AGF Canadian Asset Allocation Fund

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

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGER:
Canadian equity balanced	**60% S&P/TSX Composite Total Return Index, 40% FTSE TMX Canada Universe Bond Index	July 1931 **MANAGER START DATE:** August 2015	Top-down asset allocation Bottom-up stock selection	AGF Investments Inc. AGF Asset Allocation Committee

Market overview

During the second quarter of 2017, global equities continued to move higher, after a rally that followed the U.S. election in early November of last year. Secular growth sectors such as Information Technology continued to provide market leadership, a trend that began in the first quarter. As such, portfolios with growth investment styles generally outperformed value, as opposed to 2016 when growth severely underperformed value.

From a macroeconomic perspective, data remained supportive and in some cases, saw acceleration. In the U.S., though non-farm payrolls trended lower than the first two months of 2017 which saw an average of 231,000 gains per month, the unemployment rate remained at cycle lows of 4.3%. Meanwhile, the ISM Manufacturing Index continued to accelerate well into expansion territory, hitting a high of 57.8 in June, a level not reached in three years. Similarly, the services sector remained robust, with the ISM Non-Manufacturing PMI at 56.9, signalling continued strong expansionary conditions. In response to the strong macroeconomic data, the U.S. Federal Reserve (Fed) raised the Fed Funds rate in June, the second hike this far in 2017.

In Canada, equity markets slumped in sympathy with weakness in oil prices. During the quarter, WTI oil prices fell after OPEC and other major exporters extended their current deal to limit oil production for nine months. This disappointed investors, who expected deeper cuts. Macroeconomic data, however, remained supportive during the quarter, showing that the Canadian economy grew at a 3.7% annualized rate in the first quarter, with consumer spending more than making up for a slide in exports. The Canadian labour market also remained robust, with job growth accelerating in May to its fastest pace in eight months and continuing to top consensus estimates in June. With the strong macroeconomic data, the Bank of Canada began to signal a more hawkish posture with a possible rate hike coming as early as the third quarter. As such, investors began to price in a greater likelihood of rate hikes, and the Canadian dollar rallied towards the end of the quarter, from 72 cents USD to 77 cents USD between May and the end of June.

In fixed income, the Fed's plan to reduce its balance sheet and hike rates further resulted in higher short term bond yields (up to three-year maturities), while disinflationary dynamics resulted in lower yields in the five-year and longer portion of the U.S. Treasury curve. This resulted in long-term bonds outperforming during the quarter.

A similar trend played out in Canada, though it was more pronounced. The Canadian yield curve flattened, as bond yields up to ten-year maturities rose with market participants pricing in a potential rate hike as early as July, while long-term bond yields declined as inflation and inflation expectations trended lower. Hence, long term bonds outperformed as yields declined.

Overall, corporate bonds outperformed due to spread tightening, with most global fixed income categories outperforming the Canadian bond market.

Fund overview

As at June 30, 2017	3 mo.	YTD	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Canadian Asset Allocation Fund – A (%, net of fees)	-0.4	1.4	6.4	3.0	6.6	3.1	4.8
AGF Canadian Asset Allocation Fund – F (%, net of fees)	0.0	2.2	8.1	4.6	8.1	4.4	5.9
Benchmark (%)**	-0.5	1.4	6.6	3.6	6.7	4.7	6.9

Source: AGF Investment Operations

* Performance start date (PSD): December 17, 2001

For the quarter ended June 30, 2017, the portfolio outperformed the benchmark 60% S&P/TSX Composite Index / 40% FTSE TMX Canada Universe Bond Index.

During the period, the Fund maintained an out-of-benchmark exposure to global equities through its allocation to AGF Global Equity Fund and AGF American Growth Class, which contributed to returns. Global equities outperformed Canadian equities during the period, as global economic data continued to improve, while the Canadian market lagged during the period as oil prices fell.

An underweight exposure to fixed income and Canadian equities in favour of global equities contributed to performance.

Underlying fund performance was generally positive. AGF Dividend Income Fund outperformed, as strong stock selection helped performance along with the Fund's exposure to dividend paying U.S. equities.

AGF Global Equity Fund outperformed its respective benchmark as a result of country allocation, with an overweight to South Korea and Germany contributing to performance.

AGF American Growth Class had a strong quarter, outperforming the benchmark, due to strong security selection, specifically with exposure to Nvidia Corp., Intuitive Surgical Inc., and Edwards Lifesciences Corp.

AGF Fixed Income Plus underperformed its respective benchmark, due to an overweight to BBB-rated corporate bonds and an underweight to provincial bonds.

Outlook

We believe the Canadian market is also well positioned for outperformance in the months ahead. After significant underperformance this year oversold companies in the Energy sector could rebound strongly due to improving fundamentals and a divergence between stock prices and underlying commodity prices. Financials could also benefit from higher interest rates.

The outlook for the U.S. economy has been reduced as a near-term correction may be warranted given the relatively high valuations and the absence of a material correction this year.

Prospects for emerging markets have improved as the cyclical momentum is gathering pace. The economic growth differential between developed and emerging markets is expected to accelerate over the next several years in favour of EM. We also view Europe positively due to a decline in political risk, though valuations appear stretched. And remain upbeat about Japan due to attractive valuations and supportive central bank policy.

We anticipate that global bond yields will move higher if global growth continues to improve. Inflation in developed economies remains below target, and developments here will be a key element influencing the path of bond yields and monetary policy.

Overall, we have become more cautious in the near-term and as such, have reduced equity allocation in favour of fixed income and cash. Over the long-term, we expect global growth should continue across most regions, backed by a supportive macroeconomic backdrop and high sentiment levels.

Based on these favourable global views, we expect to maintain the Fund's out-of-benchmark allocation beyond domestic markets, with exposure to the U.S. and other global markets.

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