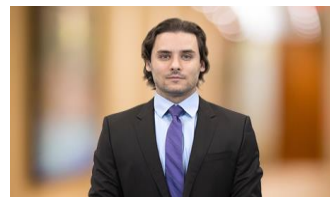


## The Homecourt Advantage Part Two: The Distinct Benefits of AGF Fixed Income Plus Fund

Authored by:

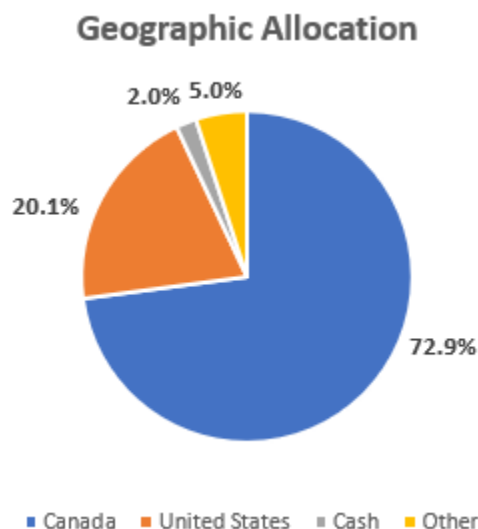


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In part one of this update, we made a strong case for the merits of using domestic bonds as the core part of a Canadian investor's fixed-income allocation. In part two, we will articulate the key differentiating factors that we believe make the AGF Fixed Income Plus Fund<sup>1</sup> ("the Fund") a compelling solution for Canadian investors looking for a bond fund with strong long term returns and the inherent potential advantages of combining exposure to domestic bonds and alternative fixed-income asset classes. The Fund's allocation as of December 31 denotes a heavy allocation towards Canadian bonds.



<sup>1</sup>Harmony Canadian Fixed Income Pool merged into AGF Fixed Income Plus Fund on June 28, 2019. AGF Canadian Bond Fund and AGF Inflation Plus Bond Fund merged into AGF Fixed Income Plus Fund on May 20, 2016. The merger may have material effect on the performance of the fund.

Figure 1: AGF Investments Inc. as of December 31, 2023

As noted in part one of the update, we believe Canadian bonds exhibit several characteristics that make them attractive from an allocation perspective when compared to other G10 government bonds. The AGF Fixed Income Plus Fund's historical bias toward domestic bonds aims to draw benefits from several positive factors, which we will explore below.

### 1. Attractive Yield versus the Index

Historically, a large majority of the long-term return fixed income investors generate has come from the initial yield at the time of purchase. Price fluctuations due to movements in interest rates, credit spreads and other factors have contributed only a small amount to the total return. Canadian Government bonds now provide some of the highest yields in the world for their AAA status, after aggressive Central Bank hikes since the beginning of 2022.

