

AGF is changing

AGF Management Limited

Annual Report **2004**



What are you doing after work?

corporate profile

Founded in 1957, AGF is one of Canada's premier investment management companies. We are in business to deliver excellence in money management, a wide spectrum of products and outstanding client service.

With \$31.4 billion in total assets under management, AGF serves more than one million investors with offerings across the wealth continuum. Our family of over 50 mutual funds offers options across investment styles, regions and sectors to meet the goals of any investor. AGF's products and services also include AGF Harmony tailored investment program, AGF Private Investment Management and AGF Trust GICs, loans and mortgages.

Our relationship with more than 40,000 investment advisors across Canada gives us a broad distribution platform that includes full-service brokerages, planning firms, banks, discount brokerages and insurance companies.

An independent, Canadian-owned company, AGF Management Limited is listed on the Toronto Stock Exchange under the symbol AGF.nv.

To learn more, visit us at AGF.com. /

“Building on our solid business, deep talent and financial strength, we’ll do what it takes to grow AGF and deliver long-term value to our shareholders.”

Our Vision for the New AGF

AGF has a strong and valuable business, with a proud history going back to 1957 and an enviable track record of long-term growth. Over the years, we have built a solid franchise driven by the pursuit of excellence in investment management.

Today, our values remain the same. But as the environment around us has shifted dramatically, we recognize the need for bold action as we regain

our position as one of this country’s premier investment management firms. That’s why you’ll see a new AGF as we revitalize our organization at every level in the coming year.

The changes are already well underway, and there are more to come. Building on our foundation of strong fund performance, we are committed to stimulating new sales, gaining market share, growing our assets under management and delivering long-term value to our shareholders.



Blake C. Goldring, CFA

President and Chief Executive Officer

Achievements in Fiscal 2004

Restructured Our Business to Better Serve Advisors

We made a key decision in early 2004 to retool AGF Funds Inc. in order to deliver industry-leading service to our clients. Our goal is to take “client-centric” to a whole new level in the investment management business. To accomplish this, we are integrating the functions of sales and marketing, and introducing a new internal structure that focuses on building relationships and increasing sales penetration across channels.

We expanded our sales force by 25 per cent to ensure greater coverage across all sales regions in Canada. And we undertook a comprehensive review of our entire range of investment products to ascertain how we can be more competitive and more responsive to advisor and investor needs. Early in 2005, we began to launch new products and enhancements that are the result of this important audit.

In addition, we are implementing one of the most advanced customer relationship management (CRM) systems in the investment industry, which will allow our sales teams to meet their clients armed with greater understanding and ready to deliver more value.

The combined power of these initiatives represents a new platform for rebuilding relationships with our key target market — investment advisors.

Renewed Our Leadership Team

This year, we recruited top industry professionals to join the AGF team in a number of key positions. To lead the renewed sales charge, we appointed Randy Ambrosie to the newly created position of Executive Vice-President, Sales and Marketing. Randy has extensive experience in the industry and an outstanding track record building relationships in the financial services industry. He has accomplished an enormous amount in a short time, and now heads a revitalized team of top performers.

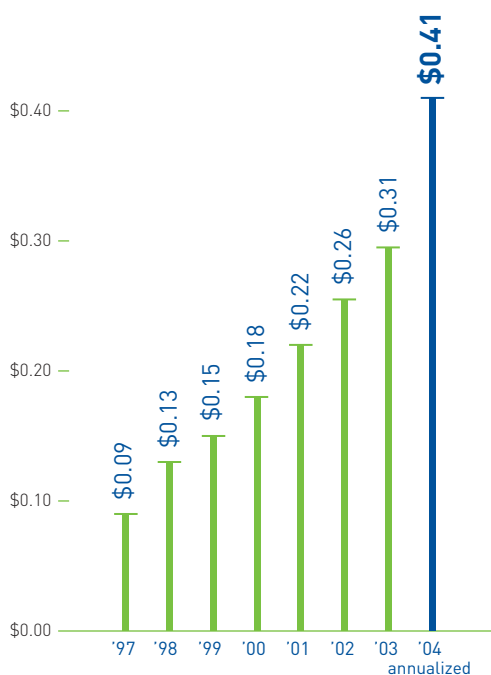
Early in the year, we appointed Merri Jones as President and Chief Executive Officer of AGF Private Investment Management. Merri’s mandate is to build a national network of high-net-worth investment firms for AGF PIM while maintaining an intense focus on meeting client needs. She has already met success with the completion of two acquisitions in key markets.

