

YEAR ENDED SEPTEMBER 30, 2011

# 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, 2011, as required under National Instrument 81-107 *Independent Review Committee for Investment Funds*.

The IRC for the Funds managed by AGF Investments Inc. (the “Manager”), as listed in Schedule A to this report, became operational on November 1, 2007. The information disclosed in this report covers the period beginning October 1, 2010 and ending September 30, 2011, the financial year end for the Funds (the “Period”).

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 will also review and assess the adequacy and effectiveness of the policies and procedures relating to conflict of interest matters in respect of the Funds, and will also, at least once a year, conduct 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. Mr. Hogan was appointed March 31, 2010. Mr. Newman and Ms. Morwick were reappointed effective May 1, 2010.

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

Paul Hogan<sup>2</sup>

Louise Morwick, CFA<sup>3</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 the IRC held seven meetings with representatives of the Manager. At all of these meetings, the IRC also held in camera sessions without the presence of representatives of the Manager.

As at September 30, 2011, 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, 2011, 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, 2011, 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, TD Securities, and Acuity Funds Ltd.

<sup>2</sup> Mr. Hogan is also a member of the independent review committee of certain funds administered by Acuity Funds Ltd.

<sup>3</sup> Ms. Morwick is also a member of the independent review committee of certain funds administered by Scotia Capital, TD Securities, and Acuity Funds Ltd.



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## 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 Period was \$100,000.

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 what is 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 recommendations with and without standing instructions, relied on by the Manager during the Period. The Manager did not rely on any approvals from the IRC during the Period.

### Recommendations with Standing Instructions

During the Period, the Manager followed the recommendations and standing instructions made by the IRC with respect to 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
- (i) Fair Allocation of Investments
- (j) Code of Ethics for Personal Trading

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.

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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 for the following matters:

- (a) the Funds entering into a securities lending arrangement with Citibank N.A.;
- (b) amalgamation of AGF All World Tax Advantage Group Limited and Acuity Corporate Class Ltd.;
- (c) mergers of the Funds listed in Schedule B to this report;
- (d) replacement of Principal Global Investors, LLC as portfolio manager of a portion of the Harmony Overseas Equity Pool with AGF Investments Inc.;
- (e) replacement of Rainier Investment Management, Inc. as portfolio manager of a portion of the Harmony U.S. Equity Pool with AGF Investments Inc.; and
- (f) addition of AGF Investments Inc. as portfolio manager to the Harmony Pools in respect of a new ETF investment strategy.

The IRC is not 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 of the IRC with respect to a conflict of interest matter but 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.

## SCHEDULE A - THE AGF GROUP OF FUNDS

### AGF TRUST FUNDS:

AGF AGGRESSIVE GLOBAL STOCK FUND  
 AGF AGGRESSIVE US GROWTH FUND  
 AGF AMERICAN GROWTH FUND  
 AGF ASIAN GROWTH FUND  
 AGF CANADIAN ASSET ALLOCATION FUND  
 AGF CANADIAN BOND FUND  
 AGF CANADIAN GROWTH EQUITY FUND  
 AGF CANADIAN HIGH YIELD BOND FUND  
 AGF CANADIAN LARGE CAP DIVIDEND FUND  
 AGF CANADIAN MONEY MARKET FUND  
 AGF CANADIAN RESOURCES FUND  
 AGF CANADIAN SMALL CAP FUND  
 AGF CANADIAN SMALL CAP OPPORTUNITIES FUND  
 AGF CANADIAN STOCK FUND  
 AGF CANADIAN VALUE FUND  
 AGF DIVIDEND INCOME FUND  
 AGF DOLLAR COST AVERAGING FUND  
 AGF EMERGING MARKETS BALANCED FUND  
 AGF EMERGING MARKETS BOND FUND  
 AGF EMERGING MARKETS FOCUSED FUND  
 AGF EMERGING MARKETS FUND  
 AGF EUROPEAN EQUITY FUND  
 AGF GLOBAL AGGREGATE BOND 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 INFLATION PLUS BOND FUND  
 AGF JAPAN FUND  
 AGF MONTHLY HIGH INCOME FUND  
 AGF PRECIOUS METALS FUND  
 AGF TRADITIONAL BALANCED FUND  
 AGF TRADITIONAL INCOME FUND  
 AGF U.S. DOLLAR MONEY MARKET ACCOUNT  
 AGF U.S. RISK MANAGED FUND  
 AGF WORLD BALANCED FUND

