AGF INVESTMENTS

AGF MARKET INSIGHT

AUGUST 2015

"Footprinting" Our Portfolio

EXTERNALITIES AND SUSTAINABLE INVESTING

Investors, companies and governments are increasingly calling for action on emissions in light of scientific evidence suggesting that current levels of carbon emissions will result in irreversible climate change. For investors, carbon is considered an 'externality' – an input or output that is not reflected in traditional financial or economic indicators. Other externalities include water and land use where these factors are used but not effectively priced. For instance, despite drought conditions in California, there is little economic incentive to conserve water given that the investment to do so has an unacceptably long pay-back at current pricing.

The investment community is not homogeneous and views the issue of externalities differently:

- Many investors will not consider externalities in their decisions unless governments assign effective price signals.
- For investors who consider themselves stewards of capital, externalities are viewed from a risk-management framework that seeks to minimize the potential losses to the portfolio. In response, investment products have emerged which aim to reduce single externalities, usually carbon, while minimizing portfolio risk in terms of tracking error.
- Sustainable investors, on the other hand, seek strategies that reflect a broader range of externalities and aim to create a positive environmental benefit – in other words, strategies that reflect both urgency and impact.

Given the solutions-based focus of AGF Global Sustainable Growth Equity Strategy, we are keenly interested in tools that help us understand and improve the Portfolio's environmental footprint. To this end, we have

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Vice-President and Portfolio Manager
AGF Investments Inc.
Industry experience: 1994

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- Provides input on ESG issues across the AGF teams
- Project Manager with CSA International from 1997 to 2000 and, prior to that, an Environmental Scientist with Acres International Limited
- Masters of Environmental Science and a Master of Business Administration, both from York University

HYEWON KONG, M.Sc., CFA
Associate Portfolio Manager
AGF Investments Inc.
Industry experience: 2005

- Has more than 10 years of international investment experience in global equities focusing on environmental and social impact themes and ESG integration
- Previously, Senior Analyst at WHEB Asset Management and Associate Fund Manager at Henderson Global Investors, both in the U.K.
- M.Sc. from Oxford University, a CFA Charterholder and a member of the Toronto CFA society
- Responsible Investment Association (RIA) RI Week advisory board member
- Provides input on ESG issues across the AGF teams

engaged Trucost, a leader in 'footprinting' methodologies, to assist us in providing useful measures for the Portfolio. Even at this early stage, we can say that this will be a journey and we will aim to share both the challenges and successes.

A critical aspect of using footprint data is that the Portfolio is optimized both for its financial and environmental impact. This is very different than selecting stocks solely for their financial merits and then 'engaging' with the companies over time to improve their environmental performance. If urgency was not a concern, than we would have the luxury of coaxing companies to embrace change – this is clearly not the case for issues such as climate change and water use. An 'impact' portfolio should strive for continuous improvement from a base that is significantly better than common benchmarks. We expect portfolio holdings to be focused on solutions with inherent environmental advantages *while* also being open to improvement of their footprint.

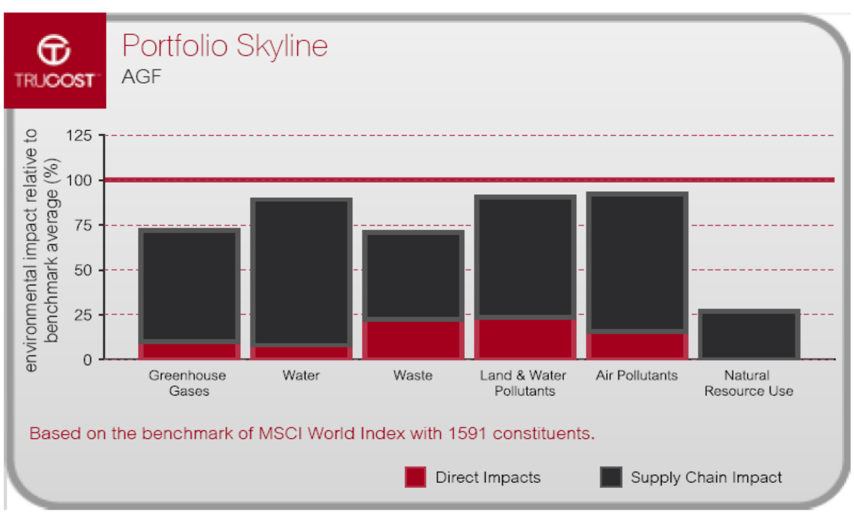
OUR FOOTPRINTING RESULTS

The Portfolio Skyline (see Figure 2) provides a summary of the Portfolio's footprint relative to the benchmark. The footprint uses both reported and estimated data on direct and indirect supply chain (or 'upstream') impact from each holding's operations. As yet, the 'downstream' impact from the use of a product (for instance the positive health impacts from consumption of organic food) is not currently captured, although this is central to our selection criteria for inclusion in the Strategy. We anticipate that measures will be developed that better quantify these impacts.

An important feature of the Skyline is that it covers a range of environmental factors. In our view, this is a more holistic approach and one that is less likely to require modification over time. Optimizing any one environmental impact, such as carbon emissions, will not necessarily improve the Portfolio's score on other environmental indicators, such as waste or land use.

