

YEAR ENDED SEPTEMBER 30, 2009

# REPORT OF INDEPENDENT REVIEW COMMITTEE OF THE AGF GROUP OF FUNDS TO SECURITYHOLDERS

## INTRODUCTION

The Independent Review Committee (the “IRC”) of the AGF Group of Funds (the “Funds”) is making its annual report to securityholders for the period ending September 30, 2009, as required under National Instrument 81-107 *Independent Review Committee for Investment Funds*.

AGF Investments Inc., as manager to the AGF Group of Funds (the “Manager”), appointed the initial members of the IRC on May 1, 2007 and the IRC became operational on November 1, 2007.

The mandate of the IRC is to review conflict of interest matters identified and referred to it by the Manager, including the policies and procedures in place to manage these conflicts. The IRC provides the Manager with its approval or recommendation on conflict of interest matters referred to it by the Manager and input when requested on the Manager’s policies and procedures.

The IRC also reviews and assesses the adequacy and effectiveness of the policies and procedures relating to conflict of interest matters in respect of the Funds, and also, at least once a year, conducts a self-assessment of the IRC’s independence, compensation and effectiveness.

## MEMBERS OF THE IRC

The names of the members of the IRC are listed below. Each was appointed effective May 1, 2007. There were no changes in the composition of the IRC during the period ending September 30, 2009.

John B. Newman (Chair)<sup>1</sup>

Philippe Casgrain, Q.C., Ad. E.

Louise Morwick, CFA<sup>2</sup>

The IRC meets regularly with representatives of the Manager, and also holds meetings without representatives of the Manager being present, to discuss matters affecting the Manager’s policies and procedures, standing instructions and conflict of interest matters referred to the IRC. During the period from October 1, 2008, to September 30, 2009, the IRC held six meetings, five of which were regularly scheduled, with representatives of the Manager. The IRC held in camera sessions without the presence of representatives of the Manager in each regularly scheduled meeting.

As at September 30, 2009, the members of the IRC did not beneficially own, directly or indirectly, in aggregate, in excess of 10% of the outstanding units of any class or series of the Funds.

The Manager is a wholly-owned subsidiary of AGF Management Limited. As at September 30, 2009, the members of the IRC beneficially owned, directly or indirectly, in aggregate, less than 0.01% of the securities of AGF Management Limited.

As at September 30, 2009, the members of the IRC beneficially owned, directly or indirectly, in the aggregate, less than 0.01% of the securities of any material service provider to the Funds or the Manager.

<sup>1</sup> Mr. Newman is also a member of the independent review committee of certain funds administered by Scotia Capital, BMO Nesbitt Burns and TD Securities.

<sup>2</sup> Ms. Morwick is also a member of the independent review committee of certain funds administered by Scotia Capital and TD Securities.



## COMPENSATION AND INDEMNITIES

The members of the IRC are entitled to be compensated by the Funds and to be indemnified by the Funds in appropriate circumstances. The aggregate compensation paid by the AGF Group of Funds to the IRC for the annual period ending September 30, 2009 was \$95,000.

The members of the IRC were not paid any indemnities by the Funds during the period.

The IRC reviews and determines its own compensation on an annual basis. In deciding the appropriate level of compensation, the IRC considers the work-load of the IRC and the contribution made by each of its members, as well as the complexity and difficulty of the tasks undertaken by the IRC.

## CONFLICT OF INTEREST MATTERS

National Instrument 81-107 requires the IRC to review all conflict of interest matters identified and referred to the IRC by the Manager and to give its approval or recommendation, depending on the nature of the conflict of interest matter. In certain cases, the IRC may also issue standing instructions to the Manager in conjunction with the approval or recommendation that allow the Manager to act in the particular conflict of interest matter on a continuing basis. Where standing instructions have been issued, the Manager must request the IRC to review and renew the standing instructions on an annual basis.

Below is a brief summary of the approvals, recommendations and standing instructions relied on by the Manager during the period beginning October 1, 2008 to September 30, 2009 (the "Period").

### Approvals

The Manager requested the approval of the IRC to allow certain Funds to purchase securities from or sell securities to another Fund managed by the Manager (referred to as inter-fund trades). The approval granted, effective February 26, 2008, requires the Manager to comply with the inter-fund trade provisions of National Instrument 81-107 and to report on a specified basis to the IRC.

### Recommendations with Standing Instructions

During the Period, the Manager followed the recommendations and standing instructions made by the IRC with respect to the conflict of interest matters addressed by the following policies and procedures of the Manager:

- (a) Proxy Voting Policy
- (b) Benchmark Selection Policy
- (c) Soft Dollar Policy
- (d) Short Term Trading Policy
- (e) Net Asset Value Error Correction Policy
- (f) Fund Expense Allocation Policy
- (g) Fund Valuation and Accounting Policy
- (h) Inter-Fund Trading Policy<sup>3</sup>

In each of the above cases, the recommendations and standing instructions made by the IRC require the Manager to comply with the related policies and procedures as they relate to the relevant conflict of interest and report to the IRC.

