



What are you doing after work?

AGF GROUP OF FUNDS

Simplified Prospectus

Initial Offering of Mutual Fund Series, Series D and Series F Units of

AGF DIVERSIFIED DIVIDEND INCOME FUND  
AGF MONTHLY HIGH INCOME FUND  
(the "Funds")

January 25, 2005

No securities regulatory authority has expressed an opinion about these units. It is an offence to claim otherwise.

The Funds and the units offered under this simplified prospectus are not registered with the U.S. Securities and Exchange Commission. Units of the Funds are offered and sold in the United States only in reliance on exemptions from registration.

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## INTRODUCTION

This document contains selected important information to help you make an informed investment decision and understand your rights as an investor. It also contains information about the Funds and the risks of investing in mutual funds in general, as well as the names of the firms responsible for the management of the Funds.

In this simplified prospectus:

- **We, us, our** and **AGF** refer to AGF Funds Inc.
- **AGF Group of Funds** or **AGF Funds** refer to the AGF mutual funds offered to the public under a simplified prospectus and annual information form.
- **Corporate Funds** refer to the AGF Funds that are structured as mutual fund corporations and issue shares.
- **Fund** or **Funds** means a fund or funds offered under this simplified prospectus.
- **MF Series** refer to the Mutual Fund Series units offered under this simplified prospectus.
- **Trust Funds** refer to the AGF Funds that are structured as mutual fund trusts and issue units.
- **registered representative** refers to an individual who is registered to sell mutual funds.
- **registered dealer** refers to the firm the registered representative works for.
- **Series D** refer to the Series D units offered in this simplified prospectus.
- **Series F** refer to the Series F units offered in this simplified prospectus.
- **Series I** refer to the Series I units offered under a confidential offering memorandum.
- **Series O** refer to the Series O units offered under a confidential offering memorandum.

- **Unit or units** refer to the unit or units of the Mutual Fund Series of the Fund.
- **unitholders** refers to the owner of units of the Fund.

The Funds offers five series of units: MF Series, Series D, Series F, Series I and Series O. Only the MF Series, Series D and Series F units are offered under this simplified prospectus. Series I and Series O units of the Funds are offered under separate confidential offering memoranda.

This document is divided into two parts: Part A and Part B. Part A explains what mutual funds are, the different risks in investing in mutual funds, and general information that applies to the Funds. Part B contains specific information about each Fund.

Additional information about each of the Funds is available in its annual information form, each Fund's most recently filed annual financial statements and any interim financial statements of the Funds filed after the annual financial statements. These documents are incorporated by reference into this document, which means they legally form part of this document just as if they were printed in it.

You can get a copy of the Fund's annual information form and financial statements, including a statement of portfolio transactions, at no charge by contacting your registered representative, by calling us toll-free at 1-800-268-8583, by e-mailing us at [tiger@agf.com](mailto:tiger@agf.com) or by writing us at:

AGF Funds Inc.  
Suite 3100, Toronto Dominion Bank Tower  
Toronto Dominion Centre  
Toronto, Ontario  
M5K 1E9

These documents and other information about the Fund are also available at [www.sedar.com](http://www.sedar.com).

## WHAT IS A MUTUAL FUND AND WHAT ARE THE RISKS OF INVESTING IN A MUTUAL FUND?

Mutual funds offer a simple and affordable way for investors to meet financial goals, such as saving for retirement or a child's education. But what exactly is a mutual fund and what are the risks of investing in a mutual fund?

### What is a mutual fund?

A mutual fund is an investment that allows people with similar investment goals to pool their money in a diversified portfolio. A professional portfolio manager uses that money to buy securities, such as stocks, bonds, cash or a combination of these, depending on the fund's investment objectives. The portfolio manager makes all the decisions about which securities to buy and when to buy and sell them. Sometimes, the portfolio manager receives advice from a portfolio advisor as well.

You invest in a mutual fund by buying units or shares of the fund. Each unit or share represents a portion of the value of the investments of the fund. Fund investors share in the fund's income and expenses, as well as in any gains or losses, in proportion to the number of units or shares they own.

There are a number of advantages to investing in mutual funds over investing in securities on your own:

- **Professional money management.** Professional portfolio managers devote their time and expertise to research potential investments and to make the investment decisions. They have access to up-to-the-minute information on trends in the financial markets and other in-depth data that may not be readily available to individual investors.
- **Diversification.** Investment values can change at different times and for different reasons. Owning a variety of investments can help reduce the effect that a poorly performing investment may have on your portfolio and increase the potential for better returns over time.
- **Accessibility.** Mutual funds tend to have low investment minimums, making them accessible to most investors. It's easy to buy, switch and sell mutual funds through your registered representative.

### How mutual funds are structured

In the AGF Group of Funds, we have mutual fund trusts and mutual fund corporations. Both types allow you to pool your money with other investors, however, there are a few differences you should know about:

- You buy "units" of a mutual fund trust and "shares" of a mutual fund corporation. Units and shares both represent ownership.
- If a mutual fund corporation has more than one investment objective, each investment objective is represented by a separate class of shares. Each class works like a separate mutual fund. Shares are issued and redeemed on the basis of the net asset value of the class.
- A mutual fund trust has only one investment objective.
- When you change between classes of a mutual fund corporation, this is called a *conversion*. A conversion is not considered a sale for tax purposes so no taxes are payable solely as a result of the conversion. If you move from one trust fund to another trust fund or to a corporate fund, this is considered a sale for tax purposes and may give rise to taxable capital gains.
- The mutual fund corporation is a single entity and taxpayer regardless of how many classes it offers. The mutual fund corporation must consolidate its income, capital gains, expenses and capital losses from all the investments made for all classes in order to determine the amount of tax payable. For example, capital gains of one class are offset by capital losses of another class. Since trust funds are separate taxpayers, the capital losses of one trust fund cannot be offset against the capital gains of another trust fund.
- A mutual fund corporation pays dividends, while a mutual fund trust pays out distributions. A mutual fund corporation may pay capital gains dividends. A mutual fund corporation will have to pay tax on all other sources of income other than capital gains in the event that it pays capital gains dividends. For this reason, the investment objective of classes of a mutual fund corporation is usually capital growth and not income. A trust fund will not pay taxes on any source of income or capital gains as long as it fully distributes its net taxable income to unitholders.

## What are the risks?

Just like any investment, mutual funds have an element of risk. A mutual fund's portfolio is made up of many different investments, depending on its investment objectives. The value of these investments can change from day to day because of changes in interest rates, economic conditions, market and company news. As a result, the unit or share price of a mutual fund may go up or down based on these changes. When you sell your investment in a mutual fund, you could receive less money than you invested.

The level of risk depends on the fund's investment objectives and the kinds of securities it invests in. A general rule of investing is that the higher the risk, the higher the potential for capital gains as well as capital losses. Funds that invest in highly liquid, short-term securities, such as treasury bills, usually offer the lowest risk because their potential returns are tied to short-term interest rates. Funds that invest mainly in bonds typically have higher long-term returns, but they carry more risk because their prices can change when interest rates change. Funds that invest in equity securities expose investors to the highest level of risk because the prices of these securities can rise and fall significantly in a short period of time.

You should keep in mind that mutual funds come with no guarantees. AGF doesn't guarantee that the full amount of your original investment in a Fund will be returned to you. Unlike bank accounts or guaranteed investment certificates (GICs), your investment in a mutual fund isn't covered by the Canada Deposit Insurance Corporation (CDIC) or any other government deposit insurer. Under exceptional circumstances, we may temporarily suspend unitholders' rights to sell their securities. See *When you may not be able to buy, switch or sell securities* on page 14 for details.

### Specific Risks of the Funds

The value of a Fund's investments can change for many reasons. The specific risks of investing in each Fund are described below.

#### **Credit risk**

Credit risk is the risk that an issuer of a bond or other fixed income security won't be able to pay interest or repay the principal when it's due. Credit risk is generally lowest among issuers that have a high credit rating from an independent credit rating agency. It is generally highest among issuers that have a low credit rating or no credit rating. The prices of securities with a low rating or no rating tend to fluctuate more than

securities with higher ratings. They usually offer higher interest rates, which may help to compensate for the higher credit risk.

