AGF American Growth Class

FUND COMMENTARY FIRST 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 first quarter of 2017, global equities continued to move higher, continuing a rally that followed the U.S. election in early November. However, leadership in the market shifted, as the reflation trade that followed the election of Donald Trump to the U.S. Presidency in late 2016 waned, with Financials and cyclical leadership giving way to secular growth sectors. As such, portfolios with growth investment styles performed relatively better in comparison to late-2016 when growth severely underperformed value.

From a macroeconomic perspective, economic data remained supportive and in some cases, saw acceleration. In the U.S., non-farm payrolls exceeded market expectations for the first two months of 2017, averaging gains of 231,000 per month, which was well above consensus, as well as the pace in 2016. Meanwhile, the ISM Manufacturing Index continued to accelerate well into expansion territory, hitting a high of 57.7 in February before settling at 57.2 in March. Similarly, the services sector remained robust, with the ISM Non-Manufacturing PMI at 57.6, signalling strong expansion conditions. In response to the strong macroeconomic data, the U.S. Federal Reserve raised the federal funds rate for a third time this cycle in March and telegraphed more rate hikes to come in 2017 while also mentioning that any future hikes would be “gradual”.

Fund overview

As at Mar. 31, 2017	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF American Growth Class (%) (net of fees)	6.8	21.5	13.4	16.2	7.4	8.7
S&P 500 Net Return Index† (%)	4.9	19.2	17.1	19.8	9.0	-
U.S. Equity Category Average	4.3	16.0	12.3	15.3	6.5	-
Quartile Rank	1	1	2	2	2	-

Source: AGF Investment Operations, Morningstar. * Performance start date (PSD): June 28, 1957.

During the quarter, the Fund outperformed the benchmark S&P 500 Net Index, primarily as a result of strong security selection. Selection in the Financials, Telecommunication Services, Energy, Consumer Discretionary, Materials and Real Estate sectors contributed to relative performance, as did an overweight allocation to Information Technology. These factors far outweigh the detracting factors for the quarter, which included modestly negative security selection in Consumer Staples and Health Care. In terms of individual holdings, the top contributors during the quarter were Adobe Systems Inc., Albemarle Corp. and Applied Materials Inc., while the top detractors were TD Ameritrade Holding Corp., Vulcan Materials and Concho Resources Inc.

The top contributor during the period was Adobe Systems Inc. Adobe’s shares climbed steadily during the quarter, boosted by strong sentiment with impressive quarterly results and a record turnout at its Digital Marketing conference. With IT budgets shifting towards the digital front-office, Adobe is one of the best positioned software companies reaping the benefits. Through its cloud transformation, its Digital Media business has experienced substantial growth with a long runway ahead, while its Digital Marketing business continues to take share of wallet as companies shift to cloud models and increase investment in digital marketing channels. We believe Adobe is well positioned to deliver above average revenue and earnings growth in the coming years.

The top detractor during the period was TD Ameritrade. TD Ameritrade is a leading online brokerage in the U.S., offering trading, investment and advice solutions. During the quarter, another round of commission reductions in the online brokerage industry caused investor concern over fee compression. In response to reductions from its competitors, TD Ameritrade reduced its base commission rate in early March. Despite the cuts, we remain optimistic on TD Ameritrade, given significant accretion from its recent acquisition of Scottrade, healthy trading activity to start 2017, and rising interest rates. Over the long-term, we continue to believe that TD Ameritrade will continue to gain share of wallet as more investors seek low cost investment solutions facilitated by discount brokers.

Outlook

We remain bullish overall, yet with caution as we monitor a building of near-term risks, which may result in short-term volatility. Given the sizable rally that we have already experienced, a correction will inevitably emerge at some point, and may be triggered by factors such as additional rate hikes, delayed implementation of legislative initiatives, policy mishaps including trade protectionism, volatility caused by European election results or simply the end of the most seasonally favourable time for equities.

However, we would advise investors to stay long the market and to use corrections as buying opportunities, as in our view there remains more scope for continued economic expansion and an extended bull market rally. We believe much of the current expansion has been 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, which have historically signalled the end of a cycle.

Indeed, investor sentiment for U.S. equities remains fairly tempered, with a combined US$70 billion in redemptions from U.S. domestic equity mutual funds and exchange traded funds in 2016. This condition is not consistent with 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 in the market 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 such as Cloud, Social Media and e-Commerce. We believe that over the long term, companies that are capturing market share and delivering superior growth will outperform and deliver alpha to unitholders of the Fund.

† 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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