AGF Global Select Fund

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

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGER:
Global equity	MSCI (All Country) World Total Return Index	February 1996	Bottom-up, earnings growth momentum	AGF Investments Inc. Tony Genua

Market overview

During the second quarter of 2017, global equities continued to move higher, rallying after 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.

Meanwhile, in Europe, worries surrounding the potential impact of geopolitical events went largely unfounded. In France, centrist candidate Emmanuel Macron won the Presidency, defeating populist far-right candidate Marine Le Pen. In Germany, polls showed German Chancellor Angela Merkel extending her lead in the upcoming German elections in September 2017. Finally, the U.K. elections resulted in a minority government led by Theresa May's Conservatives, complicating the ongoing Brexit discussions with the EU.

Fund overview

As at June 30, 2017	3 mo.	YTD	1 yr.	3 yr.	5 yr.	10 yr.
AGF Global Select Fund – A (%) (net of fees)	7.2	17.4	28.1	15.0	16.8	5.4
AGF Global Select Fund – F (%) (net of fees)	7.7	18.4	30.4	17.1	18.5	6.7
MSCI (All Country) World Total Return Index (%)	1.7	7.8	19.8	12.5	16.7	6.4
Global Equity Category Average (%)	1.8	6.9	15.2	9.1	13.4	4.7
Quartile Rank	1	1	1	1	1	2

Source: AGF Investment Operations, Morningstar.
* Performance start date (PSD): Feb. 21, 1996.

AGF Global Select Fund outperformed the MSCI (All Country) World Total Return Index during the quarter, primarily as a result of strong security selection, particularily within the Information Technology and Consumer Discretionary sectors. Selection in Health Care also contributed, as did an underweight to Energy. These contributing factors more than offset the negative factors during the quarter, which included negative security selection in Telecommunication Services.

From a geographic perspective, the Fund's allocation to the United States, Argentina and Canada contributed, while the United Kingdom detracted. No other country allocations detracted during the quarter.

In terms of individual holdings, the top contributors during the period were Mercadolibre Inc., Shopify Inc. and Square Inc., while the top detractors were T-Mobile US Inc., 8x8 Inc. and Evercore Partners Inc.

Mercadolibre Inc. was the top contributor during the quarter, with its shares rising 15.6%. Mercadolibre is Latin America's largest e-Commerce operator, with a presence in 20 countries including Brazil, Argentina, Mexico, Colombia, Chile and Venezuela. Often thought of the "Amazon or eBay of Latin America", the company offers its audience of ~50 million monthly active users an eco-system of six related e-commerce services: MercadoLibre marketplace (60% of revenues), MercadoPago payments solution (similar to PayPal, 23% of revenues), along with Mercado Envios shipping service (5% of revenue), classified, advertising and other (13% of revenue). In May, the company reported a great quarter that beat consensus estimates– in USD terms, the top line grew 74% year over year, while EPS grew by 60%. The company continues to grow at very strong rates and has established leadership in its markets with unique visitors. E-commerce is still in its earlier days in Latin America with regional penetration low – as such, we see considerable opportunity for further growth for Mercadolibre.

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 paused, particularly in the midst of broader weakness for the Telecommunicatsions 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.

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