#### **Derivative risk**

A derivative is a contract between two parties. The value of the contract is based on or derived from an underlying asset, such as a stock, a market index, a currency, a commodity or a basket of securities. It's not a direct investment in the underlying asset itself. While derivatives can be useful for hedging against losses, making indirect investments and gaining exposure to financial markets and other assets, they have certain risks:

- There's no guarantee that hedging will be effective.
- There's no guarantee a market will exist for some derivatives. This could prevent the Fund from making a profit or limiting its losses.
- Exchanges can impose trading limits that could prevent us from carrying out the derivative contract.
- The price of a derivative may not accurately reflect the value of the underlying asset.
- The other party to a derivative contract may not be able to honour its obligations under the contract.
- If we've deposited money with a derivatives dealer and the dealer goes bankrupt, we may lose our deposit.
- Derivatives don't prevent changes in the market value of the investments in a Fund's portfolio or prevent losses if the market value of the investments falls.

#### **Equity risk**

The prices of individual equity securities can rise and fall with the fortunes of the companies that issue them or with general stock market conditions. Changes in the price of individual equity securities held by the Fund will affect the Fund's price.

#### **Foreign currency risk**

Securities that are priced in foreign currencies can lose value when the Canadian dollar rises against the foreign currency. Foreign governments may impose currency exchange restrictions, which could limit a Fund's ability to buy and sell certain foreign investments and could reduce the value of the foreign securities a Fund holds.

**Foreign market risk**

Foreign investments involve additional risks because financial markets outside of Canada and the U.S. may be less liquid and companies may be less regulated and have lower standards of accounting and financial reporting. There may not be an established stock market or legal system that adequately protects the rights of investors. Foreign investments can also be affected by social, political, or economic instability. Foreign governments may impose investment restrictions. In general, securities issued by companies in more developed markets, such as Western Europe, have lower foreign market risk. Securities issued in emerging or developing markets, such as Southeast Asia or Latin America, have higher foreign market risk.

**Income Trust Risk**

An income trust generally holds debt and/or equity securities of an underlying active business or is entitled to receive a royalty on revenues generated by such business. Distributions and returns on income trusts are neither fixed nor guaranteed. In addition, funds that invest in income trusts such as oil, gas and other commodity-based royalty trusts, real estate investment trusts and pipeline and power trusts will have other varying degrees of risk depending on its sector and the underlying asset or business. These may include business developments such as a decision to expand into a new type of business, the entering into of a favourable supply contract, the cancellation by a major customer of its contract or significant litigation.

**Interest rate risk**

Changes in interest rates have an impact on a whole range of investments. When interest rates rise, the prices of fixed-rate bonds or other securities like treasury bills tend to fall. When interest rates fall, the prices of the fixed-rate bonds or treasury bills tend to rise. Fixed income securities with longer terms to maturity are usually more sensitive to changes in interest rates. Changes in the prices of these securities will affect the price of the Fund.

**Repurchase agreement risk**

Through a repurchase agreement, a Fund sells a security at one price and agrees to buy it back from the buyer at a lower price on a specified date. Repurchase agreements involve certain risks. If the other party to the repurchase agreement goes bankrupt, the Fund could experience delays in receiving payment. We try to minimize the risk of loss to the Fund by requiring that each repurchase agreement be, at a minimum, fully collateralized by liquid securities with a value of at least 102% of the resale price. This collateral is valued daily.

If the amount realized by the Fund in disposing of the collateral is less than the value of the securities on the date that they were to be repurchased by the Fund, the Fund will suffer a loss. We also enter into repurchase agreements only with parties that we believe, through conducting credit analysis, have adequate resources and financial strength to meet their obligations under the repurchase agreement.

**Securities lending risk**

Securities lending involves lending for a fee portfolio securities held by a Fund for a set period of time to willing, qualified borrowers who have posted collateral. Some of the Funds intend to enter into securities lending arrangements to the extent permitted from time to time. In lending its securities, a Fund is subject to the risk that the borrower may not fulfill its obligations leaving the Fund holding collateral worth less than the securities it has lent, resulting in a loss to the Fund. To limit this risk, a Fund must hold collateral worth no less than 102% of the value of the loaned securities and the amount of collateral is adjusted daily to ensure this level is maintained, the collateral may only consist of cash, qualified securities or securities that can be immediately converted into identical securities to those that have been loaned, a Fund cannot lend more than 50% of the total value of its assets through securities lending or repurchase transactions and a Fund's total exposure to any one borrower in securities, derivative transactions and securities lending must be less than 10% of the total value of the Fund's assets.

**Substantial unitholder risk**

The purchase or redemption of a substantial number of securities of a Fund may require the portfolio manager to change the composition of the Fund's portfolio significantly or may force the portfolio manager to buy or sell investments at unfavourable prices, which can affect a Fund's returns. Therefore, the redemption of securities by a substantial unitholder may adversely affect the performance of a Fund.

## ORGANIZATION AND MANAGEMENT OF THE FUNDS

<b>Manager</b> AGF Funds Inc. Suite 3100, 66 Wellington Street West Toronto Dominion Bank Tower Toronto Dominion Centre Toronto, Ontario M5K 1E9	The manager is responsible for the overall business and operation of each Fund. This includes providing or arranging for the day-to-day administration of the Funds.  <b>Fund of Funds</b> All of the Funds have the ability to invest in other mutual funds, subject to certain conditions. Where AGF is the manager of the other mutual fund, AGF will not vote the units of the other mutual fund. Instead, unitholders of the Fund can direct AGF how to vote the Fund's holdings in the other mutual fund.
<b>Trustee</b> AGF Funds Inc. Toronto, Ontario	The trustee of the Funds holds the assets of each Fund in trust on behalf of unitholders.
<b>Portfolio manager</b> Cypress Capital Management Ltd. Vancouver, British Columbia	The portfolio manager makes the investment decisions for a Fund, buys and sells the investments for the Fund's portfolio and manages the portfolio. The portfolio manager is an affiliate of AGF Funds Inc.
<b>Principal distributor</b>	Securities of the Funds are distributed through registered dealers.
<b>Registrar</b> AGF Funds Inc. Toronto, Ontario	The registrar keeps a record of the owners of securities of each Fund.
<b>Auditors</b> PricewaterhouseCoopers LLP Toronto, Ontario	The auditors conduct an audit of the financial records and procedures for each Fund and report to unitholders on the fairness and accuracy of the annual financial statements in accordance with generally accepted accounting principles.  PricewaterhouseCoopers LLP is an independent chartered accounting firm.
<b>Custodians</b> CIBC Mellon Global Securities Services Company ("CIBC Mellon") Toronto, Ontario	The custodians receive and hold all of a Fund's securities and portfolio assets, including cash, for safekeeping. Each Fund has appointed CIBC Mellon.  CIBC Mellon is independent of AGF Funds Inc.

## SPECIFIC INFORMATION ABOUT EACH OF THE MUTUAL FUNDS DESCRIBED IN THIS DOCUMENT

You'll find detailed descriptions of each of the Funds in Part B of this simplified prospectus to help you make your investment decisions. Here's what each section of the Fund descriptions tells you:

### Fund Details

This is a summary of some basic information about the Fund, such as when it was started and the type of securities it offers. At AGF, we have mutual fund trusts and mutual fund corporations. When you invest in a mutual fund trust, you buy units of the trust. When you invest in a mutual fund corporation, you buy shares of the corporation.

This section also tells you if the securities of the Fund are eligible for registered plans, such as Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs), money purchase pension plans and defined contribution pension plans and if securities of the Fund are considered foreign property for registered plans. The Tax Act limits the amount of foreign property you can hold in registered plans other than RESPs. The limit for 2004 is 30% of the cost of the investments in your registered plan. If you hold more than the permitted foreign content in your registered plan, a penalty tax may apply.

### What Does the Fund Invest In?

This section describes the Fund's fundamental investment objectives and the strategies the portfolio manager uses in trying to achieve those objectives. You'll find out the types of securities the Fund can invest in and how the portfolio manager chooses investments and manages the portfolio. Here are details about some special types of investments the Funds can make:

### Derivatives

A Fund can use derivatives as long as the use of derivatives is consistent with the Fund's objectives and is permitted in law. A derivative is a contract between two parties. The value of the contract is based on or derived from an underlying asset, such as a stock, a market index, a currency, a commodity or a basket of securities. It's not a direct investment in the underlying asset itself. Examples of derivatives are options and forward contracts. Some funds may also invest in

futures contracts, another form of derivatives, where permitted.

