



CI FUND MANAGEMENT INC. 2004 ANNUAL REPORT

MAY 31, 2004



# KEY FINANCIAL HIGHLIGHTS

FOR THE **YEARS** ENDED MAY 31,

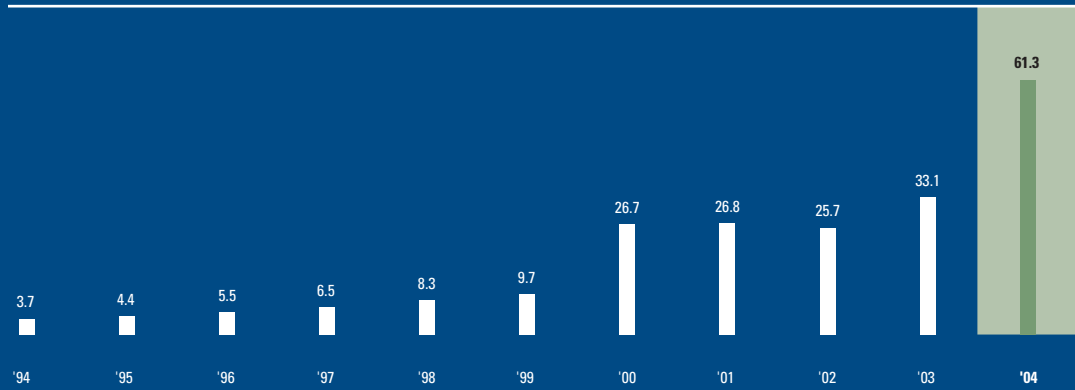
(millions of dollars, except share and per share amounts)	2004	2003	% change
Total fee-earning assets, end of year	<b>61,343</b>	33,084	+85
Net sales of funds	<b>920</b>	(596)	n/a
Management fees	<b>710.9</b>	503.6	+41
Total revenues	<b>844.7</b>	576.2	+47
Net selling, general and administrative	<b>88.4*</b>	60.5*	+46
Investment advisor fees	<b>58.6</b>	50.6	+16
Trailer fees	<b>197.8</b>	147.4	+34
Net income	<b>221.1</b>	71.0	+211
Operating cash flow**	<b>368.5</b>	245.6	+50
Earnings per share	<b>0.82</b>	0.32	+156
Operating cash flow** per share	<b>1.37</b>	1.09	+26
EBITDA** per share	<b>1.65</b>	1.32	+25
Dividends per share	<b>0.41</b>	0.29	+41
Shareholders' equity, end of year	<b>1,533.9</b>	632.7	+142
Shares outstanding, end of year	<b>295,199,027</b>	235,525,648	+25

\*Includes option charge.

\*\*EBITDA (Earnings before interest, taxes, depreciation and amortization) and operating cash flow are non-GAAP (generally accepted accounting principles) earnings measures, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these performance measures in analyzing CI's results.

CI Fund Management Inc. is a diversified wealth management firm and Canada's third-largest investment fund company. Independent and Canadian-owned, CI provides a comprehensive and innovative selection of top-quality investment products and services. CI has two million clients and more than \$64 billion in fee-earning assets (at August 31, 2004). The company operates primarily through subsidiaries CI Mutual Funds Inc., which offers the industry's broadest selection of investment funds, and Assante Corporation, which offers financial advisory services through a national network of 850 advisors. CI has been listed on the Toronto Stock Exchange under the symbol CIX since June 1994 and is a member of the S&P/TSX Composite Index.

Fee-earning Assets | years ended May 31; \$billions



CIX vs S&P/TSX Composite Index Total Return | years ended May 31 except for June 1994; June 1994 = 100





## DEAR SHAREHOLDERS,

Fiscal 2004 was truly a year of progress. Global financial markets staged a welcome rebound after a difficult three-year bear market. This turnaround provided a positive backdrop to the three acquisitions we made during the year – acquisitions that transformed CI into a diversified wealth management company and vaulted us into the top tier of our industry.

On the markets, the world's major equity indexes climbed steadily over the fiscal year, supported by a strengthening global economic expansion. In the year ended May 31, the S&P/TSX Composite Index gained 25%, the MSCI World Index was up 24% and the S&P 500 Index rose 18% (in Canadian dollars). This drove strong asset growth at CI and led to higher sales.

