

# Table of Contents

## Management's Discussion and Analysis

- 22. Caution Regarding Forward-Looking Statements  
*Investors Group Inc.*
- 23. Summary of Consolidated Operating Results  
*Investors Group*
- 27. Review of the Business
- 32. Review of Segment Operating Results  
*Mackenzie*
- 35. Review of the Business
- 39. Review of Segment Operating Results  
*Investors Group Inc.*
- 41. Consolidated Financial Position
- 42. Consolidated Liquidity and Capital Resources
- 43. Outlook

## Financial Review

- 47. Management's Responsibility for Financial Reporting and Auditors' Report  
*Consolidated Financial Statements*
- 48. Consolidated Balance Sheets
- 49. Consolidated Statements of Income
- 49. Consolidated Statements of Retained Earnings
- 50. Consolidated Statements of Cash Flows
- 51. Notes to Consolidated Financial Statements  
*Supplementary Information*
- 69. Quarterly Review
- 70. Ten Year Review

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. We caution that the foregoing list of important factors is not exhaustive. The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. The Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

# Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) presents Management's view of the operations and financial condition of Investors Group Inc. (the Company) for the years ended December 31, 2003 and 2002.

## Investors Group Inc.

### Summary of Consolidated Operating Results

Net income attributable to common shareholders for the year ended December 31, 2003, excluding the items noted below, was \$533.5 million compared to \$491.1 million in 2002. Earnings per share on this basis were \$2.01 compared with \$1.85 in 2002, an increase of 8.6%. Net income excludes:

- A dilution gain of \$14.8 million recorded in the third quarter resulting from the reduction in the Company's percentage ownership of Great-West Lifeco Inc. (GWL) related to their acquisition of Canada Life.
- The reversal of \$24.8 million (\$15.6 million after tax) of restructuring costs related to the acquisition of Mackenzie Financial Corporation (Mackenzie) recorded in the fourth quarter of 2003.
- A non-cash income tax charge of \$24.8 million recorded in the fourth quarter of 2003 arising from increases in Ontario income tax rates and their effect on the future income tax liability related to indefinite life intangible assets.

Net income attributable to common shareholders in accordance with Canadian generally accepted accounting principles (GAAP) for the year ended December 31, 2003, which includes the dilution gain, the reversal of restructuring costs, and the non-cash income tax charge noted above, was \$539.1 million and earnings per share were \$2.03.

This compares with net income attributable to common shareholders of \$491.1 million and earnings per share of \$1.85 in 2002.

Shareholders' equity was \$3.22 billion as at December 31, 2003, up from \$2.95 billion at December 31, 2002. Return on average common equity was 18.9%, compared with 19.2% in 2002. The quarterly dividend per common share was increased to 25.5 cents in 2003.

#### NON-GAAP FINANCIAL MEASURES

Net income, diluted earnings per share (EPS) and return on common equity (ROE) for the year ended December 31, 2003 excludes a dilution gain, a reversal of restructuring costs and a non-cash income tax charge related to increases in Ontario tax rates. Net income, EPS and ROE for the year ended December 31, 2001 excludes goodwill amortization and restructuring costs related to the Mackenzie acquisition. Non-GAAP financial measures are used to provide management and investors with additional measures to assess earnings performance. These non-GAAP financial measures do not have standard meanings and are not directly comparable to similar measures used by other companies. Table 1 reconciles non-GAAP results to reported results in accordance with GAAP for net income and earnings per share.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is also a non-GAAP financial measure. EBITDA is an alternative measure of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. EBITDA is discussed further on page 42 of the MD&A. This non-GAAP financial measure does not have a standard meaning and is not directly comparable to any GAAP measure or to similar measures used by other companies.

#### NET INCOME AND DILUTED EARNINGS PER SHARE

For the financial year  
(\$ millions, except per share amounts)

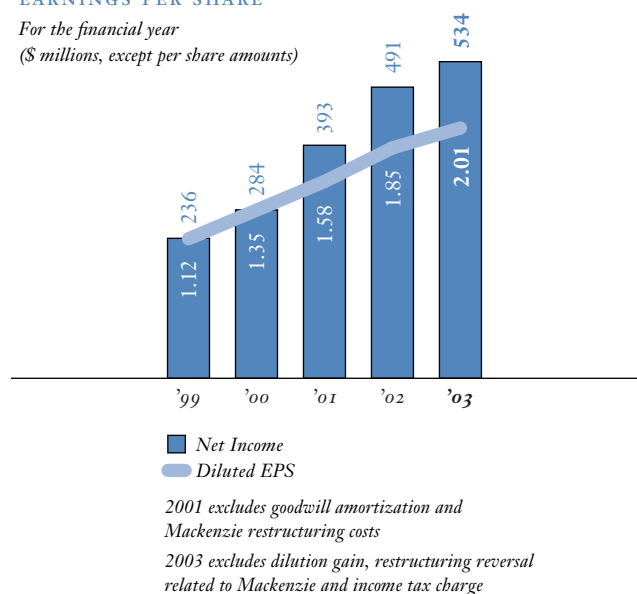


TABLE 1: RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(\$ millions, except per share amounts)	2003		2002		2001	
	NET INCOME	EPS	NET INCOME	EPS	NET INCOME	EPS
<b>Non-GAAP results</b>	<b>\$ 533.5</b>	<b>\$ 2.01</b>	\$ 491.1	\$ 1.85	\$ 392.6	\$ 1.58
Dilution gain	14.8	0.05	–	–	–	–
Restructuring reversal (costs), net of tax	15.6	0.06	–	–	(56.0)	(0.22)
Non-cash income tax charge	(24.8)	(0.09)	–	–	–	–
Goodwill amortization	–	–	–	–	(76.9)	(0.31)
<b>GAAP results</b>	<b>\$ 539.1</b>	<b>\$ 2.03</b>	\$ 491.1	\$ 1.85	\$ 259.7	\$ 1.05

## REPORTABLE SEGMENTS

The Company's reportable segments, which reflect the current organizational structure, are:

- Investors Group
- Mackenzie
- Corporate and Other

Management measures and evaluates the performance of these segments based on earnings before interest and taxes as shown in Table 2.

Discussion of segment operations for Investors Group and Mackenzie is contained on pages 27 to 40.

Earnings before interest and taxes for Corporate and Other, the segment which represents net investment income earned on unallocated investments and other income reflected higher levels of net investment income and other in 2003 compared to 2002. In addition, 2002 included a \$12.2 million charge to income related to the writedown of the Company's investments in mutual funds, in accordance with its accounting policy on securities.

Certain items reflected in Table 2 are not allocated to segments:

- *Restructuring reversal* – following the acquisition of Mackenzie by the Company in the second quarter of 2001, a plan was developed to restructure and exit certain operations of Mackenzie. A restructuring provision of \$95.6 million (\$56.0 million after tax or \$0.22 per share) was recorded in that quarter. In the fourth quarter of 2003 the Company changed its estimate for the restructuring provision required to complete remaining restructuring activities. This change resulted in a \$24.8 million (\$15.6 million after tax or \$0.06 per share) reversal of the restructuring provision in the fourth quarter of 2003.

- *Interest expense* – represents the cost of financing the Mackenzie acquisition and totaled \$85.3 million in 2003 compared with \$79.5 million in 2002. During 2003, the Company refinanced \$275 million of the Bankers' Acceptances related to the Mackenzie acquisition with a portion of the proceeds from the debenture issue in December 2002 and the two debenture issues in 2003. The refinancing resulted in an increase in the effective rate of interest on long-term debt related to the Mackenzie acquisition. However, through this refinancing, the Company solidified a longer term capital structure which increased its financial flexibility. The Company executed this strategy in a low interest rate environment and at a time when corporate issuer spreads were at attractive levels.
- *Dilution gain* – in the third quarter of 2003, Investors Group Inc. purchased \$100 million of common shares of GWL which were issued as part of the funding of the Canada Life acquisition by GWL. Investors Group's percentage ownership of GWL was reduced to 4.2%, resulting in a dilution gain of \$14.8 million (\$0.05 per share).
- *Income taxes* – the effective rate of tax in 2003 was 34.8% compared with 38.4% in 2002. The Company benefited from statutory tax rate reductions, excluding Ontario, in 2003 as well as other tax benefits. These benefits were partially offset by a non-cash charge as a result of the announced increase in Ontario tax rates. In connection with the Mackenzie acquisition in the second quarter of 2001, Investors Group Inc.

valued the indefinite life intangible assets of Mackenzie and allocated a portion of the purchase price to such assets. A future tax liability associated with the assets was estimated based upon future income tax rates substantively enacted at the time. During the fourth quarter of 2003, the Ontario provincial government increased income tax rates in respect of future years and, as a result, the Company increased the estimate of the future tax liability and recorded a \$24.8 million (\$0.09 per share) non-cash income tax charge. This charge increased the 2003 effective tax rate by 2.9%.

#### CHANGE IN ACCOUNTING POLICY

As disclosed in Note 1 of the Consolidated Financial Statements, the Company adopted CICA Accounting Guideline 14 (AcG-14) – Disclosure of Guarantees effective January 1, 2003. AcG-14 identifies disclosure requirements for certain guarantees or groups of similar guarantees, even when the likelihood of the guarantor having to make any payments is slight.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT

(\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2003	2002	2003	2002	2003	2002	2003	2002
Fee income	\$ 971.6	\$ 1,029.6	\$ 742.8	\$ 783.6	\$ –	\$ –	\$ 1,714.4	\$ 1,813.2
Net investment income and other	104.0	100.5	19.9	17.6	35.9	8.5	159.8	126.6
	1,075.6	1,130.1	762.7	801.2	35.9	8.5	1,874.2	1,939.8
Operating expenses								
Commissions	191.3	195.3	284.0	302.2	–	–	475.3	497.5
Non-commission	235.8	254.3	257.3	281.1	1.1	–	494.2	535.4
	427.1	449.6	541.3	583.3	1.1	–	969.5	1,032.9
<b>Earnings before interest and taxes</b>	<b>\$ 648.5</b>	<b>\$ 680.5</b>	<b>\$ 221.4</b>	<b>\$ 217.9</b>	<b>\$ 34.8</b>	<b>\$ 8.5</b>	<b>904.7</b>	<b>906.9</b>
Restructuring reversal							24.8	–
Interest expense							(85.3)	(79.5)
							844.2	827.4
Dilution gain							14.8	–
Income before income taxes and discontinued operations							859.0	827.4
Income taxes							299.2	317.4
Income before discontinued operations							559.8	510.0
Discontinued operations							–	1.8
<b>Net income</b>							<b>559.8</b>	<b>511.8</b>
Preferred dividends							20.7	20.7
<b>Net income available to common shareholders</b>								
Including dilution gain, restructuring reversal and income tax charge (GAAP)							\$ 539.1	\$ 491.1
Excluding dilution gain, restructuring reversal and income tax charge <sup>(1)</sup>							\$ 533.5	\$ 491.1

<sup>(1)</sup> Refer to page 23 of the MD&A for an explanation of the Company's use of non-GAAP financial measures.