- An **option** is the right, but not the obligation, to buy or sell a security, currency, commodity, or market index at an agreed upon price by a certain date. The buyer of the option makes a payment—called a premium—to the seller for this right.
- A **forward contract** is an agreement to buy or sell an asset, such as a security or currency, at an agreed upon price at a future date or to pay the difference in value between the contract date and the settlement date. Forward contracts are generally not traded on organized exchanges and aren't subject to standardized terms and conditions.
- Like a forward contract, a **futures contract** is an agreement between two parties to buy or sell an asset at an agreed upon price at a future date or to pay the difference in value between the contract date and the settlement date. Futures contracts are normally traded on a registered futures exchange. The exchange usually specifies certain standardized features of the contract including the basket of securities. Only certain funds will invest in futures contracts.

### Investing in other mutual funds

A Fund may invest in securities of another mutual fund, including other mutual funds managed by AGF, if, among other things,

- the other mutual fund is subject to National Instrument 81-102
- the investment objective of the other mutual fund is consistent with the Fund's investment objective
- where AGF is the manager of the other mutual fund, AGF does not vote the Fund's holdings in the other mutual fund
- except where the other mutual fund is an RSP Fund or other RSP fund, at the time the Fund purchases securities of the other mutual fund, the other mutual fund holds no more than 10% of the market value of its net assets in securities of another mutual fund
- where the other mutual fund is an RSP Fund or other RSP fund, the other mutual fund it holds may not in turn hold more than 10% of the market

value of its net assets in securities of another mutual fund

- the securities of the other mutual fund are qualified for distribution in the same jurisdiction as the Fund
- no management fees or portfolio management fees are payable by the Fund that would duplicate a fee payable by the other mutual fund
- where AGF is the manager of the other mutual fund, no sales fees or redemption fees are payable by the Fund in relation to its purchases or redemptions of the securities of the other mutual fund
- no sales fees or redemption fees are payable by the Fund in relation to its purchases or redemptions of the securities of the other mutual fund that would duplicate a fee payable by the other mutual fund

### **Repurchase agreements**

Through a repurchase agreement, a Fund sells a security at one price and concurrently agrees to buy it back from the buyer at a lower price on a specified date. The seller may be a broker-dealer or other seller. A Fund may enter into repurchase agreements if no more than 50% of its net assets are at risk under these repurchase agreements, unless the Fund is permitted in law to invest in a greater amount.

### **Top 10 Holdings**

This is a list of the Fund's 10 largest holdings. The Fund's top 10 holdings can change as the portfolio manager buys and sells securities. To get an updated list, contact your registered representative or call us toll-free at 1-800-268-8583. The simplified prospectus and other information about other mutual funds whose securities may be held by the Funds are available at [www.sedar.com](http://www.sedar.com).

### **What are the Risks of Investing in the Fund?**

This section tells you the risks of investing in the Fund. You'll find a description of each risk in *Specific Risks of the Funds* starting on page 3.

### **Who Should Invest in this Fund?**

This section can help you decide if the Fund might be suitable for your portfolio. It's meant as a general guide only. For advice about your portfolio, you should consult your registered representative.

### **Past Performance**

These charts and tables show the Fund's past performance over the last ten years or from the date the Fund was launched to the public, if it is less than ten years old. Past performance is no guarantee of how a Fund will perform in the future, but it can show you how volatile the Fund has been in the past. The higher the volatility, the greater the risk. The information in the charts and tables is based on these assumptions:

- All distributions are reinvested in additional units of the Fund. If you hold your units in a non-registered account, distributions you receive are taxable. For more information, see *Income Tax Considerations for Investors*.
- Optional charges or income taxes aren't included. These would result in lower returns than the ones shown.

The year-by-year return bar chart shows how much an investment held on January 1 in each year would have changed, in percentage terms, by December 31 of that year. The overall past performance line graph shows how a \$10,000 investment in the Fund would have changed in value for the indicated number of years, compared with one or more market indices listed below or a blend of two or more of these indices. The annual compound returns table shows the historical annual compound returns for the periods indicated, compared with the same indices. These indices include reinvested income. The line graph and table aren't shown for money market funds.

### **Distribution Policy**

This section tells you when each Fund usually distributes any earnings to investors.

Each Fund will distribute, at least annually, sufficient income and capital gains so that each Fund will not be subject to ordinary income tax. Each Fund may make distributions at other times in the year. Distributions on units each Fund held in an AGF registered plan are always reinvested in additional securities of that Fund. Distributions on units of a Fund held in other registered plans or non-registered accounts are

reinvested in additional units of that Fund, unless you tell us in writing that you want cash payments instead.

Each series of a Fund ranks equally with the other series of the Fund in the payment of distributions (other than management fee distributions). Each series of a Fund is generally entitled to the portion of a distribution equal to its share of adjusted net income of the Fund, after deducting specific expenses of the Fund attributable to that series and management fee distributions. Adjusted net income is the Fund's net income adjusted for series specific expenses. As a result, the amount of distributions per unit will likely be different for each series of the Fund. For information about how distributions can affect your taxes, see *Income Tax Considerations for Investors*.

### Financial Highlights

In this section you'll find selected key financial information about the Fund for the past five years, or less if the Fund is less than five years old. The information in the tables:

- is based on the Fund's audited annual financial statements
- is as of the end of the Fund's financial year
- assumes that all distributions or dividends are reinvested.

You can get a copy of the audited financial statements when they are available by contacting your registered representative or by calling us at 1-800-268-8583. You can also write to us at the address on the back cover of this amended and restated simplified prospectus.

Here are explanations of some of the terms you'll find in the tables:

- **Management expense ratio (MER)** shows how much the Fund paid in management fees and operating expenses during each year shown. It's expressed as an annualized percentage of daily average net assets during the year. The MER is shown at an annual rate if the financial year is less than 12 months. The method of calculating the MER of mutual funds was changed by securities regulators on February 1, 2000. Some expenses, such as certain taxes and interest, are now included in the calculation. We've recalculated the MERs to comply with the new requirements. This results in a higher MER than previously reported. If we waive fees or absorb expenses of a Fund, we are

required to show what the MER would have been if we hadn't waived or absorbed these expenses.

- **Portfolio turnover** rate indicates how often the portfolio manager bought and sold securities for the Fund. A portfolio turnover rate of 100% is the same as the portfolio manager buying and selling all of the securities in the portfolio once during the year. In general, the higher the portfolio turnover rate, the higher the Fund's trading costs in that year and the greater the possibility of unitholders receiving distributions or dividends. If you hold the Fund in a non-registered account, distributions or dividends are taxable. There is not necessarily a relationship between portfolio turnover rate and Fund performance. Portfolio turnover rate isn't shown for money market funds.

### Fund Expenses Indirectly Borne by Investors

Each Fund pays its own expenses, but these expenses affect unitholders because they reduce the Fund's returns. This example shows how much the Fund would pay in expenses on a \$1,000 investment with a 5% annual return for each period shown. It is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The example assumes that the Fund's MER was the same throughout each period shown as it was during its last completed financial year. You'll find more information about fees and expenses that you pay directly in the *Fees and Expenses* section, starting on page 19.

## AGF DIVERSIFIED DIVIDEND INCOME FUND

### Fund Details

Type of fund:	Canadian dividend fund
Date Fund started:	January 25, 2005
Units offered:	Units of a mutual fund trust: <b>MF Series: January 25, 2005</b> <b>Series D: January 25, 2005</b> <b>Series F: January 25, 2005</b>
Registered plan eligibility:	Yes
Foreign property:	No
Portfolio manager:	Cypress Capital Management Ltd. (Vancouver, British Columbia)
Custodian:	<b>CIBC Mellon Global Securities Services Company</b> (Toronto, Ontario)

### What Does the Fund Invest In?

#### Investment Objectives

The Fund's objective is to achieve a balance of current income and long-term capital appreciation by investing primarily in a diversified portfolio of dividend paying preferred and common stocks and, to a lesser extent, in income trusts and fixed income securities.

Any change to the fundamental investment objectives must be approved by a majority of votes cast at a meeting of unitholders called for that purpose.

#### Investment Strategies

The portfolio manager utilizes a bottom up growth at a reasonable price investment style. It centres on a five step disciplined analysis that evaluates the overall attractiveness of each investment made.

The portfolio manager looks first to an assessment of the attractiveness of a firm's positioning through a competitive assessment of the structure of the industry within which it operates. Evaluation of the individual company then centres on an analysis of factors of competitive advantage within the industry. A detailed assessment is made of the value of the company through a review of key metrics, ensuring that a fair

measure of the firm's worth is determined. The strength of the company's management is assessed through a careful evaluation of track record and ability to execute on strategy. Lastly, the downside risk of holding the investment is determined through its ability to sustain its business through unfavourable conditions in the business cycle.

The Fund may invest in foreign securities up to the foreign content limit under the Tax Act. The limit for 2004 is 30% of the cost of the Fund's investments.

