AGF International Stock Class

FUND COMMENTARY FOURTH QUARTER 2015 | **FOR ADVISOR USE WITH INVESTORS**

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGER:	PORTFOLIO ADVISOR:
International equity	MSCI EAFE + Emerging Markets (Total Return) Index	June 1997	Bottom-up value	AGF Investments Inc.	AGF International Advisors Company Ltd.‡

Market overview

International equities rebounded in the fourth quarter, with the MSCI EAFE Index recovering much of the poor performance from the third quarter.

The European Central Bank (ECB) extended its €60 billion per month asset purchase program by six months, until March 2017, and also cut its key deposit rate by 10 basis points to -0.3% as the eurozone continued to face deflationary pressures in a tepid growth environment.

Japanese equities rose 12.6% in Canadian dollar terms. Manufacturing activity continued to expand with Japan's Purchasing Managers' Index reaching a 19-month high of 52.6 in November and holding steady in December. Third-quarter GDP growth was revised higher to an annualized 1.0% from the preliminary estimate of a 0.8% decline, showing the economy was in a better condition than initially thought.

Chinese equities posted solid gains despite a continued slowdown in the economy as central bank activity aided markets. Manufacturing activity remained in contractionary territory and industrial profits fell for the sixth consecutive month in November. In a continued effort to boost growth, the People's Bank of China (PBoC) announced a 25-basis-point cut in the benchmark one-year lending and deposit rates, to 4.35% and 1.50%, respectively, the sixth consecutive rate cut in less than a year. On the last day of November, the International Monetary Fund added the renminbi to the Special Drawing Rights (SDR) basket at an 11% weight, higher than the Japanese yen and the British pound. Subsequent to SDR inclusion, the PBoC indicated that it will now track its currency against a broader range of currencies.

Fund overview

As at Dec. 31, 2015	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD†
AGF International Stock Class (%) (net of fees)	4.2	5.1	9.0	3.9	0.0	3.7
Benchmark* (%)	7.9	14.5	16.5	10.4	4.9	4.4

Source: AGF Investment Operations.

† Performance start date (PSD): June 16, 1997.

* MSCI EAFE + Emerging Markets (Total Return) Index.

AGF International Stock Class underperformed the MSCI EAFE + Emerging Markets (Total Return) Index during the quarter, as security selection and sector allocation detracted from relative performance.

Overall, stock selection detracted from the portfolio's performance over the quarter, specifically in the Financials, Materials, Health Care and Consumer Staples sectors. This was partially offset by strong selection in the Consumer Discretionary and Energy sectors.

Sector allocation also detracted from the portfolio's performance slightly during the quarter. An overweight position in the Materials sector, as well as underweight positions in the Consumer Discretionary and Information Technology sectors, detracted from performance. This was partially offset by an overweight position in the Industrials sector and an underweight position in the Utilities sector, which contributed to performance.

From a geographic perspective, the portfolio's allocations to Switzerland, Indonesia and Norway contributed to performance over the period, while its allocations to Spain, the U.K. and Italy detracted from performance.

Top individual contributors to performance included Metro AG, Ladbrokes PLC and PT Bank Tabungan Negara (Persero) Tbk. Top detractors included Tesco PLC, Sanofi and Indra Sistemas, SA.

Metro AG was the top contributor during the quarter. Metro is a German company that operates a variety of retail stores including cash and carry stores, supermarkets, consumer electronics stores and department stores. Its shares rebounded during the quarter after declining in previous quarters because of the company's exposure to Russia. When Metro announced its quarterly results, it issued guidance for slight growth in earnings. We continue to like the company given its German restructuring opportunity and cheap valuation.

Tesco PLC was the top detractor during the quarter, as the U.K. food retail market weakened during the quarter and Tesco's shares declined steadily. However, we continue to hold the company as the share price underperformance has left Tesco's valuation at attractive levels relative to its peers.

Outlook

We expect the economic recovery in Europe to continue over the coming period, with inflation rising from its 2015 levels and unemployment falling. Valuations in Europe moved up over the past quarter. European equities are trading slightly ahead of their long-term average on a price-to-earnings (P/E) basis, after having been re-rated during the year. This suggests some of the expected earnings recovery has already been priced into the market.

Global equities continue to appear attractively valued. P/E multiples in Europe are now almost in line with global markets, although European equities continue to trade at a discount on a price-to-book-value basis. However, we believe that Europe has a better earnings outlook, and have been finding opportunities within the Health Care sector.

Given that value underperformed growth in 2015, we believe that value stocks may be poised to outperform in 2016.

‡ 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.

AGF International Stock Class is proposed to be merged into AGF Global Equity Class on or about May 2016, subject to all required approvals.
On December 1, 2013, the Fund's benchmark changed from the MSCI EAFE Index to the MSCI EAFE + Emerging Markets (EM) Index. The benchmark change was applied from this date forward.