AGF FUND INSIGHT

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5 Questions Heading Into 2023

Tony Genua
SVP & Portfolio Manager
Co-Chair, AGF Asset
Allocation Committee
AGF Investments Inc.

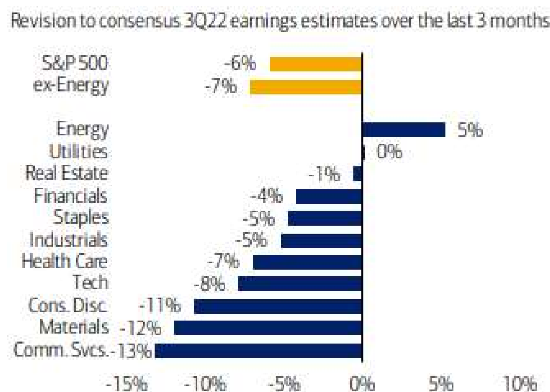
Jonathan Lo
VP, Growth Equities
AGF Investments Inc.

1.) Will Energy continue to lead next year?

On the Energy sector we remain constructive and overweight relative to our benchmarks. Energy equities have outperformed the crude oil price significantly this year, with the US Energy Sector up over 60% YTD while WTI crude oil prices are now below where they started the year. More recently, oil prices are down more than 30% over the past six months to below $75/barrel on worries about global recession and continued China COVID lockdowns. This widening gap between energy equities and oil prices is becoming worrisome for investors, who believe the stocks are due to "catch-down" to the commodity price, which is possible to some extent, but it is also likely that the crude oil correction has been too swift and prices should rebound into winter. We continue to remain overweight the energy sector but with a focus on structural winners that don't simply rely on spot commodity prices (e.g. Cheniere Energy, Marathon Petroleum, New Fortress Energy).

In a period of rising inflation and interest rates, Energy has been the only sector showing positive earnings revisions (see Figure 1) and rising free cash flow, driving increased shareholder returns and decreased balance sheet leverage – and thus little impact from the rising cost of debt. Furthermore, past recessions have shown minimal lasting (nor material) impact on oil & gas demand. The Energy sector is unlikely to continue outperforming the broader market to the same degree once the U.S. Federal Reserve (the "Fed") starts pivoting on interest rate hikes - however, it remains quite feasible that oil & gas prices remain in a band around current levels over the coming years, driving very strong profits for Energy companies.

Figure 1 – S&P 500 Index Earnings Revisions by Sector



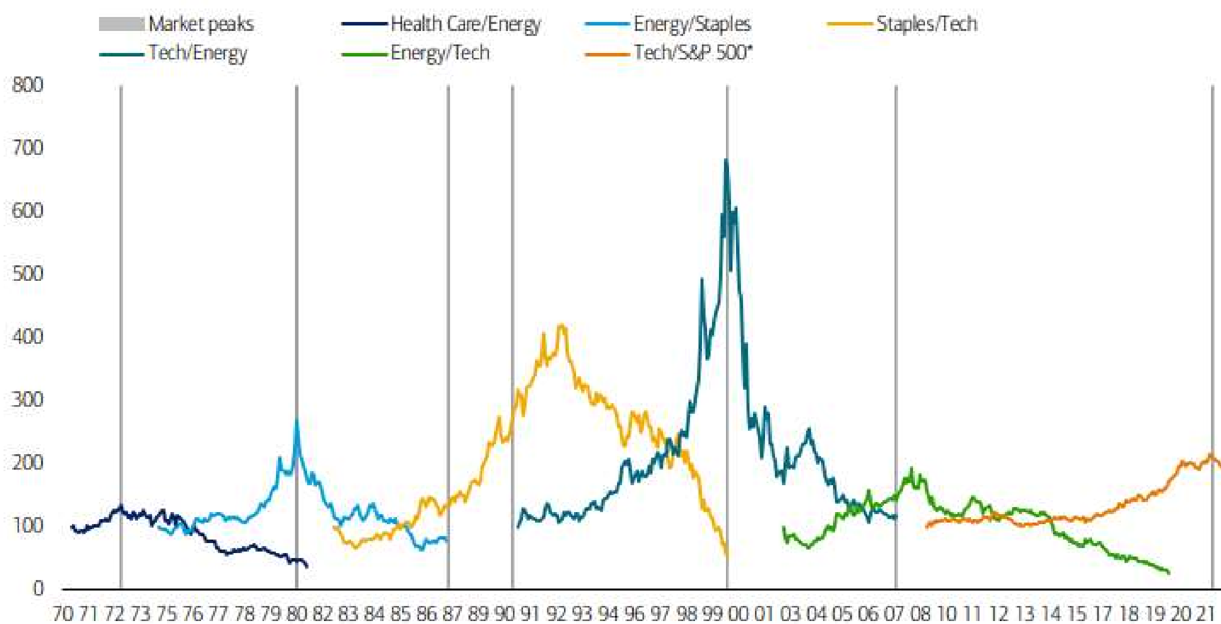
Source: Bank of America Merrill Lynch, as of October 2022