#### SUMMARY OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles in Canada (GAAP) requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. In applying these policies, management makes subjective and complex judgements that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the mutual fund and other financial services industries; others are specific to the Company's businesses and operations. The Company's general policies are described in detail in Note 1 of the Consolidated Financial Statements. The major critical accounting estimates and related judgements underlying the Company's financial statements are summarized below:

- *Goodwill and intangible assets* – At December 31, 2003, goodwill totaled \$2.27 billion and indefinite life intangible assets totaled \$860 million as reflected in Note 7 of the Consolidated Financial Statements. Under CICA Section 3062 – Goodwill and Other Intangible Assets, the Company is required to test the fair value of goodwill and indefinite life intangible assets for impairment at least once a year. The Company performs that evaluation during the second quarter each year. These tests involve the use of estimates and assumptions appropriate in the circumstances. The annual impairment testing was completed for 2003 and management determined that no impairment charge was necessary.

- *Income taxes* – The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the asset or liability recorded is based on management's best estimate of the timing of the realization of the asset or liability.
- *Employee future benefits* – Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for accrued benefit obligations. These estimates are discussed in Note 10 of the Consolidated Financial Statements.

#### FUTURE ACCOUNTING CHANGES

As discussed in Note 1 of the Consolidated Financial Statements, during 2003:

- CICA Section 3870 – Stock-Based Compensation and Other Stock-Based Payments, effective January 1, 2004, was amended to require expense treatment of all stock-based compensation and payments at grant date.
- CICA Accounting Guideline 13 (AcG-13) – Hedging Relationships, effective January 1, 2004, established the criteria that must be met in order to apply hedge accounting for derivatives. Changes in the fair value of derivatives that do not qualify for hedge accounting will be recorded in the Consolidated Statements of Income.

These changes are not expected to have a material impact on the financial statements of the Company.

#### QUARTERLY FINANCIAL INFORMATION

Selected financial information for the eight most recently completed quarters is shown on page 69.

## Investors Group

### Review of the Business

Investors Group's core business provides a comprehensive range of financial and investment planning services to Canadians through its network of highly trained and well-supported Consultants.

Investors Group earns revenue primarily from:

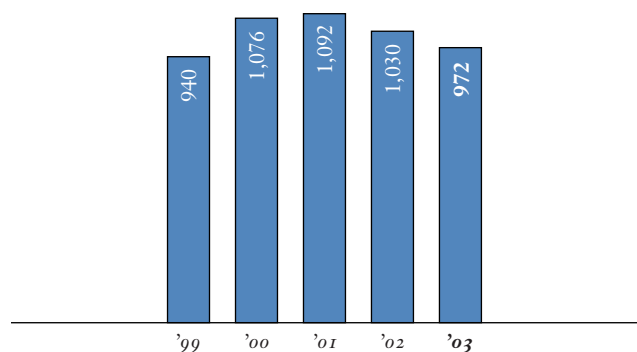
- Management fees for advising and managing its mutual funds.
- Fees charged to its mutual funds for administrative and trustee services.
- Distribution fees charged to mutual fund account holders.

Fee income is also earned from the distribution of insurance products and securities services. Additional revenue is derived from mortgage, banking and investment certificate operations.

Revenues depend largely on the value and composition of assets under management. By offering a broad range of products and services to meet the varied needs and objectives of individual clients, management believes that the base of assets under management is secure and able to withstand downward pressure caused by market volatility. The effectiveness of this approach has been demonstrated by consistent levels of sales over the long term and by redemption rates for Investors Group's mutual funds that are among the lowest in the industry. For 2003 Investors Group's redemption rate for long-term funds was 10.7% compared to 14.1% for all other members of the Investment Funds Institute of Canada (IFIC).

#### FEE INCOME – INVESTORS GROUP

For the financial year (\$ millions)



#### SEGMENT STRATEGY

Investors Group continually reviews its strategy to ensure that it is appropriate for both the current financial services environment and any anticipated changes that would affect the industry. We strive to ensure that the interests of shareholders, clients, Consultants and employees are as closely aligned as possible. Investors Group's business model embraces current trends in the Canadian financial services industry and our strategic plan is focused on:

1. Emphasizing the delivery of financial planning advice, products and services through our dedicated network of highly trained and well-supported Consultants.
2. Extending the diversity and range of products offered by Investors Group as we continue to compete effectively by meeting the changing needs of our broad spectrum of clients.
3. Maximizing returns on business investment by:
  - Capitalizing on economies of scale through our relationship with Mackenzie, Great-West Life, Canada Life and London Insurance Group Inc.
  - Controlling expenditures through the management of staffing levels, improved productivity, effective and continual investments in technology, and the management of discretionary expenses.
  - Directing resources to initiatives that have direct benefits to clients and Consultants.

#### CORE BUSINESS

##### Consultants

Investors Group distinguishes itself from its competition by offering personal, long-term financial planning to its clients. At the centre of this relationship is a national distribution network of highly skilled Consultants working from 111 Financial Planning Centres across Canada.

At Investors Group we are focused on growing our distribution network through the retention of existing Consultants and the attraction of new industry professionals. This is accomplished through the offering of a comprehensive and state-of-the-art financial planning practice support platform. Management believes that Consultant compensation and the constant evolution of our support services provide one of the best environments in which our Consultants can build their practices – whether they are newly entering the business, or are an experienced Consultant with considerable assets under management.

During the last half of 2003, Investors Group witnessed an improvement in the retention of existing Consultants and in the recruitment of new individuals. This positions us for growth in our distribution network in the future.

#### *Recruiting and retention*

Investors Group combines a number of proven interview and testing techniques to identify high quality people who demonstrate a blend of experience, education and aptitude that makes them well suited to a career in financial planning. Although the financial markets and the overall business environment improved in 2003, investor confidence was slow to recover. While this affected our recruitment efforts, our enhancements to the Consultant offering improved our retention levels in the second half of the year as the number of Consultants grew by 37 in that period. The Consultant network grew in both the third and fourth quarters of 2003, the first consecutive quarters of growth since 1998.

At the end of 2003, Investors Group had 3,223 Consultants, compared with 3,324 in 2002. The percentage of Consultants with more than four years experience remained steady at 60.5% compared to 60.9% a year earlier.

#### *Consultant development*

Management continues to focus on development of the financial planning industry's premier consultant development system. Each year, the curriculum is reviewed and refreshed to offer all Consultants the essential building blocks they require to develop their individual businesses.

Consultants begin their relationship with Investors Group by attending a five week training program which is designed to combine technical education with field experience. As Consultants progress, they develop their skills as financial planners and business managers by attending a selection of focused educational programs including financial planning skills, product knowledge, client service, sales skills, compliance, technology, practice management and other related topics. Supplemental training, coaching and mentorship are top priorities for the Consultant network's Regional Directors and Division Directors across Canada.

In 2003, Investors Group further enhanced its educational opportunities for established Consultants. New programs were added including the Navigator Practice Management Program, The 8 Best Practices of High-Performing Advisors<sup>†</sup> Program and TruQuest Strategies<sup>†</sup>; programs that are focused on helping Consultants take their practices to higher levels of productivity. Access to annual

advanced educational conferences featuring internal and external industry-leading professionals was also expanded.

Investors Group also supports industry initiatives to introduce uniform qualification requirements for use of the "financial planner" designation. Enrolment in these programs is encouraged and a policy is in place requiring Consultants to achieve their Certified Financial Planner (CFP) designation, or the equivalent designation in the province of Quebec (Pl. Fin.), by the end of their fifth year with Investors Group.

#### *Productivity*

Investors Group implemented a number of significant changes in 2003 designed to enhance the competitiveness of the product and service offering to our clients as well as changes aimed at providing greater value to our Consultants. These included:

- A comprehensive review and realignment of our pricing structure to enhance competitiveness.
- A realignment of our Consultant's compensation and support to be more competitive, including a deferred compensation component designed to promote Consultant retention.
- The introduction of Symphony<sup>™</sup>, a strategic investment planning tool to assist Consultants in the construction of client portfolios.
- The enhancement of the Investors Group Advantage<sup>™</sup> technology platform, which delivers additional flexibility, capability and productivity.
- The introduction of Solutions Banking<sup>†</sup>, a suite of banking products and services through National Bank of Canada that expands Investors Group's financial planning platform to include a greater proportion of our clients' balance sheets.

Management believes that these initiatives make Investors Group more attractive and competitive to Consultants and potential Consultants, and will lead to greater recruitment, productivity and asset growth into the future.

#### **Products and services**

Investors Group is regarded as a leader in personal financial planning in Canada. This is achieved by delivering personal financial solutions tailored to each client's individual needs. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's long-term goals and tolerance for risk. They also look beyond investments to offer clients insurance products, banking services, mortgages and tax planning.

