

AGF U.S. Small-Mid Cap Growth Equity Strategy



Strategy Commentary

Fourth Quarter 2023

Strategy Facts

Strategy category: U.S. Small/Mid Cap Equity	Benchmark Index: S&P MidCap 400 Total Return Index	Date of inception: June 1993	Investment style: Fundamental/bottom-up growth	Portfolio Managers AGF Investments Inc. Tony Genua Sam Mitter
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Market Overview

Global equity markets began the fourth quarter continuing the slide that began in August, as interest rates continued to rise underpinned by a strong economy in the U.S., where real GDP growth was a robust 5.2% in the third quarter. However, in the last week of October, comments by the U.S. Federal Reserve (Fed) Chair Jerome Powell alluded to the recent rise in yields having helped tighten financial conditions, hinting at potentially lessening the need for additional Fed rate increases.

These comments led to a reversal of the steady climb in interest rates, and sparked a rally in global equity markets to end the year. The U.S. government 10-year yield, having hit a peak of 5.0% in mid-October, began a steep decline and ended the year at 3.9%. U.S. equities (represented by the S&P 500) were the best performing major equity market over the quarter, delivering its best quarterly performance for three years.

From an economic perspective, the global economy continued to be led by growth in the U.S., where the Atlanta Fed GDPNow, a running estimate of real GDP growth based on available economic data, ended the year showing 2.5% growth. Moreover, the U.S. labour market remained resilient, though cooling, as the unemployment rate fell to 3.7% with 199,000 new jobs created in November – a level that remains above the pre-pandemic average.

Small-cap stocks showed strength during the last quarter of 2023, reversing the trend seen in small caps throughout the year. Financials was the best performing sector during the quarter, while Energy lagged the most. Small cap value outperformed small cap growth during the quarter.

Strategy Overview

During the quarter, AGF U.S. Small-Mid Cap Strategy underperformed the benchmark S&P MidCap 400 Total Return Index due to security selection and sector allocation decisions. Security selection in the Consumer Staples, Consumer Discretionary, and Real Estate sectors contributed the most to performance. Security selection in Information Technology and Financials, as well as an unfavourable overweight allocation to Energy detracted most from performance.

In terms of individual holdings, the top contributors included Ryman Hospitality Properties, Bellring Brands Inc and

Duolingo, while the top detractors during the quarter included AEHR Test Systems, Lattice Semiconductor Corp. and Oceaneering Inc.

Outlook

Heading into the 2nd year of a new bull market, we continue to have a constructive view on equities. We remain encouraged by the resilience of the U.S. economy, which has been underpinned by a resilient consumer with healthy household balance sheets and a tight labour market, despite seeing rapid interest rate increases over the past year. While economic growth is expected to slow as the lagged impact of rate increases continues to be felt, we continue to believe that there is a strong likelihood of the U.S. economy being able to avoid a recession.

With the equity market, we believe 2024 is likely to be another positive year, as the 2nd year following a negative calendar year has historically tended to see the continuation of the bull market. We believe global equities may also benefit from the return of earnings growth. Though the S&P 500 ended 2023 with earnings approximately flat, the trajectory has been improving, with year-over-year earnings growth having bottomed in Q2. The return of positive earnings growth may boost an equity market which benefitted from multiple expansion in 2023, particularly among the big 7 companies.

We believe small caps, meanwhile, may be poised to rebound after several years of headwinds. Small caps have historically outperformed in periods of falling interest rates. Moreover, due to several years of large cap outperformance, valuations for small caps relative to large caps are cheaper than they have been in 20 years.

Finally, the pronounced market narrowness witnessed in the first half of the year somewhat eased in the back half of the year, as broader market participation took hold as yields declined in the fourth quarter. We believe the broadening out of leadership will be a trend that continues into 2024.

AGF U.S. Small-Mid Cap Growth Equity Strategy Annualized Returns – Period Ending December 31, 2023

	3 Months	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
AGF U.S. Small-Mid Cap Growth Equity Composite (Gross)	5.9%	3.2%	3.2%	-4.7%	10.8%	12.2%	8.6%
AGF U.S. Small-Mid Cap Growth Equity Composite (Net)	5.6%	2.4%	2.4%	-5.5%	9.8%	11.2%	7.6%
S&P MidCap 400 Index	11.7%	16.4%	16.4%	8.1%	12.6%	9.4%	9.3%
Gross Excess Return	-5.8%	-13.2%	-13.2%	-12.8%	-1.9%	2.8%	-0.7%
Net Excess Return	-6.0%	-14.1%	-14.1%	-13.6%	-2.8%	1.8%	-1.7%

Source: AGF Investments as of December 31, 2023. Past performance is not indicative of future results. Performance is based on AGF U.S. Small-Mid Cap Growth Equity Composite, the GIPS-compliant presentation found at the end of the document. Performance is in U.S. dollars (US) and displays gross returns and net-of-fee returns. Net-of-fee returns are calculated by deducting the maximum institutional fee charged from the gross-of-fee return. One cannot invest directly in an index.