The Fund may use options, forward contracts and other permitted derivatives as long as the use of these derivatives is consistent with the Fund's objectives and is permitted by law. It may use derivatives in the following ways:

- to hedge against declines in security prices, financial markets, exchange rates and interest rates
- to gain exposure to securities, financial markets and foreign currencies. This can be less expensive and more flexible than investing directly in the underlying assets
- to profit from declines in financial markets
- to enhance income with the fund through the generation of premium income

When the Fund uses derivatives for purposes other than hedging, it holds enough cash or money market instruments to fully cover its positions, as required by securities regulations.

The Fund may enter into repurchase agreements to enhance the Fund's returns similar to securities lending transactions which are described below. While no fixed percentage of the Fund's net assets is dedicated to investing in the securities of other mutual funds, the Fund may invest up to 10% of its investments in securities of other mutual funds. The Fund does not intend generally to invest in other mutual funds unless it is more efficient or provides more diversity than investing in a specific security. It may also invest in cash or cash equivalents. The Fund may choose to deviate from its investment objectives by temporarily investing most or all of its assets in cash or fixed income securities during periods of market downturns or for other reasons. You'll find more information about derivatives, repurchase agreements and investing in other mutual funds under *What does the Fund Invest in?* on page 6.

The Fund may enter into securities lending transactions after providing written notice to its unitholders. Securities lending transactions will be used in conjunction with the Fund's other investment strategies in a manner considered most appropriate to achieving the Fund's investment objectives and to enhance the Fund's return.

Trading costs may increase depending upon the portfolio manager's buying and selling activities of the Fund's investments. This may in turn lower the Fund's returns. It also increases the possibility that you'll receive distributions. Generally, distributions are taxable if you hold the Fund in a non-registered account.

### **Top 10 Holdings**

Since the Fund is new, investments have not yet been made and as a result, as of the date of this simplified prospectus the Fund currently only holds cash.

### **What are the Risks of Investing in the Fund?**

Because the Fund invests in equity securities, its value is affected by stock prices, which can rise and fall in a short period of time. The risks of this Fund are as follows. For an explanation of each risk, see *Specific Risks of Funds* under *What are the Risks?* on page 3 in of this simplified prospectus.

- Credit risk
- Derivative risk
- Equity risk
- Foreign currency risk
- Foreign market risk
- Interest rate risk
- Income trust risk
- Repurchase agreement risk
- Securities lending risk
- Substantial unitholder risk

### **Who Should Invest in this Fund?**

Consider this fund if:

- You are an income-oriented investor that has a medium to long-term investment time horizon and a moderate tolerance for risk
- You wish to receive a regular distribution paid on a monthly basis that could include the return of capital

### **Past Performance**

Past performance information is not shown because the Fund is less than one year old.

### **Distribution Policy**

The Fund currently makes monthly distributions, which may include interest, capital gains and return of capital. In any event, the Fund will distribute, at least annually, sufficient income and capital gains so that the Fund will not be subject to ordinary income tax. When the distributions include a return of capital, you will not incur any tax on such distribution of capital but the amount of such distribution will reduce the adjusted cost base of your units. See *Income Tax Considerations for Investors*.

Distributions on units held in AGF registered plans are always reinvested in additional units of the Fund. Distributions on units held in other registered plans or non-registered accounts are reinvested in additional units of the Fund, unless you tell us in writing that you want cash payments instead.

Each series of the Fund ranks equally with the other series of the Fund in the payment of distributions (other than management fee distributions). Each series of the Fund is generally entitled to the portion of a distribution equal to its share of adjusted net income of the Fund, after deducting specific expenses of the Fund attributable to that series and management fee distributions. Adjusted net income is the Fund's net income adjusted for series expenses. As a result, the amount of distributions per unit will likely be different for each series of the Funds. For information about how distributions can affect your trades, see *Income Tax Consideration for Investors*.

### **Financial Highlights**

Financial information is not shown because the Fund is less than one year old.

### **Fund Expenses Indirectly Borne by Investors**

Fund expense information is not shown because the Fund is less than one year old.

## AGF MONTHLY HIGH INCOME FUND

### Fund Details

Type of fund:	Canadian income trust fund
Date Fund started:	January 25, 2005
Units offered:	Units of a mutual fund trust: <b>MF Series: January 25, 2005</b> <b>Series D: January 25, 2005</b> <b>Series F: January 25, 2005</b>
Registered plan eligibility:	Yes
Foreign property:	No
Portfolio manager:	Cypress Capital Management Ltd. (Vancouver, British Columbia)
Custodian:	<b>CIBC Mellon Global Securities Services Company</b> (Toronto, Ontario)

### What Does the Fund Invest In?

#### Investment Objectives

The Fund's objective is to achieve a high level of monthly income by investing primarily in income producing securities that include income trusts, royalty trusts and REITs with added diversification through selective investment in fixed income securities and common shares.

Any change to the fundamental investment objectives must be approved by a majority of votes cast at a meeting of unitholders called for that purpose.

#### Investment Strategies

The portfolio manager utilizes a bottom up growth at a reasonable price investment style. It centres on a five step disciplined analysis that evaluates the overall attractiveness of each investment made.

The portfolio manager looks first to an assessment of the attractiveness of a firm's positioning through a competitive assessment of the structure of the industry within which it operates. Evaluation of the individual company then centres on an analysis of factors of

competitive advantage within the industry. A detailed assessment is made of the value of the company through a review of key metrics, ensuring that a fair measure of the firm's worth is determined. The strength of the company's management is assessed through a careful evaluation of track record and ability to execute on strategy. Lastly, the downside risk of holding the investment is determined through its ability to sustain its business through unfavourable conditions in the business cycle.

The Fund may invest in foreign securities up to the foreign content limit under the Tax Act. The limit for 2004 is 30% of the cost of the Fund's investments.

The Fund may use options, forward contracts and other permitted derivatives as long as the use of these derivatives is consistent with the Fund's objectives and is permitted by law. It may use derivatives in the following ways:

- to hedge against declines in security prices, financial markets, exchange rates and interest rates
- to gain exposure to securities, financial markets and foreign currencies. This can be less expensive and more flexible than investing directly in the underlying assets
- to profit from declines in financial markets
- to enhance income with the fund through the generation of premium income

When the Fund uses derivatives for purposes other than hedging, it holds enough cash or money market instruments to fully cover its positions, as required by securities regulations.

The Fund may enter into repurchase agreements to enhance the Fund's returns similar to securities lending transactions which are described below. While no fixed percentage of the Fund's net assets is dedicated to investing in the securities of other mutual funds, the Fund may invest up to 10% of its investments in securities of other mutual funds. The Fund does not intend generally to invest in other mutual funds unless it is more efficient or provides more diversity than investing in a specific security. It may also invest in cash or cash equivalents. The Fund may choose to deviate from its investment objectives by temporarily investing most or all of its assets in cash or fixed income securities during periods of market downturns or for other reasons. You'll find more information about derivatives, repurchase agreements

and investing in other mutual funds under *What does the Fund Invest In?* on page 6.

The Fund may enter into securities lending transactions after providing written notice to its unitholders. Securities lending transactions will be used in conjunction with the Fund's other investment strategies in a manner considered most appropriate to achieving the Fund's investment objectives and to enhance the Fund's return.

Trading costs may increase depending upon the portfolio manager's buying and selling activities of the Fund's investments. This may in turn lower the Fund's returns. It also increases the possibility that you'll receive distributions. Generally, distributions are taxable if you hold the Fund in a non-registered account.

### **Top 10 Holdings**

Since the Fund is new, investments have not yet been made and as a result, as of the date of this simplified prospectus the Fund currently only holds cash.

### **What are the Risks of Investing in the Fund?**

Because the Fund invests in equity securities, its value is affected by stock prices, which can rise and fall in a short period of time. The risks of this Fund are as follows. For an explanation of each risk, see *Specific Risks of Funds* under *What are the Risks?* on page 3 in of this simplified prospectus.

- Credit risk
- Derivative risk
- Equity risk
- Foreign currency risk
- Foreign market risk
- Interest rate risk
- Income trust risk
- Repurchase agreement risk
- Securities lending risk
- Substantial unitholder risk

### **Who Should Invest in this Fund?**

Consider this fund if:

- You are an income-oriented investor that has a medium to long-term investment time horizon and a moderate tolerance for risk

- You wish to receive a regular distribution paid on a monthly basis that could include the return of capital

### **Past Performance**

Past performance information is not shown because the Fund is less than one year old.

