

# AGF Asian Growth Class

FUND COMMENTARY FIRST QUARTER 2017

FOR ADVISOR USE WITH INVESTORS

## FUND FACTS

<b>FUND CATEGORY:</b> Asia Pacific ex-Japan equity	<b>BENCHMARK INDEX:</b> MSCI (All Country) Far East Free (Ex-Japan) Total Return Index	<b>DATE OF INCEPTION:</b> October 1991	<b>INVESTMENT STYLE:</b> Growth at a reasonable price (GARP)	<b>PORTFOLIO MANAGER:</b> AGF Investments Inc.	<b>PORTFOLIO ADVISOR†:</b> 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 of an 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



What are you doing after work?®

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-missile 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.

† This person acts solely as a portfolio advisor to the Fund. A portfolio advisor provides the Fund with investment research and recommendations. They do not make investment decisions on behalf of the Fund. Commentary and data sourced from Bloomberg, Reuters and company reports. The commentaries contained herein are provided as a general source of information based on information available as of March 31, 2017 and should not be considered as personal investment advice or an offer or solicitation to buy and/or sell securities. Every effort has been made to ensure accuracy in these commentaries at the time of publication; however, accuracy cannot be guaranteed. Market conditions may change and the manager accepts no responsibility for individual investment decisions arising from the use of or reliance on the information contained herein. References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AGF Investments. The specific securities identified and described in this commentary do not represent all of the securities purchased, sold or recommended for the portfolio, and it should not be assumed that investments in the securities identified were or will be profitable.

The All World Tax Advantage Group is a mutual fund corporation that currently offers over 20 different classes of securities. Investing in any of the classes within the group offers the following potential benefits and features: deferral of capital gains tax on transfers between classes, potential capital tax savings for corporate investors and fund diversification by investment style, geography and market capitalization. While the articles of AGF All World Tax Advantage Group Limited provide authority to make distributions out of capital and AGF All World Tax Advantage Group Limited intends both to calculate capital in the manner contemplated by the corporate statute for corporations that are not mutual fund corporations and only to declare distributions out of capital if there is sufficient capital attributable to a series, no definitive case law exists to confirm that a mutual fund corporation may make distributions of capital and how it is to be calculated. Further, no advance income tax ruling has been requested or obtained from Canada Revenue Agency, nor is AGF aware of any published advance income tax ruling or the possibility of obtaining such a ruling, regarding the characterization of such distributions or the calculation of capital for such purposes.

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com). Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in share and/or unit value and reinvestment of all dividends and/or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated. The information contained herein is designed to provide you with general information related to investment alternatives and strategies and is not intended to be comprehensive investment advice applicable to the circumstances of the individual. We strongly recommend that you consult with a financial advisor prior to making any investment decisions.