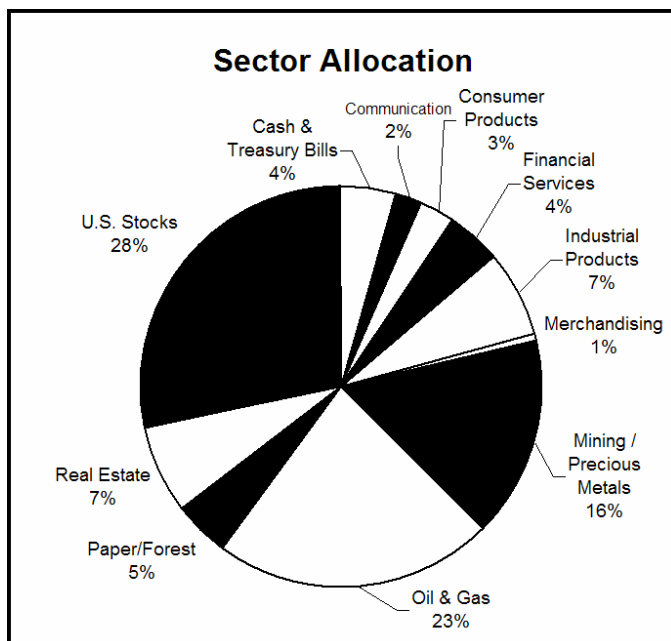
|                   |                    |
|-------------------|--------------------|
| <b>NAVPS</b>      | <b>\$20.8207</b>   |
| <b>C.G. Dist.</b> | <b>\$ 0.000000</b> |
| <b>Inc. Dist.</b> | <b>\$ 0.000000</b> |

ABC Fundamental-Value Fund seeks out fundamentally undervalued Canadian equities. Our extensive "value research" style attempts to ferret out overlooked and out of favour Canadian equities. With these discerning selections we cobble a diversified portfolio of small, medium and large capitalization Canadian value stocks. When fully invested and having discovered new, fundamentally attractive securities, our sell discipline forces us to cull our portfolios to liquidate the most expensive holdings.

### Performance of the Fund vs. the Benchmark

|                  | Annualized Compounded Rates of Return |             | Annual Returns |               |
|------------------|---------------------------------------|-------------|----------------|---------------|
|                  | ABC FVF (%)                           | Benchmark** | ABC FVF (%)    | Benchmark**   |
| 1 Month          | <b>-1.48</b>                          | -0.82       | 1990           | <b>-1.98</b>  |
| Q2 2006          | <b>0.13</b>                           | -3.50       | 1991           | <b>22.92</b>  |
| YTD              | <b>8.89</b>                           | 4.19        | 1992           | <b>4.26</b>   |
| 1 Year           | <b>18.74</b>                          | 19.64       | 1993           | <b>121.75</b> |
| 2 Year           | <b>18.14</b>                          | 18.84       | 1994           | <b>3.03</b>   |
| 3 Year           | <b>23.87</b>                          | 20.69       | 1995           | <b>11.08</b>  |
| 5 Year           | <b>16.44</b>                          | 10.48       | 1996           | <b>31.75</b>  |
| 10 Year          | <b>14.71</b>                          | 10.56       | 1997           | <b>20.35</b>  |
| 15 Year          | <b>17.44</b>                          | 10.62       | 1998           | <b>-13.81</b> |
| Since Inception* | <b>17.66</b>                          | 9.52        | 1999           | <b>16.25</b>  |
|                  |                                       |             | 2000           | <b>7.51</b>   |
|                  |                                       |             | 2001           | <b>26.06</b>  |
|                  |                                       |             | 2002           | <b>7.62</b>   |
|                  |                                       |             | 2003           | <b>23.55</b>  |
|                  |                                       |             | 2004           | <b>21.42</b>  |
|                  |                                       |             | 2005           | <b>16.62</b>  |

\*Inception date for the Fund was March 20, 1989  
 \*\*Benchmark consists of the TSX300 Total Return Index



# ABC FUNDS

## ABC Fundamental-Value Fund, Statement of Investment Portfolio

*June 30th, 2006*

*all dollar amounts in thousands (cdn\$)*

| No. Of Shares                               | Description                       | Total Cost (\$) | Market Value (\$) |
|---|-----------------------------------|-----------------|-------------------|
| <b>CASH -- 4.40%</b>                        |                                   |                 |                   |
| 1,804,734                                   | C\$ Cash                          | 1,805           | 1,805             |
| 25,445                                      | U\$ Cash                          | 28              | 28                |
| 295,070                                     | RT CAP Cash In Action Fund        | 29,507          | 29,507            |
| 9,000                                       | RT CAP U\$ Cash Mgmt Fund         | 1,001           | 1,001             |
| <b><u>TOTAL CASH</u></b>                    |                                   | <b>32,341</b>   | <b>32,341</b>     |
| <b>COMMON STOCKS -- 95.60%</b>              |                                   |                 |                   |
| <b>PAPER &amp; FOREST PRODUCTS -- 4.68%</b> |                                   |                 |                   |
| 875,000                                     | Cascades Inc., common             | 11,137          | 9,678             |
| 3,570,900                                   | Catalyst Paper Corp.              | 12,989          | 9,177             |
| 1,250,000                                   | Fraser Papers Inc.                | 18,956          | 9,500             |
| 638,300                                     | Norbord Inc.                      | 6,333           | 6,000             |
| <b><u>TOTAL</u></b>                         |                                   | <b>49,414</b>   | <b>34,355</b>     |
| <b>FINANCIAL SERVICES -- 4.23%</b>          |                                   |                 |                   |
| 39,250                                      | E-L Financial Corp.               | 10,590          | 24,531            |
| 650,000                                     | Renasant Financial                | 5,940           | 6,520             |
| <b><u>TOTAL</u></b>                         |                                   | <b>16,530</b>   | <b>31,051</b>     |
| <b>INDUSTRIAL PRODUCTS -- 7.07%</b>         |                                   |                 |                   |
| 2,000,000                                   | Atlas Cold Storage Income Trust   | 11,991          | 12,280            |
| 2,500,000                                   | Canam Manac Group Inc.            | 15,108          | 24,975            |
| 4,000,000                                   | Magellan Aerospace Corp.          | 11,930          | 10,200            |
| 300,000                                     | Wescast Industries Inc., A        | 10,808          | 4,485             |
| <b><u>TOTAL</u></b>                         |                                   | <b>49,836</b>   | <b>51,940</b>     |
| <b>COMMUNICATION -- 2.26%</b>               |                                   |                 |                   |
| 2,000,000                                   | CanWest Global Communications     | 21,061          | 16,600            |
| <b><u>TOTAL</u></b>                         |                                   | <b>21,061</b>   | <b>16,600</b>     |
| <b>MERCHANDISING -- 0.52%</b>               |                                   |                 |                   |
| 500,000                                     | Danier Leather Inc.               | 5,018           | 3,803             |
| <b><u>TOTAL</u></b>                         |                                   | <b>5,018</b>    | <b>3,803</b>      |
| <b>CONSUMER PRODUCTS -- 2.87%</b>           |                                   |                 |                   |
| 365,000                                     | Andres Wines Ltd. "A"             | 4,497           | 9,673             |
| 400,000                                     | Arbor Memorial Services "B"       | 5,339           | 8,400             |
| 1,300,000                                   | Shermag Inc.                      | 11,697          | 3,016             |
| <b><u>TOTAL</u></b>                         |                                   | <b>21,533</b>   | <b>21,089</b>     |
| <b>REAL ESTATE -- 7.09%</b>                 |                                   |                 |                   |
| 2,950,000                                   | Huntingdon Real Estate Inv. Trust | 7,858           | 6,195             |
| 3,000,000                                   | Legacy Hotels Real Estate Trust   | 20,761          | 25,500            |
| 600,000                                     | Morguard Corp., common            | 12,351          | 20,400            |
| <b><u>TOTAL</u></b>                         |                                   | <b>40,969</b>   | <b>52,095</b>     |