### **Distribution Policy**

The Fund currently makes monthly distributions, which may include interest, capital gains and return of capital. In any event, the Fund will distribute, at least annually, sufficient income and capital gains so that the Fund will not be subject to ordinary income tax. When the distributions include a return of capital, you will not incur any tax on such distribution of capital but the amount of such distribution will reduce the adjusted cost base of your units. See *Income Tax Considerations for Investors*.

Distributions on units held in AGF registered plans are always reinvested in additional units of the Fund. Distributions on units held in other registered plans or non-registered accounts are reinvested in additional units of the Fund, unless you tell us in writing that you want cash payments instead.

Each series of the Fund ranks equally with the other series of the Fund in the payment of distributions (other than management fee distributions). Each series of the Fund is generally entitled to the portion of a distribution equal to its share of adjusted net income of the Fund, after deducting specific expenses of the Fund attributable to that series and management fee distributions. Adjusted net income is the Fund's net income adjusted for series expenses. As a result, the amount of distributions per unit will likely be different for each series of the Funds. For information about how distributions can affect your trades, see *Income Tax Consideration for Investors*.

### **Financial Highlights**

Financial information is not shown because the Fund is less than one year old.

### **Fund Expenses Indirectly Borne by Investors**

Fund expense information is not shown because the Fund is less than one year old.

## **PURCHASES, SWITCHES AND REDEMPTIONS**

You can invest in the Fund through different accounts we offer, such as the registered plans described under Optional Services. You can also invest in the Fund through accounts or plans offered by other financial institutions. Ask your registered representative for details.

Each Fund offers five series of units and they are described below. MF Series, Series D and Series F units are sold under this simplified prospectus. Series I and Series O units are sold through separate confidential offering memoranda.

### **MF Series:**

MF Series units are available to all investors and they can be purchased under this simplified prospectus.

### **Series D:**

Series D units are available to all investors through registered dealers who have entered into an agreement with AGF to distribute Series D units. Series D units can be purchased under this simplified prospectus.

### **Series F:**

Series F units are for investors who are:

- participants in a fee-for-service or wrap account program sponsored by certain registered dealers
- employees of AGF Management Limited and its wholly-owned Canadian subsidiaries

Series F units can be purchased under this simplified prospectus only through your investment advisor who has obtained the consent of AGF to offer Series F units. Participation in the offering of Series F units by a dealer organization is subject to terms and conditions relating to the distribution of Series F units including the requirement of your investment advisor to notify AGF if you are no longer enrolled in the fee-for-service or wrap program.

If AGF is notified that you no longer meet the eligibility criteria, we will sell or reclassify your Series F units in accordance with the instructions from your investment advisor. In the absence of instructions, we may automatically sell your Series F units or reclassify them to the MF Series. There may be tax implications arising from any sale. See *Income Tax Considerations for Investors* for more details.

### **Series I:**

Series I units are intended for eligible institutional investors only and are sold through a confidential offering memorandum.

### **Series O:**

Series O units are intended for institutional investors who meet the criteria established by AGF. Series O units are sold through a confidential offering memorandum.

You can buy and switch units of the Fund through your registered dealer. You can sell your units through your registered dealer or by writing to us directly. Selling your units is also known as redeeming. All transactions are based on the Fund's unit price next determined after we receive your purchase, switch or sale request in good order. This price is also called the net asset value per unit.

### **How We Calculate the Price of a Unit**

You can buy and switch units of the Fund through your registered dealer. You can sell your units through your registered dealer or by writing to us directly. Selling your units is also known as redeeming. All transactions are based on the Fund's unit price next determined after we receive your purchase, switch or sale request in good order. This price is also called the net asset value per unit.

We usually calculate the unit price of each series of a Fund at the end of each business day. A business day is any day that The Toronto Stock Exchange (TSX) is open. In unusual circumstances, we may suspend the calculation of Fund prices. We calculate the net asset value per unit of each series of a Fund by:

- adding up the assets of the Fund and determining the proportionate share of the series
- subtracting the expenses of the Fund that are common to all series and determining the proportionate share of the series
- subtracting the expenses of the Fund that are specific to the series
- dividing the number of Fund units of the series held by investors.

The Funds are valued in Canadian dollars. You can only make Canadian dollar investments in AGF registered plans.

## How We Process Orders

Your order must be in the proper form and include all necessary supporting documents. Your registered representative is responsible for sending your order to us. If we receive your order, to buy, switch or sell before 4 p.m. Toronto time on a business day, we'll process your order based on the price calculated that day. If we receive your order after 4 p.m. on a business day, we'll process your order based on the price calculated on the next business day. If the TSX's trading hours are shortened, we may change the 4 p.m. deadline. Your registered representative or AGF will send you a confirmation of your order once we process it. With systematic investment or withdrawal plans, you will receive a confirmation for your first order only.

## When You May Not be Able to Buy, Switch or Sell Units

Securities regulations allow us to temporarily suspend your right to sell your units of the Fund and postpone payment of your sale proceeds when:

- normal trading is suspended on any exchange on which securities or derivatives that make up more than 50% of the Fund's value or its underlying market exposure are traded and there is no other exchange that is a reasonable alternative, or
- securities regulators give us permission.

While your right to sell units of the Fund is suspended, we won't accept orders to buy units of the Fund. You may withdraw your sell order before the end of the suspension period. Otherwise, we'll sell your units at the next share price calculated after the suspension period ends.

## Buying Funds

### Choosing a Sales Charge Option

When you buy MF Series units of a Fund, you can choose the front-end sales charge, deferred sales charge (DSC) or low load option. You and your registered representative will determine the sales charge option in respect of your purchase. You can only buy Series D and Series F units under the front-end sales charge option.

#### *Front-end sales charge option*

If you choose the front-end sales charge option, you pay a sales commission when you buy units of a Fund. The commission is a percentage of the amount you invest and is paid to your registered dealer. See *Dealer*

*Compensation* for details. You and your registered representative negotiate the actual commission. See *Fees and Expenses* for the sales charge schedule.

#### *DSC option*

The DSC option is available for the Funds in the MF Series units only. If you choose the DSC option, you don't pay a commission when you invest in the Fund. Instead, we pay your registered dealer a commission. See *Dealer Compensation* for details. However, if you sell your MF Series units within 7 years of buying them, you'll pay a deferred sales charge according to the DSC schedule on page 20 under *Fees and Expenses*.

#### *Low load option*

The low load option is available for the Funds in the MF Series units only. If you choose the low load option, you don't pay a sales commission at the time of purchase. Instead, we pay a commission to your registered dealer. See *Dealer Compensation* for details. If you sell your MF Series units within 3 years of buying them, you'll pay a deferred sales charge according to the low load schedule on page 21 under *Fees and Expenses*.

#### *Changing sales charge options*

If after buying your units, you agree with your registered representative to change your sales charge option from low load or DSC to front-end, whether or not you also switch from one series of units to another within the same Fund, you will have to pay the deferred sales charge that applies at the time of such change.

## Minimum Investment

The minimum amount you can buy depends on the kind of account you have:

- For AGF RRSPs, RRIFs, LIRAs, Locked-in RSPs, LIFs, LRIFs and RESPs, the minimum initial investment is \$100. Each additional investment is \$25.
- For AGF group RRSPs, the minimum initial investment and each additional investment is \$25.
- For our systematic investment plan, the minimum for all investments is \$25. You'll find more about the systematic investment plan in *Optional Services*.
- For all other accounts, the minimum initial investment is \$1,000 and each additional investment is \$100.

You have to pay for your units when you buy them. If we don't receive payment for your purchase within three business days of receiving your order, we'll sell your units on the next business day. If the proceeds from the sale are more than the cost of buying the units, the Fund will keep the difference. If the proceeds are less than the cost of buying the units, your registered dealer must pay the shortfall who may in turn have the right to collect it from you.

We can reject all or part of your order within one business day of the Fund receiving it. If we reject your order, we'll immediately return any money received, without interest.

### **If your investment falls below the minimum requirement**

Because of the high cost of maintaining small accounts, we require investors to keep at least \$750 invested in each of their accounts. If the value of the investment in your account falls below the minimum requirement, we may sell or reclassify your units and send you the proceeds. We'll give you 30 days notice before selling or reclassifying, as applicable, so that you can buy more units if you wish to raise the balance above the minimum.

### **Selling Funds**

When you sell units of a Fund, you receive the proceeds of your sale in cash. You must give us written instructions to sell your units. We may accept a faxed copy of your instructions from your registered representative only if your registered dealer has made arrangements with us to accept faxed instructions.