In the near-term, there has been a see-saw approach on China energy demand as the government COVID policy is changing and thus has significant ramifications for demand coming out of Asia. Another recent catalyst is the price cap on Russia oil purchases, which resulted in Russia responding by saying they will curtail production. Relaxing COVID restrictions in China and the price caps impact might be near-term catalysts for further gains in oil prices.

In recent months, we did make modest reductions in the two largest weights of Cheniere Energy and Marathon Petroleum. The portfolios also introduced a new energy holding of Schlumberger (now known as SLB), a leading energy service company. This new small position in this company helps to diversify our Energy position in AGF American Growth Class and AGF Global Select Fund away from the emphasis on liquefied natural gas (Cheniere) and on refining marketing (Marathon Petroleum).

Energy has clearly taken leadership this year, and in our view, there may still be room to go. An examination of previous cycles of market leaders would suggest sector leadership seems to last for a while. Figure 2 illustrates how market leaders in one cycle tend to underperform in the next cycle, with the relative performance of the new market leader vs. the old market leader typically emerging from bear markets.

Figure 2 – Relative Performance of Prior Bull Market Leader vs. Next Bull Market Leader (Beginning of bull market indexed to 100)



Source: Bank of America Merrill Lynch, as of November 2022

2.) How do you justify being a growth manager with an overweight to Energy and underweight to Technology?

It is certainly true that on style maps such as Morningstar and eVestment, our portfolios have shifted from the very high growth quadrant towards more a more core/growth orientation. This is partially by design – as we have written about in previous pieces, we have been avoiding high valuation and unprofitable stocks this year.

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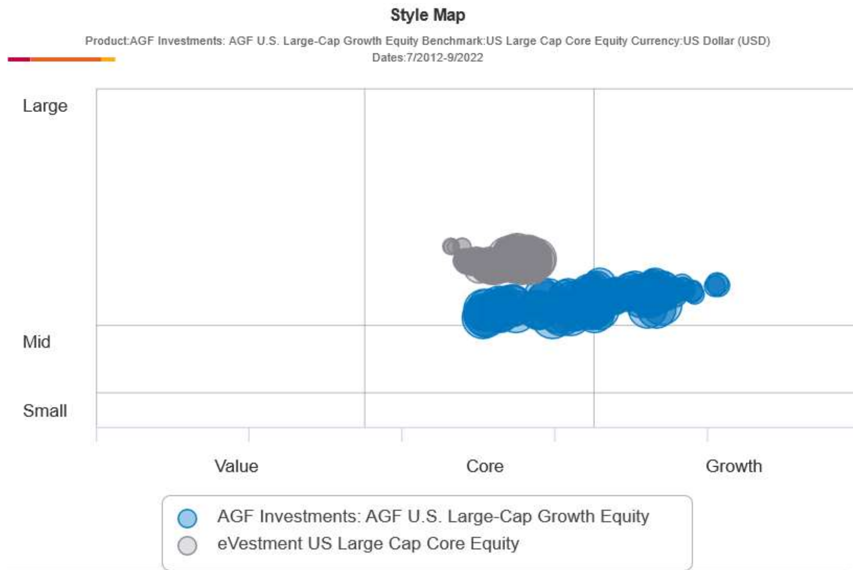
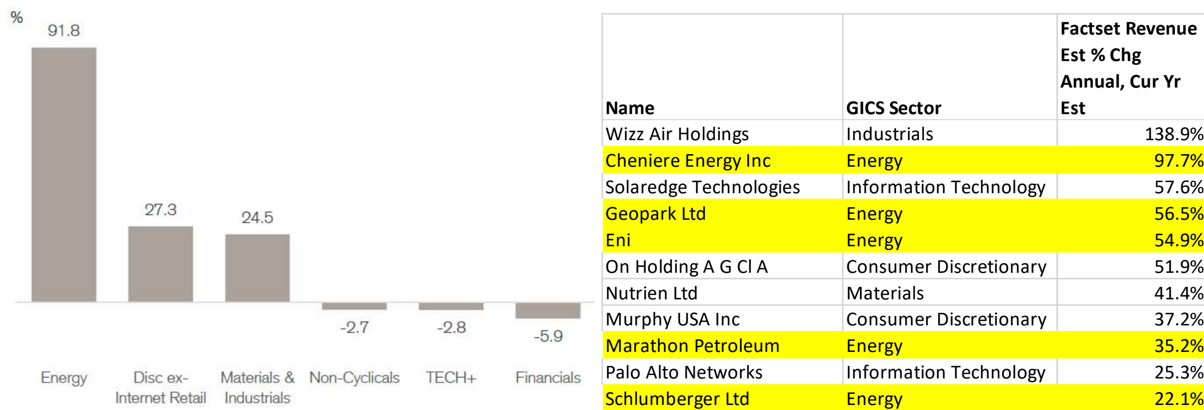
Figure 3 – eVestment 10-Year Style Map Trail – AGF U.S. Large Cap Growth (AGF American Growth Class) vs. Large Cap Core Equity Peer Group