*exchange rate used is 1.1120996*

| No. Of Shares                             | Description                       | Total Cost (\$) | Market Value (\$) |
|---|-----------------------------------|-----------------|-------------------|
| <b>OIL &amp; GAS -- 22.52%</b>            |                                   |                 |                   |
| 2,860,300                                 | Anderson Energy Ltd., common      | 18,698          | 14,588            |
| 1,750,000                                 | Avenir Diversified Income Trust   | 11,855          | 13,773            |
| 2,500,000                                 | Bow Valley Energy                 | 3,725           | 15,625            |
| 2,250,000                                 | Clear Energy Inc.                 | 11,073          | 8,010             |
| 679,900                                   | Daylight Energy Trust Units       | 7,384           | 7,479             |
| 875,000                                   | Essential Energy Services Trust   | 8,444           | 7,569             |
| 5,250,000                                 | Geocan Energy Inc.                | 9,713           | 8,925             |
| 2,675,100                                 | Midnight Oil Exploration          | 10,670          | 9,764             |
| 500,000                                   | Nexen Inc.                        | 8,028           | 31,450            |
| 3,750,000                                 | Saxon Energy Services Inc.        | 14,239          | 15,825            |
| 1,350,000                                 | Talisman Energy                   | 8,136           | 26,298            |
| 696,200                                   | Vault Energy Trust                | 5,676           | 5,918             |
| <b><u>TOTAL</u></b>                       |                                   | <b>117,640</b>  | <b>165,222</b>    |
| <b>MINERALS/PRECIOUS METALS -- 16.03%</b> |                                   |                 |                   |
| 10,000,000                                | African Copper, sub. Recpts.      | 16,000          | 14,500            |
| 1,500,000                                 | Anvil Mining Ltd., common         | 10,714          | 10,950            |
| 2,750,000                                 | Hudbay Minerals Inc.              | 7,619           | 39,050            |
| 8,000,000                                 | Ivernia Inc.                      | 12,064          | 14,640            |
| 3,500,000                                 | Lionore Mining Ltd.               | 20,943          | 21,210            |
| 2,000,000                                 | Polaris Minerals Corp.            | 9,600           | 9,600             |
| 1,925,000                                 | Richmont Mines                    | 9,433           | 7,796             |
| <b><u>TOTAL</u></b>                       |                                   | <b>86,373</b>   | <b>117,746</b>    |
| <b>U.S. STOCKS -- 28.33%</b>              |                                   |                 |                   |
| 125,000                                   | Amer. Nat. Ins. Co.               | 14,057          | 18,033            |
| 250,000                                   | General Motors Corp.              | 14,238          | 8,282             |
| 575,000                                   | Handleman Co., common             | 9,505           | 5,212             |
| 305,500                                   | Harvest Natural Resources Inc     | 3,451           | 4,600             |
| 800,000                                   | Jo-Ann Stores Inc.                | 14,459          | 13,034            |
| 385,000                                   | Kansas City Life Insurance Co.    | 21,852          | 18,055            |
| 681,300                                   | Meridian Resources Corp.          | 2,440           | 2,652             |
| 650,000                                   | Pioneer Natural Resources Co.     | 29,878          | 33,548            |
| 439,365                                   | Presidential Life Corp.           | 9,238           | 12,010            |
| 825,000                                   | Sea Containers Ltd., A            | 15,832          | 4,358             |
| 800,000                                   | Seaspan Corporation               | 20,355          | 18,639            |
| 550,000                                   | Stroud Energy Inc., common        | 10,312          | 13,456            |
| 625,000                                   | Superior Industries International | 17,743          | 15,255            |
| 1,000,000                                 | The Phoenix Companies             | 17,648          | 15,658            |
| 1,250,000                                 | Unum Provident Corp., common      | 25,081          | 25,203            |
| <b><u>TOTAL</u></b>                       |                                   | <b>226,087</b>  | <b>207,996</b>    |
| <b><u>TOTAL COMMON STOCK</u></b>          |                                   | <b>634,463</b>  | <b>701,896</b>    |
| <b><u>TOTAL PORTFOLIO</u></b>             |                                   | <b>666,803</b>  | <b>734,237</b>    |

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

# ABC FUNDS

## ABC American-Value Fund (ABC AVF)

June 30, 2006

|                   |                   |
|-------------------|-------------------|
| <b>NAVPS</b>      | <b>\$7.6189</b>   |
| <b>C.G. Dist.</b> | <b>\$0.000000</b> |
| <b>Inc. Dist.</b> | <b>\$0.000000</b> |

