AGF EAFE Equity Fund

FUND COMMENTARY SECOND 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 (+3.3%) in the second quarter of 2017.

Most equity markets were strong, as the global economic recovery remained on track with both hard and soft economic data showing broad based strength through the quarter. Manufacturing sentiment in Europe and Japan remained strong as PMIs maintained momentum throughout the quarter. Other key economic data was roughly in-line with expectations across regions.

Both the Japanese and European central banks held monetary steady, with the European Central Bank adopting a more hawkish tone to the future path of interest rates. The U.S. Federal Reserve raised their key interest rate for the second time this year remaining committed to their stated monetary policy path.

Political uncertainty in Europe was largely shrugged off. Snap elections in the U.K. saw diminished support for a hard Brexit, while the results of the French elections were favorable to investors. The U.S. dollar was weak despite rising interest rates as investors reacted to the slightly underwhelming U.S. economic data, while the Euro was strong. The oil price ended the quarter lower, but was strong to the end of the quarter due to renewed supply cut commitments.

From a regional perspective, three of the four regions posted positive returns, led by Europe (+4.0%), Japan (+2.4%) and the U.K. (+2.0%), while Asia (Developed Markets) (-1.1%) lagged.

Sector breadth was strong during quarter, with ten of the 11 sectors posting positive returns. Information Technology (+6.6%) and Consumer Staples (+4.7%) were the top performers, while Energy (-3.3%) was the only negative sector and Materials (-1.3%) underperformed the Index.

Within Information Technology, Japanese Nintendo (+41.0%) contributed, driven by strong earnings from their Switch business segment. Japanese LINE Corp (-12.5%) was hurt by disappointing ad revenues.

In Consumer Staples, Japanese Shiseido Company (+31.9%) performed well due to broad based strength in sales across regions. Australian Coca-Cola Amatil (-16.5%) was the poorest performer, down due to weaker-than-expected volumes and pricing pressures.

In Energy, the top performing stock was Austrian OMV AG (+30.3%) which was helped by strong free cash flow generation through their Russian operations. British Petrofac Limited (-49.4%) was hurt by an investigation by the Serious Fraud Office related to Unaoil and other agents.

In Materials, Swiss EMS CHEMIE (+23.3%) was the top performing stock within the sector, while Australian Fortescue Metals (-18.0%) was hurt by the weaker iron price.

The top contributor to the Index was Swiss Nestle (+12.7%), which was supported by broad based stability in revenues and earnings. Australian Quantas Airways (+43.9%) was the top performer, due to strong earnings and forward guidance.

Australian Westpac Banking Corporation (-12.2%) detracted the most from the Index due to the implementation of a government levy on banks, while the poorest performing stock this quarter was British PetroFac Limited.

Fund overview

As at June 30, 2017	3 mo.	6 mo.	1 yr.	3 yr.	5 yr.	PSD**
AGF EAFE Equity Fund (%) (net of fees)	2.9	7.4	11.9	4.1	7.7	0.4
MSCI EAFE Net Index (%)	3.3	9.7	20.6	7.9	11.1	3.6

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

The Fund returned (+2.9%) this quarter, underperforming relative to the Index.

Strong positioning within Consumer Discretionary and Information Technology was tempered by weakness from Energy and Health Care.

In Consumer Discretionary, holding Japanese Bandai NAMCO (+11.7%) helped the fund as the stock was supported by higher margins from their arcade and network entertainment business segments.

In Information Technology, holding Chinese Tencent Holdings (+21.6 %), supported by broad-based strength from its gaming platforms, as well as Japanese Tokyo Electron (+20.7%), helped by broad based earnings strength.

In Energy, holding British PetroFac Limited was the primary source of value detraction, followed by Australian Woodside Petrolleum (-8.9%), which was hurt by the weak oil price.

In Health Care, not holding Danish Novo Nordisk (+20.9%), which was helped by improving volume growth expecations for their Tresiba treatment, hurt the Fund.

Outlook

The global economic recovery remains on track, with strong economic data and sentiment from around the world. Central banks have acknowledge recent improvements to the global economy and seem to be taking on a less dovish tone to monetary policy. However, we expect the investment backdrop going forward to remain accommodative, and the overall pace of rate hikes in the U.S. and the rest of the world should be measured.

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

First publication date: July 25, 2017