AGF Global Resources Class[1]

FUND COMMENTARY SECOND QUARTER 2016 **FOR ADVISOR USE WITH INVESTORS**

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	FUND MANAGER:
Natural resources equity	60% MSCI (Developed) World Energy Total Return Index + 40% MSCI (Developed) World Materials Total Return Index	April 2000	Bottom-up growth	AGF Investments Inc. Stephen Bonnyman, MBA, CFA

Market overview

Commodities rallied strongly during the quarter, with Energy the top-performing sector during the period. Crude oil prices climbed sharply in April, while gas prices rose at a more modest pace. Despite the lack of a production freeze at the oil producers' meeting in Doha on April 17, 2016, a short-lived strike by Kuwaiti oil workers helped support prices. As well, additional outages from smaller OPEC producers and a depreciation of the U.S. dollar following a dovish tone from the U.S. Federal Reserve Board (Fed) was supportive. Energy commodities continued to climb in May, with oil and NYMEX gas both finishing the month significantly higher. Production outages in Nigeria, Libya, Venezuela and the Athabasca oil sands combined with an increase in seasonal demand helping to support prices. In June, crude oil prices declined modestly, weighed down by the Brexit vote near the end of the month as the U.S. dollar strengthened. Gas prices surged in June, with NYMEX gas finishing close to 30% higher during the month.

Gold rose strongly during the quarter, finishing at just over US$1,320 per ounce. Gold found support during the quarter as a result of diminished Fed rate hike expectations, as Europe and Japan were engulfed in the negative interest rate environment and as uncertainty and volatility spiked toward the end of the quarter as the U.K. voted to leave the European Union (EU). Negative rates have helped to boost gold demand by directly reducing the relative cost of carrying gold and indirectly by delaying and potentially capping any interest rate increases by the Fed.

The significant event of the quarter was the U.K.'s historic referendum vote to leave the EU on June 24 with the subsequent resignation of U.K. Prime Minister David Cameron. Global equities fell in the aftermath but recovered over the final three days of June, paring the monthly losses.

In the United States, economic data was mixed as the pace of job additions appeared to moderate and economic growth decelerated to 0.8% from the previous quarter's 1.4% growth rate. However, economic leading indicators pointed to a re-acceleration in economic activity as the ISM Manufacturing Index touched its highest level since February 2015. At its June 15 meeting, the Fed left its interest unchanged and sounded more dovish, acknowledging that it would need to see clear signs of economic strength before lifting rates.

Not surprisingly, European equities underperformed as concerns on the Brexit vote weighed on returns. The Financials sector bore the brunt of the losses, particularly as Brexit resulted in a complete pricing out of a rate hike this year. Japanese equities underperformed amid a stronger yen. Encouragingly, Prime Minister Shinzo Abe delayed plans to implement the consumption tax rate hike by two and a half years, until October 2019, as part of a continued effort to fight deflation. Data released during the quarter showed that the economy expanded at an annualized pace of 1.7% in the first quarter of 2016, ahead of expectations of a 0.3% increase as contributions from consumption, government expenditures and trade more than offset the drag from weak investment spending.

Chinese equities underperformed as concerns about a softening economy weighed on equities. Data released during the quarter indicated that exports and imports fell more than expected, while industrial production growth was below expectations. MSCI announced that it had decided not to include China A-shares in its emerging market index citing concerns about quota allocation, capital mobility, trading suspension and non-competitive clauses.

Fund overview

As at June 30, 2016	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Global Resources Class (%) (net of fees)	9.3	-11.7	-5.0	-10.3	0.2	6.9
Benchmark** (%)	7.5	-2.7	6.3	3.4	3.8	5.7

Source: AGF Investment Operations.

* Performance start date (PSD): Apr. 27, 2000.

** Benchmark: 60% MSCI World Energy Index / 40% MSCI World Materials Index.

The Fund significantly outperformed the benchmark during the quarter. Sector allocation was the main driver of outperformance, though security selection also contributed.

Within the Energy sector, the Fund's significant overweight to exploration & production companies contributed strongly as a result of their solid performance during the quarter. An underweight to refining & marketing and industrial gases also positively impacted Fund returns due to their underperformance. However, the Fund's underweight to integrated oil & gas partially detracted. Security selection within exploration & production was strong, while selection within equipment & services and industrial gases also contributed. Selection within oil & gas, refining & marketing and storage & transportation partially offset results.

Within the Materials sector, the Fund's overweight to silver, precious metals & minerals and no exposure to construction materials contributed positively. An overweight to commodity chemicals and small underweight to metals & mining partially detracted. Selection within metals & mining, fertilizers & agricultural chemicals and specialty chemicals positively impacted returns, while selection within gold, and diversified and commodity chemicals, partially detracted.