Source: eVestment, as of November 2022

However, growth is not exclusive to the Technology sector – we would point out that the sector with the best growth over the past two years has been Energy. Within AGF Global Select Fund, many of our top revenue growers this year have been Energy companies (as illustrated in Figure 4).

Figure 4 – S&P 500 Index H2/22 EPS Growth by Sector (LHS), AGF Global Select Fund Top Revenue Growers Current Fiscal Yr vs. Last



Name	GICS Sector	Factset Revenue Est % Chg Annual, Cur Yr Est
Wizz Air Holdings	Industrials	138.9%
Cheniere Energy Inc	Energy	97.7%
Solaredge Technologies	Information Technology	57.6%
Geopark Ltd	Energy	56.5%
Eni	Energy	54.9%
On Holding A G Cl A	Consumer Discretionary	51.9%
Nutrien Ltd	Materials	41.4%
Murphy USA Inc	Consumer Discretionary	37.2%
Marathon Petroleum	Energy	35.2%
Palo Alto Networks	Information Technology	25.3%
Schlumberger Ltd	Energy	22.1%

Source: Credit Suisse (LHS), as of September 2022, Panaray (RHS), as of December 2022

And while we have constructed a portfolio with a lower median price/earnings multiple than the benchmark, our growth metrics remain above average relative to the benchmark on both revenue and earnings growth, as illustrated in Figure 5.

Figure 5 – AGF Global Select Fund Portfolio Characteristics – Growth Metrics

	AGF Global Select	MSCI All Country World Index
Revenue Growth		
Latest Four Quarters	17.8%	12.6%
Latest Quarter	16.3%	12.2%
Revenue Growth 3Y Historical	9.3%	8.6%
Earnings Growth		
2022 vs. 2021	29.2%	16.8%
2023E vs. 2022	15.1%	11.0%
Long-Term Growth Rate	14.7%	10.2%

Source: AGF Investments Inc., as of September 30, 2022

3.) Should we be worried if there is a recession next year?

As we wrote in a recent AGF Fund Insight "When Will We Know the Worst is Over?", we believe the impending recession is likely to be one of the milder variety, as there does not appear to be the significant imbalances which have triggered larger declines in previous economic downturns. Shallower recessions have been associated with an earlier market decline (given that coming economic weakness is well telegraphed), but with a bottom also found sooner, with the market bottom on average appearing within four months of the start of the recession.

