

Interim Management Report of Fund Performance

# AGF Emerging Markets Balanced Fund

March 31, 2018



## Management Discussion of Fund Performance

This management discussion of fund performance represents the portfolio management team's view of the significant factors and developments affecting the fund's performance and outlook.

### Results of Operations

For the six months ended March 31, 2018, the Mutual Fund Units of AGF Emerging Markets Balanced Fund (the "Fund") returned 7.1% (net of expenses) while the MSCI Emerging Markets Index, the J.P. Morgan GBIEM Global Diversified Index and the Blended Benchmark returned 12.6%, 8.7% and 8.8%, respectively. The Blended Benchmark is composed of 50% MSCI Emerging Markets Index/20% J.P. Morgan GBIEM Global Diversified Index/17.5% J.P. Morgan CEMBI Broad Diversified Index/12.5% J.P. Morgan EMBI Global Index. The performance of the other series of the Fund is substantially similar to that of the Mutual Fund Units, save for differences in expense structure. Refer to "Past Performance" section for performance information of such series.

The Fund currently invests in Series I Units of AGF Emerging Markets Bond Fund and AGF Emerging Markets Fund (the "Underlying Funds"), managed by AGF Investments Inc. ("AGFI"). The following represents the portfolio management team's view of the significant developments affecting the Underlying Funds' performance.

The Fund under-performed the MSCI Emerging Markets Index due primarily to the Underlying Funds' inclusion of fixed income securities, which under-performed equities during the period under review. The Fund under-performed the J.P. Morgan GBIEM Global Diversified Index due to the Underlying Funds' inclusion of emerging markets external bonds and emerging markets corporate bonds, both of which under-performed emerging markets local currency denominated bonds and emerging markets equities.

The Fund under-performed the Blended Benchmark due to country allocation within the equity component of the Underlying Funds, though partially offset by security selection. Within the fixed income component, lower exposure to emerging markets corporate debt modestly detracted from performance as external bonds under-performed over the reporting period. On the other hand, the fixed income component's greater exposure to emerging markets local currency bonds contributed due to their out-performance over the reporting period.

The Fund had net subscriptions of approximately \$1 million for the current period, as compared to net redemptions of approximately \$4 million in the prior period. The portfolio manager does not believe that subscription/redemption activity had a meaningful impact on the Fund's performance or the ability to implement its investment strategy.

Total expenses before foreign withholding taxes, commissions and other portfolio transaction costs vary period over period mainly as a result of changes in average Net Asset Values (see Explanatory Note (1) a)) and investor activity, such as number of investor accounts and transactions. Expenses have decreased as compared to the previous period due mainly to a decrease in average Net Asset Values. The increase in annual and interim reports and decrease in audit fees were due to variances between the accrued amounts versus the actual expenses incurred in the previous period. All other expenses remained fairly consistent throughout the periods.

### Recent Developments

Emerging markets equities have out-performed developed markets equities over the period under review, supported by a weak U.S. dollar and despite a rise in U.S. 10-year bond yields. One of the portfolio manager's key concerns in late 2017 was the narrow breadth of the rally within the information technology sector. Encouragingly, there appears to be signs that the rally has broadened to other sectors, including energy, health care and financials, which along with the information technology sector have out-performed the benchmark. This is positive for stock selection should the trend continue. Additionally, inflation remains benign and real rates remain attractive relative to the developed markets, which bodes well for emerging markets equities provided that the U.S. dollar does not significantly appreciate.

The portfolio manager remains optimistic on emerging markets in the medium term. A solid pickup in global trade has supported economic growth in the emerging markets and provided that trade protectionism remains somewhat muted going forward, the portfolio manager anticipates growth will continue to outpace developed markets economies and should bode well for emerging markets equities. Furthermore, improved external demand has resulted in increased private sector confidence, which should continue to support emerging markets growth prospects in the portfolio manager's opinion. Emerging markets equities also remain attractively valued, with valuations trading at a deep discount relative to developed markets, while

This interim management report of fund performance contains financial highlights, but does not contain either the interim or annual financial statements of the investment fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1 800 268-8583, by writing to us at AGF Investments Inc. 55 Standish Court, Suite 1050, Mississauga, Ontario, Canada L5R 0G3 attention: Client Services, or by visiting our website at [www.agf.com](http://www.agf.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

earnings-per-share growth is still expected to rise double-digits in calendar year 2018 following a strong rise in 2017.