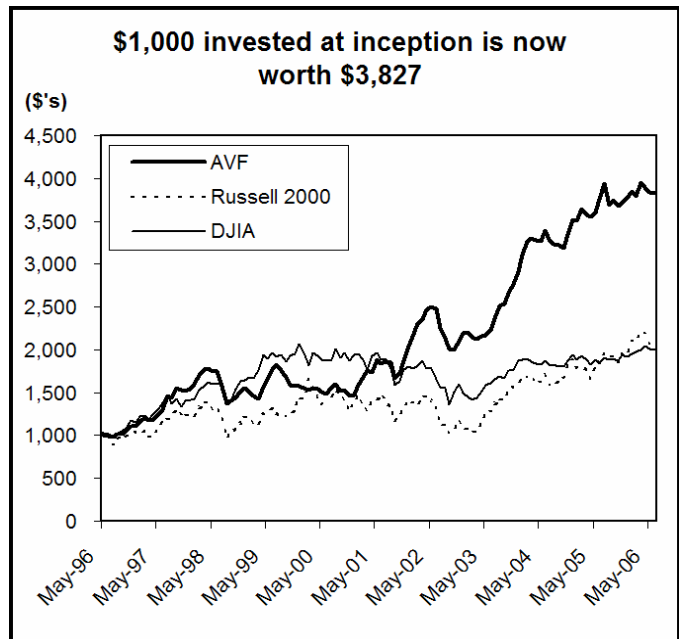
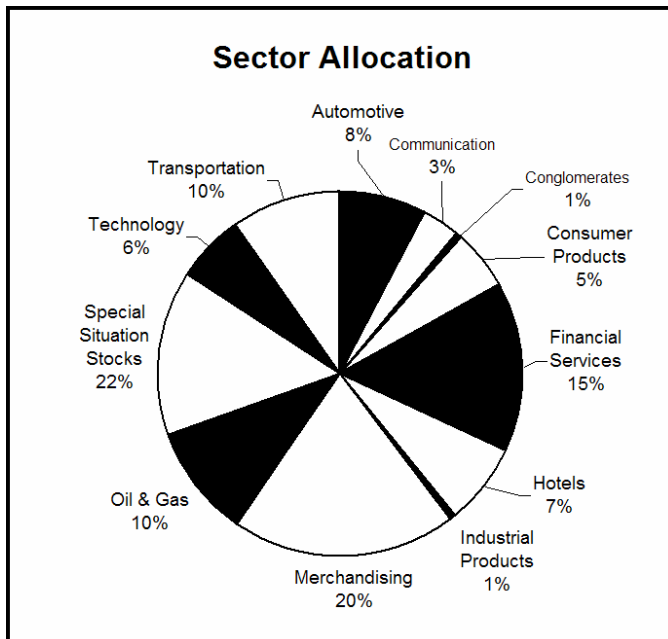
### Objective

ABC American-Value Fund searches out fundamentally undervalued American, special situation and foreign U.S. stock exchange-listed common shares. While using the same investment techniques as our two Canadian ABC Funds, the American market due to its sheer size provides us with extensive value opportunities.

### Performance of the Fund vs. U.S. Benchmarks

|                  | Annualized Compounded Rates of Return |                  |               | Annual Returns |                  |               |        |
|------------------|---------------------------------------|------------------|---------------|----------------|------------------|---------------|--------|
|                  | ABC AVF (%)                           | Russell 2000 (%) | Dow Jones (%) | ABC AVF (%)    | Russell 2000 (%) | Dow Jones (%) |        |
| 1 Month          | -0.34                                 | 0.51             | -0.16         | 1997           | 38.76            | 20.52         | 22.64  |
| Q2 2006          | -3.23                                 | -5.29            | 0.37          | 1998           | 0.75             | -3.45         | 16.10  |
| YTD              | 1.66                                  | 7.64             | 4.04          | 1999           | 1.47             | 19.62         | 25.22  |
| 1 Year           | 1.80                                  | 13.29            | 8.52          | 2000           | -6.66            | -4.20         | -6.18  |
| 2 Year           | 6.15                                  | 10.68            | 3.37          | 2001           | 39.52            | 1.03          | -7.10  |
| 3 Year           | 19.72                                 | 17.36            | 7.46          | 2002           | 6.91             | -21.58        | -16.76 |
| 5 Year           | 15.72                                 | 7.14             | 1.20          | 2003           | 32.74            | 45.37         | 25.32  |
| 10 Year          | 14.50                                 | 7.65             | 7.03          | 2004           | 20.85            | 17.00         | 3.15   |
| Since Inception* | 14.24                                 | 7.47             | 7.07          | 2005           | 7.16             | 3.32          | -0.61  |

\*Inception date for the Fund was May 2, 1996



# ABC FUNDS

## ABC American-Value Fund, Statement of Investment Portfolio

June 30th, 2006

*all dollar amounts in thousands (cdn\$)*

*exchange rate used is 1.1120996*

| No. Of Shares            | Description                | Total Cost (\$) | Market Value (\$) |
|--------------------------|----------------------------|-----------------|-------------------|
| <b>CASH -- 0.00%</b>     |                            |                 |                   |
| 297,948                  | Cash                       | 298             | 298               |
| 0                        | RT CAP Cash In Action Fund | -               | -                 |
| (267,120)                | US\$ Cash                  | (297)           | (297)             |
| 0                        | RT CAP US\$ Cash Fund      | -               | -                 |
| <b><u>TOTAL CASH</u></b> |                            | <b>1</b>        | <b>1</b>          |

| No. Of Shares                  | Description                       | Total Cost (\$) | Market Value (\$) |
|--------------------------------|-----------------------------------|-----------------|-------------------|
| <b>MERCHANDISING -- 19.55%</b> |                                   |                 |                   |
| 100,000                        | Bassett Furniture Industries Inc. | 2,469           | 2,058             |
| 250,000                        | Buca Inc.                         | 2,187           | 1,571             |
| 225,000                        | Enesco Group Inc.                 | 2,405           | 143               |
| 175,000                        | Handleman Co., common             | 2,930           | 1,586             |
| 175,000                        | Jo-Ann Stores Inc.                | 3,192           | 2,851             |
| 200,000                        | John B. Sanfilippo & Sons         | 3,203           | 2,947             |
| 185,000                        | Marsh Supermarkets Inc., "A"      | 2,063           | 2,481             |
| 150,000                        | Tandy Brands Accessories Inc.     | 2,669           | 1,728             |
| 60,000                         | Village Super Markets Inc.        | 2,422           | 4,362             |
| <b><u>TOTAL</u></b>            |                                   | <b>23,539</b>   | <b>19,728</b>     |

**COMMON STOCKS -- 91.92%**

**INDUSTRIAL PRODUCTS -- 0.45%**

|                     |                             |              |            |
|---------------------|-----------------------------|--------------|------------|
| 300,000             | Quaker Fabric Corp., common | 2,621        | 454        |
| <b><u>TOTAL</u></b> |                             | <b>2,621</b> | <b>454</b> |