The Fund may charge you a short-term trading fee if you sell your units within 90 days of buying them. See *Fees and Expenses* for details about these fees.

We'll send your payment to you or to someone else you choose by cheque or wire payment within three business days of receiving your properly completed order. You'll receive payment in the currency in which you bought the Fund, unless you request payment in another currency through our currency exchange service. See *Optional Services* for details.

If you are selling more than \$20,000 of your investment in a Fund or if you want the proceeds paid to someone else, your signature must be guaranteed by your bank, trust company or registered dealer. In some cases, we may require other documents or proof of signing authority. You can contact your registered

representative or us to find out the documents that are required to complete the sale.

If we haven't received all required documents within 3 business days of receiving your sell order, we'll notify you that your order is incomplete. If we still don't have all the required documents within 10 business days of receiving your sell order, we'll buy back the units as of the close of business on the 10<sup>th</sup> business day. If the cost is less than the sale proceeds, the Fund will keep the difference. If the cost is more than the sale proceeds, your registered dealer must pay the shortfall. Your registered dealer may have the right to collect it from you.

If you hold your units in a non-registered account, you may realize a capital gain or loss. Capital gains are taxable. For a complete discussion of the tax consequences, see *Income Tax Considerations for Investors*.

### **Selling units under the DSC option**

If you invest in MF Series units under the DSC option and sell those units within 7 years of buying them, we will deduct the applicable deferred sales charge from your sale proceeds.

Your MF Series units under the DSC option will be sold in the order of purchase, with your oldest units being sold first, except for the units that are qualified for the 10% free amount. See *10% free amount* for more details. For purposes of calculating the order of selling units, the purchase date for any units issued on a reinvestment of distributions will be the date the distribution is paid.

You won't pay DSC on:

- MF Series units you hold for 7 years or more
- MF Series units that qualify for the 10% free amount provided you reinvest distributions you received on such units as explained below
- MF Series units you receive from reinvested distributions
- cash distributions
- MF Series units you switch from one Fund to another Fund, provided you remain in the same series and purchase option.

## Selling units under the low load option

If you invest in MF Series units under the low load option and sell those units within 3 years of buying them, we will deduct the applicable deferred sales charge from your sale proceeds.

Your MF Series units under the low load option will be sold in the order of purchase, with your oldest units being sold first, except for the units that are qualified for the 10% free amount. See *10% free amount* for more details. For purposes of calculating the order of selling units, the purchase date for any units issued on a reinvestment of distributions will be the date the distribution is paid.

You won't pay a low load sales charge on:

- MF Series units you hold for 3 years or more
- MF Series units that qualify for the 10% free amount provided you reinvest distributions you receive on such units as explained below
- MF Series units you receive from reinvested distributions
- cash distributions
- MF Series units you switch from one Fund to another Fund, provided you remain in the same series and purchase option.

## 10% free amount

Each calendar year, you can sell up to 10% of the MF Series units you bought under the DSC option without paying a deferred sales charge (provided you reinvest any distributions you receive on your units). You may also sell up to 10% of the MF Series units you bought under the low load option in each calendar year without paying a deferred sales charge (provided you reinvest any distributions you receive on your units). This is referred to as the 10% free amount. The 10% free amount for each year is equal to:

- 10% of the market value, measured as at December 31 of the previous year, of your MF Series units you bought under the DSC option and that you have held for less than 7 years, or 10% of the market value, measured as at December 31 of the previous year, of your MF Series units you bought under the low load option and that you have held for less than 3 years; *plus*

- 10% of the market value of your MF Series units you bought under the DSC option in the current year, or 10% of the market value of your MF Series units bought under the low load option in the current year.

You can't carry over the unused 10% free amount to the next year.

## Switching Funds

A switch involves moving money from one Fund to another AGF Fund. A switch may be an order to sell or to reclassify your units. We describe these kinds of switches below. When we receive your switch order, we'll sell or reclassify your units from the Fund and use the proceeds to buy another AGF Fund. The steps for buying and selling units of the Fund also apply to switches.

When you switch units of a Fund, your registered representative may charge you a fee. You and your registered representative negotiate the fee. The Fund may also charge you a short-term trading fee of up to 2% if you switch or reclassify your units within 90 days of buying them. See *Fees and Expenses* for details about these fees.

## Switching between Funds

A switch from one Fund to another AGF Fund is considered a sale for tax purposes. If you hold your units in a non-registered account, you may realize a capital gain or loss. Capital gains are taxable. The following switches are examples of sales for tax purposes and you will realize a capital gain or loss:

- if you switch from a series of units of a Fund to the same or another series of units of another Trust Fund
- if you switch from a series of units of a Fund to the same or another series of shares of a Corporate Fund or a Class of such Corporate Fund

## Switching between Series of a Fund

Switching between series of a Fund is called a *reclassification*. You can reclassify units of one series of a Fund into units of another series of the same Fund if you are eligible for that series and the Fund offers that series. When you reclassify units, the value of your investment won't change (except for any fees you pay to reclassify), but the number of units you hold will change. This is because each series has a different unit price. In general, a reclassification is not considered a

sale for tax purposes. No capital gain or loss will result. For a complete discussion of the tax consequences, see *Income Tax Considerations for Investors*.

If you bought MF Series units under the DSC or low load option and reclassify the units to another series, you will have to pay any deferred sales charges that applies. See *Fees and Expenses* for details. If you reclassify from another series to MF Series, you can choose the front-end sales charge, DSC or low load option. See *Choosing a Sales Charge Option* on page 14 for details.

## **OPTIONAL SERVICES**

This section tells you about the accounts, plans and services that are available to investors in the AGF Group of Funds. Ask your registered representative or call us at 1-800-268-8583 for full details.

### **Currency exchange service**

When you sell your units, you can ask for the proceeds in a foreign currency, at the current rate of exchange.

We can also exchange currency when you buy units. If you provide payment for your purchase in another currency (other than U.S. dollars since the Fund can be priced in U.S. dollars), we can convert it to Canadian dollars. Please call us for further details.

### **Electronic transaction services**

You can arrange for your registered representative to place orders to buy, switch and sell funds by telephone or electronically. You can also arrange for your registered representative to have money electronically transferred from or to your bank account when you buy or sell funds in Canadian dollars. We don't offer this service for U.S. dollar investments.

### **Registered Plans**

We offer AGF RRSPs, RRIFs, LIRAs, Locked-in RSPs, LIFs, LRIFs, Group RRSPs and RESPs. You will find the minimum investment amounts for these plans on page 14 under *Buying Funds*. There are no annual administration fees to open, maintain or close a plan.

You can also hold your units in self-directed registered plans that you set up with other financial institutions. You may be charged a fee for these plans. You should consult your tax advisor for more information about the tax implications of registered plans.

### **Systematic distribution transfers**

We'll automatically transfer your reinvested dividends from one fund to another fund within the same series and under the same sales charge option. The transfer will be processed on the next business day immediately after a dividend has been reinvested.

### **Systematic foreign content transfers**

If your registered plan (other than an RESP) goes over the foreign content limit, a penalty tax may apply. The foreign content limit for 2003 is 30% of the cost of the investments in your registered plan. The foreign content limit doesn't apply to RESPs.

Unless you specify otherwise, we'll automatically transfer the excess from your foreign property fund with the highest value to the non-foreign property fund of the same series with the highest value. If your account doesn't hold any non-foreign property funds of the same series, we will transfer the excess into a money market fund in the AGF Group of Funds on the last business day of the month.

### **Systematic investment plan**

You can make regular investments, usually biweekly, monthly, bimonthly, quarterly, every four months, semi-annually or annually, on any business day of the month, in the Fund or in any of the other AGF Funds for as little as \$25 per fund. We'll automatically transfer money from your Canadian dollar chequing account and invest it in the funds you choose. We don't offer this service for U.S. dollar investments or for AGF RRIFs or Locked-in plans.

### **Systematic switching plan**

You can make regular switches between the AGF Funds. We'll automatically sell units of the Fund and use the proceeds to buy units of another AGF Fund within the same series and under the same sales charge option. You may have to pay a negotiable fee to your registered representative. You and your registered representative negotiate the fee. See *Fees and Expenses* for details. The short-term trading fee doesn't apply to switches made under this plan. If you hold your units in a non-registered account, you may realize a capital gain or loss. Capital gains are taxable.

