AGF American Growth Class

FUND COMMENTARY SECOND QUARTER 2017 **FOR ADVISOR USE WITH INVESTORS**

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGER:
U.S. equity	S&P 500 Net Return Index†	April 1957	Bottom-up growth	AGF Investments Inc. Tony Genua

Market overview

During the second quarter of 2017, global equities continued to move higher, following a rally that followed the U.S. election in early November of last year. Secular growth sectors such as Information Technology continued to provide market leadership, a trend that began in the first quarter. As such, portfolios with growth investment styles generally outperformed value, as opposed to 2016 when growth severely underperformed value.

From a macroeconomic perspective, data remained supportive and in some cases, saw acceleration. In the U.S., though non-farm payrolls trended lower than the first two months of 2017 which saw an average of 231,000 gains per month, the unemployment rate remained at cycle lows of 4.3%. Meanwhile, the ISM Manufacturing Index continued to accelerate well into expansion territory, hitting a high of 57.8 in June, a level not reached in three years. Similarly, the services sector remained robust, with the ISM Non-Manufacturing PMI at 56.9, signalling continued strong expansionary conditions. In response to the strong macroeconomic data, the U.S. Federal Reserve raised the Fed Funds rate in June, the second hike this far in 2017.

Fund overview

As at June 30, 2017	3 mo.	YTD	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF American Growth Class (%) (MF series, net of fees)	2.5	9.5	20.5	14.4	17.5	7.8	8.7
AGF American Growth Class (%) F Series	2.9	10.2	22.4	16.1	19.0	9.1	2.5
S&P 500 Net Return Index† (%)	0.2	5.1	17.5	16.6	20.1	9.2	-
U.S. Equity Category Average	0.6	5.0	15.0	12.0	16.3	6.5	-
Quartile Rank	1	1	1	2	2	2	-

Source: AGF Investment Operations, Morningstar. * Performance start date (PSD): MF Series - June 28, 1957, F Series – January 20, 2000.

During the quarter, the Fund outperformed the benchmark S&P 500 Index primarily as a result of strong security selection. Selection in the Information Technology, Health Care and Consumer Discretionary sectors contributed to relative performance. Overall sector allocation effect was neutral, as an overweight to Information Technology and underweight to Energy contributed, though this was offset by an overweight to Telecommunication Services, which detracted. In terms of individual holdings, the top contributors during the quarter were Nvidia Corp., Intuitive Surgical Inc., and Edwards Lifesciences Corp., while the top detractors were T-Mobile US Inc., Primerica Inc., and Newfield Exploration Co.

The top contributor during the period was Nvidia Corp. which saw its shares rise 30% during the quarter. Nvidia designs and sells graphics and video processing chips for PC's, workstations, game consoles, tablets and smartphones. Its chips are also used for general purpose computing in servers and supercomputers. The company is in the midst of a transformation from traditional PC graphics chip vendor into a supplier into high-end gaming, enterprise graphics, cloud, artificial intelligence and automotive markets. During the period, Nvidia reported another strong quarterly result, with particular strength on its data center side, where revenues came in at a robust $409 million vs. consensus of $318 million. Strong data center revenues were driven by deep learning & artificial intelligence-led cloud virtualization and high performance computing demand. We continue to like Nvidia, as it is at the forefront of several secular trends including gaming & virtual reality, cloud services, autonomous vehicles and artificial intelligence.

The top detractor during the period was T-Mobile US Inc. T-Mobile is the fourth largest wireless carrier in the U.S. and has been gaining market share on its peers with innovative and disruptive strategies. This quarter, after a strong rally for its shares throughout 2016 and the first quarter of 2017, T-Mobile's shares took a breather, particularly in the midst of broader weakness for the Telecommunication Services sector. T-Mobile has also been involved in merger discussions with Sprint, which would help accelerate scale and deployment opportunities, though management has been careful to indicate that it would not pursue a deal that would be irrational from a capital structure perspective. To date, no deal has been finalized. Even as a stand-alone entity, however, we continue to like T-Mobile, given their propensity to innovate in the sector and the market share gains that the company has been able to achieve.

Outlook

Overall we remain bullish, but with caution. Last quarter we wrote that we saw a building of near-term risks which may result in short-term volatility. Though we have yet to see a correction, one will inevitably emerge at some point and may be triggered by factors such as additional rate hikes, delay of implementation of legislative initiatives, policy mishaps including trade protectionism, or simply a function of equity market seasonality.

However, we would advise clients to remain invested and to use corrections as buying opportunities, as in our view there remains more scope for continued economic expansion. We believe much of the current expansion was spent recovering lost ground during one of the worst recessions in history in 2008, and that this cycle's sub-par growth has meant that we have not yet arrived at an environment with investor exuberance and systemic imbalances that have historically signalled the end of a cycle.

The current global macroeconomic environment looks very supportive, given the positive PMI readings seen around the world. The U.S. labour market remains robust, with job growth remaining strong and unemployment at cycle-lows. Yet, investor sentiment for U.S. equities remains fairly tempered, in contrast to what is typically seen in market peaks, which generally occur amidst investor euphoria. Thus, we view the current environment of high levels of investor skepticism and a lack of retail participation as a sign that the current cycle has yet to run its course.

We continue to focus on the fundamentals of the companies we own, seeking out dynamic growth opportunities that we believe are well positioned to benefit from secular themes – themes such as Cloud, Social Media, e-Commerce, autonomous and electric vehicles, etc. We believe that over the long term, these companies that are capturing market share and delivering superior growth will outperform and deliver alpha to our unitholders.

† On December 1, 2015, the Fund's benchmark changed from the S&P 500 Total Return Index to the S&P 500 Net Return Index. The benchmark change was applied from this date forward.

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