# AGF Global Dividend Fund

FUND COMMENTARY SECOND QUARTER 2017 | FOR ADVISOR USE WITH INVESTORS

**FUND FACTS**

| FUND CATEGORY: | BENCHMARK INDEX: | DATE OF INCEPTION: | INVESTMENT STYLE: | PORTFOLIO MANAGERS: |
|---|---|---|---|---|
| Global Dividend | MSCI (All Country) World Total Return Index | August 2007 | Core | AGF Investments Inc.<br>Stephen Way, CFA<br>Thiery Jannini, M.Sc., 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 in 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.

## Fund overview

| As at June 30, 2017 | 3 mo. | 1 yr. | 3 yr. | 5 yr. | PSD* |
|---|---|---|---|---|---|
| AGF Global Dividend Fund (%) (net of fees) | 0.9% | 9.5% | 10.4% | 13.5% | 6.9% |
| MSCI (All Country) World TR Index (%) | 1.7% | 19.8% | 12.4% | 16.7% | 6.9% |

Source: AGF Investment Operations.

* Performance start date (PSD): Aug. 22, 2007.

For the three-month period ended June 30, 2017, the Fund underperformed its benchmark, the MSCI All Country World Index, returning 0.9% compared to 1.7% for the benchmark.

Security selection detracted largely in China, Canada and the U.S. Sector allocation also detracted driven by an underweight to the Information Technology sector and an overweight to the Telecommunications sector. This was partly offset by country allocation which contributed, driven by exposure to the Czech Republic and Australia as well as an overweight to Switzerland.

A top detractor from performance was AT&T Inc., a U.S. based provider of telecommunications and digital entertainment services. The company's shares had rallied significantly following the U.S. election on expectations that tax reform and de-regulation would improve the profitability of telecommunication providers. However, the stock retreated as expectations for tax reform faded.

We continue to hold the stock given the company's strong competitive advantage in the U.S. wireless industry. Further, the company has in recent years bolstered its ability to serve both fixed-line and wireless customers, creating opportunities to bundle services and grow revenues. The company's increased scale in video distribution also enhances AT&T's ability to obtain favorable deals with content companies to the benefit of margins.

A top contributor to performance was The Sherwin Williams Company, a U.S.-based building materials company. The company manufactures paints, coatings and related products for distribution and sale to customers primarily in North and South America. Sherwin Williams' shares rallied following better-than-expected quarterly results and progress toward closing of its acquisition of The Valspar Corporation. EPS was ahead of expectations owing to better operating profits in the paint store group and due to higher than expected same store sales growth.

We continue to hold the stock as the company operates in a structurally attractive segment of materials – coatings. Given the high margins and relatively low level of capital intensity, the company generates attractive returns and boasts a favorable EVA profile. The company also has a strong track record of delivering above industry average growth. Additionally, we believe the market is under-estimating the potential synergies from the recently completed acquisition of Valspar, which should further bolster earnings growth.

## 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.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.

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