AGF European Equity Class

FUND COMMENTARY FIRST 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 first quarter of 2017, global equities continued to move higher, continuing a rally that followed the U.S. election in early November. However, leadership in the market shifted, as the reflation trade that followed the election of Donald Trump to the U.S. Presidency in late 2016 waned, with Financials and cyclical leadership giving way to secular growth sectors. As such, portfolios with value investment styles had a greater headwind during the quarter than in late-2016, when value outperformed.

Meanwhile, in Europe, attention remained focused on the potential impact of geopolitical events, particularly with respect to several elections in large European countries this year. In the Netherlands' election in mid-March, Dutch Prime Minister Mark Rutte managed to win more seats than the populist politician Geert Wilders, who had proposed to ban Islam and take the Netherlands out of the European Union. Elsewhere, the United Kingdom triggered Article 50, beginning a legal process that must conclude within two years, with the U.K. leaving the European Union. Looking ahead, investors remain focused on the two largest countries in the E.U. that also face elections later this year - the French election in April and May (if necessary), where populist candidate Marine Le Pen continues to poll strongly, as well as the German elections in September 2017. In spite of the ongoing geopolitical risks, European equity markets continued to participate in the global equity rally, with equities moving up strongly during the first quarter.

Fund overview

As at Mar 31, 2017	3 mo.	6 mo.	1 yr.	3 yr.	5 yr.	10 yr.	PSD*
AGF European Equity Class (%) (net of fees)	5.6	9.9	11.3	-4.5	7.2	-4.7	1.6
MSCI Europe TR Index (%)	6.6	8.8	13.1	5.4	12.5	2.8	4.9
European Equity Category Avg	5.6	4.9	6.5	3.9	10.3	1.8	-
Quartile Rank	3	1	1	4	4	4	-

Source: AGF Investment Operations.

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

AGF European Equity Class slightly underperformed the MSCI Europe Total Return Index during the quarter. Overall sector allocation effect was negative and detracted from performance, as an underweight to Industrials and overweight to Energy detracted. Security selection in Consumer Staples and Consumer Discretionary also detracted, though this was offset by strong security selection in Materials, Telecommunication Services and Health Care.

From a geographic perspective, the Fund's allocations to the Netherlands, Denmark and Spain contributed, while the United Kingdom, France and Switzerland detracted.

In terms of individual holdings, the top contributors during the quarter were Akzo Nobel, Telefonica SA and LafargeHolcim Ltd. while the top detractors were Tesco PLC, Kingfisher PLC and Metro AG.

Akzo Nobel was the top contributor during the period, with its shares up 31.9%. Akzo Nobel is a Netherlands-based manufacturer of paints, coatings and specialty chemicals. In March, the company's shares moved higher following two takeover proposals by PPG, both of which were rejected by Akzo Nobel's board, and the latest of which offered an implied price of 90.57 Euros per share. Further bids by PPG and a potentially eventual friendly deal remain possible, and the agreement of any deal would represent upside for the shares as they continue to trade well below the implied takeover price.

Tesco PLC was the top detractor during the period, as its shares declined 9.8%. 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, 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 to 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 make valuations look more attractive. Consensus estimates for European earnings were for 14% growth in 2017, which was approximately double the long-term average.

Having now largely completed the fiscal year of 2016 reporting season, this hypothesis remains intact. Over the past quarter, European corporate earnings growth was 11% year over year, outpacing U.S. earnings growth for the first time in six quarters.

We remain of the view that, with a base case that the French and German elections do not produce adverse outcomes, valuations should remain steady and therefore equity markets should rise in line with earnings expectations in 2017, implying a double-digit return for European markets this year.

‡ 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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