Within the emerging markets, the portfolio manager reiterates the importance of undertaking structural reforms and favours those countries that are on the path of implementing meaningful reforms, which should help bolster long-term economic growth. While the recent announcements of protectionist global trade policies have created uncertainty across many countries in the emerging markets, the portfolio manager has been encouraged by the potential investment opportunities that have emerged.

Despite growth in China is expected to remain relatively solid, the portfolio manager continues to monitor economic activity for signs of a slowdown amid tightening domestic policies in a highly leveraged market. The portfolio manager is also cognizant of the ongoing trade dispute between the U.S. and China and its potential impact on economic and equity market performance in the emerging markets. However, the portfolio manager anticipates a negotiated settlement is the most likely outcome as opposed to a full blown trade war. Over the long-term, the portfolio manager is concerned with the declining global influence of the U.S. and expects this trend will continue even if these trade disputes are settled. The implications of this could result in a further weakening of the U.S. dollar and competing geopolitical blocks, which could undermine economic and financial globalization as well as result in higher market volatility and risk premiums. Although this is not the portfolio manager's central scenario, it is a risk factor that is being monitored.

In the portfolio manager's view, other risks on the horizon include the potential for central bank missteps, including the U.S. Federal Reserve (the "Fed") which may tighten monetary policy too aggressively. The emerging markets asset class remains sensitive to higher U.S. rates and a stronger U.S. dollar, which could see pressure if the Fed continues to tighten faster than the market expects. However, the current account balances of many emerging markets countries have improved and this will provide downside support to emerging markets currencies in the event of U.S. dollar strength. The Underlying Funds are mostly underweight-to-neutral those countries with a current account deficit, such as Brazil and South Africa, as these countries tend to be most vulnerable to a strong U.S. dollar.

In this environment, the portfolio manager anticipates that bond yields will move higher if global growth and inflation continue to improve. Developments on these fronts will be a key element influencing the path of bond yields and monetary policy.

Effective March 8, 2018, the risk rating of the Fund was changed from "medium" to "low to medium". The change reflects compliance with the new Canadian Securities

Administrators' Mutual Fund Risk Classification Methodology. No material changes have been made to the investment objective, strategies or management of the Fund.

## **Related Party Transactions**

AGFI is the manager ("Manager") and trustee of the Fund. Pursuant to the management agreement between the Fund and AGFI, AGFI is responsible for the day-to-day business of the Fund. AGFI also acts as the investment (portfolio) manager, managing the investment portfolio of the Fund. Under the management agreement, the Fund (except for Series I, Series O, Series Q and Series W Units, if applicable) pays management fees, calculated based on the Net Asset Value of the respective series of the Fund. Management fees of approximately \$344,000 were incurred by the Fund during the six month period ended March 31, 2018.

AGF CustomerFirst Inc. ("AGFC") provides transfer agency services to the Fund pursuant to a services agreement with AGFI. Unitholder servicing and administrative fees of approximately \$33,000 incurred by the Fund were paid to AGFC during the six month period ended March 31, 2018.

AGFI and AGFC are indirect wholly-owned subsidiaries of AGF Management Limited.

## **Caution Regarding Forward-looking Statements**

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions.

