AGF U.S. Small-Mid Cap Fund

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. small-/mid-cap equity	S&P MidCap 400 Total Return Index‡	June 1993	Bottom-up, earnings growth momentum	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 (Fed) 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 U.S. Small-Mid Cap Fund – A (%) (net of fees)	1.3	12.1	21.5	13.0	14.1	6.9	9.5
AGF U.S. Small-Mid Cap Fund – F (%) (net of fees)	1.6	12.8	23.2	14.5	15.6	8.1	-
S&P MidCap 400 TR Index (%)	-0.7	2.2	18.9	15.8	21.5	11.0	-
U.S. Small/Mid Cap Equity Category Avg	1.0	4.7	16.9	10.5	15.5	7.4	-
Quartile Rank	2	1	1	2	3	3	-

Source: AGF Investment Operations.
* Performance start date (PSD): June 16, 1993.

AGF U.S. Small-Mid Cap Fund outperformed its benchmark during the quarter, primarily as a result of strong security selection. Security selection in the Information Technology and Materials sectors were the biggest contributors to relative performance. An overweight allocation to Information Technology and underweight to Consumer Staples also contributed to performance. These factors more than offset the detracting factors during the quarter, which included negative selection in Health Care and Industrials.

In terms of individual holdings, the top contributors during the quarter were Shopify Inc., U.S. Concrete Inc., and Universal Display Corp., while the top detractors were Nevro Corp., U.S. Silica Holdings Inc., and Evercore Partners Inc.

Shopify Inc. was the top contributor during the period with its shares increasing 24.3%. Shopify is a leading provider of cloud-based commerce solutions that helps businesses create an omni-channel experience, showcasing a merchant's brand across all sales channels (e.g. web, tablet, mobile, social media, etc.). Shopify saw its shares steadily climb during the period as the company posted another strong quarter, beating expectations across the board. With considerable runway ahead and multiple upside drivers, we believe Shopify is well positioned for growth in the years ahead.

Nevro Corp. was the top detractor during the quarter with its shares down 17.2%. Nevro is a pure-play neuromodulation company focused on the treatment of chronic pain. The company has developed the Senza system, a Spinal Cord Simulation system using the company's proprietary high frequency therapy. The company missed consensus expectations during the quarter, as they did not hire enough field managers to oversee the rapid growth in reps. However, we see this as a temporary issue as the company's products remain superior clinically and the salesforce issue should resolve over the coming quarter. The U.S. spinal cord market remains attractive and is the fastest growing medical technology market outside of TAVR (Transcatheter Aortic Valve Replacement).

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, 2013, the Fund's benchmark changed from the Russell 2500 Total Return Index to the S&P MidCap 400 Index. The benchmark change was applied from this date forward. The benchmark performance is as of the nearest month end to the performance start date of the Fund.

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