**FINANCIAL SERVICES -- 15.13%**

|                     |                                  |               |               |
|---------------------|----------------------------------|---------------|---------------|
| 20,000              | Amer. Natl. Ins. Co.             | 2,191         | 2,885         |
| 62,500              | Kansas City Life Insurance Co.   | 3,577         | 2,931         |
| 250,000             | National Atlantic Holdings Corp. | 3,265         | 2,613         |
| 175,000             | Phoenix Companies Inc.           | 3,070         | 2,740         |
| 150,000             | Presidential Life                | 3,189         | 4,100         |
| <b><u>TOTAL</u></b> |                                  | <b>15,292</b> | <b>15,270</b> |

**CONSUMER PRODUCTS -- 5.05%**

|                     |                              |              |              |
|---------------------|------------------------------|--------------|--------------|
| 54,592              | CPAC Inc., common            | 417          | 342          |
| 125,000             | Dominion Homes               | 3,338        | 1,500        |
| 225,000             | Flexsteel Industries, common | 3,842        | 3,253        |
| <b><u>TOTAL</u></b> |                              | <b>7,597</b> | <b>5,094</b> |

**OIL & GAS -- 10.00%**

|                     |                            |              |               |
|---------------------|----------------------------|--------------|---------------|
| 750,000             | Meridian Resources Corp.   | 3,416        | 2,919         |
| 75,000              | Pioneer Natural Resources  | 3,449        | 3,871         |
| 150,000             | Stroud Energy Inc., common | 2,813        | 3,670         |
| <b><u>TOTAL</u></b> |                            | <b>9,677</b> | <b>10,460</b> |

**AUTOMOTIVE -- 7.79%**

|                     |                              |              |              |
|---------------------|------------------------------|--------------|--------------|
| 250,000             | Coachmen Industries Inc.,    | 3,057        | 3,320        |
| 45,000              | General Motors Corp., common | 2,563        | 1,491        |
| 150,000             | Superior Industries Intl.    | 3,783        | 3,051        |
| <b><u>TOTAL</u></b> |                              | <b>9,403</b> | <b>7,861</b> |

**COMMUNICATION -- 3.15%**

|                     |                            |              |              |
|---------------------|----------------------------|--------------|--------------|
| 700,000             | Regent Communications Inc. | 3,277        | 3,184        |
| <b><u>TOTAL</u></b> |                            | <b>3,277</b> | <b>3,184</b> |

**TRANSPORTATION -- 9.76%**

|                     |                                 |               |              |
|---------------------|---------------------------------|---------------|--------------|
| 200,000             | Covenant Transport Inc.         | 3,422         | 3,385        |
| 200,000             | Int'l Shipholding Corp., common | 3,458         | 2,978        |
| 150,000             | Seaspan Corp., common           | 3,815         | 3,495        |
| <b><u>TOTAL</u></b> |                                 | <b>10,695</b> | <b>9,858</b> |

**TECHNOLOGY -- 5.90%**

|                     |                              |              |              |
|---------------------|------------------------------|--------------|--------------|
| 350,000             | GTSI Corp. common            | 3,447        | 2,511        |
| 300,000             | Keynote Systems Inc., common | 3,747        | 3,440        |
| <b><u>TOTAL</u></b> |                              | <b>7,194</b> | <b>5,950</b> |

**CONGLOMERATES -- 0.79%**

|                     |                               |              |            |
|---------------------|-------------------------------|--------------|------------|
| 150,000             | Sea Containers Ltd., common A | 3,080        | 792        |
| <b><u>TOTAL</u></b> |                               | <b>3,080</b> | <b>792</b> |

**HOTELS -- 7.27%**

|                     |                         |              |              |
|---------------------|-------------------------|--------------|--------------|
| 275,000             | Boykin Lodging Company  | 3,553        | 3,330        |
| 300,000             | Great Wolf Resorts Inc. | 3,549        | 4,007        |
| <b><u>TOTAL</u></b> |                         | <b>7,103</b> | <b>7,337</b> |

**SPECIAL SITUATION STOCKS -- 14.80%**

|                     |                           |               |               |
|---------------------|---------------------------|---------------|---------------|
| 500,000             | Anvil Mining Ltd., common | 3,250         | 3,650         |
| 350,000             | CanWest Global Comm.      | 3,622         | 2,905         |
| 950,000             | Grey Wolf Exploration     | 2,658         | 4,228         |
| 100,000             | Morguard Corp., common    | 2,074         | 3,400         |
| 75,000              | Renasant Financial        | 698           | 752           |
| <b><u>TOTAL</u></b> |                           | <b>12,301</b> | <b>14,935</b> |

**TOTAL COMMON STOCK** 111,779 100,924

**TOTAL PORTFOLIO** 111,780 100,925

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

## *ABC North American Deep-Value Fund (ABC NADVF)*

|                   |                   |
|-------------------|-------------------|
| <b>NAVPS</b>      | <b>\$10.8357</b>  |
| <b>C.G. Dist.</b> | <b>\$0.000000</b> |
| <b>Inc. Dist.</b> | <b>\$0.000000</b> |