In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

The forward-looking statements are by their nature based on numerous assumptions, which include, amongst other things, that (i) the Fund can attract and maintain investors and has sufficient capital under management to effect its investment strategies, (ii) the investment strategies will produce the results intended by the portfolio manager, and (iii) the markets will react and perform in a manner consistent with the investment strategies. Although the forward-looking statements contained herein are based upon what the portfolio manager believes to be reasonable assumptions, the portfolio manager cannot assure that actual results will be consistent with these forward-looking statements.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

It should be stressed that the above-mentioned list of factors is not exhaustive. You are encouraged to consider these and other factors carefully before making any investment decisions and you are urged to avoid placing undue reliance on forward-looking statements. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the six months ended March 31, 2018 and the past five years as applicable. The Fund adopted International Financial Reporting Standards ("IFRS") on October 1, 2014. All per unit information presented for the period ended September 30, 2014, including opening net assets, reflects retrospective adjustments in accordance with IFRS. Information for the periods prior to October 1, 2013 is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

### Mutual Fund Units – Net Assets per Unit<sup>(1)</sup>

| For the periods ended  | Mar 31, 2018 (\$) | Sept 30, 2017 (\$) | Sept 30, 2016 (\$) | Sept 30, 2015 (\$) | Sept 30, 2014 (\$) | Sept 30, 2013 (\$) |
|--|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Net Assets, beginning of period<sup>(1)</sup></b>           | <b>10.72</b>      | <b>10.62</b>       | <b>10.10</b>       | <b>10.14</b>       | <b>9.34</b>        | <b>9.80</b>        |
| <b>Increase (decrease) from operations:</b>                    |                   |                    |                    |                    |                    |                    |
| Total revenue  | 0.36              | 0.52               | 0.46               | 0.33               | 0.35               | 0.51               |
| Total expenses   | (0.16)            | (0.31)             | (0.30)             | (0.31)             | (0.28)             | (0.28)             |
| Realized gains (losses)  | 0.15              | 0.32               | 0.14               | 0.23               | 0.00               | (0.01)             |
| Unrealized gains (losses)                                      | 0.41              | (0.24)             | 0.46               | (0.21)             | 0.80               | (0.50)             |
| <b>Total increase (decrease) from operations<sup>(2)</sup></b> | <b>0.76</b>       | <b>0.29</b>        | <b>0.76</b>        | <b>0.04</b>        | <b>0.87</b>        | <b>(0.28)</b>      |
| <b>Distributions:</b>  |                   |                    |                    |                    |                    |                    |
| From income (excluding dividends)                              | (0.08)            | (0.07)             | -                  | -                  | (0.02)             | (0.16)             |
| From dividends   | (0.06)            | -                  | -                  | -                  | (0.01)             | (0.14)             |
| From capital gains   | (0.04)            | (0.13)             | (0.31)             | -                  | (0.02)             | -                  |
| Return of capital  | -                 | -                  | -                  | -                  | -                  | -                  |
| <b>Total annual distributions<sup>(3)</sup></b>                | <b>(0.18)</b>     | <b>(0.20)</b>      | <b>(0.31)</b>      | <b>-</b>           | <b>(0.05)</b>      | <b>(0.30)</b>      |
| <b>Net Assets, end of period<sup>(4)</sup></b>                 | <b>11.29</b>      | <b>10.72</b>       | <b>10.62</b>       | <b>10.10</b>       | <b>10.14</b>       | <b>9.34</b>        |