## **Systematic withdrawal plan**

You can receive regular Canadian dollar payments from the Fund through our systematic withdrawal plan. We'll sell the number of units needed to make the payment and send the proceeds to you by cheque or deposit to your bank account. You can choose to receive payments, usually biweekly, monthly, bimonthly, quarterly, every four months, semi-annually or annually on any business day. We don't offer this service for direct deposits in U.S. dollars or for AGF RRSPs. If you hold your units in a non-registered account, you may realize a capital gain or loss when your units are sold. Capital gains are taxable.

If the value of the investment in your account falls below \$750, we may sell your units and send you the proceeds. See *If your investment falls below the minimum requirement* for details. If you withdraw more money than your Fund units are earning, you'll eventually use up your investment.

## FEES AND EXPENSES

This table lists the fees and expenses you may have to pay if you invest in the MF Series, Series D or Series F units of the Funds. You may have to pay some of these fees and expenses directly. The Funds pay some of these fees and expenses, which reduces the value of your investment.

We require unitholder approval to change how we calculate a fee or expense charged to the Fund, if the change results in a higher charge. Unitholder approval isn't required if the Fund is independent of the person or company charging the fee or expense and if unitholders are notified in writing at least 60 days before the day the change becomes effective.

<b>Fees and Expenses Payable by the Funds</b>	
<b>Management fee</b>	<p>This fee is calculated and accrued daily and paid monthly. The maximum total annual rates of the management fee and advisory fees for each series are:</p> <p>MF Series Units: 2.00%            Series D Units: 1.60%            Series F units: 1.00%</p> <p><b>Management fee reductions</b></p> <p>For investors with large contributions, we sometimes negotiate a lower management fee. We reduce the management fee we charge to the Fund and the Fund pays you an amount equal to the reduction. This is called a <i>management fee distribution</i>. Management fee distributions are reinvested in the Fund. Management fee distributions are calculated and credited daily and are paid at least quarterly, first out of the Fund's income and capital gains and then out of the Fund's capital. If the Fund offers more than one series of securities, the amount of the distributions payable to all holders of the series will be reduced by the amount of any management fee distributions to holders of that series.</p> <p><b>Fund of Funds</b></p> <p>Where a Fund invests in securities of another mutual fund, the Fund does not pay duplicate management fees on the portion of its assets that it invests in the other mutual fund. In addition, the Fund will not pay duplicate sales fees or redemption fees with respect to the purchase or redemption by it of securities of the other mutual fund. Where the other mutual fund is also managed by AGF, the Fund will not pay any sales fees or redemption fees with respect to the purchase or redemption by it of securities of the other mutual fund.</p>
<b>Operating expenses</b>	<p>Each series of the Fund pays its own expenses and its proportionate share of the Fund's expenses that are common to all series. Common expenses include legal fees, custodian fees, audit fees and costs of preparing and delivering annual and quarterly reports. Expenses that are specific to a series include filing fees, management and advisory fees and unitholder servicing costs. We may waive or absorb any of these expenses.</p>

<b>Fees and Expenses Payable Directly By You</b>																	
<b>Sales charges</b>	You may buy MF Series, Series D or Series F units on a front-end sales charge basis. You and your registered representative negotiate the sales charge. The sales charge is up to 6% of the amount you invest in the Fund and is deducted from the purchase amount.																
<b>Switch fees</b>	<p>If you switch a series of units of a Fund to the same series of units of another AGF Fund, you may pay a negotiable fee to your registered dealer of 0-2% of the net asset value being switched.</p> <p><b>Reclassification fee</b> If you reclassify MF Series units you bought under the DSC or the low load option to another series, you'll also have to pay any deferred sales charge that applies. See <i>Redemption fees</i> section below for details. If you reclassify units from Series D or Series F to MF Series, you can choose either the front-end sales charge, DSC or low load option. See <i>Choosing a Sales Charge Option</i> on page 14 for details.</p> <p>You'll find more information about reclassifying under <i>Switching Funds</i> on page 16.</p> <p><b>Short-term trading fee</b> A Fund may charge you a short-term trading fee of up to 2%, if you switch or sell units within 90 days of buying them. We deduct the fee from the value of the units you're switching and pay it to the Fund. This short-term trading fee doesn't apply to units you switch under our systematic switching plan. See <i>Optional Services</i> for details.</p>																
<b>Redemption fees</b>	<p><b>DSC</b> DSC option is only available for MF Series units. You may have to pay a deferred sales charge if you buy MF Series units under the DSC option and sell them within 7 years of buying them. Some exceptions apply. See <i>Selling units under the DSC option</i> on page 15 for details. The DSC is based on the value of the units when you bought them and is deducted from the value of the units you sell. The rate depends on how long you held your units:</p> <table border="0"> <thead> <tr> <th><b>Units you sell</b></th> <th><b>DSC rate</b></th> </tr> </thead> <tbody> <tr> <td>within two years of buying them</td> <td>5.5%</td> </tr> <tr> <td>during the third year after buying them</td> <td>5.0%</td> </tr> <tr> <td>during the fourth year after buying them</td> <td>4.5%</td> </tr> <tr> <td>during the fifth year after buying them</td> <td>4.0%</td> </tr> <tr> <td>during the sixth year after buying them</td> <td>3.0%</td> </tr> <tr> <td>during the seventh year after buying them</td> <td>1.5%</td> </tr> <tr> <td>after seven years of buying them</td> <td>Zero</td> </tr> </tbody> </table>	<b>Units you sell</b>	<b>DSC rate</b>	within two years of buying them	5.5%	during the third year after buying them	5.0%	during the fourth year after buying them	4.5%	during the fifth year after buying them	4.0%	during the sixth year after buying them	3.0%	during the seventh year after buying them	1.5%	after seven years of buying them	Zero
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during the seventh year after buying them	1.5%																
after seven years of buying them	Zero																

<b>Redemption fees .....cont'd</b>	<p><b>Low load option</b></p> <p>Low load option is only available for MF Series units. You may have to pay a deferred sales charge if you buy MF Series units under the low load option and sell them within 3 years of buying them. Some exceptions apply. See <i>Selling units under the low load option</i> on page 16 for details. The low load option is based on the value of the units when you bought them and is deducted from the value of the units you sell. The rate depends on how long you held your units:</p> <table border="0"> <tr> <td><b>Units you sell</b></td> <td><b>Low load rate</b></td> </tr> <tr> <td>within the first year of buying them</td> <td>3%</td> </tr> <tr> <td>during the second year after buying them</td> <td>2.5%</td> </tr> <tr> <td>during the third year after buying them</td> <td>2.0%</td> </tr> <tr> <td>after 3 years of buying them</td> <td>Zero</td> </tr> </table>	<b>Units you sell</b>	<b>Low load rate</b>	within the first year of buying them	3%	during the second year after buying them	2.5%	during the third year after buying them	2.0%	after 3 years of buying them	Zero
	<b>Units you sell</b>	<b>Low load rate</b>									
within the first year of buying them	3%										
during the second year after buying them	2.5%										
during the third year after buying them	2.0%										
after 3 years of buying them	Zero										
<p><b>Short-term trading fee</b></p> <p>A Fund may charge you a short-term trading fee of up to 2%, if you sell units within 90 days of buying them. The Fund deducts the fee from the value of the units you're selling. This short-term trading fee doesn't apply to units you sell under our systematic withdrawal plan. See <i>Optional Services</i> for details.</p>											
<b>Registered plan fees</b>	None										
<b>Other fees</b>	<p>Systematic investment plan: None</p> <p>Systematic withdrawal plan: None</p> <p>Dishonoured cheques or insufficient funds: \$25 for each transaction plus GST</p>										

### Impact of Sales Charges

The table below shows the fees that you would have to pay under our different sales charge options. It assumes that:

- you invest \$1,000 in units of the Fund for each period and sell all of your units immediately before the end of the period
- the sales charge under the front-end sales charge option is 6%. See *Fees and Expenses* for details.
- the redemption charge under the DSC option applies only if you sell your MF Series units within 7 years of buying them. See *Fees and Expenses* for the DSC schedule.
- the redemption charge under the low load option applies only if you sell your MF Series units within 3 years of buying them. See *Fees and Expenses* for the low load schedule.
- you haven't used your 10% free amount under the DSC or low load option.

	At Time of Purchase	1 Year	3 Years	5 Years	10 Years
Front-end sales charge option	\$60	n/a	n/a	n/a	n/a
DSC option <sup>(1)</sup>	n/a	\$55	\$50	\$40	n/a
Low load option <sup>(2)</sup>	n/a	\$30	\$20	n/a	n/a

(1) Series D and Series F units cannot be purchased under the DSC option.

