

AGF World Balanced Fund

FUND COMMENTARY First Quarter 2015

FUND FACTS

FUND CATEGORY: Global balanced	BENCHMARK INDEX: 70% MSCI (All Country) World Total Return Index / 30% Barclays Capital Global Aggregate Bond Total Return Index	DATE OF INCEPTION: June 1988	INVESTMENT STYLE: Equity: Bottom-up value Bond: Interest-rate anticipation	PORTFOLIO MANAGERS: Bond: AGF Investments Inc. Jean Charbonneau	PORTFOLIO ADVISORS: Equity: AGF International Advisors Company Ltd.* Rory Flynn, CFA
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Market overview

Global equity markets appreciated in the first quarter, fuelled by monetary policy. The European Central Bank (ECB) embarked on another journey to boost the eurozone, launching a massive government bond-buying program. As a part of its new quantitative easing (QE) program, the ECB announced that it would buy €60 billion a month of sovereign bonds, starting in March 2015 and ending in September 2016, pumping more than €1 trillion into the troubled eurozone. The intention of the QE program is to drive down bond yields, influencing borrowing rates to fall.

Oil prices declined during the first quarter on expectations that global oil supplies will continue to rise amid continued growth in U.S. shale oil production and OPEC production. In addition, oil prices eased as Iran and six other nations continued to work toward an agreement on resolving a standoff over the country's nuclear program. However, relative to the prior quarter, oil prices began to show signs of stability. At the end of the quarter, WTI crude oil prices ended at US\$48 per barrel, shedding 10%. Meanwhile, as expected, the U.S. Federal Reserve Board (Fed) dropped the word 'patient' from its most recent monetary policy statement, opening the door to discussions on raising the benchmark federal funds rate. However, the Fed added that it will not raise rates until "it has seen further improvement in the labour market and is reasonably confident that inflation will move back to its 2% objective over the medium term." The Fed's 'dot plot,' which illustrates the federal funds rate predictions of the bank's officials, decreased substantially, indicating that rates will likely be lower for longer.

The People's Bank of China (PBoC) reduced its benchmark one-year lending rate and one-year deposit rate by 25 basis points to 5.35% and 2.5%, respectively, in an effort to boost the slowing economy and fight the risk of deflation. The cut was the PBoC's second in three months. According to the PBoC, "in recent months, the scale of consumer price increases has come down and the scale of producer price falls has widened and this has had the effect of pushing up the level of real interest rates." The HSBC/Markit China Manufacturing Index declined to 49.6 in March from 50.7, a small step into contractionary territory. China's economy expanded by 7.3% year over year in Q4-2014, matching the rate in the prior quarter and exceeding the median forecast of 7.2%. The country's full-year 2014 GDP growth was

7.4%, down from 7.7% in 2013 but slightly above expectations of 7.3%. Meanwhile, the Bank of Japan maintained its pledge to increase the monetary base by ¥80 trillion annually via its asset purchase program.

Bond yields generally declined during the quarter, benefiting longer-term fixed-income securities. Credit spreads modestly tightened, which led to relatively strong returns for corporate bonds.

Fund overview

As at Mar. 31, 2015	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF World Balanced Fund (%) (net of fees)	8.5	8.0	14.3	7.7	2.8	3.8
Benchmark (%)	10.4	18.4	16.8	12.4	6.8	6.8

Source: AGF Investment Operations. * Performance start date (PSD): Oct. 3, 2003.

The Fund underperformed the benchmark during the first quarter as a result of sector allocation and security selection. An underweight allocation to the Health Care sector and an overweight allocation to the Financials sector detracted from relative performance, though these were partially offset by an underweight allocation to the Utilities sector. Security selection in the Materials and Telecommunication Services sectors detracted from performance relative to the benchmark, which was partially offset by security selection in the Consumer Discretionary and Consumer Staples sectors.