I am also pleased to welcome Greg Henderson as Chief Financial Officer. Greg has more than 20 years of experience in finance and will be a strong asset in building AGF’s long-term growth and profitability. He succeeds Bill Cameron, who has retired from his position as CFO after 39 years of dedicated service to AGF. We will continue to benefit from Bill’s experience as he remains in an advisory capacity to AGF for the next two years. On behalf of the entire management team and Board of Directors, I thank Bill for his key role in building this company.

Bolstered Financial Strength

We have a robust financial foundation, and in 2004 we built on that strength. Our business generates substantial operating cash flow and through prudent management we have maintained a healthy balance sheet. Contributing to this strength is our judicious use of operating cash over the past several years. In 2002, we made significant acquisitions to build our business. In 2003, we reduced our long-term debt by \$114 million. And in 2004, we shored up our financial foundation and increased shareholder returns by repurchasing two million shares, paying down \$54.2 million in long-term debt and raising the dividend by 39.0 per cent. As we enter 2005, we have ample flexibility to execute our vision for the long-term benefit of shareholders.

Annual dividends paid per share^{††}



* Fiscal years ending November 30.

† Adjusted for stock splits in 1998 and 2000.

AGF overcame a challenging environment to deliver solid financial results in fiscal 2004. Total assets under management rose 11.2 per cent to \$31.4 billion, up from \$28.2 billion from 2003. For the year ended November 30, 2004, revenue was \$639.9 million, up 6.5 per cent compared with \$600.8 million last year. Cash flow from operations declined 0.4 per cent to \$207.8 million, or \$2.26 per share diluted, from \$208.5 million or \$2.25 per share diluted in 2003. Net income was \$77.3 million, compared with \$44.0 million or \$0.47 per share basic in the prior year. The increase in net income was in part due to a decline in income tax expense from \$73.2 million in 2003 to \$7.6 million in 2004. The fiscal 2003 tax expense included a \$40.2 million one-time charge related to the change in future Ontario income tax rates.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were \$252.5 million, a decline of 11.2 per cent from \$284.3 million in fiscal 2003 due predominantly to costs of \$31.0 million recorded in the fourth quarter related to an agreement with the Ontario Securities Commission, and a \$12.8 million gain on disposition of an associated company recorded in fiscal 2003. Excluding these amounts, EBITDA increased by 4.4 per cent in fiscal 2004 as compared with fiscal 2003.

Delivered Leading Fund Performance

We celebrated a number of successes on the operational front this year. Our investment management team continues to demonstrate that experience and focus pay off. With investment products across the wealth continuum and the ability to serve investors at every stage of life, AGF has one of the broadest selections for advisors and investors. We have more than 50 mutual funds across investment styles, regions and categories. Our diverse line-up of award-winning investment managers includes both in-house managers and external sub-advisors.

AGF's long-term performance is among the best in the industry. Fully 62 per cent of our mutual fund assets performed above the median over five years as of November 30, 2004, and 75 per cent were above the median over 10 years.

AGF International Advisors Company Limited (AGFIA), our Dublin-based subsidiary, won the award for best five-year performance worldwide in European equities at the *AsianInvestor* magazine 2004 Awards for Achievement. AGFIA also ranked second in an independent survey on behalf of *The Financial Times* of top-performing money managers worldwide. In the category of European equity, AGFIA was second over three years and fourth over five years.

Once again, AGF's skill in generating gains for our clients was recognized at the Canadian Investment Awards for 2004, which honour top performance and long-term results. AGF Global Government Bond Fund, managed by Clive Coombs and Scott Colbourne, was named *Best Foreign Bond Fund* for the third straight year. AGFIA took home the *Best Financial Services Equity Fund* award for AGF Global Financial Services Class, managed by AGFIA's Rory Flynn. The *Precious Metals Equity Fund of the Year* went to AGF Precious Metals Fund, managed by Bob Farquharson and Charles Oliver.

Built Our Product Offering

Our strategic planning in 2004 has yielded results early in 2005. Subsequent to year-end, we unveiled a series of product enhancements and new product launches designed to meet the changing needs of our clients. These include two new yield-generating funds — AGF Monthly High Income Fund and AGF Diversified Dividend Income Fund, a low-load purchase option for our mutual funds, more frequent and higher distributions on two core balanced funds,

and streamlining of the fund line-up, including manager changes on five funds and expanding the role of top-performing AGFIA.