*Symphony™ – strategic investment planning*

In October 2003, Investors Group launched Symphony™, an enhanced strategic investment planning approach. Symphony™ is designed to help Consultants build their business with a sophisticated investment discipline, backed by a process that provides a sound methodology for measuring a client's risk tolerance. Based on that assessment, Consultants are able to provide appropriate risk-adjusted recommendations using Investors Group's extensive offering of funds.

Symphony™ is a scientific and fully integrated approach to strategic investment planning support, from the assessment of a client's risk tolerance and personal investment goals, to the construction and administration of an optimal investment portfolio.

Symphony™ simplifies the asset allocation process and provides Investors Group with a high degree of competitive differentiation. This approach should also provide clients with more predictable and stable investment returns over time.

*Mutual funds*

Investors Group is committed to enhancing the performance, scope and diversity of our investment products. In 2003, we executed a number of changes to the investment strategy of our portfolio of funds, and made changes to a number of sub-advisory relationships. Discussion of mutual fund activity in 2003 compared with 2002 is presented in the Investors Group Review of Segment Operating Results beginning on page 32.

*Investment management*

Investors Group has over \$40.9 billion in mutual fund assets under management in 147 mutual funds covering a broad range of investment mandates.

Through our own team of investment professionals and relationships with external investment advisors, we provide clients with access to a wide range of investment advisory services. Clients can take advantage of the opportunity to diversify their holdings across fund managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

*Investors Masterseries™ funds*

Investors Masterseries™ funds are managed by I.G. Investment Management, our own multi-disciplinary team of investment professionals with offices and advisors in North America, Europe, and Asia. Our global reach, combined with over 50 years of experience, provides

us with the depth of investment management capabilities that enables us to offer our clients world class money management expertise suitable for the widest range of investment objectives.

The Investors Masterseries™ family of unit trust funds totals 48 and includes money market, fixed income, balanced, domestic and international equity, global and sector mandates. As at December 31, 2003, total assets related to these funds were \$35.0 billion compared with \$32.3 billion in 2002, an increase of 8.3%. Masterseries™ funds represented 85.6% of the total Investors Group mutual fund assets under management, down slightly from 86.0% a year ago. At December 31, 2003, 40% of Masterseries™ mutual funds had four or five star ratings from the Morningstar† fund ranking service and 74% had a rating of three stars or better, compared to 47% and 81% respectively in 2002.

During the year, it was announced that effective January 28, 2004, J.P. Morgan Fleming Asset Management (Canada) Inc. would assume responsibility for one Investors Masterseries™ fund previously sub-advised by AIB Govett Asset Management Limited.

*Partner funds*

Partner funds are an important element of Investors Group's mutual fund product shelf, offering a range of investment disciplines through advisory relationships with other investment management firms.

In 2003, Investors Group continued its relationships with highly regarded investment managers Mackenzie Financial Corporation, AGF Funds Inc., Beutel, Goodman & Company, Ltd., Fidelity Investments Canada Limited, Franklin Templeton Investments Corp., Goldman Sachs Asset Management, and Sceptre Investment Counsel Limited. Additionally, Waddell & Reed Ivy Investment Company was appointed to sub-advise a partner fund previously sub-advised by Janus Capital Management LLC while the mandate of a second Janus fund was assigned to Mackenzie Financial Corporation.

Investors Group oversees external investment advisors who are responsible for ensuring that their activities are consistent with Investors Group's investment philosophy and with the stated investment objectives and strategies of their respective funds.

At December 31, 2003, partner funds totaled \$5.1 billion or 12.6% of Investors Group's mutual fund assets under management. Of this amount, Mackenzie currently provides investment advisory services for seven funds with total assets of \$1.2 billion.

#### *Investors Group Corporate Class Inc.*

Investors Group introduced Investors Group Corporate Class Inc., Canada's broadest tax advantaged fund structure in 2002. This group of funds features no-fee, tax-deferred switching among 46 brand-name funds within the group. The funds include 28 of Investors Group's own Masterseries™ funds advised by I.G. Investment Management as well as funds advised by Mackenzie Financial Corporation, AGF Funds Inc., Beutel, Goodman & Company, Ltd., Fidelity Investments Canada Limited, Franklin Templeton Investments Corp., Goldman Sachs Asset Management and Sceptre Investment Counsel Limited.

In 2003, Waddell & Reed became sub-advisor to a Corporate Class fund previously managed by Janus Capital Management LLC while J.P. Morgan Fleming Asset Management (Canada) Inc. replaced AIB Govett as sub-advisor to a Masterseries™ Corporate Class fund, effective January 28, 2004.

By the end of 2003, the Corporate Class funds had attracted \$353 million in assets compared with \$143 million in 2002.

#### *Managed asset and multi-manager investment programs*

Investors Group provides clients with access to a growing selection of asset allocation opportunities directed by the world's leading money-management firms. These programs include:

- **Allegro™ Portfolios:** The Allegro™ Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification. The seven portfolios include Investors Masterseries™ funds, Mackenzie partner funds as well as a wide variety of other partner funds. The asset mix of the Allegro™ portfolios was updated using the same strategic investment planning approach that was developed for the Symphony™ individual fund recommendations. Since their introduction in 2001 as 1World™ Portfolios (renamed Allegro™ in 2003), these funds have attracted \$557 million in assets as of December 31, 2003.
- **Alto™ Portfolios:** The new Alto™ Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification. The seven portfolios include Investors Masterseries™ funds and Mackenzie partner funds. Since their introduction in October 2003, these funds have attracted \$17 million in assets as of December 31, 2003.

- **Masterseries™ Portfolios:** This is one of the largest fund programs in Canada with assets of \$6.2 billion as at December 31, 2003. The program is comprised of eight funds which invest in 21 underlying Masterseries™ funds to provide maximum diversification.
- **iProfile™:** This is a unique portfolio management program introduced in 2001 for clients with assets over \$250,000. iProfile™ investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The program is advised by a select group of 12 global money management firms such as Goldman Sachs Asset Management, Jarislowsky Fraser Limited and I.G. Investment Management, Ltd. During 2003, Waddell & Reed, I.G. Investment Management, Ltd. and J.P. Morgan Fleming (effective January 28, 2004) replaced Provident Investment Counsel, Alliance Bernstein and AIB Govett respectively in their sub-advisory services to the iProfile™ program. By the end of 2003, this program had attracted \$389 million in assets.

#### *Segregated funds*

Investors Group offers eight segregated funds that are distributed solely by Investors Group Consultants. Our segregated funds provide death benefit guarantees and potential creditor protection. These funds also provide protection from long-term market volatility by providing two levels of guarantees – 75% or 100% of the principal invested. The investment component of these products is managed by Investors Group while the insurance component is underwritten by The Great-West Life Assurance Company.

#### *Product Pricing*

During 2003, Investors Group introduced a revised pricing structure for new investments that better reflects the value of our offering and strengthens our competitive position. These changes align our pricing across Investors Group products and lower our reported management expense ratios (MERs) to levels more competitive with the industry.

The pricing changes include: a new industry standard deferred sales charge schedule; the elimination of the 2.5% acquisition fee for clients investing under \$10,000; the reduction of management fees on a number of partner funds; restructured fees on iProfile™ and on Allegro™ Portfolios to reflect the value of these packaged products; and a fixed rate service fee on DSC and No-load funds.

*Insurance*

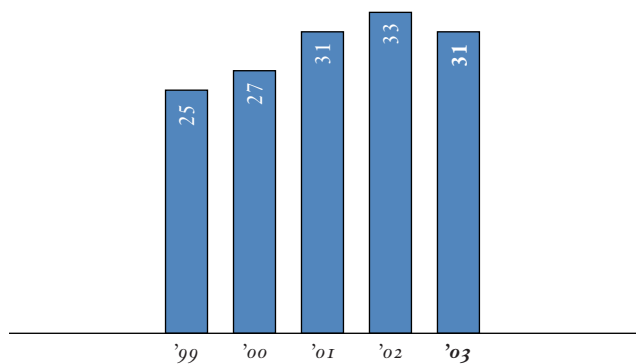
Investors Group continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, Investors Group offers a comprehensive range of term, universal life, whole life, disability, critical illness, long-term care, personal health-care coverage and group insurance. I.G. Insurance Services Inc. currently has distribution agreements with:

- The Great-West Life Assurance Company
- The Maritime Life Assurance Company
- Sun Life Assurance Company of Canada
- Clarica Life Insurance Company
- The Manufacturers Life Insurance Company (Manulife)

During 2003, sales of insurance products as measured by annualized premiums were \$31.5 million. This is the second-highest level of insurance sales in Investors Group's history. Total face amount of insurance in force increased during 2003 to \$31 billion. The average number of policies sold per Consultant was 8.2 in 2003 compared to 7.9 in the prior year. The average number of Consultants with insurance licenses represented 88% of the Consultant network. Distribution of insurance products is enhanced through 41 insurance specialists who assist Consultants with the selection of appropriate insurance solutions.

**INSURANCE SALES**

*For the financial year (\$ millions)*



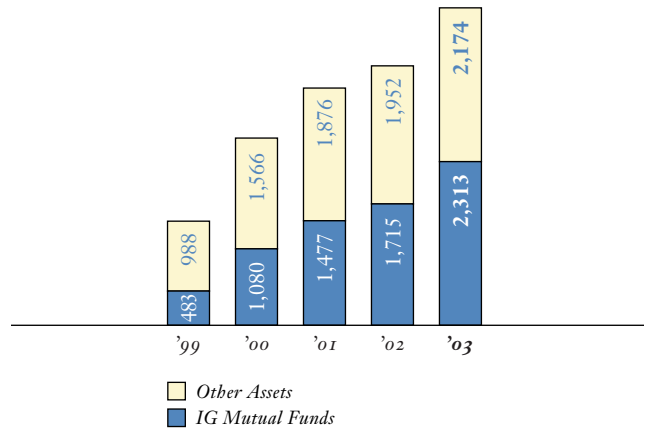
*Securities operations*

Investors Group Securities Inc. is an investment dealer registered in all provinces and territories providing securities services to clients seeking a broader product offering in combination with financial and investment planning. Investors Group Consultants can refer high net worth clients to one of the 24 securities specialists available through Investors Group Securities Inc.