Figure 2 – AGF Global Sustainable Growth Equity Strategy "Portfolio Skyline"

"Portfolio Skyline" – the Portfolio's footprint relative to the benchmark on a range of environmental factors, broken down by "direct impacts" against supply chain impacts



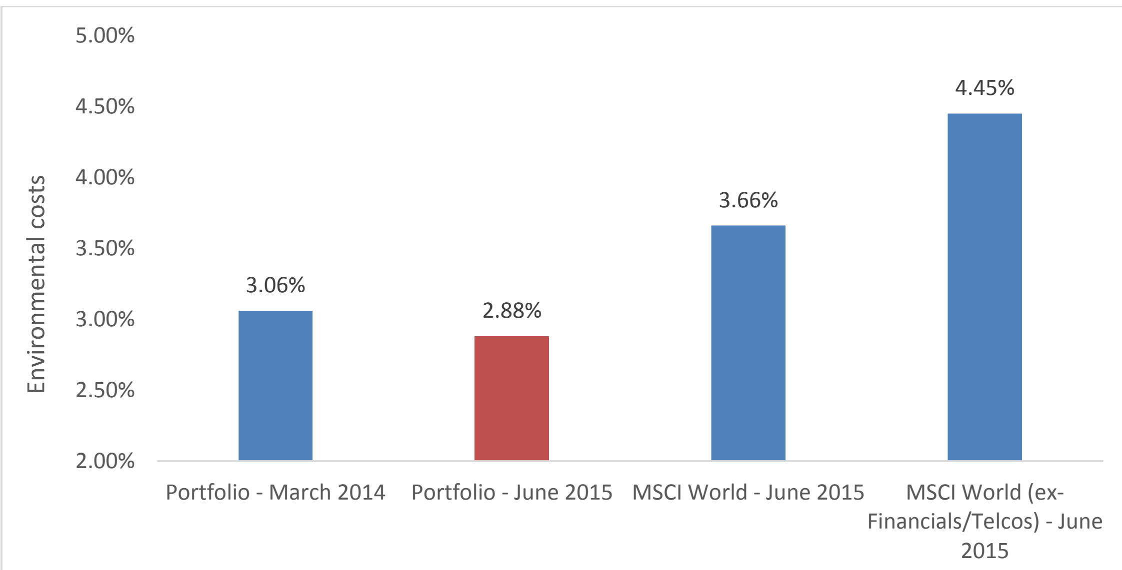
Source: Trucost, as of June 30, 2015

An objective for the Strategy is to reduce the environmental impact over time. Figure 3 provides historical data for all the environmental factors and how AGF Global Sustainable Growth Equity Strategy has trended over time, while Figure 4 addresses carbon specifically. We expect that improvements will be incremental as we are trying to balance the benefit of owning solutions-focused companies with a minimal footprint in producing these solutions.

Although certain sectors inherently have lower environmental footprints – financial services is one example – our focus on solutions prevents us from overweighting this sector to generate a better portfolio footprint. For example, if the Portfolio were equal-weight financials or telecommunication services, its environmental footprint is likely to be even lower, but these are not sectors where sustainability solutions are generally found. As such, our solutions-focused approach results in significant off-benchmark allocations, but ensures that the strategy is unique and true to its objectives.

Figure 3 – Historical Environmental Footprint

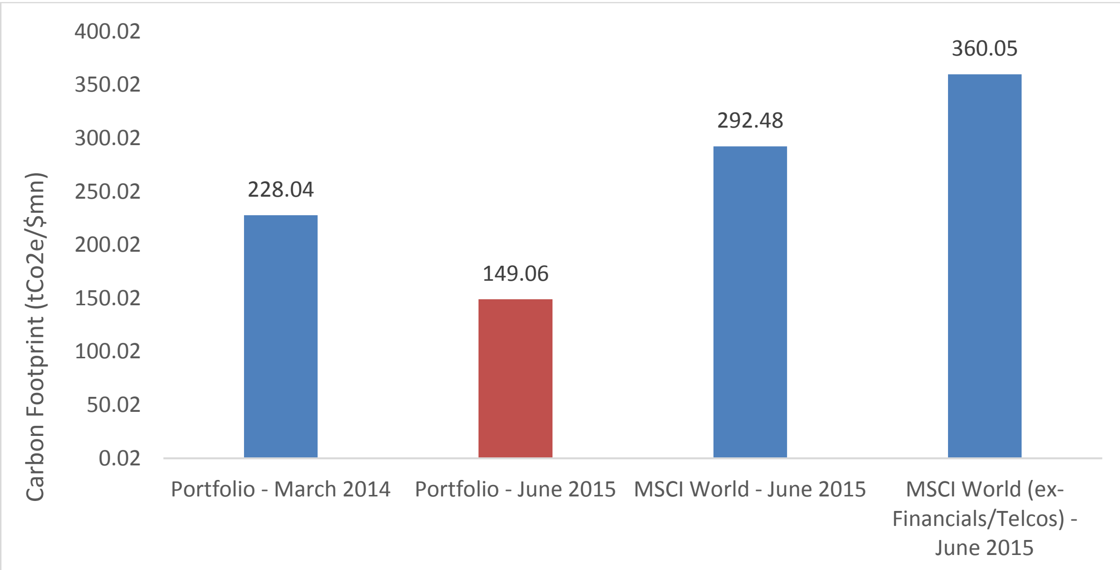
Our overall environmental footprint has trended lower over time.



Source: Trucost, as of June 30, 2015

Figure 4 – Historical Carbon Footprint

Similarly, our carbon footprint has also been reduced over time, although carbon is just one of the factors considered.



Source: Trucost, as of June 30, 2015

For more information on AGF Global Sustainable Growth Equity Strategy, please visit AGF.com/Institutional or contact your AGF representative.

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