This time around, a 2023 recession may be among the most anticipated of all-time – and yet, if one were to occur, it is important to keep in mind that the stock market is ***anticipatory***. Just as, earlier this year, the market was declining as earnings estimates were rising, the opposite can happen as we enter 2023. Indeed, historically, whenever a negative GDP year occurs, stocks have usually been down the prior year, but have had double digit returns the year of the recession.

Figure 6 – S&P 500 Index Returns in Prior and Current Years of Recessions

S&P 500 Returns During Different GDP Environments

Real GDP Range	# Instances	Average Return (Prior Year)	Median Return (Prior Year)	Average Return (Current Year)	Median Return (Current Year)
< 0%	12	-7.5%	-8.2%	13.6%	19.9%
0 - 2%	8	4.0%	6.0%	0.0%	0.0%
2 - 4 %	28	10.3%	8.7%	9.6%	11.1%
> 4%	27	15.9%	16.5%	9.6%	12.4%
All Years (1947-2021)	*75*	*8.8%*	*10.8%*	*9.2%*	*11.4%*

Source: RBC Capital Markets, as of December 2022.

4.) When will you start buying technology or those high-growth stocks again?

With the long technology-driven bull market from 2008-2020, investors have had a knee jerk reaction to buy these beaten-up stocks each time there has been a bear market rally.

And while there have been short-term trades available, we have continued to resist the urge to plow back into the technology stocks that represented the last leadership regime. Figure 7 illustrates the QQQ ETF (which tracks the NASDAQ Index) relative to the equal weight S&P 500 Index – and what is clear is that leadership from these stocks relative to the broader market has not re-emerged, despite the short-term fluctuations that may have occurred.

Figure 7 – QQQ vs. Equal Weight S&P 500 Relative Performance

Source: Strategas Research, as of December 2022

While there is risk associated with all forms of equity investments, the recent experience with the dramatic sell-off in the high growth stocks which led in 2020 has certainly caused considerable discussion and without question, some material damage to some portfolios. Many have used the ARK Innovation ETF as an illustration of the volatility associated with the high growth, high valuation, long duration-type stocks. This applies equally to the significant upside move as this ETF rose dramatically from the pandemic induced low point in March 2020 ($33.00) to its February 2021 high ($159.70) and the unrelenting downside move as the ETF sunk down to its recent low in October 2022 ($32.51). The round trip over the last three years in the price of the ARK Innovation ETF can be seen in the chart below.

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Figure 8 – ARK Innovation ETF

Source: Panaray, as of December 2022

What can quickly be gleaned from the chart is how there seems to be limited downside protection. After-all, many of the pandemic beneficiaries, having had large run-ups in their stocks, experienced significant downside moves. We can see this aspect of a growth stock coming under pressure, in the great success story of Shopify, which declined 86.6% from its all-time high to its recent low point. This company, which along with other securities having had healthy appreciation, were securities held in our portfolios and allowed the mandates to perform quite well in 2020. We were fortunate enough in reducing our exposure to these types of stocks and so were able to exhibit downside protection when these stocks finally came under pressure.

We believe in the concept of 'margin of safety' first written about by Benjamin Graham in his book "The Intelligent Investor" first published in 1949. In the very last chapter of this book, titled: "Margin of Safety" as the Central Concept of Investment', the subject is addressed in its many facets. As it pertains to the growth investment style, the following was written:

"Thus the growth-stock approach may supply as dependable a margin of safety as is found in the ordinary investment –provided the calculation of the future is conservatively made, and provided it shows a satisfactory margin in relation to the price paid."

When it comes to our mandates, we have espoused the idea of having a sound sell discipline with the first reason (of the four reasons) on why we sell a security being on full valuation. It was this full valuation reason which is why we had sold many of the companies which had gone up sharply. It was these leading market performers that were no longer giving us a feeling of a margin of safety, at least from a valuation perspective. Pertaining to the above quote and from the perspective of determining how the future might unfold and whether it might be considered conservative, we have always exhibited a certain degree of caution and conservatism. That is the reason why, at times, we have been willing to have a more substantial cash position in the portfolios. Moreover, our investment philosophy of 'capturing the market leaders' has given us the flexibility to change our views of how the future will unfold. By starting each day with a white piece of paper, it helps us to ensure that we hold our views of how the investment world will unfold in an objective manner and thus accommodates flexibility. It seems flexibility is a key attribute for active management to achieve its objective.

