AGF Canadian Growth Equity Class[1]

FUND COMMENTARY SECOND QUARTER 2017 FOR ADVISOR USE WITH INVESTORS

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX[2]:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGER:
Canadian small- or mid-cap equity	60% S&P/TSX Composite Total Return Index / 40% S&P/TSX Small Cap Index	October 1964	Bottom-up growth	AGF Investments Inc. Peter Imhof, CIM

Market overview

During the second quarter of 2017, global equities continued to move higher, following a rally triggered by the U.S. election in early November of last year. Secular growth sectors such as Information Technology continued to provide market leadership, continuing a trend that began in the first quarter. As such, portfolios with growth investment styles generally outperformed value, as opposed to 2016 when growth severely underperformed value.

From a macroeconomic perspective, data remained supportive and in some cases, saw acceleration. In the U.S., though non-farm payrolls trended lower than the first two months of 2017 which saw an average of 231,000 gains per month, the unemployment rate remained at cycle lows of 4.3%. Meanwhile, the ISM Manufacturing Index continued to accelerate well into expansion territory, hitting a high of 57.8 in June, a level not reached in three years. Similarly, the services sector remained robust, with the ISM Non-Manufacturing PMI at 56.9, signalling continued strong expansionary conditions. In response to the strong macroeconomic data, the U.S. Federal Reserve raised the Fed Funds rate in June, the second hike this far in 2017.

In Canada, equity markets slumped in sympathy with weakness in oil prices. During the quarter, WTI oil prices fell after OPEC and other major exporters extended their current deal to limit oil production for nine months. This disappointed investors, who expected deeper cuts. Macroeconomic data, however, remained supportive during the quarter, showing that the Canadian economy grew at a 3.7% annualized rate in the first quarter, with consumer spending more than making up for a slide in exports. The Canadian labour market also remained robust, with job growth accelerating in May to its fastest pace in eight months and continuing to top consensus estimates in June. With the strong macroeconomic data, the Bank of Canada began to signal a more hawkish posture with a possible rate hike coming as early as the third quarter. As such, investors began to price in a greater likelihood of rate hikes, and the Canadian dollar rallied towards the end of the quarter, from 72 cents USD to 77 cents USD between May and the end of June.

Fund overview

As at June 30, 2017	3 mo.	YTD	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Canadian Growth Equity Class - A (%) (net of fees)	-3.5	-2.4	7.1	-0.9	4.2	-1.6	8.5
AGF Canadian Growth Equity Class - F (%) (net of fees)	-3.3	-1.9	8.5	0.2	5.4	-0.5	-
Benchmark (%)	-3.2	-1.2	8.2	1.3	7.6	3.4	-

Source: AGF Investment Operations.

* Performance start date (PSD): Apr. 30, 1965.

During the quarter, the Fund slightly underperformed its benchmark. Security selection was negative as selection in Information Technology, Health Care and Materials detracted from relative performance. This was partially offset with strong security selection in Industrials and Consumer Discretionary, which contributed. The Fund's allocation to private companies during the quarter also contributed to performance.

In terms of individual holdings, the top contributors were Real Matters, Yangarra Resources and Sleep Country Canada Holding, while the top detractors were CRH Medical Corp., Parex Resources and Asanko Gold.

The top contributor during the period was Real Matters Inc. Real Matters has been owned as a private company in the Fund for several years and during the quarter, the company conducted its initial public offering in the first significant technology IPO in Canada since 2015. Though its shares have waned since the IPO, we reduced our position as part of the IPO and achieved a price far above our average cost position. Since the IPO, Real Matters shares have slumped due to rising mortgage rates in the U.S. and concerns about the impact to appraisal activity. However, over the long-term we remain optimistic about the company's prospects given its growth trajectory and how it has been able to gain market share over the past several years.

The top detractor during the period was CRH Medical Corp. which saw its shares decline 32.1%. CRH Medical provides innovative products and services to gastrointestinal (GI) physicians. After being the Fund's top contributor last quarter, CRH Medical's shares fell in April on concerns over reimbursement rate risk with the U.S. Centers for Medicare & Medicaid Services, stating that rates for GI-related anesthesia services should be re-examined because of the increase in utilization. More recently, they have proposed a 20% reduction in the rates for 2018 with the potential of a further 20% reduction. We have since trimmed our exposure in the company given the erosion in fundamentals.

Outlook

Looking ahead, we continue to believe Canadian equities are well positioned, despite a mixed market thus far in 2017. Global growth is strong and Canada is participating in it with a strong economic backdrop. We expect the oil market to continue to grind its way towards a balancing of supply and demand. With that said, the global economic backdrop still has many risks and stock correlations have been declining, which leads us to believe tactical stock picking and sector rotation is likely to be rewarded this year.

The M&A environment in Canada has remained robust, with a strong U.S. dollar providing the impetus for U.S. companies to buy Canadian assets with smaller capitalization stocks more susceptible. Recently we have had several portfolio companies acquired, including Milestone REIT and RDM Corp., and have noticed higher levels of consolidation in the Canadian small-cap space. We expect this favourable M&A environment to continue given strong fundamentals in Canada.

Our focus will remain on identifying those businesses in Canada with high growth opportunities, solid management teams and reasonable valuations that provide us with both upside participation and downside protection in uncertain times.

[1] On April 10, 2012, shareholders approved a change in the investment objective providing the Fund with greater flexibility to invest in stocks of all market capitalizations.

[2] On May 1, 2012, the Fund's benchmark changed from a blended index of 60% BMO Small Cap Blended Total Return Index (Weighted) / 40% S&P/TSX Composite Index to a blended index of 60% S&P/TSX Composite Index / 40% BMO Small Cap Blended Total Return Index (Weighted). Then on July 1, 2014, the BMO Small Cap Blended Total Return Index was replaced with the S&P/TSX Small Cap Total Return Index. In both cases, the benchmark changes were applied from that date forward.

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