The top contributors to relative performance were Kohl's Corp., Tesco PLC and Société Générale SA. Kohl's Corp., a U.S.-based specialty department store operator, announced Q4-2014 comparable store sales growth of 3.7%, beating the consensus estimate of 1.9% and guidance of 2-3%. The company also announced that its 2014 earnings per share guidance is now US\$4.20-\$4.22, exceeding prevailing estimates of US\$4.04. Supermarket chain Tesco PLC intends to close 43 unprofitable stores across the UK. More than half of these closures are local convenience shops, known as Tesco Express stores. The company also announced that it will move its headquarters and will not be following through on prior plans to open 49 new stores. Tesco is also ending its pension scheme for its staff and will reduce overhead by 30%. The retail giant, which operates more than 3,300 stores in the UK, announced that it will not be paying a dividend.



What are you doing after work?®

The top detractors from relative performance were AirAsia Bhd, Freeport-McMoRan Inc. and Bank of America Corp. Malaysia-based discount airline operator AirAsia Bhd reported a Q4-2014 net loss that missed estimates, partially because of foreign exchange translation losses. We continue to hold shares of AirAsia and believe the company will benefit from lower fuel prices, a more stable capacity environment and a better pricing market. Freeport-McMoRan Inc. was affected by the continued decline in copper prices, which were under pressure as a result of growing global copper supplies and slowing demand from China. Freeport is the world's largest publicly traded copper producer. We continue to hold Freeport-McMoRan as it remains one of the highest-quality copper companies in the public markets and trades at an attractive valuation.

Regionally, exposure to the United States, Malaysia and Japan detracted from relative performance, which was marginally offset by exposure to Italy and the U.K.

Fixed-income category allocation partially offset returns. While the Fund's small overweight to investment-grade corporate bonds contributed positively to performance, an underweight to securitized bonds, the best performing category within the Barclays Global Aggregate Bond Fund during the quarter, detracted from returns. Also, while an underweight to global Treasury bonds contributed, as the category outperformed, an overweight to government-related securities detracted.

Outlook

The global economic recovery is now in its sixth year following the financial crisis. However, economic growth is still lacklustre as illustrated by the low level of inflation across the globe and persistently high output gaps and unemployment rates in some regions. This economic environment has resulted in continued support from central banks in the form of quantitative easing (QE). The ECB's colossal asset-buying program totalled at least €1.1 trillion, exceeding market expectations for a €550 billion expansion. The announcement shows that the ECB is willing to defend the eurozone for the long haul. Fundamentally, the news is positive for the eurozone economy.

Despite the concerns surrounding economic growth, all major regions are expected to generate positive growth in 2015. In terms of major economies, the United States is forecasted to be a leader but the positive surprise could come from Europe as tailwinds from further quantitative easing, a lower exchange rate, lower commodity prices and a recovering credit cycle could benefit markets. While conditions are prime for volatility in equity markets because of deflation fears and geopolitical tensions, it is unlikely these will outweigh the positive forces of continued economic growth, earnings growth and central bank liquidity, which look set to drive equity markets to positive returns in 2015.

Within equity markets, the real value lies within Europe and emerging markets as these regions provide dividend yields exceeding those of the United States and Japan. From a sector perspective, we prefer Financials and Materials, which should be

beneficiaries of a continued economic recovery, as well as Telecommunication Services companies, which have started to be recognized as providers of stable income. Lower oil prices have also created a global disinflationary trend that may continue to weigh on bond yields in the intermediate term. Global secular stagnation – a result of high debt levels, lower productivity and a less favourable demographic profile than in the past – is likely to restrain bond yields over the medium term. However, this does not preclude a modest rise in yields as a result of an improving economic backdrop, especially after the strong bond rally experienced last year. Having said that, we believe that bond yields will trend modestly higher by year-end.

* This person acts solely as a portfolio advisor to the Fund. A portfolio advisor provides the Fund with investment research and recommendations. They do not make investment decisions on behalf of the Fund.

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