AGF Canadian Large Cap Dividend Fund Classic Series

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

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGERS:	
Canadian dividend	S&P/TSX Composite Total Return Index	December 1985	Blended growth & value	AGF Investments Inc. Stephen Way, CFA	Connor, Clark & Lunn Investment Management Ltd.† Phillip Cotterill, CFA Gary Baker, MBA, CFA

Market overview

The Canadian equity market retreated in the second quarter of 2017, despite a stronger-than-anticipated economic backdrop. Uncertainty surrounding commodity prices, a frothy housing market and U.S. political events continued to weigh on investor sentiment and drove Canadian stocks lower. The price of crude oil declined as investors grappled with the interpretation of OPEC's agreement to extend production cuts and whether this arrangement would prove to be futile in the face of growing production in the U.S. The Bank of Canada held interest rates steady in the second quarter but signaled that the first increase since 2010 may occur sooner than expected. Meanwhile, the U.S. Federal Reserve forged ahead with its third interest-rate hike in six months, despite concerns over weak inflation readings. The S&P/TSX Composite Index returned -1.6% during the quarter.

Lower prices for crude oil and natural gas resulted in broad-based declines within the Energy sector (-8.3%), and industrial metals stocks were the largest drag in the Materials sector (-6.4%). In contrast, forest products companies posted strong gains (+9.5%) despite the two rounds of duties imposed by the U.S. Commerce Department. The weak performance of the Financials sector (-0.9%) was a result of the spillover effect from the funding crisis at a mortgage company which fueled negative sentiment towards Canadian bank stocks. Conversely, the Health Care sector (+13%) provided the best sector return thanks to a 53% rebound by embattled Valeant Pharmaceuticals. The industrials (+6.1%) and consumer discretionary (+4.8%) sectors also ranked among the top-performing sectors.

Fund overview

As at June 30, 2017	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Canadian Large Cap Dividend Fund Classic Series† (%) (net of fees)	-0.5	10.8	6.2	10.6	3.9	8.5
S&P/TSX Composite Total Return Index (%)	-1.6	11.1	3.1	8.7	3.9	8.1

Source: AGF Investment Operations.
* Performance start date (PSD): December 31, 1985.
† The foreign-content portion of the Fund is advised by AGF Investments Inc.

The portfolio underperformed the benchmark during the quarter as a result of security selection and sector allocation. Positioning within the Energy, Technology and Materials sectors detracted from the relative return, however, this was partly offset by the security selection within the Financials sector. Sector allocation was also a detractor as the underweight exposures to the Consumer Discretionary and Telecom sectors generated negative relative returns. Conversely, the overweight allocation to the Industrials and Technology sectors added value.

The portfolio's positioning within the energy sector was once again the largest detractor from added value during the quarter. Our investment process focuses on overweight exposure to high growth companies with strong balance sheets and attractive valuations. During the first half of this year, however, market capitalization has been a more important driver of share price returns than growth, valuation and balance sheet strength. As a result, the portfolio's overweight exposure to a number of energy producers, such as Crescent Point Energy (-30%) and Raging River Exploration (-13%), and underweight exposure to Suncor Energy (-6.5%), were among the primary drivers of the underperformance.

Additionally, the security selection within the Technology and Materials sectors detracted value. Within Technology, this was largely due to the underweight position in Blackberry (+26%) and the overweight position in Open Text (-9.1%). The negative relative return that was generated by the positioning in the Materials sector was primarily driven by the overweight positions in First Quantum Minerals (-23%) and Teck Resources (-22%).

Outlook

We believe the Canadian equity market is poised to recover relative to its global peers. We are monitoring several indicators including the stabilization of oil prices, positive momentum in economic surprise indices and rising interest rates. To capitalize on this view, we continue to add companies that we believe are attractively valued, benefit from higher economic growth, pay a sustainable dividend and are expected to increase their dividend payments to shareholders in the coming years.

We are cognizant that we are entering the later stages of this economic cycle and remain vigilant of the risks to our outlook. These include elevated political uncertainty, a substantial increase in interest rates and indicators that the economic cycle may be rolling over. Should these risks materialize, we expect to reduce exposure to dividend growers in favour of stable dividend payers, such as those in the interest-sensitive and Consumer Staples sectors.

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