- annualized

(1), (2), (3), (4), (5), (6), (7) and (8) see Explanatory Notes

### Mutual Fund Units – Ratios/Supplemental Data<sup>(1)</sup>

| For the periods ended   | Mar 31, 2018 | Sept 30, 2017 | Sept 30, 2016 | Sept 30, 2015 | Sept 30, 2014 | Sept 30, 2013 |
|---|--------------|---------------|---------------|---------------|---------------|---------------|
| Total Net Asset Value (\$000's)                                       | 28,385       | 27,644        | 33,333        | 42,288        | 54,674        | 75,812        |
| Number of units outstanding (000's)                                   | 2,514        | 2,579         | 3,138         | 4,186         | 5,394         | 8,118         |
| Management expense ratio <sup>(5)</sup>                               | 2.96%        | 2.94%         | 2.95%         | 2.93%         | 2.91%         | 2.84%         |
| Management expense ratio before waivers or absorptions <sup>(6)</sup> | 3.13%        | 3.06%         | 3.10%         | 2.94%         | 2.91%         | 2.84%         |
| Trading expense ratio <sup>(7)</sup>                                  | 0.21%        | 0.07%         | 0.07%         | 0.08%         | 0.07%         | 0.07%         |
| Portfolio turnover rate <sup>(8)</sup>                                | 11.95%       | 14.10%        | 17.32%        | 0.58%         | 0.31%         | 12.88%        |
| Net Asset Value per unit  | 11.29        | 10.72         | 10.62         | 10.10         | 10.14         | 9.34          |

### Series F Units – Net Assets per Unit<sup>(1)</sup>

| For the periods ended  | Mar 31, 2018 (\$) | Sept 30, 2017 (\$) | Sept 30, 2016 (\$) | Sept 30, 2015 (\$) | Sept 30, 2014 (\$) | Sept 30, 2013 (\$) |
|--|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Net Assets, beginning of period<sup>(1)</sup></b>           | <b>10.97</b>      | <b>10.92</b>       | <b>10.43</b>       | <b>10.34</b>       | <b>9.52</b>        | <b>9.91</b>        |
| <b>Increase (decrease) from operations:</b>                    |                   |                    |                    |                    |                    |                    |
| Total revenue  | 0.37              | 0.50               | 0.47               | 0.34               | 0.35               | 0.52               |
| Total expenses   | (0.10)            | (0.19)             | (0.19)             | (0.19)             | (0.18)             | (0.17)             |
| Realized gains (losses)  | 0.16              | 0.32               | 0.14               | 0.25               | 0.01               | (0.01)             |
| Unrealized gains (losses)                                      | 0.37              | (0.27)             | 0.53               | (0.39)             | 0.81               | (0.43)             |
| <b>Total increase (decrease) from operations<sup>(2)</sup></b> | <b>0.80</b>       | <b>0.36</b>        | <b>0.95</b>        | <b>0.01</b>        | <b>0.99</b>        | <b>(0.09)</b>      |
| <b>Distributions:</b>  |                   |                    |                    |                    |                    |                    |
| From income (excluding dividends)                              | (0.18)            | (0.24)             | -                  | -                  | (0.10)             | (0.17)             |
| From dividends   | (0.15)            | -                  | -                  | -                  | (0.03)             | (0.16)             |
| From capital gains   | (0.04)            | (0.13)             | (0.49)             | -                  | (0.02)             | -                  |
| Return of capital  | -                 | -                  | -                  | -                  | -                  | -                  |
| <b>Total annual distributions<sup>(3)</sup></b>                | <b>(0.37)</b>     | <b>(0.37)</b>      | <b>(0.49)</b>      | <b>-</b>           | <b>(0.15)</b>      | <b>(0.33)</b>      |
| <b>Net Assets, end of period<sup>(4)</sup></b>                 | <b>11.43</b>      | <b>10.97</b>       | <b>10.92</b>       | <b>10.43</b>       | <b>10.34</b>       | <b>9.52</b>        |

