AGF European Equity 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:
European equity	MSCI (Developed) Europe Total Return Index	April 1994	Bottom-up value	AGF Investments Inc.	AGF International Advisors Company Ltd.‡ [Richard McGrath, CFA]

Market overview

During the second quarter of 2017, global equities continued to move higher, following a rally triggered by the U.S. election in early November of last year. Secular growth sectors such as Information Technology continued to provide market leadership, continuing a trend that began in the first quarter. As such, portfolios with growth investment styles generally outperformed value, as opposed to 2016 when growth severely underperformed value.

Meanwhile, in Europe, worries surrounding the potential impact of geopolitical events went largely unfounded. In France, centrist Emmanuel Macron won the Presidency, defeating populist far-right candidate Marine Le Pen who had promised to withdraw France from the European Union. In Germany, polls showed German Chancellor Angela Merkel extending her lead in the upcoming German elections in September 2017. Finally, the U.K. elections resulted in a minority government led by Theresa May's Conservatives, complicating the ongoing Brexit discussions with the EU. Overall, uncertainty over geopolitics in Europe improved, and as such European equities saw a strong rally during the second quarter.

Fund overview

As at June 30, 2017	3 mo	6 mo	1 yr	3 yr	5 yr	10 yr	PSD*
AGF European Equity Class – A (%) (net of fees)	2.8	8.6	21.1	-2.7	9.7	-4.2	1.7
AGF European Equity Class – F (%) (net of fees)	3.2	9.5	23.1	-0.8	11.5	-2.8	-
MSCI Europe TR Index (%)	4.9	11.8	22.2	7.1	14.9	3.3	5.2

Source: AGF Investment Operations.

* Performance start date (PSD): Dec. 17, 2001.

AGF European Equity Class underperformed the MSCI Europe Total Return Index during the quarter primarily due to negative security selection effect. Security selection in Industrials, Consumer Discretionary, Telecommunication Services and Materials detracted from relative performance, though this was partially offset by strong security selection in Financials. Overall allocation effect was relatively neutral, as an overweight to Financials contributed, but an underweight to Industrials detracted.

From a geographic perspective, the Fund's allocations to Italy and the Netherlands contributed, while the United Kingdom and Germany detracted.

In terms of individual holdings, the top contributors during the quarter were Intesa Sanpaolo, BNP Paribas and ING Groep NV. while the top detractors were Tesco PLC, Telefonica SA and Ladbrokes Coral Group PLC.

Intesa SanPaolo was the top contributor during the period as its shares appreciated 20.7%. Intesa SanPaolo is the largest Italian banking group with 4,000 branches widely spread over Italy. In our view, it is trading at attractive valuations given that more than 50% of its earnings is now derived from asset management, which is a fast growing business in Italy.

Tesco PLC was the top detractor during the period, as its shares declined 8.0%. Tesco is a major food retailer that offers online retailing, brick and mortar supermarkets and private-label branded products throughout Europe. Though Tesco's shares drifted lower this year, the shares were merely consolidating strong gains seen in the second half of 2016, and the company remains well positioned for the months ahead. Tesco is seeing good volume growth in the U.K., with improved price and consumer perceptions helping drive a sustainable recovery.

Outlook

While European equity valuations are less attractive than they have been in the past, trading slightly ahead of its long-run P/E average multiple, our investment thesis heading into 2017 was that the recovery in earnings would justify the valuation premium. Consensus estimates for European earnings are now for a robust 19.5% growth in 2017. Given that in local terms the European market is up substantially less than that, our belief is that earnings performance has not yet been fully reflected in the market.

On a relative basis, Europe continues to trade at a discount to global equities and at a significant discount to U.S. equities.

From a sector basis, the Energy, Financials, Utilities and Materials sectors remain attractive from a valuation perspective, while Consumer Discretionary, Industrials, Health Care and Information Technology appear expensive.

Earlier on in the year, we were very cognizant of looming political risks, but this has subsided somewhat. We have had risk-neutral elections in the Netherlands and France, and it is becoming more likely that Angela Merkel will be re-elected in Germany. As such, political risks have largely eased. The exception to this is in the U.K., where the disastrous result for the Conservative Party has increased the Brexit uncertainty.

We remain of the view that valuations should remain steady and therefore equity markets should rise in line with earnings expectations in 2017, implying for a double-digit return for European markets this year. We remain overweight Financials, Materials, Telecommunication Services and Utilities where we continue to find attractively valued opportunities, and underweight in Industrials, where we have struggled to find reasonably valued companies.

‡ 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.

First publication date: July 20, 2017