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5.) What are you doing with the cash position in AGF Global Select Fund?

In AGF Global Select Fund, we have had a higher cash position of 19% since August of this year – that has evidently helped relative performance throughout the market downtrend, but it has also been a source of drag as the market goes through periods of relief rallies.

Overall for the year, our cash position has added 211 bps in relative alpha, but it has been a source of drag since the October 13th lows. Since those lows, AGF Global Select Fund has lagged the MSCI All Country World Index, with the cash position representing approximately 40% of that lag.

We are currently in the process of executing some trades that will bring the cash position down to a lower level, with it likely settling around 12% after the current round of trades.

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Figure 3 – Fund Performance vs. Benchmarks and Category Average

CAD (Annualized, net of fees) as of November 30, 2022	YTD	1 Year	3 Years	5 Years	10 Years
AGF Global Select Fund - Series F (Net)	-5.0%	-5.3%	16.9%	14.4%	17.5%
AGF Global Select Fund - MF Series (Net)	-6.1%	-6.6%	15.3%	12.9%	15.8%
MSCI All Country World Index	-9.2%	-6.5%	7.6%	7.8%	12.6%
Morningstar Global Equity Category	-11.0%	-8.3%	5.6%	5.7%	9.7%
Quartile Rank - F Series	1	2	1	1	1
Quartile Rank - MF Series	2	3	1	1	1

Source: AGF Investments Inc. as of November 30, 2022. Morningstar as of November 30, 2022. One cannot invest directly into an index. The Series F includes a 1.22% Management Expense Ratio (MER), while the Series MF version of the fund includes a 2.59% MER, as of March 31, 2022. The number of funds for the Morningstar Global Equity Category for each period are as follows: YTD – 1973, one year – 1911, three years – 1647, five years – 1274, ten years – 624. Morningstar rankings reflect performance as of November 30, 2022 and are subject to change monthly. The rankings are calculated from a fund's total return percentile rank against others in the Global Equity category for the period of one, three, five and 10 years. Percentile ranks always range from 1 (best) to 100 (worst), with all intermediate values spread evenly over that range. The quartile ranking and number of Global Equity funds for AGF Global Select Fund for each period are as follows: one year third quartile (1911 funds), three years first quartile (1647 funds), five years first quartile (1274 funds). For greater detail, see www.morningstar.ca. **Past performance is not indicative of future results.**

CAD (Annualized, net of fees) as November 30, 2022	YTD	1 Year	3 Years	5 Years	10 Years
AGF American Growth Class – Series F (Net)	-1.2%	0.4%	19.7%	15.1%	18.2%
AGF American Growth Class – MF Series (Net)	-2.5%	-1.1%	18.0%	13.4%	16.6%
S&P 500 Net Index*	-8.0%	-4.9%	10.8%	11.3%	16.4%
Morningstar U.S. Equity Category	-8.6%	-5.2%	8.5%	8.9%	13.3%
Quartile Rank – F Series	1	2	1	1	1
Quartile Rank – MF Series	1	2	1	1	1

Source: AGF Investments Inc. as of November 30, 2022. Morningstar as of November 30, 2022. One cannot invest directly into an index. *On December 1, 2015, the Fund's benchmark changed from the S&P 500 Total Return Index to the S&P Net Return Index. The benchmark change was applied from that date forward. The Series F includes a 1.20% management expense ratio (MER) while the Series MF includes a 2.65% MER, as of March 31, 2022. The number of funds for the Morningstar U.S. Equity Category for each period are as follows: YTD – 1419, one year – 1404, three years – 1220, five years – 1000, ten years – 436. Morningstar rankings reflect performance as of November 30, 2022 and are subject to change monthly. The rankings are calculated from a fund's total return percentile rank against others in the U.S. Equity category for the period of one, three, five and 10 years. Percentile ranks always range from 1 (best) to 100 (worst), with all intermediate values spread evenly over that

range. The quartile ranking and number of U.S. Equity funds for AGF American Growth Class for each period are as follows: one year second quartile (1404 funds), three years first quartile (1220 funds), five years first quartile (1000 funds). For greater detail, see www.morningstar.ca. **Past performance is not indicative of future results.**

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