### Series F Units – Ratios/Supplemental Data<sup>(1)</sup>

| For the periods ended   | Mar 31, 2018 | Sept 30, 2017 | Sept 30, 2016 | Sept 30, 2015 | Sept 30, 2014 | Sept 30, 2013 |
|---|--------------|---------------|---------------|---------------|---------------|---------------|
| Total Net Asset Value (\$000's)                                       | 4,998        | 3,466         | 3,148         | 3,071         | 2,709         | 3,353         |
| Number of units outstanding (000's)                                   | 437          | 316           | 288           | 294           | 262           | 352           |
| Management expense ratio <sup>(5)</sup>                               | 1.79%        | 1.79%         | 1.80%         | 1.80%         | 1.79%         | 1.74%         |
| Management expense ratio before waivers or absorptions <sup>(6)</sup> | 1.99%        | 2.01%         | 1.88%         | 1.90%         | 1.91%         | 1.74%         |
| Trading expense ratio <sup>(7)</sup>                                  | 0.21%        | 0.07%         | 0.07%         | 0.08%         | 0.07%         | 0.07%         |
| Portfolio turnover rate <sup>(8)</sup>                                | 11.95%       | 14.10%        | 17.32%        | 0.58%         | 0.31%         | 12.88%        |
| Net Asset Value per unit  | 11.43        | 10.97         | 10.92         | 10.43         | 10.34         | 9.52          |

### Explanatory Notes

(1) a) This information is derived from the Fund's audited annual financial statements and unaudited interim financial statements. Prior to October 1, 2014, the net assets per unit presented in the financial statements ("Net Assets") was calculated using different valuation techniques for certain investments as required under Canadian GAAP. This had no impact on the Net Assets per unit since the series net asset value per unit calculated for fund pricing purposes ("Net Asset Value") of the Underlying Funds held was the most readily and regularly available price as no bid prices were available. This remains unchanged with the adoption of IFRS effective October 1, 2014.

Total Net Asset Value and number of units outstanding presented as at September 30, 2015 may have been adjusted to include certain transactions, if applicable,

for the purpose of comparability with subsequent reporting periods. These adjustments have no effect on the Net Asset Value per unit.

- b) The following series of the Fund commenced operations on the following dates, which represents the date upon which securities of a series were first made available for purchase by investors.

|                   |               |
|-------------------|---------------|
| Mutual Fund Units | November 2010 |
| Series F Units    | November 2010 |

- (2) Net Assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (3) Distributions were paid in cash/reinvested in additional units of the Fund, or both. The characterization of the distributions is based on management's estimate of the actual income for the year.
- (4) This is not a reconciliation of the beginning and ending Net Assets per unit.
- (5) The management expense ratio ("MER") of a particular series is calculated in accordance with National Instrument 81-106, based on all the expenses of the Fund (including Harmonized Sales Tax, Goods and Services Tax and interest, but excluding foreign withholding taxes, commissions and other portfolio transaction costs) allocated to that series, expressed as an annualized percentage of average daily Net Asset Value of that series during the period.

As a result of the Fund's investment in Underlying Funds, the MER is calculated based on the expenses of the Fund allocated to that series, including expenses indirectly incurred by the Fund attributable to its investment in the Underlying Funds, divided by the average daily Net Asset Value of the series of the Fund during the period.

The Fund does not pay duplicate management and advisory fees, as applicable, on the portion of the assets that it invests in the Underlying Funds. Accordingly, AGFI will waive the management and advisory fees payable or paid by the Underlying Funds in order to avoid such duplication.

- (6) AGFI waived certain fees or absorbed certain expenses otherwise payable by the Fund. The amount of expenses waived or absorbed is determined annually on a series by series basis at the discretion of AGFI and AGFI can terminate the waiver or absorption at any time.
- (7) The trading expense ratio ("TER") represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average daily Net Asset Value during the period.

As a result of the Fund's investment in the Underlying Funds, the TER is calculated based on commissions and other portfolio transaction costs of the Fund, including such costs that are indirectly incurred by the Fund attributable to its investment in each of the Underlying Funds, divided by the average daily Net Asset Value of the Fund during the period.

- (8) The Fund's portfolio turnover rate ("PTR") indicates how actively the Fund's portfolio advisor manages its portfolio investments. A PTR of 100% is equivalent to the

Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's PTR in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

PTR is calculated based on the lesser of the cumulative cost of purchases or cumulative proceeds of sales divided by the average market value of the portfolio, excluding short-term investments.

