# AGF Asian Growth Class

**FUND COMMENTARY FIRST 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

For the quarter ended March 31, 2017, the MSCI All Country Far East ex-Japan Index rose by 13.0% in U.S. dollar terms and 11.9% in Canadian dollar terms. The robust recovery was led by the larger markets, particularly India, Korea, China and Hong Kong which, outperformed the benchmark returns. While the Southeast Asian markets also saw broad-based growth during the quarter, they underperformed the benchmark as investors remained relatively guarded on the back of macroeconomic and political uncertainties in several of these markets.

China's stock market performed strongly on the back of a better corporate earnings outlook and stabilization in the renminbi. Strong southbound inflows from mainland Chinese investors into the Hong Kong stock market through Stock Connect also helped sentiment. The strong economic growth momentum experienced in the fourth quarter of 2016 continued into the first quarter of this year. Recent macroeconomic indicators are supportive of further improvement in China. The official manufacturing Purchasing Managers' Index (PMI) has held above 51 for six consecutive months and reached 51.8 in March, the highest level since April 2012. In addition, China is benefiting from the recovery in external demand.

In Korea and Taiwan, a continued export recovery helped lift technology stocks in both markets. Continued strength in memory markets pushed chipmakers higher in Korea, while key Apple suppliers saw sustained upward momentum in Taiwan. Korea was the relative outperformer as GDP growth of 2.4% year over year for the fourth quarter of 2016, suggested that the economy had held up well to the political turmoil arising from the presidential scandal and hinted at potential upside to 2017 macroeconomic estimates.

The Philippines was the worst performer within Southeast Asia for the second consecutive quarter as the market continues to be concerned about its current account position and business process outsourcing (BPO) sector. The Philippine peso, being the only currency in the five Southeast Asian countries that depreciated against the U.S. dollar also weighed on the quarterly performance in U.S. dollar terms. Singapore was the strongest market in the region, lifted by improved sentiment within the offshore and marine, banking and property sectors.

## Fund overview

| As at Mar. 31, 2017 | 3 mo. | 1 yr. | 3 yr. | 5 yr. | 10 yr. | PSD* |
|---|---|---|---|---|---|---|
| AGF Asian Growth Class (%) (net of fees) | 10.9 | 13.6 | 7.7 | 7.3 | 3.2 | 4.2 |
| MSCI (All Country) Far East Free (Ex-Japan) Total Return Index (%) | 11.9 | 20.6 | 11.4 | 11.2 | 6.8 | 8.1 |

Source: AGF Investment Operations.
* Performance start date (PSD): Oct. 16, 1991.

AGF Asian Growth Class underperformed the benchmark during the quarter. The Fund's overweight position in the Philippines and underweight position in Korea detracted from performance. In addition, security selection also detracted from performance.

During the quarter, the Fund exited its holdings in China's largest automobile glass maker, a leading commercial bank in Hong Kong, and a Hong Kong-listed integrated electric utility company. It entered a position in one of the largest brokerage firms in China and a cement manufacturer in China.

In Korea, the Fund bought a stake in automaker Hyundai Motor, while paring down its stake in a producer of household and healthcare products. In Taiwan, the Fund bought shares ofan global electronics contract manufacturing company and a leading metal casing manufacturer in anticipation of strong sales from Apple's new iPhone model.

Within Southeast Asia, the Fund exited its position in the largest electric utility company in Malaysia on concerns that it may not be able to pass through the increase in input costs. It also booked profits in a property developer in Thailand. In Singapore, the Fund sold off its holdings in the national postal service provider and initiated a position in a property developer. In addition, it bought a leading telecommunication service provider in the Philippines.

## Outlook

The Chinese economy appears to be showing improvement. The rebound in the manufacturing sector has led to an increase in manufacturing employment, which is reflected in the recent government's initiative to create 11 million new jobs in 2017, in addition to the 10 million jobs it created last year. This should bode well for household income growth and consumption. Encouragingly, early signs of success in implementing supply-side reforms in heavy industries such as coal and steel have started to emerge and the new policy, which is backed by strict official implementation, appears to be yielding the desired results. We believe that if structural reforms, including supply-side reforms are implemented successfully, this should bode well for China's economy in the long term.

In Taiwan and Korea, a rebound in exports since the second half of 2016 has helped stabilize growth in both economies. Taiwan has been a beneficiary of better-than-expected Apple iPhone 7 sales and prospects in 2017 continue to look positive, with excitement about the iPhone product cycle in its tenth anniversary year. Korea, on the other hand, is benefitting from strong semiconductor exports, particularly in memory chips.

Political challenges and concerns about the external environment are still abound and continue to pose a threat to economic growth. In Korea, ex-President Park's corruption scandal has created domestic uncertainties, while retaliation by China over the impending anti-missle air defence THAAD deployment has dented prospects for some sectors. A new President is set to be elected on May 9th. For Taiwan, relations with China remain icy under the DPP administration.

Except for the Philippines, Southeast Asian countries have generally benefited from a cyclical recovery in commodity and oil prices over the past few months, resulting in better trade figures. On the fiscal front, governments also appear to remain committed to infrastructure spending, as evidenced by the larger allocation of their annual budgets to these projects. While President Trump's policy directions, U.S. interest rate hikes and political uncertainty may continue to invoke currency and market volatility within the region, the long-term positive trends of rapid urbanization and rising income levels remain intact.



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