AGF Global Equity Fund

FUND COMMENTARY FIRST 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	November 1994	Core	AGF Investments Inc. Stephen Way, CFA

Market overview

Global equities had a strong start to the year on the back of strong corporate earnings and rising sentiment. U.S. equities posted solid gains for the quarter, despite retreating toward the end of the period on concerns that the Trump administration would be unable to deliver tax reforms after the failed health care bill. As widely expected, the U.S. Federal Reserve (Fed) raised interest rates by 25 basis points in March, but set a dovish outlook. Economic data released during the period was mostly encouraging as the ISM manufacturing Index rose to 57.7, while new orders for durable goods and retail sales expanded during the quarter. Nonfarm payrolls increased by 235,000 in February, well above expectations, and the unemployment rate was 4.7%. Fourth quarter GDP growth came in at 2.1% compared to 3.5% in the previous quarter.

The major European bourses outperformed U.S. equities on the back of strong corporate earnings. Additionally, the outcome of the Dutch election, in which Prime Minister Rutte defeated the far-right candidate, combined with opinion polls favouring pro-European parties in France and Germany, aided markets. Economic data released during the period was encouraging, as the pace of manufacturing output continued to accelerate with the Markit Eurozone Manufacturing PMI Index reaching the highest level since April 2011. Inflation also rose to a four-year high of 2.0% in February, while core CPI came in at 0.9% annualized. Toward the end of the period, U.K. Prime Minister Theresa May formally triggered the start of two years of Brexit negotiations. However, the British pound held firm and the U.K. jobless rate hit the lowest level since 1975.

Japanese equities underperformed global equities during the quarter. Fourth-quarter GDP came in at an annualized rate of 1.2%, as the economy posted growth for four consecutive quarters for the first time in three years. The Nikkei Manufacturing PMI reading also remained in expansionary territory and posted a reading of 52.6 in March. Industrial production rose 2% in February, well above economist estimates, driven by a recovery in durable consumer goods, while retail sales rose 0.1% in February from a year ago, after rising 1% in January.

Emerging markets (EM) staged a recovery from fourth quarter performance and outperformed developed markets during the period. Korea was one of the top performing markets, driven by strength in the Information Technology sector and on expectations of a stable government after the Constitutional Court ratified the impeachment of President Park. Chinese equities also delivered strong performance, aided by encouraging economic data. The Producer Price Index (PPI) continued to advance and manufacturing PMI remained planted in expansionary territory.

Fund overview

As at March 31, 2017	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Global Equity Fund (%) (net of fees)	4.7%	16.8%	10.5%	13.3%	4.9%	7.6%
MSCI (All Country) World TR Index (%)	6.0%	18.4%	12.4%	15.4%	6.1%	8.1%

Source: AGF Investment Operations.

*Performance start date (PSD): November 28, 1994.

For the three-month period ended March 31, 2017, the Fund underperformed its benchmark, the MSCI All Country World Index, returning 4.7% compared to 6.0% for the benchmark.

This was largely as a result of security selection. However, country allocation contributed positively, driven by an overweight to South Korea and an underweight to Canada.

A top detractor from performance was Brambles Ltd., an Australian based supply-chain logistics company that assists customers in transporting goods through their supply chain more efficiently. Brambles provides reusable unit-load equipment such as pallets, crates and containers for shared use by multiple participants through the supply chain. The company's shares came under pressure after management downgraded sales and profit expectations for fiscal year 2017 due to greater price competition in the U.S., deferral of new contract wins as well as higher pallet returns following an unexpected customer destock that led to higher upfront transport and plant costs. Outside the U.S., revenue growth was broadly in line with expectations.

We continue to hold the stock, as we believe the long-term fundamentals of the business remain sound and that the current challenges are not structural and will correct over time. The company operates in an attractive industry with relatively high barriers to entry, given new entrants would need to establish a national network in order to facilitate movement of pallets, which takes time and significant capital investment. We believe the pricing pressure is transitory given U.S. competitors have a history of being quite disciplined. Importantly, Brambles has an attractive Economic Value Added (EVA) profile primarily driven by strong margins and asset efficiency (asset turns). Within the portfolio, Brambles diversifies our other Industrials holdings that

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are in waste management, electrical equipment and agricultural & farm machinery.

