AGF Dividend Income Fund

FUND COMMENTARY FIRST 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 60 Index	April 2003	Quantitative Core	Highstreet Asset Management Inc. Fred Steciuk, CFA Mark Stacey, MBA, CFA

Market overview

The S&P/TSX 60 returned (+2.4 %) in the first quarter of 2017, retaining its strong momentum from 2016.

Equity markets were generally strong to start the year and were supported by improving economic sentiment in Europe and strong data from the U.S. The Canadian economy continued to show signs of strength, posting better than expected employment and GDP growth, along with stable inflation. The U.S. Federal Reserve raised their key interest rate, acknowledging strength in the global economy, but noted room for improvement. The oil price traded range-bound for the first two months of the year before falling in March due to rising U.S. inventories. The U.S. dollar ended the quarter down, while gold rallied due to uncertainty around the Trump administrations' proposed policies spanning healthcare and tax reform.

Sector breadth was strong, with eight of the ten sectors posting positive returns. Consumer Discretionary (+7.5%) and Utilities (+6.4%) were the top performers, while Health Care (-24.6%) and Energy (-4.0%) lagged.

In Consumer Discretionary, the top performing stock was Restaurant Brands International (+16.2%) which was boosted by its acquisition of the Popeye's fast food chain operations. Magna International (-0.9 %) was the only negative stock within the sector, hurt by weaker than expected earnings from Europe.

In Utilities, Fortis Inc (+7.3%) was the top performing stock driven by broad based earnings strength and boosted by its acquisition of the largest independent transmission utility in the U.S., ITC.

In Health Care, embattled Valeant Pharmaceuticals (-24.6%) continued to weigh negatively on the sector as a prominent hedge fund exited their position in the stock.

In Energy, Cameco Corporation (+5.5 %) was the top performer, as projected under-supply in the uranium market helped the stock. Cenovus Energy (-25.6%), which was hurt by an acquisition of oil fields in western Canada, was the poorest performer within the sector.

Royal Bank of Canada (+7.6%) was the top contributor to the Index supported by improvements in credit quality and an increase in trading revenues. Barrick Gold (+17.7%) was the top performer in the Index supported by the higher gold price.

Suncor Energy (-6.3%), which was hurt by the depressed oil price, detracted the most from the Index while Cenovus Energy was the poorest performer during the quarter.

Fund overview

As at March 31, 2017	3 mo.	6 mo.	1 yr.	3 yr	5 yr	10 yr	PSD**
AGF Dividend Income Fund (%) (net of fees)	2.6	8.0	14.3	5.2	6.6	3.3	8.9
S&P/TSX 60 Index (%)	2.4	8.2	19.3	6.9	8.6	4.9	9.5

Source: AGF Investment Operations.

** Performance start date (PSD): April 16, 2003.

The Fund returned (+2.6%) in the first quarter of 2017, outperforming the Index.

The Fund benefitted from strong stock selection within Energy and Industrials, which more than offset weakness in Materials and Telecommunication Services.

In Energy, avoiding Cenovus Energy and Suncor Energy helped the Fund, as the stocks were hurt by an unfavourable acquisition and a weaker macroeconomic backdrop, respectively.

In Industrials, holding Toromont Industries (+10.3%), with growth due to stronger earnings and revenues compared to peers, along with a dividend increase, added value to the Fund. So too did U.S. stock 3M Co. (+6.7%), which delivered better than expected results from their Electronics and Industrial lines of business.

In Materials, value was lost from not holding gold stocks, particularly Barrick Gold (+17.7%), which was supported by the higher gold price.

In Telecommunication Services, value was lost from not holding Rogers Communications (+14.5%) which benefitted from strong results and outlook for their wireless segment, and holding U.S. Verizon Communications (-8.7%), hurt by intense competition in the U.S. wireless space.

The Fund's exposure to dividend paying U.S. equities averaged (+17.5%) over the quarter and continues to provide the Fund with additional sector diversification and reduced volatility. Top performing U.S. stocks in the Fund included Home Depot (+8.8%) and Cisco Systems Inc (+8.4%).

Outlook

The S&P/TSX 60 Index began 2017 strong, posting five consecutive positive quarters. The global economic recovery seems to have regained momentum, spurred by strong economic data as well as robust sentiment from around the world. However, and we expect the investment backdrop going forward to remain accommodative and the overall pace of rate hikes in the U.S. should be measured. The Fund is well positioned to benefit in this type of environment, as it remains squarely focused on its primary investment objectives: offer an attractive and growing dividend, maintain a lower risk profile and provide an opportunity for capital appreciation.

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