AGF Canadian Money Market Fund

FUND COMMENTARY **First Quarter 2014**

FUND FACTS

FUND CATEGORY:
Canadian money market

BENCHMARK INDEX:
DEX 91-Day Treasury Bill Index

DATE OF INCEPTION:
December 1975

INVESTMENT STYLE:
Interest rate anticipation

PORTFOLIO MANAGERS:
AGF Investments Inc.
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Market overview

During the first quarter of 2014, developed market central banks continued to adopt more dovish policies in an effort to stimulate growth. While still remaining extremely accommodative, the U.S. Federal Reserve Board (Fed) continued to reduce its quantitative easing program, bringing the monthly bond-buying program down to a total of US$55 billion. Concerns over the emerging markets increased during the quarter as slowing EM growth, particularly China's, and the Fed's tapering led to increased uncertainty. EM currencies depreciated as a result, which led to tighter monetary policies from a number of EM central banks.

Frigid temperatures continued to weigh on parts of the economy in the United States and Canada in the first quarter. Economic data released in the quarter showed that U.S. GDP growth during the fourth quarter fell to 2.6% (annualized), down from 4.1% in the third quarter. However, market participants largely brushed off the effects of the weather, expecting a rebound once the weather improved. Despite the slowdown, the U.S. manufacturing sector continued to improve, recording its 10th consecutive month of expansion in February. Also, U.S. new home sales, building permits and housing starts continued to improve and the economy continued to add workers.

Inflation remained subdued during the quarter, well under the Bank of Canada's 2% target. Despite being subdued, however, faster-than-expected inflation led to increasing inflation expectations in the second half of the period.

The Canadian dollar depreciated from generally weak economic data and from a speech given by Bank of Canada Governor Stephen Poloz near the end of the period where he expressed his concerns over sluggish growth in Canada and abroad and reinforced the view that interest rates will remain low for some time. Consequently, short-term rates fell marginally across most of the Canadian money market curve.

Fund overview

As at March 31, 2014	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Canadian Money Market Fund (%)	0.0	0.0	0.0	0.0	0.9	1.0
DEX 91-Day Treasury Bill Index (%)	0.2	1.0	1.0	0.8	2.0	2.2

* Performance start date (PSD): July 9, 2001.
Source: AGF Investment Operations.

The Fund underperformed its benchmark during the quarter. We slightly reduced the Fund's term positioning from 53 days at the beginning of the period to 45 days at the end, which remained lower than the DEX 91-Day Treasury Bill Index. This detracted from performance as a result of lower yields across the money market curve.

The Fund's total government exposure consists of Canada Treasury bills, provincial short-term debt and short-term debt issued by Canada Housing Trust, while the Fund's corporate exposure consists of bankers' acceptances and bank deposit notes. The Fund's corporate paper stayed relatively stable during the quarter at approximately 31%. The remaining exposure was invested in short-term cash instruments.

The gross yield of the Fund remained stable during the quarter, despite yields falling across the curve. The Fund maintained a gross average yield of 1.1%, while the benchmark maintained an average of 0.9%.

Outlook

Inflation expectations are slowly starting to rise in most developed economies. Policy-makers, in an effort to remain extremely accommodative, seem to be taking a more flexible approach to inflation targeting, which is resulting in declining real yields and in some cases, negative real yields. Central bankers' tolerance of rising inflation expectations has been due to the slower-than-expected economic recovery. This should continue to provide an accommodative environment until the economy becomes more self-sufficient and evidence of inflation becomes more apparent.

We expect that growth will improve in 2014, which should lead to modestly higher short-term rates over the course of the year as market participants start to price in central bank rate hikes. We, therefore, expect to maintain the Fund's shorter-term positioning relative to the benchmark.

What are you doing after work?