# AGFiQ U.S. Sector Class[1]

## Fund Commentary — First Quarter 2019

### Fund Facts

| Fund category: | Benchmark Index: | Date of inception: | Investment style: | Portfolio Managers | Portfolio advisors: |
|---|---|---|---|---|---|
| U.S. equity | S&P 500 NR Index | August 2013 | Quantitative | AGF Investments Inc. | Highstreet Asset Management, FFCM, LLC. |

## Market overview

Equity markets across the world ended the quarter strong, rebounding from a weak final quarter of 2018. Markets accelerated through the quarter on the back of the dovish Fed pivot and the positive rhetoric emerging from the ongoing US-China trade negotiations. US economic data was mixed with stronger employment numbers to start the quarter but softer employment prints towards the end of the quarter, while GDP and inflation were generally in-line with expectations. The US Federal Reserve (Fed) chose to keep interest rates steady at 2.50%, as they continue to adopt a wait-and-see approach citing data dependence and caution on the evolution of international trade. Commodities posted a strong quarter, as base metals, precious metals, and oil all moved higher, with oil finishing above $60/barrel. The US dollar was strong, while the U.S 10-year benchmark yield decreased significantly in response to the Fed, indicating a pause in interest rate hikes until 2020. The U.S 10-year benchmark yield ended the quarter slightly above 2.4%.

## Fund Overview (Net of Fees $CAD)

| | 3 mo. | 1 yr. | 3 yr. | 5 yr. | 10 yr. | PSD* |
|---|---|---|---|---|---|---|
| AGFiQ U.S. Sector Class | 7.2% | 7.4% | 11.6% | 8.4% | - | 10.5% |
| S&P 500 NR Index | 11.1% | 12.9% | 13.9% | 14.5% | - | 17.0% |

Source: AGF Investment Operations, Morningstar as at March 31, 2019
* Performance start date (PSD): August 19, 2013.

The Fund was renamed AGF U.S. Sector Class effective August 31st, 2015. Highstreet Asset Management and FFCM, LLC were added as portfolio advisors to the Fund effective August 31st, 2015.

AGFiQ U.S. Sector Class Fund returned +7.2% underperforming its benchmark index, the S&P 500 Net Return Index, which returned +11.1% during the three months ended March 31, 2019.

Value as a factor underperformed relative to Growth in Q1 2019, which reversed the Q4 2018 brief rebound of Value, and markets have returned to the longer term theme where Growth has significantly outperformed Value. Value stocks performance in the quarter was positive, just not up as strongly as Growth names rebounded from the Christmas Eve 2018 lows. The Russell 1000 Value Index (proxy for value stocks) returned 1193 bps, which trailed the Russell 1000 Growth Index (proxy for growth stocks) by 417 bps, returning 1610 bps. For the 6 month period ending 03/31/2019, the Russell 1000 Value returned -119 bps vs. the Russell 1000 Growth return of -234 bps, outperforming by 115 bps. During the trailing 12 months ending 03/31/2019, the Russell 1000 Value Index lagged the Russell 1000 Growth Index, 567 bps vs. 1275 bps.

Small Caps outperformed in the quarter relative to their large-cap peers. The Russell 2000 Index (proxy for small caps) returned 1458 bps, while the more broadly quoted S&P 500 Index as the proxy for the large-cap market returned 1365 bps. Exposure to the Size factor aided modestly to the U.S. Sector strategy within the quarter, longer term for the strategy an allocation to smaller market caps we believe enhances the portfolio.

Momentum rebounded, albeit without the vigor over the overall market, within the quarter as measured by the MSCI USA Momentum Index (proxy for momentum stocks), finishing up 1289 bps; more broadly while we have seen persistence of momentum across longer periods which has aided in the performance of the US Sector Strategy. Momentum, while positive over the longer trailing 12 month ending 03/31/2019, up 804 bps it has lagged the performance of the broad equity markets using the S&P 500 Index as a proxy, return of 950 bps.

While the goal of this communication is to note intra-quarter performance, we think it is important to re-visit the drivers of portfolio allocations and the characteristics we are trying to capture.

The AGFiQ Factor model scores sectors based on well-known drivers of equity market returns; beta, value, size, momentum and investment quality.

AGFIQ evaluates the relative attractiveness of the S&P 500 sectors through its proprietary Sector Allocation model. The sectors are ranked from 1 (most attractive) to 11 (least attractive) based on a composition of four factors noted above. Taken as a whole the sector model will recommend a greater weighting to those sectors with the more attractive fundamentals of cheaper valuation, small market capitalization, strong price momentum and the prudent use of capital. In contrast the model will underweight sectors with the less attractive fundamentals of more expensive valuation, large

[1] Effective December 11, 2017, AGF reduced the MF Series Management Fee from 2.20% to 2.00%.
AGF U.S. Sector Class was renamed AGFiQ U.S. Sector Class effective April 26, 2018.
Effective April 26, 2018, AGF reduced the Series Q & Series W Management Fee from 1.10% to 0.90%.

market capitalization, weak price momentum and ineffective use of capital. In the final ranking, the 4 highest ranked sectors will be overweight relative to the benchmark, the 4 lowest ranked sectors will be underweight relative to the benchmark, and three sectors are ranked as neutral and are benchmark weight.

AGFIQ is constantly striving to improve its quantitative models and after extensive research, investment quality, was added alongside the existing factors value, size and momentum as the most recent model enhancement. Investment quality evaluates capital efficiency across sectors with a focus on capital expenditures, asset growth and share issuance.

The AGFIQ US Sector Class Fund remained overweight Materials and Industrial and underweight Energy. Early in January, the Financials and REITS sectors were increased to overweight positions, while Communication Services was reduced to underweight and Health Care was reduced to neutral. Consumer Staples remained at a neutral weight, while Consumer Discretionary improved from an underweight to neutral.

Market volatility picked up significantly in the fourth quarter of 2018, stock correlations increased and AGFiQ's momentum signal deteriorated. As a result, the overall market risk model indicated an increase in cash allocation and on November 9th, the Fund increased its cash weight from 0% to 12.5%. The Fund further increased its cash weighting from 12.5% to 25% in the first quarter of 2019. The Fund decreased its currency hedge from 50% to 0% in the fourth quarter of 2018, however increased its currency hedge to 25% in the first quarter of 2019 due to the weakness in the CAD. The AGFIQ team will continue to monitor the investment risk and adjust the cash and equity positions as needed.

## Outlook

Subjective forecasts of market outlook do not have a role in the Fund's investment methodology. Except as can be implied from portfolio positioning, which is based on the output of quantitative models.

All information is in Canadian dollars unless otherwise stated.

The All World Tax Advantage Group is a mutual fund corporation that currently offers approximately 20 different classes of securities. In addition to fund diversification by investment style, geography and market capitalization, a key benefit of investing in any of the classes within the group is the possibility of sharing incurred expenses (and losses) of the combined structure potentially offsetting income earnings to minimize chance of a dividend declaration. While the articles of AGF All World Tax Advantage Group Limited provide authority to make distributions out of capital and AGF All World Tax Advantage Group Limited intends both to calculate capital in the manner contemplated by the corporate statute for corporations that are not mutual fund corporations and only to declare distributions out of capital if there is sufficient capital attributable to a series, no definitive case law exists to confirm that a mutual fund corporation may make distributions of capital and how it is to be calculated. Further, no advance income tax ruling has been requested or obtained from Canada Revenue Agency, nor is AGF aware of any published advance income tax ruling or the possibility of obtaining such a ruling, regarding the characterization of such distributions or the calculation of capital for such purposes.

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