During 2003, assets under administration in Investors Group Securities Inc. grew by 22.4% to \$4.5 billion. The number of clients using this service grew to over 58,700 clients, an increase of 4.7% over 2002. At year-end, 91% of Consultants had referred clients to Investors Group Securities Inc., compared to 90% in the prior year. The assets gathered by Investors Group Securities Inc. during 2003 were \$894 million, compared to \$1.2 billion in 2002.

**INVESTORS GROUP SECURITIES INC.  
ASSETS UNDER ADMINISTRATION**

*As at December 31 (\$ millions)*



Management believes that by continuing to develop and enhance its securities operations, Investors Group will also continue to attract and retain high quality Consultants, deepen relationships with clients and appeal to a growing segment of investors who require these services.

*Mortgage operations*

Investors Group Consultants play an integral role in sourcing high-quality residential mortgages through client referrals to Investors Group mortgage planning specialists. At December 31, 2003, Investors Group employed 46 mortgage specialists who originate mortgages in key residential markets.

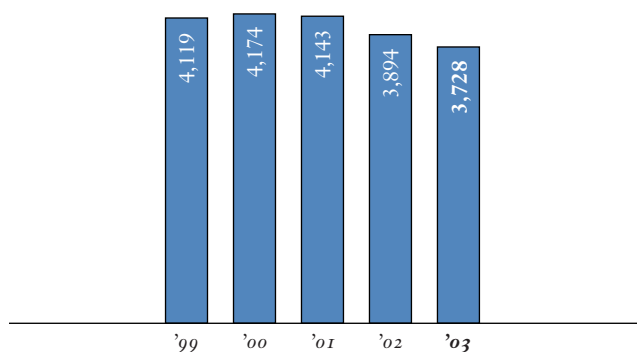
Mortgage originations in 2003 increased 19.4% to \$838 million from \$702 million in 2002. The proportion of residential mortgages sourced with the assistance of Consultants has remained constant at 88% in 2003. While most of these new mortgages were sold to third parties through Investors Group's mortgage banking operation, the servicing of these mortgages continues to be provided by Investors Group.

Investors Group mortgage operations also provide both origination and servicing to:

- Investors Mortgage Fund, which because of its size requires a steady stream of high-quality mortgages.
- Investors Group Trust Co. Ltd. and Investors Syndicate Limited, both subsidiaries of the Company.
- London Life Insurance Company (London Life), a subsidiary of Great-West Lifeco Inc.

#### MORTGAGES SERVICED FOR INVESTORS GROUP CLIENTS

As at December 31 (\$ millions)



#### Solutions Banking<sup>†</sup>

On June 25, 2003 the Company launched Solutions Banking<sup>†</sup> on a national basis. The wide range of products and services offered under Solutions Banking<sup>†</sup>, provided by National Bank of Canada under a long-term distribution agreement, include: investment loans, lines of credit, personal loans, creditor insurance, deposit accounts and credit cards. Clients have access to over 1,400 banking machines, as well as a private labeled client website and private labeled client service centre.

Consultant and client response to Solutions Banking<sup>†</sup> has been favorable. As at December 31, 2003, 44% of Investors Group Consultants have incorporated Solutions Banking<sup>†</sup> into their financial planning practices with one or more products sold.

The Solutions Banking<sup>†</sup> offering supports Investors Group's approach to delivering total financial solutions and expands Investors Group's financial planning platform to meet our clients' financial needs.

#### Additional products and services

Investors Group also provides its clients with guaranteed investment certificates offered by Investors Group Trust Co. Ltd., as well as a number of other financial institutions.

## Review of Segment Operating Results

Investors Group's earnings from operations before interest and taxes for the year ended December 31, 2003 compared with 2002 are presented in Table 3.

TABLE 3: OPERATING RESULTS – INVESTORS GROUP

(\$ millions)	2003	2002	CHANGE
<b>Fee and net investment income</b>			
Management	\$ 741.4	\$ 787.4	(5.8)%
Administration	138.3	148.6	(6.9)
Distribution	91.9	93.6	(1.8)
Net investment income and other	104.0	100.5	3.5
	<b>1,075.6</b>	1,130.1	(4.8)
<b>Operating expenses</b>			
Commissions	191.3	195.3	(2.0)
Non-commission	235.8	254.3	(7.3)
	<b>427.1</b>	449.6	(5.0)
<b>Earnings before interest and taxes</b>	<b>\$ 648.5</b>	\$ 680.5	(4.7)%

### FEE INCOME

Fee income is generated from the management, administration and distribution of 147 Investors Masterseries™, partner and managed asset investment funds. The distribution of insurance products and the provision of securities services provide additional fee income.

Fee income represented 90.3% of gross revenue in 2003, compared with 91.1% in 2002. Total fee income declined by \$58.0 million to \$971.6 million, a decrease of 5.6% from 2002. To provide a stable level of fee income, Investors Group must continue to maintain high levels of assets under management. The level of assets under management is influenced by four factors: sales, redemption rates, capital markets and relative investment performance. The changes in assets under management in 2003 compared with 2002 are summarized in Table 4.

For the year ended December 31, 2003, sales of Investors Group mutual funds through its Consultant network were \$4.02 billion, a decrease of 18.2% from 2002. This compares to an overall industry decrease in mutual fund sales of 14.3%. Mutual fund redemptions totaled \$4.86 billion for the same period, a decrease of 3.3% from \$5.02 billion in 2002. Investors Group's redemption rate for long-term funds increased to 10.7% in 2003 from 10.2% in 2002, however it remains well below the corresponding redemption rate of 14.1% for all other members

of IFIC. Net redemptions of Investors Group mutual funds were \$839 million in 2003 compared with net redemptions of \$109 million in 2002. Sales of long-term funds were \$3.10 billion in 2003, compared with \$3.86 billion in 2002, a decrease of 19.6%. Net redemptions of long-term funds were \$855 million compared to net redemptions of \$76 million in 2002. Investment management services provided attractive levels of returns during the year as mutual fund assets increased by \$4.2 billion or 11.1% of opening assets due to market appreciation, consistent with overall industry growth.

Investors Group earns management fees for investment management services provided to its mutual funds. In 2003, management fee income decreased by \$46.0 million or 5.8% to \$741.4 million. This decrease in fee income reflects the decline of 4.5% in average daily mutual fund assets in 2003 compared with 2002. In addition, 2002 fee income includes \$3.3 million in income from hedging activities related to the Company's mutual fund assets under management.

Investors Group earns administration fees for providing:

- Administrative services to its mutual funds through certain of its subsidiaries.
- Trusteeship services to its mutual funds through Investors Group Trust Co. Ltd.

TABLE 4: CHANGE IN MUTUAL FUNDS ASSETS UNDER MANAGEMENT – INVESTORS GROUP

(\$ millions)	2003	2002	CHANGE
Sales	\$ 4,021.2	\$ 4,915.8	(18.2)%
Redemptions	4,860.1	5,024.4	(3.3)
<b>Net redemptions</b>	<b>(838.9)</b>	(108.6)	N/M
Market and income	4,155.0	(3,947.3)	205.3
Net change in assets	3,316.1	(4,055.9)	181.8
Beginning assets	37,588.1	41,644.0	(9.7)
<b>Ending assets</b>	<b>\$ 40,904.2</b>	\$ 37,588.1	8.8 %
<b>Consists of:</b>			
Investors Masterseries™	\$ 35,019.5	\$ 32,324.6	8.3 %
IG Mackenzie <sup>(1)</sup>	1,218.5	893.7	36.3
Partner funds	3,924.6	3,877.3	1.2
iProfile™ funds	389.0	349.9	11.2
Investors Group Corporate Class Inc.	352.6	142.6	147.3
	<b>\$ 40,904.2</b>	\$ 37,588.1	8.8 %
<b>Average daily assets</b>	<b>\$ 37,980.3</b>	\$ 39,773.9	(4.5)%

<sup>(1)</sup> On August 1, 2003, mandates for two partner funds with assets totaling \$173 million were assigned to Mackenzie.

Administration fees totaled \$138.3 million in 2003, down 6.9% from \$148.6 million in 2002. Fees charged to the mutual funds for administrative services declined due to reductions in related expenses. Trustee fees declined due to reduced average mutual fund assets during the year.

Distribution fees are earned from:

- Redemption fees or back-end loads on mutual funds subject to a deferred sales charge. In 2003, Investors Group revised redemption fee rates on mutual fund sales subject to a deferred sales charge. Fees charged range from 5.5% in the first year reducing to nil after seven years and are consistent with industry rates. Previously, redemption fee rates ranged from 3.0% in the first year reducing to nil after six years. This change has not had a significant effect on redemption fee revenues in 2003.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Provision of securities services through Investors Group Securities Inc.

Distribution fee income was \$91.9 million in 2003 compared with \$93.6 million in 2002. This decrease was due to lower redemption fee income consistent with the decline in redemptions subject to those fees.

#### NET INVESTMENT INCOME AND OTHER

Net investment income and other includes interest and dividends earned on cash and cash equivalents, securities and mortgage loans. It also includes gains and losses on the sale of securities, Investors Group's share of an affiliate's earnings as well as income related to mortgage banking activities. Investors Group measures net investment income as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities, certificates and debt, but excludes interest expense on debt incurred to finance its acquisition of Mackenzie.

Net investment income and other totaled \$104.0 million, an increase of 3.5% from \$100.5 million in 2002. The increase is due principally to the increase in Investors Group's share of GWL's earnings offset in part by lower mortgage banking revenue.

#### OPERATING EXPENSES

Expenses are made up of two major components: commission and non-commission expenses.

Investors Group incurs commission expense in connection with the distribution of its financial services and products, particularly its mutual funds. Commissions are paid on the sale of these products and will fluctuate with the level of sales. Commission expense in 2003 decreased by \$4.0 million or 2.0%, to \$191.3 million compared with \$195.3 million in 2002. The decrease in commission expense was related to:

- Lower average mutual fund assets under management resulting in lower asset retention bonus expense.
- Lower mutual fund sales in 2003.