Harmony, AGF's tailored investment program, broke sales records this year as it emerged as a clear leader in the high-end wrap category. We call Harmony a "retail pension fund" because it offers investors benefits generally reserved for the largest pension investors. Through our exclusive portfolios managed by some of the world's best investment firms, Harmony wraps personalized portfolio management into a single account.

This year Harmony was one of the fastest-growing wrap programs in Canada. Assets under management rose to \$884 million from \$522 million, a growth of 69 per cent, and we're well on track to hit \$1 billion before the end of RSP season. Gross sales for the year rose 63 per cent to \$453 million. We increased the depth and breadth of our sales penetration, with the number of advisors offering Harmony to their clients rising 41.5 per cent over last year.

Harmony is defined by the flexibility and choice it offers advisors and investors. We enhanced our offering with expanded purchase options and the launch of Harmony Portfolios, a fund-of-funds structure that offers a complete portfolio in a single purchase. We delivered on our commitment to excellence in money management by introducing four new sub-advisors. Each manager was carefully chosen for its track record of consistent outperformance.

It was also a banner year for AGF Private Investment Management (PIM), which is now one of Canada's largest independent discretionary wealth management firms. We delivered on our commitment to grow AGF PIM with two key additions.

We acquired P.J. Doherty & Associates, Ottawa's leading high-net-worth investment counselling firm, and Cypress Capital Management Ltd., a leader in the Vancouver private client market. As of November 30, 2004, AGF PIM has \$4.7 billion in assets under management and offices in the key markets of Montreal, Ottawa, Toronto, Calgary and Vancouver.

AGF Trust also continues to set new records for growth by any measure. Total assets grew 40.4 per cent over last year, with mortgages up 32.7 per cent and consumer loans soaring 51.1 per cent. The number of advisors offering AGF Trust products rose 24 per cent compared with last year, and we grew our penetration in virtually every channel. AGF Trust's revenue for the year ended November 30, 2004 was \$42.6 million, up 18.7 per cent from \$35.9 million last year. Pre-tax income rose 81.1 per cent to \$9.9 million. AGF Trust's products allow advisors to expand their offering to clients, and also help drive sales of AGF mutual funds.

Competing in the New Landscape

While we celebrated wins on a number of fronts in fiscal 2004, we also began the process of changing our company to significantly strengthen our competitive position in the new landscape.

The past few years have been remarkable for our industry in a variety of ways. AGF has a hard-earned, top reputation as an equity manager, and we have a comparatively large percentage of assets in international equities. Due to a number of cyclical factors, including a long bear market on the heels of the technology meltdown and followed by declining interest rates, investors have turned to fixed income and yield-producing products. Despite the strong performance of our international funds, our sales were hampered by the cycle. While we have expanded our product line-up to include a broader selection of income products, we will also benefit when the rotation back to equities occurs.

During the year, AGF also cooperated with the Ontario Securities Commission as it undertook a review of a trading practice known as market timing, employed by a small number of investors from 2000 to 2003. Although market timing is not illegal, AGF, along with three other companies, agreed to pay compensation to any unitholders who were disadvantaged by this practice. AGF will pay \$29.2 million, excluding expenses, which has been taken as a charge against fiscal 2004 earnings.

In reviewing market timing, the OSC made it clear that this was an industry-wide matter and not an ongoing issue. They also stated that they found no evidence of market timing by AGF employees.

More than one year prior to the OSC agreement, AGF voluntarily put in place measures to protect its funds against market timing. It was certainly never our intention that investors be disadvantaged by these trading practices. For 47 years, we have served our clients to the highest professional and ethical standards. We are committed to practising even greater vigilance to protect our funds for long-term investors now and in the future.

The foundation of our business is trust. We appreciate the trust investors place in us, and we are committed to earning it every day. AGF was a pioneer in mutual fund corporate governance. Nearly 20 years ago, we were one of the first in the industry to form a board of trustees for mutual fund trusts to represent the best interests of unitholders. AGF's mutual fund boards have a majority of independent trustees and are separate from the board of AGF Management Limited. During the year, we further strengthened our mutual fund boards with the addition of highly regarded global economist David Hale as a trustee.

Toward the New AGF: Strategic Priorities for the Year Ahead

1. Reinforce investment management excellence

We take great pride in our commitment to unparalleled portfolio management. We won a number of honours in 2004, including awards for our fund management expertise and new institutional mandates from international clients. Wins like these come from the skill of our people and our processes. To sustain this competitive advantage, we will continue to invest in the people and operations that drive our success.