One of the top contributors to performance was Continental Resources, Inc. Continental is an independent crude oil and natural gas exploration and production company with properties in the north, south and east regions of the United States. E&P companies performed strongly during the period, supported by sharply rising oil and gas prices. The company saw solid earnings estimate revisions as analysts became more bullish on the firm's prospects in both the short and long term. The company's current quarter estimates narrowed US$0.01, to a loss of US$0.26 per share, while current year estimates narrowed US$0.05, to US$0.91. Importantly, production was strong, enabling the company to raise its full-year output guidance well above its initial estimate. In addition to stronger oil prices, Continental's improved well costs and margins out of its STACK play has improved production, while at the same time it recorded the lowest costs ever for the company. We believe the company has an above-average cash return on capital invested (CROCI), maintains the flexibility to shift production declines to growth, and has improved capital efficiency due in part to its backlog of uncompleted Bakken wells and further resource expansion and improvement in South Central Oklahoma Oil Province (SCOOP) and Sooner Trend Anadarko Basin Canadian and Kingfisher Counties (STACK). We believe Continental can continue to outperform if oil prices improve further, given its scaled shale positions and ability to ramp up production quickly.

For the second quarter, the portfolio saw a greater level of activity than in previous quarters as a result of the rapidly changing macro environment and our responses to it.

In the agrochemicals space, Monsanto Company appreciated quickly through our target price on rumours of a potential takeover by European competitor Bayer AG. At that time, we reduced exposure to Monsanto to market weight and utilized the available capital to invest in Syngenta AG, which had an existing takeover offer in place that the market had substantially discounted.

While the rumours of the Bayer offer proved to be true, the structure and scale of the offer remains challenged and Monsanto's share price remains roughly at the level at which the Fund reduced its exposure.

Through the early part of the quarter, we reduced the Fund's large overweight exposure to the mining sector to roughly market weight, reflecting our expectations that the combination of normal seasonal weakness through the summer months, rising economic uncertainty and a lack of corporate catalysts would leave the group static. Additionally, valuations had become stretched for the group as commodity prices had softened, while share prices continued to rise.

Following the surprising referendum results in the U.K., which appeared to have been wholly unanticipated by the market, market forces began adjusting to the likelihood of an extended lower rate environment and expectations of further central bank stimulus. Consequently, we responded by adding exposure to gold mining companies.

Outlook

In our assessment, the price lows in the commodity markets seen in the first quarter of 2016 likely mark the lows for this year and for this cycle. As noted previously, commodity prices had been heavily influenced by the combination of a strong U.S. dollar, heavy short interest, some of which had migrated from the credit markets, and the broad expectations of weaker global economic growth. This pressure resulted in a collapse in valuations for commodities and resources companies to well below sustainable levels. Directionally, the U.S. dollar continues to be the primary influence on oil and most other commodity prices, in the near term.

The sharp recovery in commodity prices through the first quarter of the year reflect both the U.S. dollar moves, the improvement in underlying fundamentals, notably oil, but equally as important, the unwind of large short positions and signals of economic stimulus in Asia.

In the oil market, production declines in North American onshore have become more evident and the continued decline in drilling activity suggests a slow recovery in production. While OPEC production continues to run ahead of 'self-imposed' quotas, exceeding most analysts' expectations, at its existing production levels, OPEC has limited ability to further increase production, reducing its ability to negatively influence price or meet even normal demand increases.

The announcement of a nuclear agreement with Iran and the release of sanctions (and therefore restrictions on oil exports) has added further concerns to the oil price outlook but we forecast that these concerns are overdone and that Iranian production capability alone will constrain exports. In the near term, the potential for Iranian export will remain a key risk to the oil price but one that we believe is overstated. We continue to forecast the oil market moving into balance in the second half of the year, supporting a continued improvement in prices.

In the industrial metals space the sharp recovery in prices was largely a reflection of changes in the U.S. dollar but was also supported by an improving economic outlook from Asia and a late restocking phase, which boosted near-term demand. In copper, new capacity additions expected throughout the remainder of the year should constrain inventory drawdowns, leaving pricing range bound. Announcements of price-related production cuts in the copper market confirm that prices had dipped into the upper end of the cost curve, which should constrain production and allow price improvements as demand improves. The recent price move from roughly US$2.00 per pound to above US$2.20 per pound fully reflects the improving economics and we forecast prices to be limited and range bound from here.

The sharp and unexpected shift in language from the Fed substantially reduced market expectations for hikes in the Federal Reserve rate this year, giving a meaningful boost to gold prices and gold equities. Given the sharp price move in gold prices, further moves will be more challenging but a dovish Fed and increasing purchases of gold through ETFs should be supportive of the existing price.

As evidenced by the sharp recovery in both commodity prices and equities, the confluence of macroeconomic concerns and the material increase in risk aversion in January proved overly pessimistic. We do not forecast a global recession and with increasing clarity on global economic growth expected into next year, commodity prices have likely seen the floors for this cycle.

This should help to provide a base for equity prices to recover, which should start to better reflect the long-term value of the underlying businesses.

We continue to maintain higher-than-normal cash balances in the portfolio, reflecting our assessment of the increased volatility and risk surrounding the global resources complex. These risks include geopolitical risk, uncertainty regarding a settlement with Iran, risk of further U.S. rate hikes and interest rate risk from the Fed and the European Central Bank.

In summary, we believe that the global economic outlook will improve and that concerns regarding China’s economic outlook are overdone. Energy and Materials are the sectors most impacted by the economic concerns and negative investor sentiment and continue to trade at highly discounted valuations, not reflective of their longer-term earnings power.

1 AGF Canadian Resources Class merged into AGF Global Resources Class on July 10, 2015.