AGF Global Select Fund

FUND COMMENTARY FIRST 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 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 March 31, 2017	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Global Select Fund (%) (net of fees)	9.5	22.8	11.2	13.9	5.1	5.9
MSCI (All Country) World Total Return Index (%)	6.0	18.4	12.4	15.4	6.1	6.5
Global Equity Category Average (%)	4.5	14.2	8.8	12.1	4.5	-
Quartile Rank	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. Security selection in the Information Technology and Consumer Discretionary sectors were the biggest contributors to relative performance. Selection in Telecomunication Services, Materials and Health Care also contributed, as did an overweight to Information Technollogy and underweight to Energy. These contributing factors more than offset the negative factors during the quarter, which included negative security selection in Financials and Consumer Staples.

From a geographic perspective, the portfolio’s allocation to Canada, Argentina, and the United States contributed, while Taiwan, Norway and South Korea detracted.

In terms of individual holdings, the top contributors during the period were Shopify Inc., Mercadolibre Inc. and Sony Corp., while the top detractors were TD Ameritrade Holding Corp., Wisdomtree Investments Inc. and Ted Baker PLC.

Shopify Inc. was the top contributor during the period, as its shares increased 57.9%. 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 quarter, as the company posted financial results that beat expectations across the board and topped prior guidance. Record net merchant adds and a sequentially stronger gross margin profile were among the highlights. With considerable runway ahead and multiple upside drivers, we believe Shopify is well positioned for growth in the years ahead.

TD Ameritrade was the top detractor during the period as its shares declined 11.1%. 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.

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