*June 30, 2006*

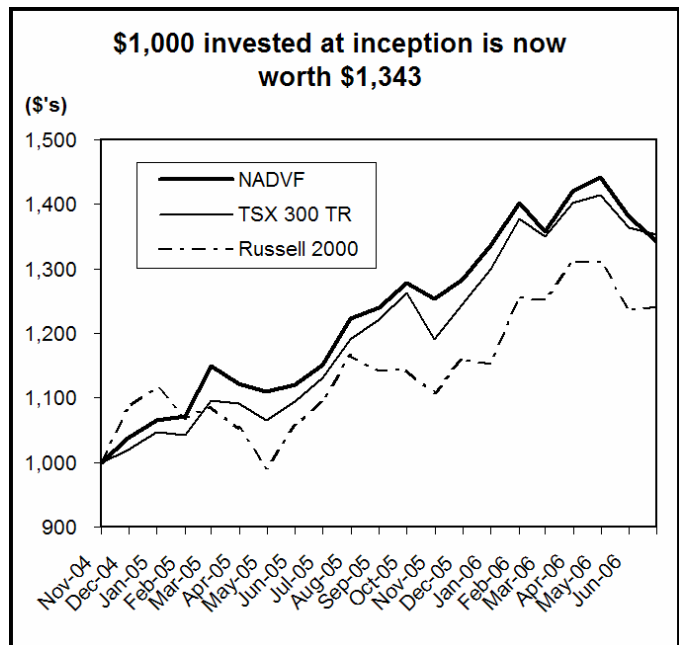
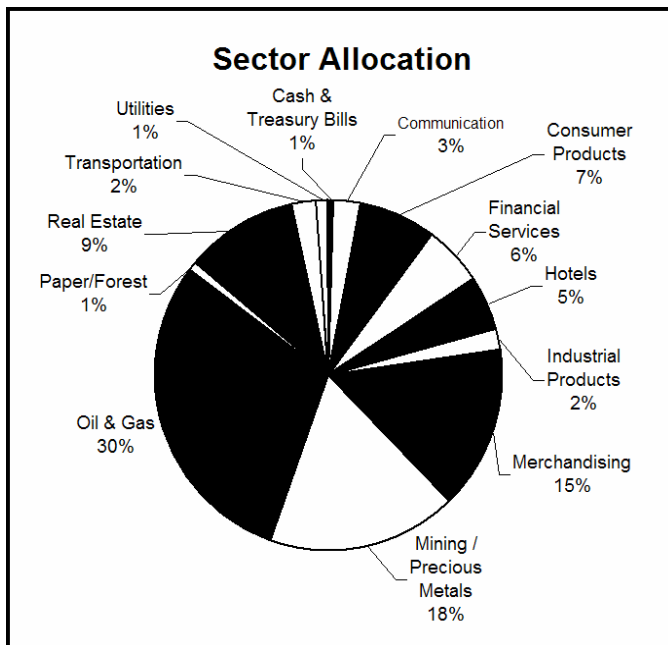
### Objective

*ABC North American Deep-Value Fund searches out fundamentally undervalued Canadian and American stock exchange-listed common shares. This closed-end fund has maximum flexibility to invest in a diversified mix of deep value securities. There is, however, a particular emphasis on micro-caps. The country and asset mix, as well as currency exposure, can vary and has no set limits. The portfolio, ordinarily, will have a mix of 40 to 50 holdings. This fund closed to new money on November 1, 2005.*

### *Performance of the Fund vs. U.S. and Canadian Benchmarks*

| <b>Rates of Return</b> |                  |                     |                  |                |
|------------------------|------------------|---------------------|------------------|----------------|
|                        | <b>ABC NADVF</b> | <b>Russell 2000</b> | <b>Dow Jones</b> | <b>TSX 300</b> |
|                        | <b>(%)</b>       | <b>(%)</b>          | <b>(%)</b>       | <b>(%)</b>     |
| 1 Month                | <b>-2.77</b>     | 0.51                | -0.16            | -0.82          |
| Q2 2006                | <b>-5.50</b>     | -5.29               | 0.37             | -3.50          |
| YTD                    | <b>0.47</b>      | 7.64                | 4.04             | 4.19           |
| 1 Year                 | <b>16.73</b>     | 13.29               | 8.52             | 19.64          |
| Since Inception*       | <b>20.46</b>     | 13.85               | 6.57             | 19.90          |

\*Inception date for the Fund was November 1, 2004



# ABC FUNDS

## ABC North American Deep-Value Fund, Statement of Investment Portfolio

June 30th, 2006

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.1120996

| No. Of Shares        | Description                | Total Cost (\$) | Market Value (\$) |
|----------------------|----------------------------|-----------------|-------------------|
| <b>CASH -- 0.44%</b> |                            |                 |                   |
| 642,021              | Cash                       | 642             | 642               |
| 10                   | RT CAP Cash In Action Fund | 1               | 1                 |
| (19,352)             | Cash - US \$               | (22)            | (22)              |
| 10                   | RT CAP US\$ Cash Fund      | 1               | 1                 |
| <b>TOTAL CASH</b>    |                            | <b>623</b>      | <b>623</b>        |

**COMMON STOCKS -- 99.56%**

**CANADIAN STOCKS -- 53.23 %**

**OIL & GAS/ ENERGY -- 22.92%**

|              |                               |               |               |
|--------------|-------------------------------|---------------|---------------|
| 650,000      | Accrete Energy Inc., common   | 5,119         | 4,550         |
| 540,000      | Anderson Energy Ltd., common  | 4,114         | 2,754         |
| 2,500,000    | Arapahoe Energy Corp.         | 1,625         | 1,088         |
| 1,250,000    | Caribou Resources Corp.       | 2,474         | 2,438         |
| 4,000,000    | Choice Resources              | 3,987         | 3,400         |
| 2,000,000    | Endev Energy Inc.             | 3,204         | 2,960         |
| 850,000      | Grey Wolf Exploration         | 2,378         | 3,783         |
| 636,200      | Pulse Data Inc.               | 1,589         | 1,845         |
| 2,500,000    | Rally Energy Corp.            | 3,489         | 5,825         |
| 700,000      | Rockyview Energy Inc.         | 4,029         | 3,031         |
| 500,000      | Saxon Energy Services , warr. | 0             | 210           |
| 1,000,000    | Saxon Energy Services , units | 4,900         | 4,220         |
| <b>TOTAL</b> |                               | <b>36,909</b> | <b>36,102</b> |

**COMMUNICATION -- 2.63%**

|              |                           |              |              |
|--------------|---------------------------|--------------|--------------|
| 500,000      | CanWest Global Comm. Corp | 5,341        | 4,150        |
| <b>TOTAL</b> |                           | <b>5,341</b> | <b>4,150</b> |

**PAPER & FOREST PRODUCTS -- 0.84%**

|              |                    |              |              |
|--------------|--------------------|--------------|--------------|
| 175,000      | Fraser Papers Inc. | 2,599        | 1,330        |
| <b>TOTAL</b> |                    | <b>2,599</b> | <b>1,330</b> |

**MINERALS/PRECIOUS METALS -- 16.32%**

|              |                               |               |               |
|--------------|-------------------------------|---------------|---------------|
| 2,000,000    | Amerigo Resources Ltd.        | 4,522         | 4,580         |
| 1,500,000    | Avnel Gold Mining Ltd. units  | 1,500         | 1,429         |
| 12,500,000   | Blue Note Metals Inc.         | 3,750         | 4,625         |
| 2,500,000    | Canadian Zinc Corp.           | 1,800         | 2,100         |
| 1,250,000    | Canadian Zinc Corp., warrants | 0             | 488           |
| 1,662,000    | Goldhawk Resources Inc. warr  | 0             | 191           |
| 3,324,000    | Goldhawk Resources Inc. units | 831           | 1,546         |
| 2,525,000    | Ivernia Inc.                  | 3,506         | 4,621         |
| 925,000      | Polaris Minerals              | 4,440         | 4,440         |
| 1,500,000    | Scorpio Mining Corp.          | 1,725         | 1,605         |
| 750,000      | Scorpio Mining Corp., warr.   | 0             | 83            |
| <b>TOTAL</b> |                               | <b>22,073</b> | <b>25,707</b> |