(2) Series D and Series F units cannot be purchased under the low load option.

## DEALER COMPENSATION

Your registered dealer usually receives a sales commission when you invest in the MF Series, Series D or Series F units of a Fund. You can only buy Series D and Series F units under the front-end sales charge option. When you buy MF Series units, you can choose the front-end sales charge, DSC or low load option:

### **Front-end sales charge option**

When you buy MF Series, Series D, or Series F securities under the front-end sales charge option, you and your registered representative negotiate the sales charge. We deduct the sales charge from your investment and pay it to your registered dealer. The sales charge is up to 6% for the Funds. See *Fees and Expenses* for details.

### **DSC option**

When you buy MF Series units under the DSC option, we pay your registered dealer a commission of 4.9% of the amount you invest. You may have to pay a charge if you sell your MF Series units within 7 years of buying them. See *Fees and Expenses* for details.

### **Low load option**

When you buy units under the low load option, we pay your registered dealer a commission of 2.5% of the amount you invest. You may have to pay a charge if you sell your MF Series units within 3 years of buying them. See *Fees and Expenses* for details.

### **Trailing commission**

For purchases of MF Series or Series D units, we pay your registered dealer a trailing commission, subject to certain eligibility requirements. Your registered dealer may choose to receive the trailing commission either on a monthly or quarterly basis.

For purchases of Series F units, we do not pay any trailing commission to your registered dealer. Your registered dealer is paid a negotiated fee under the terms of your advisory arrangement with your registered dealer.

Generally, the trailing commission is a percentage of the total value of MF Series or Series D units held by a registered representative's clients. The maximum annual rate of the trailing commission depends upon the sales charge option chosen and the purchase date. Please see the following table for details:

Fund	Maximum annual trailing commission rate					
	Front-end		DSC		Low load	
	MF Series	Series D	MF Series	Series D	MF Series	Series D
AGF Diversified Dividend Income Fund	1.00%	0.50%	0.50%	n/a	0.50% for the first 3 years, 1.00% thereafter	n/a
AGF Monthly High Income Fund	1.00%	0.50%	0.50%	n/a	0.50% for the first 3 years, 1.00% thereafter	n/a

## Other kinds of dealer compensation

In addition to the commissions described above, we may also provide educational conferences and events, marketing support programs and other programs to registered dealers or financial advisors and their registered representatives. These include:

- materials describing the benefits of mutual fund investing
- conferences sponsored by registered dealers, for which we pay up to 10% of the cost
- audio and video materials for dealer seminars
- co-operative dealer advertising, for which we pay up to 50% of the cost
- national media advertising

We may change the terms and conditions of these commissions and programs or discontinue them, at any time.

## DEALER COMPENSATION FROM MANAGEMENT FEES

During our financial year ended November 30, 2004, the amount we paid to registered dealers in sales and trailing commissions and other kinds of dealer compensation was approximately 44.6% of the total management fees that we received from the AGF Funds we managed in that year.

## **INCOME TAX CONSIDERATIONS FOR INVESTORS**

This section is a summary of how investing in the Fund can affect your taxes. It assumes that you're an individual, a Canadian resident and you hold your units as capital property. This information may or may not apply to you. We recommend that you consult your tax advisor about your own situation.

### **How your investment can make money**

Your investment in a Fund can make money from:

- distributions of any earnings the Fund makes or realizes on its investments. This includes income, such as dividends paid on stocks, interest income, income from REITs and other funds that the Fund invests in, or gains realized from futures or forwards and capital gains from selling investments at a profit
- any capital gains that you realize when you switch or sell your units of the Fund at a profit. If you switch or sell your investment at a loss, it's called a capital loss

In general, a Fund will pay enough of its net income and net realized capital gains (calculated in Canadian dollars) each year to unitholders so it won't have to pay ordinary income tax, after taking into account any applicable losses of the Fund and the capital gains refunds, if any, it is entitled to. This kind of payment is called a *distribution*. Income of a Fund that invests in certain foreign investment entities may include amounts that are deemed to arise to the Fund for tax purposes, even though the Fund has not received such amount.

### **How your investment is taxed**

The tax you pay on your mutual fund investment depends on whether you hold your units in a non-registered account or in a registered plan, such as an RRSP.

### **Units held in a registered plan**

If you hold units of the Fund in a registered plan, you generally pay no tax on distributions from the Fund on those units or on any capital gains that your registered plan makes from selling or switching or otherwise disposing of units. However, any withdrawals from registered plans are generally subject to tax.

If your registered plan (other than an RESP) exceeds the foreign content limit under the Tax Act, a penalty tax may apply. In general, for 2005 you can hold up to 30% of the cost of the investments in your plan in foreign property. The foreign content limit doesn't apply to RESPs.

You are responsible for keeping track of the amount of foreign property in your registered plan. If you hold foreign property funds in your registered plan, the reinvestment of dividends can increase the cost of your foreign property holdings.

### **Units held in a non-registered account**

If you hold units of the Fund in a non-registered account, you must include your share of the Fund's distributions of net income and the taxable portion of net capital gains (in Canadian dollars) in your income. These amounts are taxed as if you received them directly. Distributions must be included in your income, whether you receive them in cash or have them reinvested in the Fund. If you've negotiated a management fee reduction, the management fee distribution paid to you may be taxable.

Distributions, including management fee distributions for the Fund, may include a return of capital. When the income available for distribution of a mutual fund is less than the amount distributed, the difference may be a return of capital. A return of capital is not taxable, but will reduce the adjusted cost base of your units of the Fund. We explain how to calculate adjusted cost base below.

The Fund makes distributions monthly and at the end of each calendar year. If you buy units of the Fund just before it makes a distribution, you'll be taxed on that distribution, even though the Fund earned the money before you owned it. That means you may have to pay tax on the income and capital gains the Fund earned, before you invested in the Fund.

We'll issue a tax slip to you each year that shows the taxable portion of your distributions, including any management fee distributions. You can claim any tax credits that apply to those earnings. For example, if the Fund's distributions include Canadian dividend income or foreign income, you may qualify for those tax credits as permitted by the Tax Act.

All switches and sales of units, except for reclassifications, are considered sales for tax purposes. If the value of the units sold is greater than the adjusted cost base of the units, you will have a capital

gain. If the value of the units sold is less than the adjusted cost base of the units, you will have a capital loss which can be applied against capital gains. In general, you must include one-half of the amount of a capital gain in your income for tax purposes.

A reclassification involves moving money from one series of a Fund to another series of the Fund. In general, a reclassification is not considered a sale for tax purposes, so no capital gain or loss will result.

### Calculating adjusted cost base

Your capital gain or loss for tax purposes is the difference between the amount you receive when you sell or switch your units and the adjusted cost base of those units. In general, the adjusted cost base of your investment in the Fund equals:

- your initial investment, including any applicable charges you paid, plus
- any additional investments, including any applicable charges you paid, plus
- any reinvested distributions, including management fee distributions, *minus*
- any distributions that were a return of capital, *minus*

- the adjusted cost base of any amounts previously disposed of

You should keep detailed records of the cost of your investments and distributions you receive on those units so you can calculate their adjusted cost base. You may want to get advice from your tax advisor.

## WHAT ARE YOUR LEGAL RIGHTS?

Securities legislation in some provinces gives you the right to withdraw from an agreement to buy mutual funds within two business days of receiving the simplified prospectus, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation in some provinces and territories also allows you to cancel an agreement to buy your mutual fund units and get your money back, or to make a claim for damages, if the simplified prospectus, annual information form or financial statements misrepresent any facts about the Fund. These rights must usually be exercised within certain time limits.

For more information, refer to the securities legislation of your province or territory or consult your lawyer.

## AGF GROUP OF FUNDS

### Simplified Prospectus

Initial Offering of Mutual Fund Series, Series D and Series F Units of

AGF DIVERSIFIED DIVIDEND INCOME FUND

AGF MONTHLY HIGH INCOME FUND

January 25, 2005

You can find additional information about the Fund in its annual information form and its most recently filed annual or interim financial statements. These documents are incorporated by reference into this simplified prospectus, which means they legally form part of this document just as if they were printed in it.

You can get a copy of the Fund's annual information form and financial statements, including a statement of portfolio transactions, at no charge by contacting your registered representative, by calling us toll-free 1-800-268-8583, by e-mailing us at [tiger@agf.com](mailto:tiger@agf.com) or by writing to us at the address below.

These documents and other information about the Fund are also available at [www.sedar.com](http://www.sedar.com).

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What are you doing after work?