AGF FUND INSIGHT

AGF Global Select
AGF American Growth Class
AGF U.S. Small-Mid Cap

March 2020

A Time for Active Management

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An Unprecedented Macro Environment

The past month has been a historic time, both for society as well as from a market perspective. For investors, equity market volatility has come extremely quick, with equities at an all time high just one month ago. The extreme volatility is demonstrated by the fact that the VIX index has traded around 80 in recent days, which implies 6-7% daily moves in market indices.

Markets have reacted this way in part because of the unprecedented measures being undertaken to control the spread of the coronavirus. Unlike past “normal” recessions, the current economic downturn is a self-imposed recession as governments mandate that people stop or slow down economic activity – to stop travelling or going out to restaurants and bars.

Exacerbating the market decline has been a collapse in oil prices, which was caused by the failure to reach an agreement between Saudi Arabia and Russia. As a result, both sides are ramping up production at a time when demand is considerably depressed as a result of coronavirus-related restrictions, causing oil to fall to the low 20’s, a level which is unsustainable for most oil producers, including U.S. shale companies.

Though equity markets remain extremely volatile, historical context is important, as recession-related bear markets have historically averaged a 39% decline. With this past week’s market action, the S&P 500 Index was already down 33% from its peak in mid-February. Thus while market volatility may persist for some time and further downside is possible, much of the pain has already been incurred and at some point, a very attractive buying opportunity will emerge.

Performance, Attribution, & Positioning

Though market performance has been very challenged year-to-date, AGF American Growth Class, AGF U.S. Small-Mid Cap, and AGF Global Select have all held up well this year, significantly outperforming their peer averages.

Figure 1 –Outperformance vs. Category

Name	2020 YTD Return (as of March 24, 2020)
AGF American Growth Class	-5.70
US Equity Category Average	-18.41
Outperformance	**12.71**
AGF Global Select	-11.40
Global Equity Category Average	-18.16
Outperformance	**6.76**
AGF U.S. Small-Mid Cap	-12.52
US Small/Mid Cap Equity Category Avg	-27.21
Outperformance	**14.69**

Source: Morningstar, as of March 24, 2020. Number of peers in category – U.S. Equity Category 1565 funds, Global Equity Category 2086 funds, U.S. Small/Mid Cap Equity Category 326 funds.

So what has helped protect on the downside this year? We have seen certain trends outperform, as themes such as e-commerce stocks have been contributors (Amazon and Alibaba). We also believe that themes such as video streaming, cloud, video conferencing, and online education are trends that were already in place, but could accelerate as people practice social distancing. Across our three funds, we were already well positioned in this respect, but have been adding to areas where we believe companies could see accelerating adoption in this unprecedented environment.

In some areas, long-term trends have been unaffected and continue to report strong results. This is true both in the rollout of 5G technology and infrastructure (Keysight) as well as the continued growing importance of ESG to investment decisions (MSCI). Both of these companies have been additive to this year's performance so far.

Figure 2 – Accelerating Trends

COVID-19 + Oil collapse – Trend Direction

Accelerating
- E-Commerce
- Video Conferencing
- Cloud usage
- Streaming
- Online education
- Personalized medicine
- Gaming
- Home improvement

Ongoing/Long-term
- 5G
- AI/Machine Learning
- ESG

Pause/Unclear
- Cyclicals
- Discretionary spending
- Infrastructure spending
- US election implications

Source: AGF, as of March 2020

In **AGF American Growth**, there have been other companies which have held in well and have contributed to relative performance, including Costco, which has seen very strong traffic amidst the pandemic panic, as well as managed care companies (Centene and UnitedHealth), which have caught a bid as Joe Biden as won the Democratic Presidential nomination, thereby eliminating the risk of a single-payer healthcare system in the U.S.

In **AGF Global Select**, we had a 17% cash position prior to the bear market. While we have been deploying cash into that dip, year-to-date cash has still averaged a 11% weight and has helped cushion the portfolio's returns. Similar to American Growth above, stocks like Amazon, Alibaba, and T-Mobile have helped performance, as have other e-commerce companies like Sea Ltd., Mercadolibre Inc., and Shopify Inc. Logitech International is another company whose products may see greater usage as people practice social distancing.

In **AGF U.S. Small-Mid Cap**, names like EHealth Inc. and Amedisys Inc. have seen their shares rise this year, while MarketAxess Holdings has held in well, with trading volumes on markets remaining high. Companies like Chegg Inc. (online education) are also well positioned to see an increase in usage in the current environment.

It's time to be active

While the current situation is very serious and concerning, at some point, a new buying opportunity will eventually emerge. New bull markets are born in the midst of fear and bear markets. Moreover, the current environment of extreme volatility is an opportunity for active managers to prove their differentiation and value-add. In that respect, we will continue to be active and tactical, using the volatility as an opportunity to reposition the portfolio into areas that are well positioned for above average growth, either in the unique environment of the near term as well as the inevitable rebound that will eventually follow.

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