**INDUSTRIAL PRODUCTS -- 1.95%**

|              |                               |              |              |
|--------------|-------------------------------|--------------|--------------|
| 500,000      | Atlas Cold Storage Inc. Trust | 2,986        | 3,070        |
| <b>TOTAL</b> |                               | <b>2,986</b> | <b>3,070</b> |

**REAL ESTATE -- 8.57%**

|              |                                |               |               |
|--------------|--------------------------------|---------------|---------------|
| 1,750,000    | Huntingdon Real Estate Trust   | 4,657         | 3,675         |
| 650,000      | Legacy Hotels Real Estate Trus | 4,637         | 5,525         |
| 713,500      | Royal Host Real Estate Trust   | 3,849         | 4,302         |
| <b>TOTAL</b> |                                | <b>13,144</b> | <b>13,502</b> |

**U.S. STOCKS -- 46.33 %**

**MINERALS / PRECIOUS METALS -- 1.41%**

|              |                               |              |              |
|--------------|-------------------------------|--------------|--------------|
| 2,500,000    | U.S. Silver Corporation units | 2,215        | 2,224        |
| <b>TOTAL</b> |                               | <b>2,215</b> | <b>2,224</b> |

| No. Of Shares          | Description             | Total Cost (\$) | Market Value (\$) |
|------------------------|-------------------------|-----------------|-------------------|
| <b>HOTELS -- 5.08%</b> |                         |                 |                   |
| 275,000                | Boykin Lodging Company  | 3,775           | 3,330             |
| 350,000                | Great Wolf Resorts Inc. | 4,137           | 4,675             |
| <b>TOTAL</b>           |                         | <b>7,912</b>    | <b>8,005</b>      |

**UTILITIES -- 0.55%**

|              |                         |              |            |
|--------------|-------------------------|--------------|------------|
| 50,000       | Maine & Maritimes Corp. | 1,551        | 867        |
| <b>TOTAL</b> |                         | <b>1,551</b> | <b>867</b> |

**OIL & GAS -- 7.07%**

|              |                           |               |               |
|--------------|---------------------------|---------------|---------------|
| 750,000      | Meridian Resource Corp.   | 3,388         | 2,919         |
| 100,000      | Pioneer Natural Resources | 4,605         | 5,161         |
| 125,000      | Stroud Energy Inc, common | 2,344         | 3,058         |
| <b>TOTAL</b> |                           | <b>10,337</b> | <b>11,139</b> |

**MERCHANDISING -- 14.98%**

|              |                                   |               |               |
|--------------|-----------------------------------|---------------|---------------|
| 200,000      | Bassett Furniture Industries Inc. | 4,426         | 4,117         |
| 125,000      | Frisch Restaurants Inc.           | 3,505         | 3,299         |
| 125,000      | Handleman Co.                     | 2,066         | 1,133         |
| 216,406      | J. Alexander's Corp., common      | 1,990         | 2,053         |
| 150,000      | Jo-Ann Stores Inc.                | 2,736         | 2,444         |
| 195,000      | John B. Sanfilippo & Sons         | 3,123         | 2,873         |
| 200,000      | Marsh Supermarkets Inc, "B"       | 2,241         | 2,669         |
| 300,000      | Redhook Ale Brewery Inc.          | 1,291         | 1,228         |
| 120,000      | S&K Famous Brands                 | 2,283         | 2,002         |
| 76,040       | Smith & Wollensky Rest. Group     | 435           | 384           |
| 125,000      | Tandy Brands Accessories Inc.     | 2,218         | 1,440         |
| <b>TOTAL</b> |                                   | <b>26,314</b> | <b>23,641</b> |

**CONSUMER PRODUCTS -- 7.12%**

|              |                           |               |               |
|--------------|---------------------------|---------------|---------------|
| 222,868      | Chromcraft Revington Inc. | 3,193         | 3,148         |
| 275,000      | Coachmen Industries Inc.  | 3,594         | 3,652         |
| 281,999      | Cobra Electronics Corp.   | 2,743         | 2,957         |
| 100,000      | Dominion Homes            | 2,468         | 1,000         |
| 300,000      | Quaker Fabric Corp.       | 2,065         | 454           |
| <b>TOTAL</b> |                           | <b>14,063</b> | <b>11,210</b> |

**TRANSPORTATION -- 2.27%**

|              |                          |              |              |
|--------------|--------------------------|--------------|--------------|
| 125,000      | Sea Containers Ltd., "A" | 2,291        | 660          |
| 125,000      | Seaspan Corporation      | 3,190        | 2,912        |
| <b>TOTAL</b> |                          | <b>5,481</b> | <b>3,573</b> |

**FINANCIAL SERVICES -- 5.60%**

|              |                                  |              |              |
|--------------|----------------------------------|--------------|--------------|
| 102,700      | Merchants Group Inc.             | 3,085        | 3,488        |
| 285,646      | National Atlantic Holdings Corp. | 3,296        | 2,986        |
| 150,000      | The Phoenix Companies Inc.       | 2,055        | 2,349        |
| <b>TOTAL</b> |                                  | <b>8,436</b> | <b>8,823</b> |

**TECHNOLOGY -- 2.18%**

|              |                              |              |              |
|--------------|------------------------------|--------------|--------------|
| 300,000      | Keynote Systems Inc., common | 3,629        | 3,440        |
| <b>TOTAL</b> |                              | <b>3,629</b> | <b>3,440</b> |

**COMMUNICATIONS -- 0.07%**

|              |                            |            |            |
|--------------|----------------------------|------------|------------|
| 25,000       | Regent Communications Inc. | 100        | 114        |
| <b>TOTAL</b> |                            | <b>100</b> | <b>114</b> |

**TOTAL COMMON STOCK**

|                        |  |                |                |
|------------------------|--|----------------|----------------|
|                        |  | <b>159,362</b> | <b>153,344</b> |
| <b>TOTAL PORTFOLIO</b> |  | <b>159,984</b> | <b>153,967</b> |