Our efforts are focused on maximizing performance and delivering industry-leading products across the board. The next step is to improve our communication with clients to increase their understanding of our process and track record.

2. Foster a client-centric organization focused on multi-channel distribution

At AGF, we aim to be an organization that adds value for our advisors and helps make their business a success. That means listening to what our clients want. We will deliver solutions that meet their current needs and anticipate their future requirements. We already have one of the broadest distribution platforms, serving planners, brokers, dealers, insurance companies and banks. Our goal is to be among the top four firms for investment advisors in every channel. We have already begun the strategic, broad-based and sustainable changes to achieve that goal.

In this business, independence is a virtue. AGF's competitive edge will come from our ability as an independent firm to act quickly and decisively to serve our clients. By delivering top products that advisors want to sell and investors want to own, we will win business as a partner and a trusted source.

3. Build our support entities

Core support entities are Unisen Inc., Investmaster Group Ltd., and Smith & Williamson Holdings Ltd.

Unisen Inc. is a leader in back-office outsourcing to the Canadian fund industry. Over the last few years and through a combination of acquisitions and organic growth, we have built the business into a profitable, stand-alone company. Based in Mississauga, Ontario, and guided by a separate management team, Unisen employs the gold standard in processing software in the industry. New strategic initiatives include the ability to provide service quality, innovative products, and building on Unisen's market-leading IT platform.

We believe the outlook for Unisen is positive given its strong market position. This is supported by the rise in administrative outsourcing in the investment fund business, with Canada yet to catch up to the United States and Europe.

AGF also owns 100 per cent of U.K.-based Investmaster Group Ltd., which handles 25 per cent of the London Stock Exchange's daily private client volumes. Investmaster's acquisition of Consort Information Systems in 2003 means that the group now has the greatest and most diverse number of users of wealth management solutions in the U.K.

Also in the U.K., AGF holds a 31.6 per cent interest in Smith & Williamson Holdings Ltd., one the largest integrated and independent private client firms.

Through these support entities, we bring diversification and add value to our core business.

4. Pursue strategic acquisitions to supplement organic growth

AGF is steadfast in our strategy to grow our business organically while seeking strategic acquisitions. Our management team has a track record of acquiring strong companies and integrating them into our operations. We will continue to evaluate opportunities from a financial and operational standpoint with an eye to increasing shareholder value. Our criteria are straightforward: acquisitions must add value to our offering and have strong synergies with our business, as well as provide a solid return on investment for our shareholders. We expect a long-term after-tax return from investments in excess of 15 per cent.

While there are many opportunities for consolidation in the market today, the environment is particularly competitive for acquisitions. However, AGF has the financial strength to add scale to our mutual fund business through a strategic acquisition, and the will to act on the right opportunity. Building on the successful integration of our two high-net-worth management acquisitions this year, we also see potential for AGF in the area of private wealth management, which tends to be a fragmented and regionalized sector.

Measuring Our Success

Conditions remain uncertain in our industry as we enter 2005. While equity markets have rebounded, investors continue to seek income- and yield-producing investments. The outlook for the Canadian and global economies is healthy, though tempered somewhat by the strength of the Canadian dollar. On the heels of our positive changes, AGF is well-positioned to take advantage of market cycles.

As we evaluate our success, the management team and the Board of Directors at AGF will look for growth in the following measures:

- / Revenue and earnings
- / Return on equity
- / Assets under management
- / Net sales
- / Rank among advisors
- / Sales penetration
- / Market share
- / Brand loyalty

Throughout 2005 we will focus on improving our performance on each of these value drivers. A great deal of work lies ahead, but I am confident that we are on the way to reclaiming our rightful place as a clear leader in our industry. AGF is changing. And we are becoming a stronger competitor that works to win.

A Few Words of Thanks

Change takes effort, and effort comes not from organizations, but from people. I would like to acknowledge and thank all the employees of AGF, who have worked very hard to implement new initiatives and position the company for renewed growth. I'd also like to thank the Board of Directors for its energy and valued counsel throughout the year.

To our shareholders, we appreciate your support and confidence in AGF as we focus on delivering long-term growth. I look forward to new achievements and success in 2005.

Sincerely,



Blake C. Goldring, CFA

President and Chief Executive Officer



What are you doing after work?

**AGF
MUTUAL
FUNDS**

**AGF TAILORED
INVESTMENT
PROGRAMS**
Harmony

**AGF PRIVATE
INVESTMENT
MANAGEMENT**

**AGF
TRUST**