Non-commission expenses include: costs incurred by Investors Group in the support of its Consultant network; the administration, marketing and management of its mutual funds and other products; as well as all other expenses in the operation of its business.

Non-commission expenses declined \$18.5 million to \$235.8 million in 2003 from \$254.3 million in the previous year and represents a decrease of 7.3%. This decline was primarily due to:

- The impact of synergies related to the transition work completed with Mackenzie.
- Management of discretionary expenses.
- Improvements in productivity and the benefits derived from continued investment in technology.
- The decrease in average assets on which sub-advisory fees are based.
- Reductions in Consultant network support costs as a result of lower transactional activity levels and a smaller number of Consultants during the year.

Management continues to focus on expense reduction measures beyond the opportunities created by the transition activities. Investors Group has been able to gain these efficiencies and reduce expenses without affecting the quality of service provided to its clients and Consultants.

## Mackenzie

### Review of the Business

Mackenzie is a multi-faceted investment management and financial services corporation founded in 1967. Mackenzie's core business is the management and administration of mutual funds on behalf of Canadian investors and their financial advisors.

#### ASSET MANAGEMENT OPERATIONS

As of December 31, 2003, more than one million clients held Mackenzie mutual funds and segregated funds. In addition to the Mackenzie brand, the Mackenzie family includes: Cundill, Ivy, Keystone, Maxxum and Universal. Two new sub-brands were introduced in 2003: Sentinel Funds, Mackenzie's family of income-oriented funds, and Select Managers\* Funds. Multi-managed, each Select Managers\* Fund combines four to six leading investment specialists who actively manage a portion of the fund. Total Mackenzie assets under management and administration increased 11.3% during the year to total \$38.3 billion.

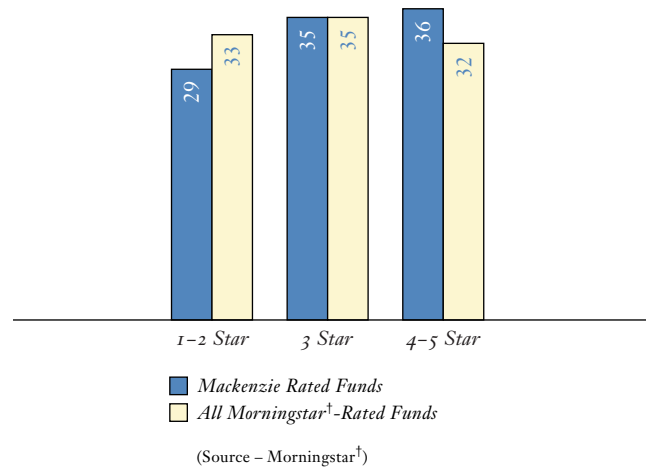
Gross sales of Mackenzie mutual funds were \$5.3 billion for 2003. Despite strong sales and a redemption rate which was below the average redemption rate for IFIC members, the year ended with net redemptions of \$69 million.

In 2003, Mackenzie received eight awards at the Canadian Investment Awards Gala. Peter Cundill, lead manager of Mackenzie's Cundill Funds, had the distinction of being named "Analysts' Choice Fund Manager of the Year". Mackenzie is now home to the "Analysts' Choice Fund Manager of the Year" award winner for five of the past six years. Jerry Javasky, lead manager of Mackenzie's Ivy Funds, received the distinction in 1998 and 2002, and Ian Ainsworth, the award winner for 1999 and 2000, joined Mackenzie in April to head up its growth equity team. Ian Ainsworth is lead manager of the Mackenzie Universal Future Fund and Mackenzie Universal Emerging Technologies Capital Class fund.

Industry recognition also came from the Morningstar<sup>†</sup> fund ranking service. In December, they reported that for the sixth consecutive month Mackenzie offered the most funds with a five star rating. Mackenzie remains ahead of all other fund companies in Canada with 26 five star funds. At year-end, 36% of Mackenzie mutual funds had ratings of four or five stars, and 71% had three stars or better, compared to 49% and 79% respectively in 2002.

#### MORNINGSTAR<sup>†</sup> RATINGS – MACKENZIE

As at December 31, 2003 (% of funds)



The Cundill Funds continued their history of strong performance. All Cundill Funds were ranked in the first quartile for 2003 by BellCharts, with the exception of the Cundill Canadian Security Fund. Over the most recent three and five year periods, all Cundill Funds were ranked in the first quartile.

It was a year of relative underperformance for the Ivy Funds. The strong Canadian dollar had a negative impact on the returns of our foreign funds in this fund family. The Ivy approach to investing in global and European markets seeks to identify companies that can grow their businesses at above-average rates over long periods of time. Currency is not hedged so that the funds offer Canadian investors diversification not only in terms of foreign businesses, but also in terms of foreign currencies. In addition, the market activity in 2003 was focused on lower credit quality companies as well as on cyclical and recovery stories, a narrow market in which the Ivy Funds tend to underperform.

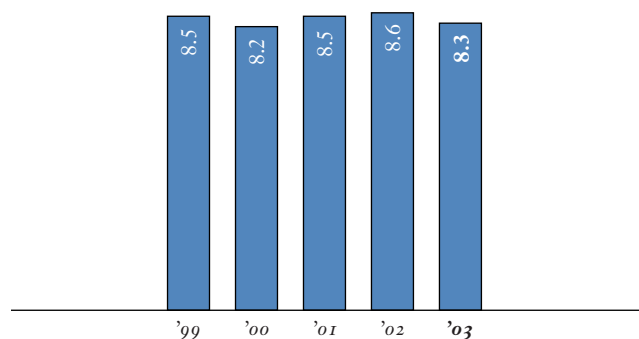
While the short-term performance of the Ivy Funds is disappointing, we are confident that over the long term these funds will maintain their solid track record. The Ivy Funds ranked first quartile for 2000, 2001 and 2002. Ivy's approach continues to be the building of diversified portfolios of high quality businesses that exhibit the characteristics of conservative growth.

Mackenzie continues to move towards a leaner investment lineup that avoids duplication, creates efficiencies, and enhances the value provided to our investors. In a major initiative to streamline our offerings, the tax-efficient Capital Class structure was revamped so that all Capital Class funds now qualify as domestic property and are 100% RRSP eligible. Funds with similar mandates were merged into their Capital Class version.

The new structure provides expanded benefits to investors. Registered investors are now able to diversify their investments globally without concern as to the 30% foreign content limit or the need to rebalance their foreign holdings. In addition, the mergers are expected to positively impact RRSP fund performance as the embedded transaction cost used to carry out a derivative investment strategy has been eliminated in favour of a lower foreign content monitoring fee. The increased appeal of Capital Class funds will generate increased assets in the portfolios, leading to greater administrative efficiencies and economies of scale.

#### MARKET SHARE OF LONG-TERM MUTUAL FUND ASSETS

As at December 31 (%)



(Source: IFIC)

#### PRODUCT DEVELOPMENT, SERVICE AND POSITIONING

Mackenzie is a recognized product innovator in Canada and is constantly striving to develop better products that improve the after-tax return to investors. Mackenzie pioneered the now common RSP clone fund concept. In recent years, Mackenzie has faced significant competition from structured yield products such as income trusts, structured funds of income trusts, closed-end TSX listed equity, fixed income and derivative split share products, and bank principal guaranteed equity fund structures. Over the last five years the market capitalization of income trusts listed

on the TSX has grown significantly. In contrast, open-ended mutual funds experienced net redemptions in 2003.

Management is confident that it can meet these competitive market forces with superior investment and tax structures, at lower costs for financial advisors and their clients. Mackenzie's ability to innovate has historically been a key to growth in assets under management and administration. Product development teams at Mackenzie and at the MRS Group of Companies (MRS Group) have focused on such opportunities for over three years and in late 2003 our initial product prospectuses were filed with provincial Securities Commissions. We expect to be able to actively market these new products in the second quarter of 2004.

To improve the effectiveness of our products competing with in-house wrap programs, we launched Keystone as a fund of funds in December 2003. This product simplifies trade processing, reporting and commission administration versus the historical STAR and Keystone portfolio of funds approach. Four new fund of funds were added: Keystone Conservative Portfolio Fund, Keystone Balanced Portfolio Fund, Keystone Balanced Growth Portfolio Fund, and Keystone Growth Portfolio Fund. Each new fund is packaged individually, but is comprised of as many as 16 different underlying funds managed by Mackenzie, AGF Funds Inc., AIM Funds Management Inc., Beutel, Goodman & Company, Ltd., Elliott & Page Mutual Funds, Bissett Investment Management and Templeton Investment Management, each an operating division of Franklin Templeton Investments Corp., and Saxon Mutual Funds. In October, Mercer Investment Consulting, a leading provider of investment consulting services, was chosen to act as consultant to Mackenzie for our strategic asset allocation programs, including Keystone, STAR, and the Mackenzie Private Client Group.

In December 2003 Mackenzie filed a preliminary prospectus for Symmetry, a product which management believes will be very competitive with the in-house wrap businesses developed by some distributors. Symmetry portfolios are constructed to meet each investor's unique profile using strategic asset allocation. The program allows further customization with the integration of active funds to incorporate style biases, investment themes, or concentration on a particular geographic region. Many wrap programs fail to include input from both the financial advisor and the client. Symmetry brings together the best of strategic asset allocation and advice to provide a level of customization not available with most other programs.

Recognizing the importance of the U.S. market to a diversified portfolio, we strengthened our U.S. equity capabilities and offerings. Canadian investors now have access to a team of equity managers from sub-advisors Waddell & Reed Ivy Investment Company, Bluewater Investment Management Inc. and The Cundill Group. Mackenzie's line of U.S. funds now offers the full spectrum of value, blend and growth investment styles and we are well positioned to take advantage of a growing interest in U.S. markets.