## ABC Dirt-Cheap Stock Fund (ABC DCSF)

June 30, 2006

|                   |                   |
|-------------------|-------------------|
| <b>NAVPS</b>      | <b>\$9.6183</b>   |
| <b>C.G. Dist.</b> | <b>\$0.000000</b> |
| <b>Inc. Dist.</b> | <b>\$0.000000</b> |

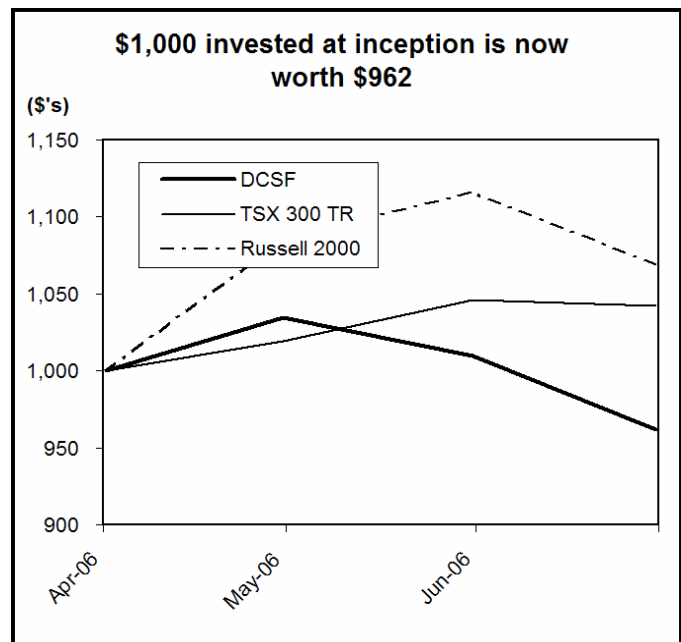
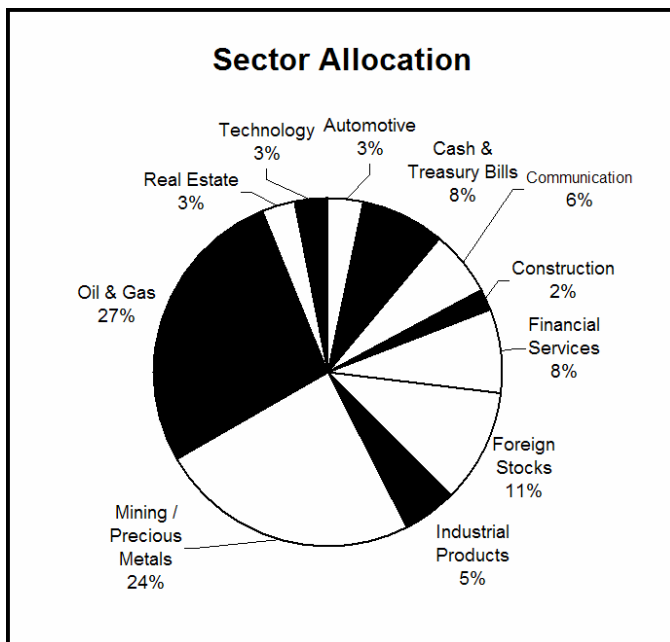
### Objective

ABC Dirt-Cheap Stock Fund is a "go-anywhere in the world" equity fund with unlimited investment flexibility. This deep-value fund has no company-size investment restrictions, and, as a result, can opportunistically purchase overlooked, undervalued and less liquid micro-capitalization stocks. We expect this fund to have a mix of 40-60 holdings comprised of Canadian, U.S. as well as Far East, Australian and European equities. The fund will be closed to new money after September 1, 2006.

### Performance of the Fund vs. U.S. and Canadian Benchmarks

| Rates of Return          |              |              |           |         |
|--------------------------|--------------|--------------|-----------|---------|
|                          | ABC DCSF     | Russell 2000 | Dow Jones | TSX 300 |
|                          | (%)          | (%)          | (%)       | (%)     |
| 1 Month                  | <b>-4.74</b> | 0.51         | -0.16     | -0.82   |
| YTD (from April 1, 2006) | <b>-3.82</b> | -5.29        | 0.37      | 4.19    |
| Since Inception*         | <b>-3.82</b> | -5.29        | 0.37      | 4.19    |

\*Inception date for the Fund was April 1, 2006



# ABC FUNDS

## *ABC Dirt-Cheap Stock Fund, Statement of Investment Portfolio* June 30, 2006

*all dollar amounts in thousands (cdn\$)*

| No. Of Shares        | Description                | Total Cost (\$) | Market Value (\$) |
|----------------------|----------------------------|-----------------|-------------------|
| <b>CASH -- 7.64%</b> |                            |                 |                   |
| 5,595,464            | Cash                       | 5,595           | 5,595             |
| 0                    | RT CAP Cash In Action Fund | -               | -                 |
| 1,232,860            | Cash - US \$               | 1,371           | 1,371             |
| 0                    | RT CAP US\$ Cash Fund      | -               | -                 |
| <b>TOTAL CASH</b>    |                            | <b>6,967</b>    | <b>6,967</b>      |

**COMMON STOCKS -- 95.90%**

**CANADIAN STOCKS -- 52.82%**

**OIL & GAS/ ENERGY -- 18.39%**

|              |                              |               |               |
|--------------|------------------------------|---------------|---------------|
| 500,000      | Accrete Energy Inc., common  | 3,815         | 3,500         |
| 500,000      | Anderson Energy Ltd., common | 3,317         | 2,550         |
| 700,000      | Caribou Resources Corp.      | 1,794         | 1,365         |
| 2,000,000    | Choice Resources Corp        | 1,866         | 1,700         |
| 690,000      | Choice Resources Corp, warr  | 0             | 14            |
| 850,000      | Pacific Stratus Energy Ltd.  | 2,550         | 2,720         |
| 500,000      | Rockyview Energy Inc.        | 3,026         | 2,165         |
| 650,000      | Saxon Energy Services, commc | 3,042         | 2,743         |
| <b>TOTAL</b> |                              | <b>19,408</b> | <b>16,757</b> |

**COMMUNICATION -- 3.18%**

|              |                           |              |              |
|--------------|---------------------------|--------------|--------------|
| 350,000      | CanWest Global Comm. Corp | 3,385        | 4,442        |
| <b>TOTAL</b> |                           | <b>3,385</b> | <b>4,442</b> |