## Yield Comparison: AGF Fixed Income Plus Fund vs Bloomberg Canada Aggregate Index

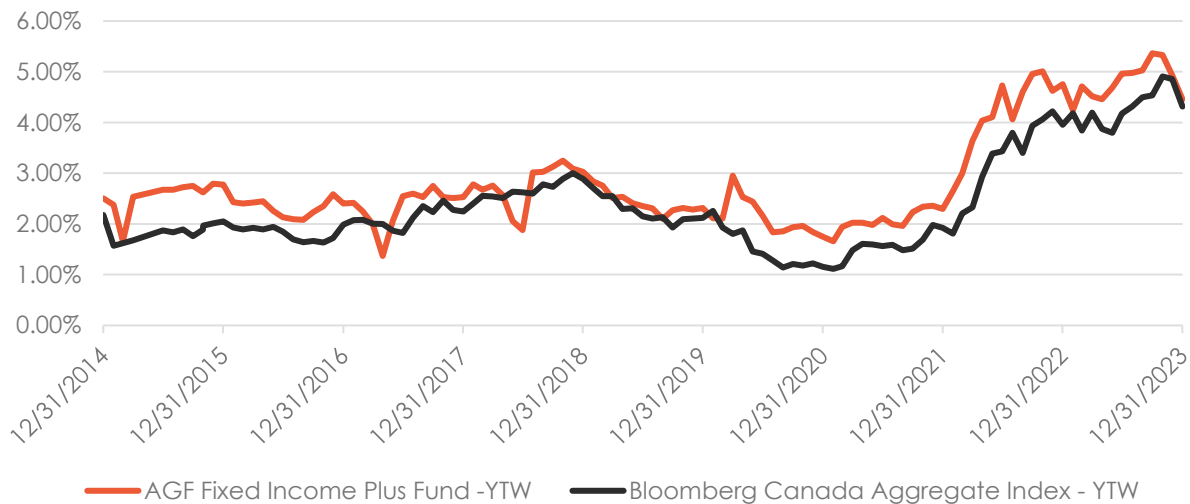


Figure 2: AGF Fixed Income Plus Fund Yield-to-Worst (YTW) vs Canada Aggregate Bond Index Yield, as of Dec 31, 2023. Source: AGF Investments Inc. and Bloomberg. \*The yield for mandatory convertible securities is current yield; the yield for optional convertibles is the greater of (current yield, yield to maturity and yield to put). On September 1, 2019, AGF Fixed Income Plus Fund benchmark changed from the FTSE Canada Universe Bond Index to the Bloomberg Canada Aggregate Index. The benchmark change was applied from that date forward. **Past performance is not indicative of future results.**

Since its inception 30 years ago, the AGF Fixed Income Plus Fund has augmented its high-quality core bond portfolio with judicious exposure to alternative fixed-income categories such as high-yield bonds, emerging market bonds and convertible debentures. On average, this allocation has been in the low teens as a percentage of the overall portfolio. Since the yields of these instruments have typically been several percentage points higher than the core yield, the fund

has historically generated a higher yield than the average of its category. The fund's yield-to-worst (YTW) was 4.46% as of December 31, substantially higher than the Bloomberg Canada Aggregate Bond Index's ("the index") 3.9% level.

## 2. Mitigating interest rate risk

A key risk for fixed-income investors relates to interest rate movements. As we alluded to in part one of this update, the key drivers of this potential risk are changes in inflation and inflation expectations and changes in economic growth and growth expectations, along with central bank responses to those factors. As bonds are typically highly sensitive to these fluctuations, it's critical to focus on ways to mitigate that risk. This has been a hallmark of the AGF Fixed Income Plus Fund's disciplined process.

In addition to the traditional ways of adjusting interest rate risk by managing the portfolio's duration (a measure of its sensitivity to interest rates), the AGF Fixed Income Plus Fund also employs several fixed income categories that we believe further reduce that sensitivity while also clearly differentiating us from our Canadian fixed income peers.

We have invested in categories like convertible bonds, high-yield bonds and emerging market bonds for many years. Because the returns of these instruments are driven by factors other than just interest rates, they tend to reduce interest rate-driven volatility. These categories have the added benefit of providing diversification, as they are not extremely highly correlated with the core Canadian investment-grade bond market.

### 1. Additional upside potential

AGF Fixed Income Plus Fund's use of alternative income-oriented asset classes may provide an additional benefit over and above dampening downside risk due to interest rate volatility: it affords us an opportunity to boost returns through the potential to generate capital appreciation. One way to capture price increases is through buying high-yield or emerging market bonds with relatively wide spreads to the underlying Treasury market, reflecting rising concerns about the ability of the issuer to service the coupon payments due to company-specific, industry-related, or general economic challenges. These bonds usually trade at a discount to par, and as the bonds near maturity, the price moves back toward par as long as the debt appears to be serviceable.

The second opportunity is buying convertible bonds whose values are highly correlated with the underlying issuer's stock price, potentially benefiting from rallies in equity markets. The option to convert to equity enables the bondholder to participate fully in the price increases once that option is in the money. This feature, which means the bonds have the potential to be worth far more than par in certain cases, is a rare exception to the rule that bonds generally mature at par.