Strategy performance is based on the GIPS AGF U.S. Small-Mid Cap Growth Equity Composite. The performance presented is gross and net of fees; rates of return for greater than one year have been annualized. AGF Investments uses Canadian dollar gross of fees returns and converts them on a monthly basis using spot rates sourced from Bloomberg. Net-of-fees returns are calculated by deducting the maximum institutional fee charged from the gross-of-fee return. Actual fees may vary depending upon the fee schedule and portfolio size. Past performance is not indicative of future performance.

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AGF U.S. Small-Mid Cap Growth Equity Composite January 1, 2012 – December 31, 2022

Year	Gross of Fee Composite Return (%)	Net of Fee Composite Return (%)	Benchmark Return (%)	Number of Portfolios	Internal Dispersion (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	Composite AUM (USD\$ mil)	Firm AUM (USD\$ mil)
2013	36.19	34.97	41.21	1	N/A	14.32	16.49	201.31	25,482
2014	-10.19	-11.03	9.77	1	N/A	13.79	11.86	150.31	24,571
2015	10.96	9.95	-2.18	1	N/A	14.47	11.81	145.66	18,957
2016	2.31	1.37	20.74	1	N/A	16.01	12.23	128.44	20,143
2017	35.16	33.95	16.24	1	N/A	13.86	10.91	151.72	23,063
2018	-0.94	-1.85	-11.08	1	N/A	16.11	13.31	143.38	20,178
2019	33.02	31.83	26.22	1	N/A	16.73	14.46	182.37	23,185
2020	44.79	43.60	13.66	1	N/A	23.54	23.31	293.98	24,066
2021	7.53	6.62	24.76	1	N/A	21.46	21.83	425.69	26,706
2022	-21.99	-22.67	-13.06	1	N/A	25.24	24.51	328.15	23,091

Compliance Statement

AGF Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. AGF Investments has been independently verified for the periods January 1, 2006 - December 31, 2022.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The AGF U.S. Small-Mid Cap Growth Equity Composite has had a performance examination for the periods January 1, 2006 to December 31, 2022. The verification and performance examination reports are available upon request.

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Effective January 1, 2019, the definition of the firm was revised to include AGFiQ and AGF Investments LLC.

Composite Description

The U.S. Small-Mid Cap High Growth Equity Composite includes all portfolios invested primarily in shares of small and medium companies with superior growth potential in the United States.

Composite Creation Date

The composite was created in January 2011. The composite's inception was in December 2005.

Benchmark Description

The benchmark is the S&P 400 MidCap Index. The S&P 400 MidCap Index measures the performance of mid-sized companies in the U.S. equities market with a market cap range between US\$ 1.4 billion - US\$ 5.9 billion at the time of addition to the index, it is part of a series of S&P U.S. indices that can be used as building blocks for portfolio construction. Prior to December 1, 2013 the benchmark was the Russell 2500 Growth Index.

Currency

Valuations and returns are computed and stated in U.S. Dollars.

Minimum Portfolio Size

There is no minimum portfolio size required for inclusion into the composite.

**Calculation Methodology**

Results reflect the reinvestment of dividends, income and other earnings.

Gross-of-fees returns are presented before management expenses and custodial fees, but after all trading expenses and withholding taxes.

Net of fees returns are calculated by deducting the maximum institutional fee charged from the gross of fee return.

Composite returns are calculated using asset-weighted returns by weighing the individual account returns using beginning-of-period values.

Internal Dispersion Measure

Internal dispersion is calculated using the asset-weighted standard deviation of all accounts included in the composite for the entire year; it is not presented for periods less than one year or when there were five or fewer portfolios in the composite for the entire year as this is not considered meaningful.

Three-year Annualized Ex-post Standard Deviation

The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is presented once the composite has three full calendar years of performance. Gross returns are used to calculate risk measures.

Fee Schedule

The maximum management fee for the Strategy is 0.85% per annum.

Additional Information

The portfolios in this composite are valued at systematic adjusted fair value.

Policies for fair value and systematic adjusted fair value portfolios, calculating performance, preparing compliant presentations, and a complete list and description of firm composites are available upon request at GIPS@AGF.com.

Past performance does not guarantee future results.