A top contributor to performance was Samsung Electronics Co. Ltd, a South Korean company engaged in the manufacturing and distribution of electronic products. It operates four business segments. 1) the consumer electronics segment, which manufactures colour televisions, monitors, printers, refrigerators, laundry machines and others; 2) the Information Technology (IT) and mobile communication segment, which manufactures computers, handheld phones, network systems and others; 3) the semiconductor segment that manufactures memory drives, including dynamic random access memories (DRAM) and flash memory and 4) the display panel segment that provides thin film transistor-liquid crystal displays and others. The stock outperformed during the quarter, owing to strong quarterly results, as the semiconductor, display and IT & Mobile Communication divisions delivered better-than-expected profitability. The company also announced a stock buyback plan of 9.3 trillion won that was above analyst expectations and management expressed optimism on the outlook for the memory market given tightening supply.

We continue to hold the stock, as Samsung has multiple levers of growth including gains in the smartphone business, improved pricing for its memory business as well as potential for strong earnings contribution from the display panels business. In the mobile division, while high-end smartphones have slowed, Samsung continues to gain market share from weaker industry players such as Sony and LG. The semiconductor business is also poised to deliver strong profit growth as supply tightens in the memory market (DRAM) where Samsung has a leading market share. This should in turn lead to improved DRAM pricing and boost margins. Finally, the company's new technology in display panels has seen good uptake from key players such as Apple, which should in turn drive top-line growth. We believe sales growth and margins should in turn bolster the company's EVA profile. Within the portfolio, Samsung gives us exposure to both consumer and business spending and at the same time diversifies our other Information Technology holdings in factory automation and IT services.

Outlook

We remain constructive on equities given a supportive economic backdrop and broadly accommodative central bank policies. The acceleration in economic growth has contributed to upward revisions in earnings estimates, which is positive for equities. Also, while the Fed is moving to normalize policy, other major central banks remain accommodative (European Central Bank, Bank of Japan and Bank of England), providing a supportive backdrop for equities. Finally, fiscal thrust is increasing in most major markets, delivering a tailwind to growth. That said, a stronger U.S. dollar, elevated debt levels, political uncertainty, particularly in Europe, and any disappointment on fiscal policies that the Trump Administration implements could present headwinds, and we expect returns to be modest.

While valuations appear extended in some regions, we see relatively attractive opportunities in Continental Europe and Japan. In Europe, we expect that a continued acceleration in domestic demand will buoy revenue growth and profitability of European companies. Estimate revisions have also improved for European companies. Japanese equities should benefit from a weaker yen (Bank of Japan has pegged the 10-year yield at zero, which makes Japanese bonds less attractive, in turn putting pressure on the yen) and also from a recovery in global growth given the cyclical nature of the Japanese market. Our proprietary country allocation framework is also pointing to selective opportunities in EM given positive earnings estimate revisions and relatively attractive valuations. Importantly, we expect profitability of EM companies to improve, buoyed by a pick-up in EM GDP growth. Productivity growth is also outpacing real wage growth for the first time since 2010, which bodes well for profitability. This combined with relatively attractive valuations should drive continued strong outperformance. Importantly, EM politics has been moving toward de-regulation and structural reforms that should drive higher growth rates and in turn support earnings growth.

Some of the risks that we continue to monitor include the potential for central bank policy error, which could contribute to volatility. Further, given the recent rally in equities, we would not be surprised to see some degree of consolidation in markets. We are also watching political developments in Europe, including upcoming elections in Germany and France, although the outcome of the recent Dutch elections suggest radical Populist Party acceptance could face headwinds. Currencies could also remain volatile, particularly if U.S. dollar strength persists.

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.

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