AGF Asian Growth Class

FUND COMMENTARY SECOND QUARTER 2017 — **FOR ADVISOR USE WITH INVESTORS**

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGER:	PORTFOLIO ADVISOR†:
Asia Pacific ex-Japan equity	MSCI (All Country) Far East Free (Ex-Japan) Total Return Index	October 1991	Growth at a reasonable price (GARP)	AGF Investments Inc.	AGF Asset Management Asia Ltd. Eng Hock Ong†, MBA, CFA

Market overview

The MSCI Far East ex-Japan Index rose by 6.2% in Canadian dollar terms. The robust performance was driven mainly by Korea and China, which outperformed the benchmark. However, the South East Asian markets continued to lag the benchmark for the second consecutive quarter, as investors remained relatively guarded on the back of macro and political uncertainties in several of these markets.

The Chinese stock market performed well on the back of better corporate earnings outlook and stabilization of the renminbi. The announcement of MSCI to include 222 China A-share large-cap stocks to the major indices, which will be implemented in two stages by May and August 2018, also helped sentiment. Economic growth momentum in China moderated during the quarter, partly due to the government's tightening measures in the property sector, which weighed on fixed asset investment. Still, the overall macroeconomy remained resilient.

In Korea and Taiwan, technology stocks continued to advance and push the markets higher. Sustained strength in memory markets bolstered performance of Korean chipmakers, while the Apple and Samsung supply chains in both countries also continued to rise ahead of the flagship phone-launches in the second half. Korea was the relative outperformer, buoyed by the election of Moon Jae-In as President, with his policy stance leaning towards government taking on a bigger role and job expansion appearing set to support the economy stay on a positive growth path.

Within South East Asia, Indonesia was the best performing market, driven by strong inflows on the back of positive trade data, a pick-up in domestic investments and improved sentiment from S&P's credit rating upgrade. The Philippines, which languished in the last two quarters, emerged as the second top performer amid optimism on tax reform initiatives and healthy bank loan growth. On the other hand, Thailand was the worst performer within the region as slow fiscal spending, disappointing corporate earnings and poor domestic consumption triggered profit taking in the market.

Fund overview

As at June 30, 2017	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Asian Growth Class (%) (net of fees) – Class F	5.9	23.3	9.6	10.9	4.3	2.7
AGF Asian Growth Class (%) (net of fees) – Class MF	5.6	22.0	8.5	9.7	3.2	4.4
MSCI (All Country) Far East Free (Ex-Japan) Total Return Index (%)	6.2	28.6	12.5	13.6	6.8	-

Source: AGF Investment Operations.
* Performance start date (PSD) for Class F: Feb. 4, 2000, Class MF: Oct. 16, 1991.

AGF Asian Growth Class underperformed the benchmark during the quarter by 0.6%. The Fund's overweight position in the Philippines and India, and underweight position in Korea detracted fromperformance. In addition, stock selection in certain areas also detracted.

The Fund invested in a leading city gas distributor in China, a leading private education provider with cheap valuations and strong earnings growth prospects, and ZTO Express, the second largest express delivery company in China. It also increased its exposure to the Information Technology sector by initiating a new position in NetEase Inc., a leading online service provider in China. In addition, the Fund switched out of its position in China Mobile Limited into China Telecom Corporation Limited in view of the latter's greater upside potential as the largest player is refraining from direct competition due to high market share.

In Korea, the Fund took profit on its stake in an equipment supplier to Samsung. In Taiwan, the Fund tactically lowered its overweight position in Taiwan Semiconductor Manufacturing Company, Ltd. Proceeds were switched into the preference shares of Samsung Electronics Co. Ltd., which remains attractively valued.

Within South East Asia, the Fund started a new position in a Malaysian bank as it is expected to register stronger financial performance from its restructuring efforts. The Fund also sold off its holdings in Singapore's largest telecommunication operator and switched into a leading telecommunication services provider in Indonesia. Over the quarter, the Fund exited its holdings in the largest food company in the Philippines, a leading property developer in Indonesia and a petrochemical company in Thailand.

Outlook

After experiencing strong economic growth in the first half of 2017, the Chinese economy is likely to moderate in the second half of the year. That said, the pace of slowdown is likely to be mild. A meaningful economic growth slowdown or a major credit event in 2017 is unlikely to happenin view of the19th National Congress of the Communist Party of China, to be held in autumn of this year, where we are likely to see some major leadership changes.

A rebound in exports from the second half in 2016 has helped to stabilize growth in both Korea and Taiwan, but expectations now run high for technology shipments for both economies. In Korea, the domestic economy could find firmer footing under the new liberal President, and there are also hopes for chaebol reform to help lift valuations in the equity market. Nonetheless, with the Minjoo Party holding just 120 of 299 seats in the National Assembly, the key for reform will be whether Moon can garner support from the opposition parties. In Taiwan, sentiment has become increasingly cautious, with falls seen in the latest leading and coincident business indicators, as well as the consumer confidence index. Still, the embattled President Tsai is pushing through with pension reform and infrastructure projects, which should be positive for the economy in the mid to longer term.

South East Asian countries have generally enjoyed better trade statistics over the review period. While consumer sentiment remains relatively cautious, the long-term positive trends of rapid urbanization and rising income levels remain intact. After multiple delays in rolling out infrastructure projects, there has increasingly been more positive news on this front from several countries, such as Thailand and Malaysia.

First publication date: July 14, 2017.