## Putting it all together: A recipe for long-term performance

The result of this distinctive portfolio construction approach with these differentiated characteristics is a portfolio that has historically delivered positive long-term returns versus the index as well as its peers. In addition, the AGF Fixed Income Plus Fund has achieved a better 10-year Upside Capture ratio relative to peers, which measures the added return during a positive bond market period. The Downside Capture measures the amount lost during negative bond markets, with a value under 100 representing a smaller amount lost than the benchmark. The AGF Fixed Income Plus Fund has a slightly higher 10-year Downside Capture relative to peers as of December 31<sup>st</sup> however, it remains a 1<sup>st</sup> quartile fund over that same period.

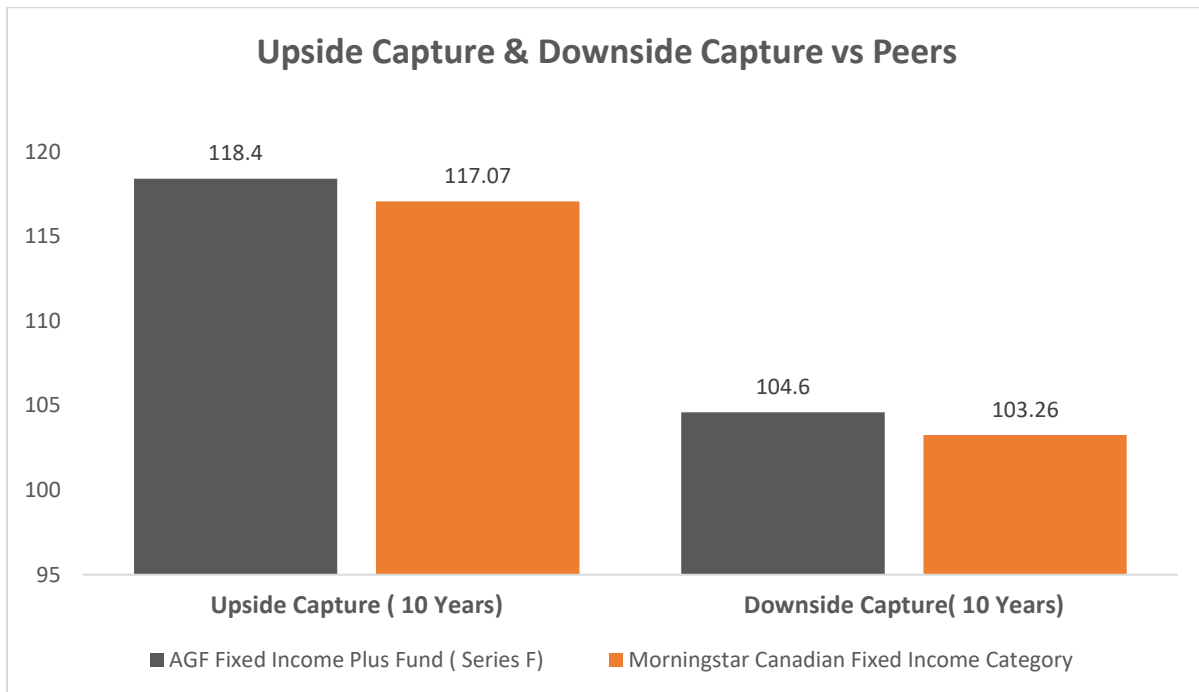


Figure 3: Data shown for 10-years as of December 31, 2023. Source: Morningstar and AGF Investments Inc. Morningstar category performance is calculated as the average return of a portfolio constructed of all series of all funds in the category as of the end of each month. The number of funds in the category for each period are as follows: [533] 3 Months, [516] YTD, [516] 1 Year, [480] 3 Years, [426] 5 Years, [271] 10 Years. **Past performance is not indicative of future results.**

In sum, the AGF Fixed Income Plus Fund has on average provided our clients with a higher yield than the index in most bond market conditions and has done so over many cycles going back to its inception in the 1990s. Its unique combination of asset categories and strong management over the past three decades sets it apart from its peers and has been recognized with numerous awards and accolades over the years, including a 2023 FundData A+ Award.