**REAL ESTATE -- 2.90%**

|              |                               |              |              |
|--------------|-------------------------------|--------------|--------------|
| 500,000      | Lanesborough Real Estate Trst | 3,015        | 2,650        |
| <b>TOTAL</b> |                               | <b>3,015</b> | <b>2,650</b> |

**MINERALS/PRECIOUS METALS -- 21.51%**

|              |                               |               |               |
|--------------|-------------------------------|---------------|---------------|
| 2,500,000    | African Copper, sub. Receipts | 4,000         | 3,625         |
| 1,500,000    | Amerigo Resources Ltd.        | 3,669         | 3,435         |
| 720,000      | Anvil Mining Ltd.             | 4,680         | 5,256         |
| 12,500,000   | Blue Note Metals Inc.         | 3,750         | 4,625         |
| 1,500,000    | First Nickel Inc., common     | 1,709         | 990           |
| 1,500,000    | Scorpio Minig Corp.           | 1,725         | 1,605         |
| 750,000      | Scorpio Minig Corp., warrants | 0             | 83            |
| <b>TOTAL</b> |                               | <b>19,534</b> | <b>19,619</b> |

**INDUSTRIAL PRODUCTS -- 4.98%**

|              |                             |              |              |
|--------------|-----------------------------|--------------|--------------|
| 750,000      | Migao Corp.                 | 2,138        | 2,235        |
| 300,000      | Terravest Income Fund units | 2,570        | 2,580        |
| <b>TOTAL</b> |                             | <b>4,707</b> | <b>4,815</b> |

*exchange rate used is 1.1120996*

| No. Of Shares                | Description              | Total Cost (\$) | Market Value (\$) |
|------------------------------|--------------------------|-----------------|-------------------|
| <b>CONSTRUCTION -- 1.86%</b> |                          |                 |                   |
| 311,400                      | Aecon Group Inc., common | 1,657           | 1,697             |
| <b>TOTAL</b>                 |                          | <b>1,657</b>    | <b>1,697</b>      |

**U.S. STOCKS -- 34.76%**

**TECHNOLOGY -- 3.14%**

|              |                       |              |              |
|--------------|-----------------------|--------------|--------------|
| 250,000      | Keynote Sysytems Inc. | 3,153        | 2,866        |
| <b>TOTAL</b> |                       | <b>3,153</b> | <b>2,866</b> |

**COMMUNICATIONS -- 3.12%**

|              |                       |              |              |
|--------------|-----------------------|--------------|--------------|
| 625,000      | Regent Communications | 3,017        | 2,843        |
| <b>TOTAL</b> |                       | <b>3,017</b> | <b>2,843</b> |

**OIL & GAS -- 8.86%**

|              |                           |              |              |
|--------------|---------------------------|--------------|--------------|
| 750,000      | Meridian Resource Corp.   | 3,258        | 2,919        |
| 100,000      | Pioneer Natural Resources | 4,645        | 5,161        |
| <b>TOTAL</b> |                           | <b>7,903</b> | <b>8,081</b> |

**AUTOMOTIVE -- 3.34%**

|              |                          |              |              |
|--------------|--------------------------|--------------|--------------|
| 150,000      | Superior Industries Inc. | 3,054        | 3,051        |
| <b>TOTAL</b> |                          | <b>3,054</b> | <b>3,051</b> |

**MINERALS/PRECIOUS METALS -- 2.44%**

|              |                             |              |              |
|--------------|-----------------------------|--------------|--------------|
| 2,500,000    | US Silver Corporation units | 2,220        | 2,224        |
| <b>TOTAL</b> |                             | <b>2,220</b> | <b>2,224</b> |

**FINANCIAL SERVICES -- 7.63%**

|              |                                |              |              |
|--------------|--------------------------------|--------------|--------------|
| 62,500       | Kansas City Life Insurance Co. | 3,514        | 2,931        |
| 200,000      | Unum Provident Corp.           | 4,033        | 4,032        |
| <b>TOTAL</b> |                                | <b>7,548</b> | <b>6,964</b> |

**FOREIGN STOCKS -- 10.74%**

|              |                                |               |              |
|--------------|--------------------------------|---------------|--------------|
| 1,560,420    | Challenger Wine Trust          | 1,011         | 902          |
| 1,412,000    | Fortune Real Estate Inv. Trust | 1,254         | 1,213        |
| 3,220,000    | Fountain Set Holdings Ltd.     | 1,412         | 1,222        |
| 4,855,000    | FuYu Corp. Ltd., common        | 1,619         | 1,332        |
| 17,278,000   | Playmate Holdings              | 2,187         | 2,029        |
| 5,000,000    | Thakral Holdings Group         | 3,079         | 3,098        |
| <b>TOTAL</b> |                                | <b>10,561</b> | <b>9,796</b> |

**TOTAL COMMON STOCK** 89,161 85,803

**TOTAL PORTFOLIO** 96,128 92,770

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

## Portfolio Managers: Aging Like Fine Wine

*There has never been a boy painter  
nor can there be. The art requires a  
long apprenticeship, being mechanical  
as well as intellectual.*

**John Constable**  
**19<sup>th</sup>-Century English landscape painter**

Hockey, baseball, basketball and tennis players tend to peak with maximum athletic performance in their late twenties to early thirties. North American football, due to the severe physical contact of the sport leads to shorter athletic careers and an earlier peak in top performance.

Rarely, in any of these five major sports, do players continue on into their early forties. While their minds may be willing, unfortunately, their battle-scarred knees, dislocated shoulders, broken ribs and serious concussions impede their athletic longevity. In summary, their careers are relatively short, compact and rather intense.

Interestingly, the careers of investment professionals along with landscape painters take a completely different course. Accomplished painters and successful investors are neither born nor are they overnight successes. Through extensive trial and error, painters and portfolio managers mature and improve over time; they age like fine wine. While a hockey player may be scoring hat-tricks and a point guard may be shooting three-pointers in their late twenties to early thirties, comparatively-

aged portfolio managers, at that time, are considered mere rookies.

It is my opinion that it takes at least several business cycles, countless missed opportunities, occasional misfortunate stock selections and numerous successes to forge the character of a well-rounded portfolio manager. But this process takes time just as no one expects a 25-year-old to paint a Mona Lisa or a Last Supper. The point is, successful portfolio managers do not mature until their mid-forties or early fifties. At that time a manager has had 20-25 years of battle-hardened work experience and has, ultimately, honed a multitude of invaluable investment skills and tools.

In summation, the fact is that unlike numerous other lines of work, the older and more experienced an investment manager becomes, the more priceless his worth.

**Irwin A. Michael, CFA**

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