Several other new products designed to meet investor needs were launched in 2003. New funds include Mackenzie Sentinel Real Return Bond Fund, a fund comprised of real-return bonds for investors concerned about rising inflation; and the Mackenzie Sentinel High Income Fund, an income trust fund for investors seeking steady monthly income with some potential for capital growth.

In partnership with CIBC, Mackenzie issued CIBC FULPaY<sup>†</sup> Mackenzie Funds-Linked Deposit Notes which have the potential to deliver returns through a link to the performance of three Mackenzie funds. Sold over a selling period of limited duration and traded on the secondary market, the debt instruments proved popular with investors seeking the upside potential offered by mutual funds but concerned about safety of principal. Total sales of the three Mackenzie issued CIBC FULPaY<sup>†</sup> Mackenzie Funds-Linked Deposit Notes exceeded \$100 million.

VenGrowth Capital Partners Inc. (VenGrowth) added to its family of retail venture capital funds and launched VenGrowth Traditional Industries Fund, its most conservative offering to date. The fund uses VenGrowth's hallmark later-stage investment strategy, which has been refined over the last 20 years. Mackenzie markets and is the fund administrator for all VenGrowth funds.

A recent survey of advisor preferences conducted by TARP, a customer service research firm, found that Canadian advisors appreciate the breadth of Mackenzie's product line. Mackenzie continues to evolve and look at new ways of doing business to increase efficiencies and expand our presence in the Canadian marketplace.

**DEALER, TRUST AND ADMINISTRATION SERVICES**

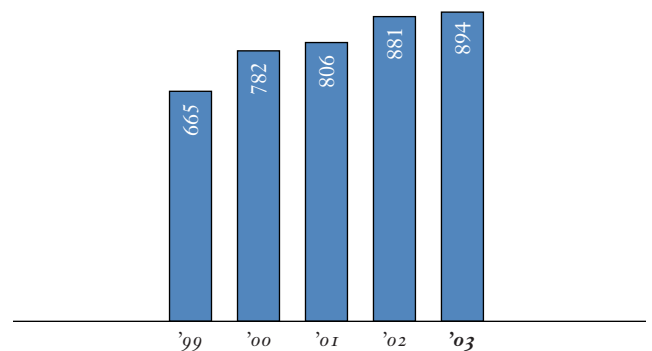
MRS Group partners with independent financial advisors and their dealer firms to provide product and service solutions that increase their competitive advantage in the marketplace. MRS Group has supported the independent advice channel for more than 20 years.

MRS Group is comprised of Multiple Retirement Services Inc., a mutual fund dealer, M.R.S. Trust Company (M.R.S. Trust), a federally-regulated trust company, M.R.S. Securities Services Inc., an IDA member firm, and Winfund Software Corp., a developer and distributor of back-office software. These companies work together to support Canadian investment and mutual fund dealers and their financial advisors. Since 1998, MRS Group has sponsored and distributed Keystone Funds and currently has approximately \$800 million under management. MRS Group ensures a strong and competitive market for segmented and mutual fund distribution.

MRS Group services 900,000 registered and investment accounts. More than 9,500 independent financial advisors representing some 400 dealer firms across Canada choose MRS Group for their clients.

**MRS GROUP INVESTOR ACCOUNTS UNDER ADMINISTRATION**

*As at December 31 (thousands)*



#### ASSETS UNDER MANAGEMENT AND ADMINISTRATION

Total Mackenzie assets under management and administration as at December 31, 2003 were \$38.3 billion, an increase of 11.3% over the previous year.

Mackenzie's mutual fund assets under management totaled \$33.8 billion at December 31, 2003, an increase of 9.4% from \$30.9 billion at December 31, 2002. Market performance positively impacted mutual fund assets by \$3.0 billion during the year. In addition to mutual funds, Mackenzie provides investment management, administration and distribution services for private and institutional investors, segregated funds and labour sponsored investment funds. All business segments gained assets during 2003. Private and institutional assets grew 36.6%, segregated funds increased 35.9% and VenGrowth labour sponsored funds gained 4.8%.

Sales of long-term funds (excluding money market and Managed Yield funds) were \$4.0 billion in 2003 compared with \$4.3 billion in 2002, a decline of 8.1%. Despite the market recovery, investors were slow to return to the equity markets and for much of the year remained invested in conservative investments such as money market and income funds. Net sales of long-term funds were \$209 million in 2003, compared to \$700 million in 2002. However, net sales of long-term funds increased in the last three months of the year indicating positive momentum in 2004.

The strong relative performance of Mackenzie mutual funds was confirmed in December, as Mackenzie again earned the top spot in Morningstar<sup>†</sup> rankings for offering the most five star funds of any company in Canada. Morningstar's<sup>†</sup> ratings are an objective, quantitative measure of a fund's historical risk-adjusted performance relative to other funds in its category. The top 10 per cent of the funds in each category receive a five star rating.

TABLE 5: CHANGES IN CANADIAN ASSETS UNDER MANAGEMENT AND ADMINISTRATION – MACKENZIE

<i>(\$ millions)</i>	2003	2002	CHANGE
<b>Mutual Funds</b>			
Sales	\$ 5,282.3	\$ 5,998.0	(11.9)%
Redemptions	5,351.7	5,709.9	(6.3)
<b>Net sales (redemptions)</b>	<b>(69.4)</b>	288.1	(124.1)
Market and income	2,979.2	(2,827.6)	205.4
Net change in assets	2,909.8	(2,539.5)	214.6
Beginning assets	30,860.1	33,399.6	(7.6)
<b>Ending assets</b>	<b>33,769.9</b>	30,860.1	9.4
<b>Private and Institutional Clients</b>	<b>3,312.0</b>	2,425.1	36.6
<b>Segregated Funds</b>	<b>176.7</b>	130.0	35.9
<b>Labour Sponsored Funds</b>	<b>992.6</b>	946.7	4.8
<b>Total</b>	<b>\$ 38,251.2</b>	\$ 34,361.9	11.3 %
<b>Average daily mutual fund assets</b>	<b>\$ 30,877.9</b>	\$ 32,277.7	(4.3)%

## Review of Segment Operating Results

Mackenzie's earnings from operations before interest and taxes for the year ended December 31, 2003 compared with 2002 are presented in Table 6.

### FEE AND NET INVESTMENT INCOME

Management fees were \$554.7 million for the year ended December 31, 2003, a decrease of \$37.9 million from \$592.6 million in 2002. This decline is consistent with the 4.3% decrease in Mackenzie's average mutual fund assets under management and the decline in the average management fee rate, a result of an increase in the percentage of assets in money market and fixed income funds which have a lower management fee rate than equity based funds. Also contributing to the decrease as compared to last year was \$4.3 million of income from hedging activities related to Mackenzie's mutual fund assets which were included in management fees in 2002.

Administration fees include the following main components: operating expenses charged to funds; fees earned from administering the VenGrowth Labour Sponsored Venture Capital Funds; and trustee and other administration fees generated from the MRS Group account administration business. Administration fees

increased by \$1.8 million to \$148.5 million in 2003 compared to \$146.7 million in 2002. This increase is primarily attributable to the administration fees earned by M.R.S. Trust for assuming responsibility for a portion of the Mackenzie and Investors Group mutual fund RRSP Clone counterparty activity. M.R.S. Trust began providing this service in December 2002 for the Mackenzie funds and in April 2003 for the Investors Group funds.

Distribution revenue, which represents fees earned on the redemption of mutual fund units sold on a deferred sales charge basis for which Mackenzie was the primary distributor, decreased \$4.7 million to \$39.6 million from \$44.3 million in the previous year. This decrease is consistent with the decline in the redemption of mutual fund units that were subject to a redemption fee.

Net investment income and other represents the net interest margin from M.R.S. Trust's lending and deposit operations. Net investment income in 2003 was \$19.9 million, an increase of \$2.3 million from \$17.6 million in 2002. The increase in the current year is attributed to a gain realized on the disposition of real estate held for sale. There is no corresponding gain in the previous year's results.

TABLE 6: OPERATING RESULTS – MACKENZIE

<i>(\$ millions)</i>	2003	2002	CHANGE
<b>Fee and net investment income</b>			
Management	\$ 554.7	\$ 592.6	(6.4)%
Administration	148.5	146.7	1.2
Distribution	39.6	44.3	(10.6)
Net investment income and other	19.9	17.6	13.1
	<b>762.7</b>	801.2	(4.8)
<b>Operating expenses</b>			
Commissions	141.7	153.2	(7.5)
Trailer fees	142.3	149.0	(4.5)
Non-commission	257.3	281.1	(8.5)
	<b>541.3</b>	583.3	(7.2)
<b>Earnings before interest and taxes</b>	<b>\$ 221.4</b>	\$ 217.9	1.6 %

#### OPERATING EXPENSES

Mackenzie's operating expenses decreased \$42.0 million to \$541.3 million from \$583.3 million in the previous year.

Commission expense, which represent the amortization of deferred selling commissions, decreased \$11.5 million to \$141.7 million from \$153.2 million in 2002. Mackenzie amortizes deferred selling commissions over a maximum period of seven years. However, to the extent fees are received on the redemption of the underlying mutual fund units, amortization is accelerated. The decrease in commission expense as compared to last year is consistent with the increase in deferred selling commissions which are now fully amortized and the decline in redemption fees.

Trailer fees paid to dealers were \$142.3 million in 2003, a decrease of \$6.7 million from \$149.0 million in the previous year. This decline is consistent with the overall decrease in Mackenzie's average mutual fund assets under management in the current year as compared to 2002. Trailer fees as a percentage of average mutual fund assets under management decreased marginally to 0.462% from 0.464% in 2002.

Non-commission expenses include costs incurred by Mackenzie in the administration, marketing and management of its mutual funds and all other expenses in the operation of its business. Non-commission expenses decreased \$23.8 million to \$257.3 million in 2003 from \$281.1 million in the previous year. This decline was primarily due to:

- Synergies related to the transition work with Investors Group.
- Management of discretionary expenditures.
- Lower distribution fees paid to a limited partnership, consistent with the decline in average assets financed by limited partnership vehicles.
- Reduction in sub-advisory expenses due to the internalization of certain fund mandates and the renegotiation of a number of sub-advisory agreements in 2002 and 2003.