Annualized Returns as of December 31, 2023 (in Canadian Dollars, net of fees)	3 Month Return	YTD Return	1 Year Return	3 Year Return	5 Year Return	10 Year Return
AGF Fixed Income Plus Fund (Series F)	8.16%	7.32%	7.32%	-2.72%	1.70%	2.38%
AGF Fixed Income Plus Fund (Series MF)	7.95%	6.43%	6.43%	-3.45%	0.95%	1.45%
Bloomberg Canada Aggregate Index	8.37%	6.54%	6.54%	-2.72%	1.30%	2.42%

Quartile as of December 31, 2023	3 Month Return	YTD Return	1 Year Return	3 Year Return	5 Year Return	10 Year Return
AGF Fixed Income Plus Fund (Series F)	2	1	1	2	1	1
AGF Fixed Income Plus Fund (Series MF)	3	3	3	4	3	4

Source: AGF Investments Inc & Morningstar, as of December 31, 2023. **Past performance is not indicative of future results.** One cannot invest directly in an index. Series MF MER: 1.50%, Series F MER: 0.68%, as of September 30, 2023. AGFI may, in its discretion, temporarily waive some or all of the expenses of the Fund, which will result in a reduction in the MER. AGFI may cease to offer any such waiver at any time without notice. \*On September 1, 2019, the AGF Fixed Income Plus Fund benchmark changed from the FTSE Canada Universe Bond Index to the Bloomberg Canada Aggregate Index. The benchmark change was applied from that date forward. AGF may, in its discretion, temporarily waive some or all of the expenses of the Fund, which will result in a reduction in the MER. AGF may cease to offer any such waiver at any time without notice. Morningstar Quartile Rankings are calculated as of December 31, 2023, and are subject to change monthly. They are calculated based on the Fund's total return percentile rank compared to other funds in the Morningstar Canada Fund Canadian Fixed Income category. Percentile ranks are then mapped into quartiles with (1) representing 1-25, (2) representing 26-50, (3) representing 51-75 and (4) representing 76-100 percentile ranks. The Overall Morningstar Ratings™ and Morningstar Quartile Rankings are series specific as inception date, performance and fee characteristics vary by series. FundGrade A+® is used with permission from Fundata Canada Inc., all rights reserved. The annual FundGrade A+® Awards are presented by Fundata Canada Inc. to recognize the "best of the best" among Canadian investment funds. The FundGrade A+® calculation is supplemental to the monthly FundGrade ratings and is calculated at the end of each calendar year. The FundGrade rating system evaluates funds based on their risk-adjusted performance, measured by Sharpe Ratio, Sortino Ratio, and Information Ratio. The score for each ratio is calculated individually, covering all time periods from 2 to 10 years. The scores are then weighted equally in calculating a monthly FundGrade. The top 10% of funds earn an A Grade; the next 20% of funds earn a B Grade; the next 40% of funds earn a C Grade; the next 20% of funds receive a D Grade; and the lowest 10% of funds receive an E Grade. To be eligible, a fund must have received a FundGrade rating every month in the previous year. The FundGrade A+® uses a GPA-style calculation, where each monthly FundGrade from "A" to "E" receives a score from 4 to 0, respectively. A fund's average score for the year determines its GPA. Any fund with a GPA of 3.5 or greater is awarded a FundGrade A+® Award. For more information, see [www.FundGradeAwards.com](http://www.FundGradeAwards.com). Although Fundata makes every effort to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Fundata.

AGF Fixed Income Plus Fund won in the Canadian Fixed Income CIFSC Category, out of 311 funds. The FundGrade A+ start date was 1/31/2014 and the FundGrade A+ end date was 12/31/2023.

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