

AGF Canadian Small Cap Discovery Fund

FUND COMMENTARY FOURTH QUARTER 2015

FOR ADVISOR USE WITH INVESTORS

FUND FACTS

FUND CATEGORY: Canadian small-/mid-cap equity	BENCHMARK INDEX: S&P/TSX Small Cap Index ¹	DATE OF INCEPTION: July 2005	INVESTMENT STYLE: Growth	PORTFOLIO MANAGER: Highstreet Asset Management Inc. Mark Stacey, MBA, CFA
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Market overview

The TSX Small Cap Index was up (+1.1%) in the fourth quarter. The strength was concentrated in Health Care, Utilities and Consumer Staples sectors leading the market. Sector breadth was strong, with seven of nine sectors having positive returns. Energy and Consumer Discretionary were the two negative sectors, and were also principal contributors to a subdued Index return.

Companies that made the largest positive contribution to the Index included ProMetric Life Sciences, FirstService Corp and Enghouse Systems. ProMetric Life Sciences was also the best performing stock in the Index through the quarter after promising results from one of their drugs involved in the treatment of diabetes. The stocks that made the largest negative contribution to the Index were Labrador Iron Ore, Russel Metals and Newalta Corp. The stock with the biggest negative return was Boulder Energy.

to navigate. There was much uncertainty in the quarter, in particular oil supply decisions from OPEC, the U.S. Federal Reserve (Fed) Interest Rate decision and their respective effect on the Canadian Small Cap market. We continued to observe an increase in style and sector volatility through the quarter, a theme we have witnessed throughout the year. Going forward, we believe the increase in style and sector volatility, combined with elevated price volatility, will continue as the Central Banks around the Globe begin to reconsider more monetary stimulus.

Fund overview

As at Dec. 31, 2015	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Canadian Small Cap Discovery Fund (%)	4.1	-1.7	-5.0	-11.0	-2.0	-0.6
S&P/TSX Small Cap Index (%)	1.1	-13.3	-3.0	-4.3	2.1	3.1

Source: AGF Investment Operations, Globe Investor.

*Performance start date (PSD): July 4, 2005.

The portfolio outperformed the benchmark in the quarter. The Fund added value in seven of nine sectors, with stock selection being the strongest driver of performance, particularly in the Materials, Energy and Information Technology sectors. Although slightly underweight a strong performing Materials sector, the Fund continued to hold stocks that benefit from the improving U.S. economy with Interfor Corp., Cascades Inc. and Intertape Polymer, all posting strong returns. The Fund was also aided by an overweight in the Industrials sector, particularly positions in New Flyer Industries, and Badger Daylighting. The Fund detracted value from positioning in the Health Care sector, mainly by not owning strongest performer, ProMetric Life Sciences.

Outlook

The fourth quarter of 2015 was a strong quarter for the Canadian Small Cap Discovery Fund in spite of a difficult Canadian market



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¹On January 1, 2014, the Fund's benchmark changed from the BMO Small Cap Blended Total Return Index (Weighted) to the S&P/TSX Small Cap Total Return Index. The benchmark change was applied from this date forward.

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