<sup>3</sup> Effective September 15, 2009

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### **Recommendations without Standing Instructions**

During the Period, the Manager sought a review and followed the recommendation of the IRC with respect to the Manager's proposal to engage Highstreet Asset Management Inc., an affiliate of the Manager, to replace INTECH Investment Management LLC as the portfolio manager of AGF U.S. Risk Managed Fund and AGF U.S. Risk Managed Class in so far as it relates to a potential conflict of interest.

During the period, the Manager also sought a review and followed the recommendation of the IRC with respect to the mergers of certain Funds where, among other things, the investment objectives, fee structures and valuation procedures of the merging funds were substantially the same. The IRC reviewed the proposed mergers and the process to be followed in connection with the proposed mergers and advised the Manager, that in the IRC's opinion, having reviewed the proposed mergers as potential conflicts of interest, that, following the process proposed, the proposed mergers achieved a fair and reasonable result for each of the Funds.

The IRC has not been made aware of any instance in which the Manager acted in a conflict of interest matter referred to the IRC during the period for which the IRC did not give a positive recommendation. The Manager has an obligation to notify the IRC of any such instance.

### **Compliance**

The IRC is not aware of any instance in which the Manager sought a review by the IRC with respect to a conflict of interest matter and did not meet a condition imposed by the IRC in its approval, recommendation and/or standing instructions. The Manager has an obligation to notify the IRC of any such instance.

## AGF GROUP OF FUNDS

### AGF Trust Funds

AGF Aggressive™ Global Stock Fund  
 AGF Aggressive™ U.S. Growth Fund  
 AGF American Growth Fund  
 AGF Asian Growth Fund  
 AGF Canada Fund  
 AGF Canadian All Cap Equity Fund  
 AGF Canadian Balanced Fund  
 AGF Canadian Bond Fund  
 AGF Canadian Conservative Inflation Managed Income Fund  
 AGF Canadian High Yield Bond Fund  
 AGF Canadian Large Cap Dividend Fund  
 AGF Canadian Money Market Fund  
 AGF Canadian Balanced Value Fund  
 AGF Canadian Value Fund  
 AGF Canadian Small Cap Fund  
 AGF Canadian Stock Fund  
 AGF Dividend Income Fund  
 AGF Dollar Cost Averaging Fund  
 AGF Emerging Markets Fund  
 AGF European Equity Fund  
 AGF Global Dividend Fund  
 AGF Global Equity Fund  
 AGF Global Government Bond Fund  
 AGF Global High Yield Bond Fund  
 AGF Global Real Estate Equity Fund  
 AGF Global Resources Fund  
 AGF Global Value Fund  
 AGF Japan Fund  
 AGF Monthly High Income Fund  
 AGF Precious Metals Fund  
 AGF U.S. Dollar Money Market Account  
 AGF U.S. Risk Managed Fund  
 AGF World Balanced Fund

### AGF Corporate Funds

AGF American Growth Class  
 AGF Asian Growth Class  
 AGF Canada Class  
 AGF Canadian Growth Equity Fund Limited  
 AGF Canadian Resources Fund Limited  
 AGF Canadian Stock Class  
 AGF Canadian Large Cap Dividend Class  
 AGF Emerging Markets Class  
 AGF China Focus Class

AGF Elements Balanced Portfolio Class  
 AGF Elements Conservative Portfolio Class  
 AGF Elements Global Portfolio Class  
 AGF Elements Growth Portfolio Class  
 AGF European Equity Class  
 AGF Global Equity Class  
 AGF Global Real Estate Equity Class  
 AGF Global Resources Class  
 AGF International Stock Class  
 AGF Global Value Class  
 AGF Japan Class  
 AGF Short-Term Income Class  
 AGF U.S. Risk Managed Class

### Harmony Funds

Harmony Balanced and Income Portfolio  
 Harmony Balanced Portfolio  
 Harmony Canadian Equity Pool  
 Harmony Canadian Fixed Income Pool  
 Harmony Conservative Portfolio  
 Harmony Growth Plus Portfolio  
 Harmony Growth Portfolio  
 Harmony Maximum Growth Portfolio  
 Harmony Money Market Pool  
 Harmony Overseas Equity Pool  
 Harmony U.S. Equity Pool  
 Harmony Balanced Growth Portfolio  
 Harmony Non-Traditional Pool  
 Harmony Canadian Equity Pool Class  
 Harmony Non-Traditional Pool Class  
 Harmony Overseas Equity Pool Class  
 Harmony U.S. Equity Pool Class  
 Harmony Balanced Growth Portfolio Class  
 Harmony Growth Portfolio Class  
 Harmony Growth Plus Portfolio Class  
 Harmony Maximum Growth Portfolio Class  
 Harmony Canadian Enhanced Fixed Income Pool Class

### AGF Elements

AGF Elements Conservative Portfolio  
 AGF Elements Balanced Portfolio  
 AGF Elements Growth Portfolio  
 AGF Elements Global Portfolio  
 AGF Elements Yield Portfolio

