AGF High Yield Bond Fund[1]

FUND COMMENTARY FOURTH QUARTER 2015 **FOR ADVISOR USE WITH INVESTORS**

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGERS:
High-yield fixed income	50% Barclays Capital U.S. Corporate High Yield Bond Total Return Index (hedged to Canadian dollars)/50% Barclays U.S. Corporate Bond Index (unhedged)[2]	February 1994	Top-down fundamental research	AGF Investments Inc. Tom Nakamura, CFA Tristan Sones, CFA

Market overview

The U.S. economy continued to slow during the quarter. The manufacturing sector entered contraction territory, with the ISM Manufacturing Index dipping below 50 in November. GDP growth released in December for the third quarter showed that the economy expanded at a 2.0% rate as a result of strong consumer and business spending. The highly anticipated hike by the U.S. Federal Reserve Board (Fed) finally came to fruition, with the Fed raising its benchmark overnight interest rate by 25 basis points in December.

The Canadian economy continued to struggle during the quarter as oil prices moved lower due to increased production and inventories and as OPEC elected not to cut output. As a result, inflation and bond yields in Canada continued to decline. The Bank of Canada left rates unchanged during the quarter, stating that the domestic economy was adjusting as expected to low oil prices and other global pressures.

The European Central Bank (ECB) extended its €60 billion a month asset purchase program by six months, until March 2017, and also cut its key deposit rate by 10 basis points to -0.3% as the eurozone continued to face deflationary pressures in a tepid growth environment. Manufacturing activity remained in expansionary territory with a final Markit Manufacturing PMI reading of 53.2 in December compared to a final reading of 52.8 in November.

China continued to face a slowdown in growth with manufacturing decelerating for the sixth consecutive month in November. In response, the Chinese government implemented a number of policy measures, including 25 basis point cuts in the benchmark one-year lending and deposit rates.

High yield bond spreads widened modestly during the quarter as a result of the generally risk-averse market environment in December, which resulted in the asset class underperforming.

Fund overview

As at Dec. 31, 2015	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF High Yield Bond Fund[1] (%) (net of fees)	0.3	-0.4	3.0	3.8	4.5	5.2
Benchmark** (%)	-0.3	4.4	7.2	6.9	8.0	-

Source: AGF Investment Operations.

* Performance start date (PSD): Feb. 22, 1994.

** On May 1, 2012, the Fund's benchmark changed from the DEX High Yield Bond Index to Barclays Capital U.S. Corporate High Yield Bond Index (hedged to Canadian dollars). Then on October 1, 2013, the benchmark changed to a blended index of 50% Barclays U.S. High Yield Corporate Bond (hedged to Canadian dollars) and 50% Barclays U.S. High Yield Corporate Bond (unhedged in Canadian dollars). In both cases, the benchmark changes were applied from that date forward.

For the quarter ended December 31, 2015, the Fund outperformed its benchmark.

The Fund's allocation to cash contributed positively to performance as high yield bonds sold off during the quarter. Further, the majority of the Fund's cash was in U.S. dollars, which appreciated relative to the Canadian dollar and contributed positively to performance.

The Fund's credit quality also contributed to performance. We continued to upgrade the Fund's credit quality during the quarter, which we started at the beginning of the year. This contributed positively to Fund returns as higher credit quality corporate bonds continued to outperform. While we were underweight BB-rated bonds, which was the best-performing credit bucket in the Barclays U.S. High Yield Corporate Bond benchmark during the quarter, our significant underweight to CCC-rated bonds more than offset performance.

The Fund's small out-of-benchmark exposure to EM corporate bonds positively impacted performance as EM corporate bonds (denominated in U.S. dollars) generally outperformed U.S. high-yield bonds during the quarter.

Outlook

Although the Fed raised interest rates in December 2015, uncertainty about future rate hikes and the weakening global economic backdrop are likely to drive further financial market volatility. We believe slowing growth in China, low oil prices and uncertainty around the direction of interest rates are likely to weigh on the high yield asset class and overall financial markets in the near term. That said, we expect default activity will remain below average for credits outside the Energy and Metals and Mining sectors.

We believe high yield bond valuations were relatively attractive at the end of the quarter, with spreads at four-year highs. However, we remain cautious on the high yield asset class in the near term because fundamentals have shown modest deterioration. Given that we do not anticipate an imminent recession, spreads may rally once volatility subsides, which would provide the potential for favourable returns and income from high yield bonds.

[1] On April 10, 2012, unitholders approved a change in the investment objective providing the Fund with greater flexibility to invest in high-yield bonds issued or guaranteed by corporations around the world.

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