AGF Global Equity Class

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

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGER:
Global Equity	MSCI (All Country) World Total Return Index	May 1995	Core	AGF Investments Inc. Stephen Way, CFA

Market overview

Global equities advanced 1.7% during the quarter on the back of strong corporate earnings and positive sentiment. Within global equities, emerging markets (EM) outperformed, rising 3.6% while developed markets rose 1.5%.

U.S. economic data was mixed as first quarter GDP growth came in at 1.4%, below the 2.1% reported in the fourth quarter of 2016 and the pace of job additions moderated during the period. However, the unemployment rate fell to 4.3%, the lowest level in sixteen years and manufacturing activity remained in expansionary territory with an ISM manufacturing index reading of 54.9 in May. Political risk was at the forefront with ongoing enquiries into Russia's alleged link to the presidential election and the firing of former FBI director James Comey, although the impact to equities appeared relatively muted. As widely expected, the U.S. Federal Reserve (Fed) raised interest rates by 25 basis points in June for the third time in six months and discussed balance sheet normalization, to begin this year.

European equities outperformed, aided by strong corporate earnings and the outcome of the French elections in which centrist candidate Emmanuel Macron prevailed over far-right candidate Marine Le Pen. However, the outcome of the U.K. general election in which Prime Minister Theresa May lost a majority pared gains toward the end of period. Economic data released during the quarter was mostly encouraging. The unemployment rate remained at cycle-lows of 9.3% in May and retail sales expanded, albeit modestly. Inflation was also better than expected at 1.3% annualized in June. In the U.K., economic activity appeared to moderate as the U.K. manufacturing PMI fell to a three-month low, while the services PMI fell to a nine-month low.

Japanese equities outperformed amid a weaker yen. Encouragingly, the economy expanded by 1.0% on an annualized basis in Q1 2017, marking the fifth consecutive quarter of positive sequential growth, the longest streak in 11 years. Industrial production also increased through the period and inflation data improved from 0.2% in March to 0.4% in May, amid continued efforts to fight deflation. The unemployment rate however, ticked higher to 3.1% in May, the highest level since December 2016.

Emerging markets had another quarter of strong performance in part owing to a weakening U.S. dollar. Korea was one of the top-performing markets buoyed by strong earnings, particularly in the Information Technology sector. Chinese equities also fared well, having benefited from the MSCI decision to include China A-Shares to the MSCI Emerging Markets Index and from positive economic data. China Manufacturing activity moved back into expansionary territory at the end of the period, with the Caixin Markit Manufacturing PMI of 50.4 in June, following a contraction in May. U.S. and China made notable progress in trade negotiations and signed a memorandum of understanding that will increase American dairy exports to China.

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Fund overview

As at June 30, 2017	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Global Equity Class (%) (net of fees)	1.8%	15.2%	10.6%	14.7%	5.1%	5.2%
MSCI (All Country) World TR Index (%)	1.7%	19.8%	12.4%	16.7%	6.4%	7.0%

Source: AGF Investment Operations.

*Performance start date (PSD): May 18, 1995.

For the three-month period ended June 30, 2017, the Fund outperformed its benchmark, the MSCI All Country World Index, returning 1.8% compared to 1.7% for the benchmark.

Outperformance was driven by country allocation as an overweight to South Korea and Austria contributed to performance. Security selection also contributed, driven by positive security selection effects in the U.S.

The portfolio was overweight South Korea as the country allocation framework indicates the market is attractively valued with favorable risk characteristics of a strong current account position and a high return on assets. Sentiment is also positive with good price momentum. Further, we see the potential for meaningful corporate governance reforms to drive an increase in dividend payout and increase the return on equity of Korean companies.

The portfolio was overweight Germany as the country allocation framework indicates that Germany is attractively valued with good sentiment/growth characteristics. Although we remain overweight, we reduced our allocation during the quarter given poor risk characteristics of a high beta and a lower return on assets.