## Investors Group Inc.

### Consolidated Financial Position

The Company's on-balance sheet assets totaled \$6.29 billion at December 31, 2003, compared to \$5.99 billion at December 31, 2002.

#### SECURITIES

The Company's holdings of securities were \$106.2 million at December 31, 2003, a decrease of \$50.0 million or 32.0% from 2002. Securities currently represent 1.7% of total assets as compared with 2.6% at December 31, 2002. The market value of the Company's portfolio at December 31, 2003 exceeded cost by \$125.1 million, consistent with the prior year end.

The Company continually strives to ensure that its portfolio holdings are of the highest quality. To manage the market and credit risk associated with the securities portfolio, a Senior Management Investment Committee monitors the Company's portfolio and approves all purchases.

This Committee regularly reviews the portfolio to identify holdings where there has been an other than temporary decline in value. In these circumstances, the carrying amount of the security is written down to recognize the loss.

#### LOANS

Loans, including mortgages and personal loans, decreased by \$21.0 million to \$528.0 million at December 31, 2003 and represent 8.4% of total assets compared to 9.2% in 2002. This decrease is comprised of \$66.5 million in mortgages and personal loans related to the Company's intermediary activities and an increase of \$45.5 million in residential loans related to the Company's mortgage banking operations.

Residential mortgage loans, sourced with the assistance of Investors Group Consultants, are primarily designated

for sale to third parties on a fully serviced basis through Investors Group's mortgage banking operations. Mortgage loans sourced through mortgage brokers and personal loans sourced through the MRS Group relate to M.R.S. Trust's intermediary activities. M.R.S. Trust also sells mortgages and personal loans to third parties on a fully serviced basis through its securitization activities.

#### Credit Risk

At December 31, 2003, impaired loans totaled \$2.2 million, unchanged from the prior year, and represented .40% of the total loan portfolio, compared with .38% at December 31, 2002. The Company monitors its credit risk management policies continuously to evaluate their effectiveness. These policies and practices have resulted in the effective control of impaired loans.

Management continued its conservative policy of maintaining adequate allowances to absorb all known and foreseeable credit-related losses in the mortgage, loan, and real estate portfolios. The allowance for credit losses exceeded impaired mortgages and loans by \$19.3 million as at December 31, 2003, compared to \$19.4 million at December 31, 2002.

During 2004, the Company does not expect any significant losses in its mortgage portfolios because:

- The portfolios are 94% residential and 63% insured.
- 75% of the portfolios are owner occupied.
- The mortgages in the portfolios are geographically diverse.
- The Company continues to apply strict credit risk management policies.

The characteristics of the mortgage portfolios at December 31, 2003 described above are consistent with prior years.

## Consolidated Liquidity and Capital Resources

### LIQUIDITY

The Company's operating liquidity is required for:

- Financing ongoing operations, including the funding of selling commissions internally.
- Temporarily holding mortgages in its mortgage banking facility.
- Meeting regular interest and dividend obligations related to long-term debt and preferred shares.
- Payment of quarterly dividends on the Company's outstanding common shares.
- Maintaining liquidity requirements for the Company's regulated entities.

A key liquidity requirement for the Company is the funding of commissions paid on the sale of mutual funds. Commissions paid continue to be fully funded through management fee revenue earned on mutual fund assets under management and through additional sales charges levied in connection with the early redemption of mutual funds.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, most of the mortgages are sold to third parties on a fully serviced basis. In order to effectively manage its overall liquidity, the Company must be active in both the whole loan sale and securitization markets. During 2003, whole loan sales to third parties totaled \$847.3 million and proceeds from securitizations were \$126.7 million, compared with \$1.1 billion and \$217.4 million respectively in 2002.

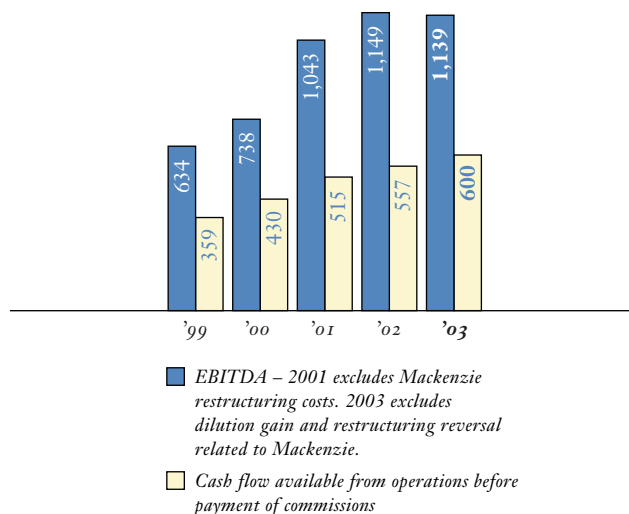
During the year the Company repaid \$275 million of the Floating Bankers' Acceptances due May 30, 2006 which were related to the acquisition of Mackenzie.

On July 10, 2003 the Company purchased, by way of private placement, 2,662,690 common shares of Great-West Lifeco Inc. (GWL), an affiliate of the Company, for total cash consideration of \$100 million in support of GWL's acquisition of Canada Life Financial Corporation.

The Company continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled \$1,138.6 million for the year. This compared to \$1,148.6 million in 2002. Although overall fee revenues were down 5.5% for the year, the decrease in EBITDA was only 0.9% due to both a decrease in operating expenses and an increase in net investment income.

### EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

For the financial year (\$ millions)



Other potential sources of liquidity are the Company's portfolio of securities and lines of credit. At December 31, 2003, the market value of the marketable securities in its portfolios and those of its unregulated subsidiaries was \$202.8 million. The Company maintains operating lines of credit totaling \$235 million with various Schedule A Canadian chartered banks.

Liquidity can also be provided through the Company's ability to raise funds in domestic debt and equity markets as evidenced by the funds raised to finance its acquisition of Mackenzie and by the funds raised through the \$175 million and the \$300 million in debentures issued in December 2002 and March 2003 respectively.

Liquidity requirements for M.R.S. Trust and Investors Group Trust Co. Ltd., which engage in financial intermediary activities, are established by regulatory authorities. As at December 31, 2003, liquidity for both companies was in excess of regulatory requirements.

### INTEREST RATE RISK

The objective of the Company's asset liability management is to control interest rate risk by actively managing its interest rate exposure within limits established by the Investment Committee of the Board of Directors.

The Company manages the re-pricing characteristics of its consolidated assets and liabilities, and as required by regulation, manages interest rate risk on the assets and liabilities of the deposit operations of M.R.S. Trust and Investors Group Trust Co. Ltd. As at December 31, 2003, the total gap between one-year deposit assets and liabilities was well within the Company's stated guidelines.

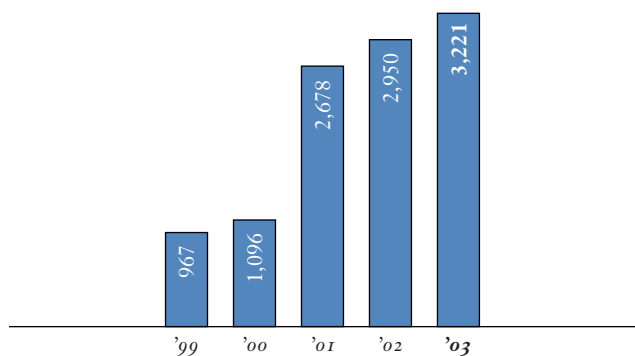
### CAPITAL RESOURCES

Shareholders' equity increased to \$3.22 billion as at December 31, 2003 from \$2.95 billion at December 31, 2002. For outstanding share data, refer to Note 13 of the Consolidated Financial Statements. During 2003, long-term debt increased marginally to \$1.40 billion from \$1.39 billion at December 31, 2002 as shown in Note 12 to the Consolidated Financial Statements. The Company refinanced a portion of its long-term debt, extending term at attractive interest rates while increasing its financial flexibility.

To achieve its strategic objectives, the Company requires a strong capital base. The Company's capital management objective is to preserve the quality of its financial position by establishing and maintaining a solid capital base and a strong balance sheet.

### SHAREHOLDERS' EQUITY

As at December 31 (\$ millions)



Independent reviews confirm the continuing quality of the Company's balance sheet and the strength of its operations. During 2003, both Standard & Poors (S&P) and the Dominion Bond Rating Service (DBRS) reviewed

their ratings of the Company's senior debt and liabilities. The senior debt and liabilities were rated "A" with a stable outlook by both S&P and DBRS.

Management is confident that the Company's current capital resources are adequate and can support its activities during 2004.

### TRANSACTIONS WITH RELATED PARTIES

Refer to Note 19 of the Consolidated Financial Statements.

## Outlook

### THE FINANCIAL SERVICES ENVIRONMENT

The financial services industry continues to experience considerable growth and substantial change. Some of the factors contributing to industry growth are:

- Changes in investment habits.
- Increasing ease of investment in capital markets.
- Greater knowledge and understanding of investment products among the general public.
- Shifting demographics – the move of the baby boom generation into peak saving and investing years.

### Increased Competition and Deregulation

A changing and expanding marketplace has brought a substantial increase in competition within the industry. Domestic and foreign service providers, including banks, financial planners, investment dealers, insurance companies and others, are providing a comprehensive range of services.

In response to the broadening of clients' needs and their increasing sophistication, products and services are more integrated and are designed to meet clients' overall financial objectives. Deregulation has also enabled companies to broaden their delivery channels to attract clients.

### Growth of Mutual Funds

The mutual fund market continues to play a prominent role in the financial services industry. At December 31, 2003, mutual fund industry assets in Canada totaled \$438.9 billion, an increase of 12.1% from \$391.3 billion at December 31, 2002.

The \$47.6 billion increase in industry assets from December 31, 2002 reflected an estimated \$44.4 billion increase from market action, which represented 11.3% of year-end 2002 industry assets, the inclusion of approximately \$3.8 billion of new assets that were not previously categorized as mutual fund assets, offset by net redemptions of \$607 million.

