AGF China Focus Class

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

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGER:	PORTFOLIO ADVISOR†:
Greater China equity	MSCI China Free Total Return Index	April 1994	Growth at a reasonable price (GARP)	AGF Investments Inc.	AGF Asset Management Asia Ltd. Eng Hock Ong, MBA, CFA

Market overview

Economic growth momentum in China moderated during the quarter, partly due to the government's tightening measures in the property sector, which weighed on fixed asset investment. Still, the overall macroeconomy remained resilient. The official manufacturing Purchasing Managers' Index (PMI) softened slightly from the recent peak in March, though it has continued to hold steadily above that level for nine consecutive months up to June. Meanwhile, consumption in China also remained buoyant as evidenced by the strong non-manufacturing PMI, which has remained consistently above 54 since October 2016. More importantly, China benefited from the recovery in external demand. Chinese exports were up 8.2% for the first five months of the year, which witnessed a significant improvement over the 7.7% decline in 2016.

Fund overview

As at June 30, 2017	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF China Focus Class (%) (net of fees) – Class F	7.3	28.7	14.8	12.4	3.8	9.2
AGF China Focus Class (%) (net of fees) – Class MF	7.0	27.2	13.5	11.2	2.7	5.5
MSCI China Free Total Return Index (%)	7.7	32.7	15.5	14.6	6.3	-

Source: AGF Investment Operations.

* Performance start date (PSD): Class F: Feb. 4, 2000, Class MF: Apr. 12, 1994.

The Fund underperformed the benchmark during the quarter. The Fund benefited from its overweight positions in internet stocks such as Alibaba, which performed well on the back of strong ecommerce growth. The Fund's holdings in China Zhengtong Auto Services, one of the largest luxury automobile dealership operators in China also rallied strongly, supported by solid auto financing revenue growth. The Fund's positions in Samsonite, a luxury luggage maker and China Gas Holdings Limited, a leading city gas distributor in China also contributed positively.

That said, the Fund's performance was negatively affected by the Fund's underweight position in select companies in the Consumer Discretionary sector, including JD.com, the largest online direct sales company, and Geely Automobile Holdings Limited, a leading automobile manufacturer in China. The share prices of several automobile manufacturers, including Geely, performed well with continued strong car sales momentum during the quarter. JD.com also outperformed as the company managed to deliver strong online sales with continued improvements in profitability. In addition, the Fund's underweight position in the smaller companies in the Real Estate sector also detracted from performance. The Fund was overweight Information Technology and Materials and underweight Energy and Utilities.

The Fund initiated a position in Wisdom Education International Holdings Co. Ltd., a leading private education provider at cheap valuations, with the potential for strong earnings growth. The Fund also initiated a position in ZTO Express, the second largest express delivery company in China. We believe that the company is well positioned to benefit from continued strong online sales in China. To fund the purchases, the Fund sold off completely its holdings in Zoomlion Heavy Industry Science &Technology Co., Ltd., a leading manufacturer of construction machinery.

Outlook

After experiencing strong economic growth in the first half of 2017, the Chinese economy is likely to moderate somewhat in the second half of the year. However, the pace of the slowdown is likely to be mild. A meaningful economic growth slowdown or a major credit event in 2017 is unlikely to happen in view of the19th National Congress of the Communist Party of China, to be held in autumn of this year, where we are likely to see some major leadership changes.

Infrastructure investment growth, together with property investment has moderated recently following strong performance in the first quarter of 2017. While the slowdown in property investment is likely to continue into the second half of the year given the strict regulatory tightening environment, the pause in infrastructure investment spending could offer room for the government to re-accelerate projects in the coming months should economic growth falter. Meanwhile, a modest recovery in exports should also help to sustain economic growth momentum.

† 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. Commentary and data sourced from Bloomberg, Reuters and company reports. The commentaries contained herein are provided as a general source of information based on information available as of June 30, 2017 and should not be considered as personal investment advice or an offer or solicitation to buy and/or sell securities. Every effort has been made to ensure accuracy in these commentaries at the time of publication; however, accuracy cannot be guaranteed. Market conditions may change and the manager accepts no responsibility for individual investment decisions arising from the use of or reliance on the information contained herein. References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AGF Investments. The specific securities identified and described in this commentary do not represent all of the securities purchased, sold or recommended for the portfolio, and it should not be assumed that investments in the securities identified were or will be profitable.

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