A top contributor to performance was AGCO Corporation, a global manufacturer of agricultural equipment that sells tractors and harvesters. AGCO outperformed on the back of better-than-expected results with earnings per share ahead of consensus estimates driven by stronger revenue growth and better-than-expected margins. Management also increased 2017 earnings per share guidance, owing to a higher sales outlook for South America and a lower tax rate.

We continue to hold the stock as we expect the company will continue to deliver better-than-expected margins buoyed by aggressive cost cutting efforts, and as we see further room to rationalize operations by fully integrating procurement and manufacturing platforms. AGCO has a leading market position and a history of value creation, covering its cost of capital every year since 2001. Further, AGCO earnings appear to have bottomed and could have significant upside once revenue growth accelerates, owing to good operational leverage and recent cost cutting efforts. Within the portfolio, AGCO diversifies our Industrial exposure and also provides exposure to emerging market growth.

A detractor from performance was Omnicom Group Inc., a U.S. based global advertising agency. Omnicom generates approximately half of its revenue from Marketing Services (public relations, brand consultancy, events, strategic marketing consulting and so forth) and half from Advertising & Media services (creating commercials, advising on media mix TV vs. radio vs. online, negotiating with media owners and buying advertising space on behalf of clients). The company's shares retreated during the quarter, despite better-than-expected earnings, owing to weaker organic growth in North America (accounts for approximately 60% of revenue), which prompted concerns over softer growth in the region.

We believe weakness in the North American business is transitory and continue to hold the stock given the strength of Omnicom's franchise as the second-largest global advertising agency operating in a consolidated industry. The company has successfully transformed from a provider of traditional advertising into a complete solutions provider that includes digital marketing as well as public relations, which in our view positions the company for growth. We see the company's digital offering (including its programmatic and analytics solution tool, Annalect, which played a key role in some large account wins in 2015/2016) as a key competitive advantage that should in turn aid revenue growth going forward. Further, the company is able to expand operating margins in a consistent fashion. It has a strong Economic Value Added Profile (EVA) having grown its CFROI profile from 27% in 2005 to 48% in 2016 and is led by a management team that is focused on effective capital allocation, employing a prudent acquisition strategy and selling off underperforming businesses.

Outlook

We remain constructive on equities, given a supportive economic backdrop that has contributed to a synchronized upturn in global earnings per share growth. That said, as global equities have already delivered strong performance over the last year, we would not be surprised to see a temporary pullback, also in part owing to seasonality.

Over the medium-term, we are more positive on the trajectory of earnings growth outside of the U.S., as margins remain below historical peaks in many countries, and are supported by a domestic economic recovery. In Europe, we continue to see an acceleration in domestic demand, which should underpin double-digit earnings growth for European companies. This, combined with positive estimate earnings revisions, bodes well for European equities. We also see opportunity for meaningful reforms to underpin growth in a number of countries such as France following the recent Macron victory, and potentially Italy, which is taking an important step of recapitalizing its banks. Japan also appears attractive with forecasted earnings growth of +10% in 2017 against a backdrop of a strong economic recovery – Japan is undergoing its longest expansion in 11 years. We also expect Japanese equities to benefit from a weaker yen as the Bank of Japan remains accommodative (while the U.S. Federal Reserve and European Central Bank are moving toward tightening). Valuations are also relatively attractive.

We are most optimistic on emerging markets in the medium-term, assuming the U.S. dollar does not strengthen materially, as EM equities remain attractively valued despite an improvement in profitability. EM currencies also remain competitive and several countries are undertaking reforms that should spur economic growth.

Some of the risks that we continue to monitor include the potential for central bank policy error, particularly as central banks in developed markets have been sounding hawkish. We are watchful of the market's reaction to a combination of higher rates, and balance sheet reduction from the European Central Bank and the U.S. Federal Reserve (Fed). Also, while fears of rising populism appear to have receded in Europe, we continue to watch political developments in Italy that could bring political risk back into focus.

In this environment, we believe it is important to have a portfolio that is well diversified and well-constructed. Country allocation will also remain key. Given our focus on high quality companies through the lens of EVA, we believe we are positioned to withstand volatility. We remain focused on investing in companies that can create positive economic value added and that are trading at attractive valuations.

First publication date: July 19, 2017.