AGF Canadian Large Cap Dividend Fund

FUND COMMENTARY FOURTH QUARTER 2016 **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

Despite a volatile October, the S&P/TSX Composite Index ended the quarter at a 4.5% gain as Canadian stocks rallied following Trump's election victory. Cyclical stocks were the big winners, while defensive and income-oriented stocks generally underperformed. Notable news on the domestic front included the federal government's approval of two pipelines slated to bring oil from Alberta's oil sands to global markets. The financials sector led the index higher, while energy and industrials were the only other sectors to outperform the index. In contrast, the telecom, consumer staples, technology and utilities sectors all ended lower. The steep decline in the health care sector was primarily due to weak earnings results from a small number of pharmaceutical companies. The decline in the materials sector was driven by gold mining companies which fell 18% (as represented by the S&P/TSX Global Gold Total Return Index) as the price of bullion retreated. This erased much of the gains achieved during the first three quarters of the year.

Global equities posted strong performance, ending the period up 3.7% as represented by the MSCI All Country World Index. U.S. equities rallied following the U.S. election, driven by expectations that a Republican sweep would bring higher fiscal spending and support longer-term secular growth. Economic data reported during the period was also encouraging with third quarter GDP growth of 3.5%, the strongest pace of growth in two years. At its December meeting, the U.S. Federal Reserve raised interest rates by 25 basis points, increasing its target range to 0.5% - 0.75%.

European equities underperformed global equities, as the euro weakened. Italy voted against proposed reforms by Prime Minister Renzi, raising concerns that this would fuel further populist movements in other parts of Europe. While the political environment remained a headwind, economic data appeared encouraging as the Euro area Markit manufacturing PMI came in at 53.7 in November and retail sales expanded 1.1% month-over-month in October.

Japanese equities modestly underperformed amid a depreciation in the Japanese yen. Chinese equities were under pressure on concerns of higher capital outflows as well as anti-immigration and protectionist policies from the upcoming Trump presidency weighed on markets. However, China economic data reported during the period was largely better-than-expected.

Fund overview

As at December 31, 2016	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF Canadian Large Cap Dividend Fund† (%) (net of fees)	3.3	11.0	8.4	10.1	4.0	4.7
S&P/TSX Composite Total Return Index (%)	4.5	21.1	7.1	8.3	4.7	5.5

Source: AGF Investment Operations.
* Performance start date (PSD): February 7, 2006.
† The foreign-content portion of the Fund is advised by AGF Investments Inc.

The Canadian portion of the portfolio underperformed its benchmark. This was a result of security selection, particularly within the energy, industrials and consumer staples sectors. Sector allocation was a modest contributor, although this did not offset the detraction from security selection. Security selection detracted amid the rally of lower-quality companies. Therefore, while we had reduced the portfolio's exposure to growth stocks in favour of value stocks earlier in the year, while value outperformed in the fourth quarter, the significant outperformance of many lower-quality companies detracted from our relative performance.

The global portion of the portfolio underperformed its benchmark. This was driven by country allocation as an overweight to South Korea and Belgium as well as an underweight to the U.S. detracted from performance. However security selection contributed positively. Notable contributors to performance were JPMorgan Chase & Co (a U.S. based financial services company engaged in investment banking, retail/commercial/corporate banking, financial transaction processing as well as asset management) and Unum Group (an employee benefit company with operations in the U.S. and the U.K.).

Outlook

We believe the economic environment is shifting from one based on fear of secular stagnation and deflation to one of higher growth, inflation and interest rates. Leading economic indicators continue to improve and we believe the global economy is slowly gaining momentum. We expect more fiscal stimulus, driven by a shift to populist policies globally, will help support this growth. We also expect consumer and business spending to increase, as consumer and small business confidence in the U.S. remain very robust.

What are you doing after work?®

Given a supportive backdrop of increasing fiscal stimulus and generally accomodative central bank policies, we remain constructive on global equities in 2017. That said, a stronger dollar, elevated debt levels, political uncertainty particularly in Europe and potential for protectionist trade policies, particularly under a Trump presidency, could present headwinds for equities, and we expect returns to be modest.

Broadly speaking, valuations are supportive with relatively attractive opportunities in Continental Europe and Emerging Markets. In Europe, we expect that a continued acceleration in domestic demand will buoy revenue growth and profitability of European companies. The Global Equity proprietary country allocation framework is also pointing to selective opportunities in emerging markets (EM). We expect profitability of EM companies to improve, helped 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. We believe strong profitability, combined with relatively attractive valuations should drive 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 globally that we continue to monitor include the potential for central bank policy error, which could contribute to volatility. We are also watching political developments in Europe, including upcoming elections in Germany, France and the Netherlands. There also remains a great deal of uncertainty with the election of Donald Trump and the economic policies that he will implement. Currencies could also remain volatile, particularly if U.S. dollar strength persists.

Within the Canadian portion of the portfolio we intend to continue increasing the portfolio's exposure to companies that are expected to outperform in this environment by adding to base metals producers, financials companies and energy producers. Within the global portfolio we believe country allocation will remain key. Given the focus on high quality companies, we believe we are positioned to withstand volatility. A key tenet of our philosophy centres on Economic Value Added, with sales growth, margins and asset turns the main drivers of the process. We remain focused on investing in companies that can create positive economic value added in this environment and that are trading at attractive valuations.

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