AGF EAFE Equity Fund

FUND COMMENTARY FIRST QUARTER 2017 **FOR ADVISOR USE WITH INVESTORS**

FUND FACTS

FUND CATEGORY:	BENCHMARK INDEX:	DATE OF INCEPTION:	INVESTMENT STYLE:	PORTFOLIO MANAGERS:
International Equity	MSCI EAFE Net Index	August 2007	GARP	Highstreet Asset Management Inc. Robert Yan, Ph.D., CFA

Market overview

The MSCI EAFE Index (Net) advanced (+6.2%) in the first quarter of 2017.

Global equity markets started 2017 strong, as signs of a global economic recovery continued to emerge in the form of strong economic sentiment and data. European PMIs were the standout at the beginning of the year, indicating strong manufacturing sentiment and remained strong through the quarter. Economic data supported this sentiment, as most major economies met or beat labour market, inflation and GDP growth expectations.

The central banks of both Japan and Europe held accommodative measures steady, providing cautiously optimistic medium-term growth outlooks, while the U.S. Federal Reserve raised their key interest rate in March, though noted room for improvement in the domestic economy.

The oil price traded range bound to begin the year, but fell in March due to rising U.S. crude oil inventories. Initial optimism around the Trump administrations' proposed policies faded as key healthcare reform failed to materialize on schedule, causing the U.S. dollar to weaken. Further uncertainty in Europe around the formal enactment of Brexit, and elections in the Netherlands and France provided support to the gold price due to its safe haven status.

From a regional perspective, all four regions posted positive returns, led by Asia (Developed Markets) (+10.4%), Europe (+9.7%), the U.K. (+5.7%), while Japan (+6.0%) lagged.

Sector breadth was strong during the period with ten of the eleven sectors posting positive returns. Information Technology (+10.6%) and Industrials (8.1%) were the top performers, while Energy (-2.7%) was the only negative sector and Telecommunication Services (+4.1%) underperformed the Index.

Within Information Technology, Israeli automotive technology stock Mobileye (+59.5%) was the top performer, boosted by its acquisition by Intel. Japanese kakau.com (-18.2%) was the laggard within the sector, down due to lower than expected operating results and a depressed forward guidance by management.

In Industrials, Chinese ship building stock Yangzijiang Shipbuilding (+42.0%) was the top performer due to stronger backlog execution. Australian Brambles Limited (-20.1%) was the poorest performer, down due to competitive pressures from its U.S. exposure.

In Energy, the top performing stock was Japanese Idemitsu Kosan (+29.9%) which was helped by higher coal prices. Italian Saipem SpA (-20.1%) was the laggard due to oversupply of offshore rigs as well as lower free cash flow guidance due to debt reductions.

In Telecommunication Services, Swedish stock Millicom International Cellular (+29.4%) was the top performing stock due to their shift in focus from African to Latin American markets.

The weakest stock within the sector was British BT Group plc (-13.1%) which was hurt by the issuance of a profit warning driven by their Italian business unit.

The top contributor to the Index was Swiss pharmaceutical Roche Holding (+12.9%) which was supported by positive results from their Aphinity drug trials. Japanese consumer electronics stock Sharp Corporation (+80.5 %) was the top performer, as cautious capital spending and strong cash flow generation continued to help the stock.

Japanese Toyota Motor Group (-7.5%) detracted the most from the Index due to weak forecasted sales in the U.S., while the poorest performing stock this quarter was Swiss Aryzta AG (-26.4%), down due to lowered earnings guidance driven by higher labour costs and lower volumes.

Fund overview

As at March 31, 2017	3 mo.	6 mo.	1 yr.	3 yr.	5 yr.	PSD**
AGF EAFE Equity Fund (%) (net of fees)	4.4	3.0	5.7	1.8	6.0	0.1
MSCI EAFE Net Index (%)	6.2	8.0	14.3	6.9	12.1	3.4

Source: AGF Investment Operations.
** Performance start date (PSD): August 27, 2007.

The Fund returned (+4.4%) during the period, underperforming relative to the Index.

Strong stock selection within Information Technology, and allocation away from Utilities was not enough to offset value lost from stock selection in Industrials and Consumer Discretionary.

In Information Technology, holding German Infineon Technologies (+18.0%), grew due to strong sales and margin guidance, helped the Fund, as did Chinese Tencent Holdings

(+15.6%) due to strong earnings driven by their mobile games division.

In Utilities, holding Australian AGL Energy Limited (+26.7%) helped the Fund as the stock was supported by strong earnings and cash flow generation.

In Industrials, value added from holding Japanese Fuji Electric (+13.8%), which was supported by broad based strength in operating profits, did not offset poor performance from French Thales SA (-1.2%) which performed poorly due to lower than expected earnings.

In Consumer Discretionary, value added from holding Chinese gaming stock Galaxy Entertainment Group (+25.2%), which was helped by strong revenues driven by higher gaming volumes, was tempered by the Fund's holding in Toyota Motor Group.

Outlook

Global equity markets began 2017 strong, in stark contrast to the beginning of 2016. The global economic recovery seems to have regained momentum, spurred by strong economic data as well as robust sentiment from around the world. However, we expect the investment backdrop going forward to remain accommodative. The overall pace of rate hikes in the U.S. should be measured, with other major central banks remaining cautiously optimistic for global growth.

From a regional perspective, our analysis has highlighted opportunities in Europe and we continue to evaluate opportunities to increase exposure in the regions. The current environment should be supportive of late cycle stocks, particularly within the Energy sector, and the Fund continues to be positioned towards opportunities that will benefit from this market environment.

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