### AGF ELEMENTS:

AGF ELEMENTS BALANCED PORTFOLIO  
 AGF ELEMENTS CONSERVATIVE PORTFOLIO  
 AGF ELEMENTS GLOBAL PORTFOLIO  
 AGF ELEMENTS GROWTH PORTFOLIO  
 AGF ELEMENTS YIELD PORTFOLIO

### AGF CORPORATE FUNDS:

AGF AMERICAN GROWTH CLASS  
 AGF ASIAN GROWTH CLASS  
 AGF CANADA CLASS  
 AGF CANADIAN GROWTH EQUITY CLASS  
 AGF CANADIAN LARGE CAP DIVIDEND CLASS  
 AGF CANADIAN RESOURCES CLASS  
 AGF CANADIAN STOCK 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 EMERGING MARKETS CLASS  
 AGF EUROPEAN EQUITY CLASS  
 AGF GLOBAL EQUITY CLASS  
 AGF GLOBAL REAL ESTATE EQUITY CLASS  
 AGF GLOBAL RESOURCES CLASS  
 AGF GLOBAL VALUE CLASS  
 AGF INTERNATIONAL STOCK CLASS  
 AGF JAPAN CLASS  
 AGF SHORT-TERM INCOME CLASS  
 AGF US RISK MANAGED CLASS

### HARMONY FUNDS:

HARMONY BALANCED AND INCOME PORTFOLIO  
 HARMONY BALANCED GROWTH PORTFOLIO  
 HARMONY BALANCED PORTFOLIO  
 HARMONY CONSERVATIVE PORTFOLIO  
 HARMONY GROWTH PLUS PORTFOLIO  
 HARMONY GROWTH PORTFOLIO  
 HARMONY MAXIMUM GROWTH PORTFOLIO  
 HARMONY CANADIAN EQUITY POOL  
 HARMONY CANADIAN FIXED INCOME POOL  
 HARMONY NON-TRADITIONAL POOL  
 HARMONY MONEY MARKET POOL  
 HARMONY OVERSEAS EQUITY POOL  
 HARMONY U.S. EQUITY POOL  
 HARMONY BALANCED GROWTH PORTFOLIO CLASS  
 HARMONY GROWTH PLUS PORTFOLIO CLASS  
 HARMONY GROWTH PORTFOLIO CLASS  
 HARMONY MAXIMUM GROWTH PORTFOLIO CLASS



## SCHEDULE B – FUND MERGERS

On April 12, 2011, the IRC provided the Manager with a positive recommendation in regards to the following fund mergers:

TERMINATING FUND	CONTINUING FUND
ACUITY ALL CAP 30 CANADIAN EQUITY CLASS	AGF CANADIAN GROWTH EQUITY CLASS
ACUITY NATURAL RESOURCE CLASS	AGF GLOBAL RESOURCES CLASS
AGF PURE CANADIAN BALANCED FUND	ACUITY CONSERVATIVE ASSET ALLOCATION FUND
AGF CANADIAN ALL CAP EQUITY FUND	ACUITY ALL CAP 30 CANADIAN EQUITY FUND
ACUITY CANADIAN EQUITY FUND	AGF CANADIAN STOCK FUND
ACUITY GLOBAL DIVIDEND FUND	AGF GLOBAL DIVIDEND FUND
ACUITY GLOBAL HIGH INCOME FUND	AGF GLOBAL DIVIDEND FUND
ACUITY MONEY MARKET FUND	AGF CANADIAN MONEY MARKET FUND
(ACUITY) ALPHA BALANCED PORTFOLIO	AGF ELEMENTS BALANCED PORTFOLIO
(ACUITY) ALPHA INCOME PORTFOLIO	AGF ELEMENTS YIELD PORTFOLIO
(ACUITY) ALPHA GLOBAL PORTFOLIO	AGF ELEMENTS GLOBAL PORTFOLIO
(ACUITY) ALPHA GROWTH PORTFOLIO	AGF ELEMENTS GROWTH PORTFOLIO