## Management Fees

The Fund is managed by AGFI. As a result of providing investment and management services, AGFI receives a monthly management fee, based on the Net Asset Value of the respective series, calculated daily and payable monthly. Management fees in respect of Series I, Series O, Series Q and Series W Units, if applicable, are arranged directly between the Manager and investors and are not expenses of the Fund. AGFI uses these management fees to pay for sales and trailing commissions to registered dealers on the distribution of the Fund's units, investment advice, as well as for general administrative expenses such as overhead, salaries, rent, legal and accounting fees relating to AGFI's role as manager.

|                   | As a percentage of management fees |                     |  |
|-------------------|------------------------------------|---------------------|--|
|                   | Annual rates                       | Dealer compensation | General administration and investment advice |
| Mutual Fund Units | 2.25%                              | 41.61%              | 58.39%                                       |
| Series F Units    | 1.25%                              | -                   | 100.00%                                      |

## Past Performance\*

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. Note that the performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

It is AGFI's policy to report rates of return for series in existence greater than one year. The performance start date for each series represents the date of the first purchase of such series, excluding seed money.

All rates of return are calculated based on the Net Asset Value.

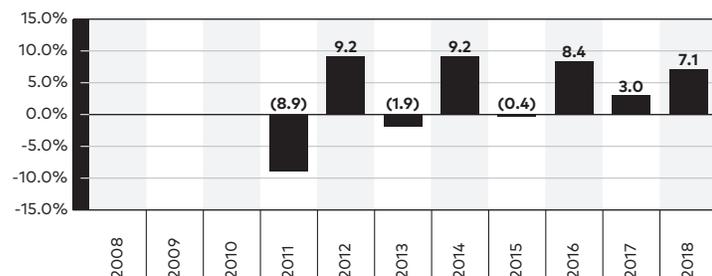
### Year-By-Year Returns

The following bar charts show the Fund's annual performance for each of the past 10 years to September 30, 2017 (interim performance for the six months ended

\* The indicated rates of return shown here are the historical returns including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or other optional charges by any securityholder that would have reduced returns or performance. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

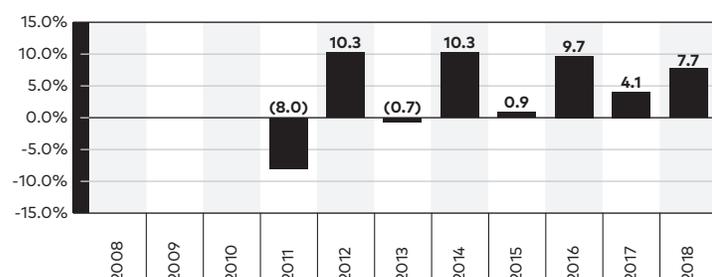
March 31, 2018) as applicable, and illustrate how the Fund's performance has changed from year to year. The charts show, in percentage terms, how much an investment made on the first day of each financial period would have grown or decreased by the last day of each financial period.

## Mutual Fund Units



Performance for 2011 represents returns for the period from November 29, 2010 to September 30, 2011.

## Series F Units



Performance for 2011 represents returns for the period from November 29, 2010 to September 30, 2011.

## Summary of Investment Portfolio

As at March 31, 2018

The major portfolio categories and top holdings (up to 25) of the Fund at the end of the period are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund and the next quarterly update will be in the Quarterly Portfolio Disclosure as at June 30, 2018.

The prospectus and other information about the underlying investment funds are available on the internet at [www.sedar.com](http://www.sedar.com).

| Portfolio by Sector     | Percentage of Net Asset Value (%) |
|-------------------------|-----------------------------------|
| Equity Funds            | 50.0                              |
| Fixed Income Funds      | 46.1                              |
| Cash & Cash Equivalents | 4.0                               |

| Top Holdings  | Percentage of Net Asset Value (%) |
|---|-----------------------------------|
| AGF Emerging Markets Fund                           | 50.0                              |
| AGF Emerging Markets Bond Fund                      | 46.1                              |
| <b>Total Net Asset Value (thousands of dollars)</b> | <b>\$ 33,383</b>                  |



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