The long-term outlook for growth in mutual fund assets continues to be positive. Factors that should contribute to this growth include:

- A continuing environment of low interest rates.
- Demographic changes resulting in more individuals focusing on saving and investing.
- Increased concern over the adequacy of government-sponsored pension plans.
- A growing number of financial services companies offering mutual funds.
- The globalization of capital markets.

#### THE COMPETITIVE LANDSCAPE

To provide financial planning services to Canadians, the Company operates in a highly competitive environment and competes with other mutual fund companies and with other financial services organizations, including banks, brokerage firms and life insurance companies. Merger and acquisition activity in 2003 reflected continued consolidation within the financial services industry.

#### Banks

The dominant competitive force in retail financial services is the banking industry. Management feels that the banks' presence has served to accelerate the growth of the mutual fund industry as a whole. During 2003, banks continued to maintain a significant share of the mutual fund market. A substantial portion of their mutual fund assets continue to be concentrated in money market funds. At December 31, 2003, money market funds totaled \$41.7 billion compared with \$44.7 billion in 2002 and represented 28% and 36% of their total mutual fund assets in the respective periods.

#### Mutual Fund Dealers and Manufacturers

Mutual fund dealers have also been successful in expanding their distribution network and increasing their penetration of the financial advice market. During 2003, a number of organizations consolidated to form larger companies. Management expects continued consolidation in the industry as smaller participants are acquired by larger, more efficient organizations.

A continuing trend within the mutual fund sector is increased vertical integration, where one firm both manufactures and distributes products. For mutual fund dealers, this has meant increasing their manufacturing capabilities. This business model, which integrates investment management with the distribution of financial products and services, is similar to that which Investors Group has utilized successfully.

#### Distribution Channels

Within the various mutual fund distribution channels, competition is strong. Management views this as a healthy environment that allows investors to receive high-quality investment management services for reasonable fees. As the number and the variety of mutual funds increase, there is increasing competition among mutual fund manufacturers to access distributors and the limited shelf-space they provide.

#### MEETING COMPETITIVE CHALLENGES

Due to globalization and consolidation, some of the Company's competitors may have greater financial or other resources than Investors Group Inc. on a consolidated basis. However, Investors Group and Mackenzie are well positioned to enhance the Company's competitive position in both the mutual fund and the financial services industries. In order to be successful in this environment, the Company must continue to be innovative and to provide excellent service to its clients.

#### Investors Group – Mackenzie Transition

Investors Group and Mackenzie continue to pursue additional opportunities for product and service enhancements and operating efficiencies.

During 2003:

- Management met its transition plan objective which was to achieve \$100 million (pre-tax basis) of synergies per year on a run rate basis in the second year following acquisition. This consisted of \$75 million per year in synergies to the Company's shareholders and \$25 million per year in synergies to Investors Group and Mackenzie mutual fund clients. Synergies realized by mutual fund clients are based upon reductions in fund operating costs.
- The Company completed the largest systems conversion in the history of the Canadian mutual fund industry in November 2003. After a comparative analysis, Mackenzie and Investors Group merged their transfer agency and unitholder recordkeeping systems into one shareholder administration system, preserving the integrity and privacy of their respective client bases. Both Mackenzie and Investors Group unitholders will benefit from economies of scale from the combined platform.

### Expanded Product and Service Offering

Offering a broader range of financial products and increasing the diversification of the Company's core products have strengthened existing client relationships and have attracted new clients. During 2003, both Mackenzie and Investors Group developed innovative products and strategic investment planning tools to assist clients in building optimal investment portfolios. Products and services introduced by both Investors Group and Mackenzie during 2003 were discussed more fully in their respective Segment reviews. This strategy continues to enhance the extent and quality of the Company's client relationships, protect its client base and expand its market share.

### Integrated Business Model

The highly developed nature of the Company's integrated business model and the scale of our operations give us a distinct advantage over our competition. The Company is well positioned to meet increased competition for distribution shelf-space. The synergies achieved through the Company's acquisition of Mackenzie and its association with Great-West Life, London Life and Canada Life further strengthen our scale of operations and position in the marketplace.

While competitors may attempt to replicate Investors Group Inc.'s business model, management is confident that the Company will maintain its leadership position as a primary distributor of a broad and diverse range of financial products and services.

### THE REGULATORY ENVIRONMENT

The Company is subject to complex and changing legal and regulatory requirements with the Company's principal regulators including the provincial and territorial governments in Canada. The Company's activities are also regulated by the Canadian Securities Administrators, its member constituents and various self-regulatory organizations. Changes in the regulatory framework or failure to comply with any of these laws, rules and regulations could have an adverse effect on the company.

Regulators continued to adopt new laws relating to corporate governance, continuous disclosure, and director and officer accountability as well as laws and regulations dealing specifically with the Company's core business. Many of the provincial securities regulators have proposed rules on audit committee responsibilities, certification of financial reports by the chief executive officer and chief financial officer, as well as guidelines on corporate governance.

The Company supports all regulatory efforts that will protect the interests of clients and preserve the integrity and reputation of the industry and its members. Management looks forward to future developments that will further these objectives.

### Mutual Fund Dealers Association of Canada

Investors Group Financial Services Inc. and Multiple Retirement Services Inc., the Company's mutual fund dealer subsidiaries, are members of the Mutual Fund Dealers Association of Canada (MFDA). This is the self-regulatory organization for the mutual fund dealer industry in every jurisdiction in Canada except Quebec. The MFDA continues to work towards the establishment of a contingency fund to protect investors in the event of an insolvency of any of its dealer members.

### Harmonization of Securities Rules/National Securities Regulator

In the last year there have been two major proposals aimed at improving the efficiency of the regulation of securities in Canada.

In December 2003, the Canadian Securities Administrators (CSA) published Consultation Drafts of The Uniform Securities Act and The Model Administration Act. If adopted, this proposal would harmonize the securities legislation in the various provinces and territories in Canada. A separate, but complementary, initiative is the proposal to create a "passport" system across Canada under which regulators in one jurisdiction would recognize the action taken by another jurisdiction. This would allow a person or company to deal solely with their "home" jurisdiction instead of all of the provinces and territories in which they want to carry on business on matters such as registration.

Also in December 2003, the "Wise Persons Report", which was commissioned by the Federal Department of Finance, was issued. It recommended the creation of a single national securities regulator, the Canadian Securities Commission (CSC), to regulate securities in Canada. Under this proposal, the CSC would be comprised of nine commissioners who would be regionally representative. They would be appointed by the Minister of Finance of Canada from nominees proposed by a nominating committee of 10 members designated by the provinces. In addition, a framework would be put in place to ensure that the provinces would have input into securities policy.

### Review of Mutual Fund Industry Practices

The Ontario Securities Commission (OSC), the MFDA and other regulatory bodies are reviewing trading practices in the Canadian mutual fund industry and have requested information from mutual fund companies and dealers regarding “late trading” and “market timing” activities. Each of Investors Group and Mackenzie has provided detailed responses, on a timely basis, to the questionnaires issued by these regulators. The Company supports this initiative to strengthen the Canadian mutual fund industry and will co-operate fully with the regulators in their efforts to obtain and assess relevant information.

### OTHER RISK FACTORS

#### Market Risk

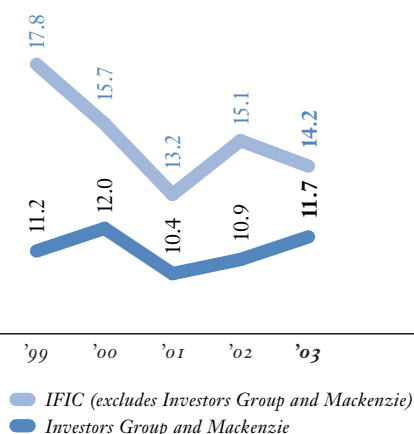
Stronger financial markets in 2003 led to growing investor confidence and increases in the level of assets under management. However, risks related to performance of the equity markets and changes in interest rates can have a significant impact on the level and mix of mutual fund assets and sales. In addition, these factors can result in increased redemptions of mutual funds.

#### Redemption Rates

The combined redemption rate for long-term funds for Investors Group and Mackenzie mutual funds was 11.7% at December 31, 2003, among the lowest in the industry. The corresponding redemption rate for the industry as a whole was 14.2%, excluding the Company's mutual funds.

#### LONG-TERM MUTUAL FUND REDEMPTION RATES

As at December 31 (%)



Investors Group and Mackenzie provide Consultants and independent financial advisors with superior levels of service and support and a broad range of investment products – based on asset classes, countries or regions, and investment management styles. These are key advantages in maintaining strong client relationships and, as a result, the Company has been able to maintain redemption rates that are among the lowest in the industry.

The mutual fund industry has successfully educated mutual fund investors on the benefits of long-term investing. Financial advisors can also play a key role in educating investors about the value of portfolio diversification. In periods of declining markets and market volatility, our Consultants and independent financial advisors are effective in reminding clients of the benefits of long-term investing.

#### Distribution Risk

*Investors Group Consultant Network* – Investors Group derives all of its mutual fund sales through its Consultant network. Investors Group Consultants have regular direct contact with particular clients which can lead to a strong and personal client relationship based on the client's trust in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on Investors Group's results of operations and business prospects. Investors Group is focussed on growing its distribution network of Consultants as discussed in the Investors Group Review of the Business beginning on page 27.

*Mackenzie* – Mackenzie derives substantially all of its mutual fund sales through independent financial advisors. Mackenzie's ability to market its products is highly dependent on access to various distribution channels. These intermediaries generally offer their clients investment products in addition to, and in competition with Mackenzie. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. However, Mackenzie's portfolio of financial products is recognized as one of the most innovative and unique in the industry. This, combined with strong performance, marketing, educational and service support, has made Mackenzie one of Canada's leading companies serving independent financial advisors. These factors are discussed further in the Mackenzie Review of the Business beginning on page 35.