In October and November 2003, we completed the acquisitions of Assante Corporation, Synergy Asset Management Inc. and Skylon Capital Corp. As a result of the acquisitions and the favourable markets, CI finished the fiscal year with record levels of fee-earning assets, revenues, net income and cash flow. Our share price at May 31, 2004, reached \$16.44 – an all-time high once dividends are included.

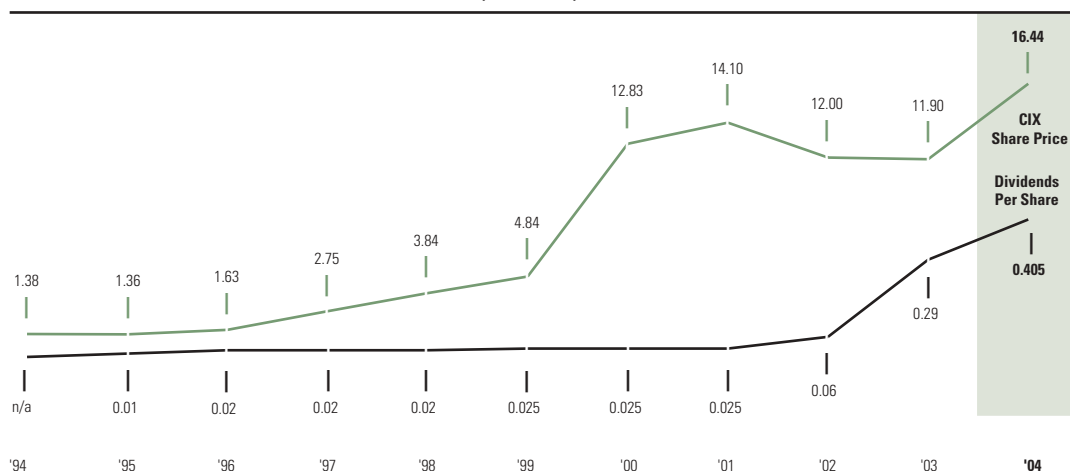
It was, in many ways, the most successful year ever for your company. I would like to thank shareholders, advisors and clients for your continued confidence and our employees for their first-class performance as we pursued these major initiatives over such a short span of time.

Along with our recent successes, it's important to recognize that we still face a challenging environment. The bear market continues to cast its shadow over our business. The indexes are far below the peaks of the previous bull market. Investor confidence, while much improved, remains somewhat fragile. This is evident in the net sales figures for the industry, which turned positive in the fall of 2003, but have been dominated by more conservative income-oriented funds.

The tepid confidence adds to other concerns for our industry. Mutual funds continue to face an onslaught of new products that compete for investors' dollars, including structured products and income trusts. Distribution has become a critical issue for fund manufacturers, as advisors increasingly turn to in-house investment products and focus on just a few fund companies.

At CI, we have been addressing the issues of competition and distribution for some time, and they underlie the strategic moves we have made in recent years. In fiscal 2004, the acquisitions of

CIX Share Price and Dividends Per Share | years ended May 31: \$



Assante, Synergy and Skylon all advanced our strategic objectives of enhancing our competitiveness and securing our access to existing and new distribution channels.

First, the acquisitions gave us added scale, a crucial advantage in the fund industry. As a large firm, we benefit significantly from economies of scale because our robust infrastructure can easily support additional billions in assets. We also have the resources to provide a wider selection of products and services and to spend more on marketing, administration and client services. And I am proud to say that CI has reaped the benefits of scale without falling victim to one of its main hazards – bureaucracy. This combination of strength and agility has made us more competitive across the board and increased the likelihood that we will retain the loyalty and business of advisors across the country. In other words, we keep our spot on the shelf.

Second, the acquisitions expanded our product lineup, increased the diversification of our business and produced new opportunities for growth in areas such as structured products.



**William T. Holland**  
President and Chief Executive Officer

Third, the acquisitions of Assante, and of IQON Financial Management Inc. and Synera Financial Services Inc. in June 2004, have given CI a strong presence in the financial advisory segment of the Canadian wealth management industry. These moves also were very timely, as the ongoing consolidation in this business has been rapid.

Furthermore, Assante, Synergy and Skylon have made an immediate and substantial contribution to CI's growth. Overall, they added \$9 billion in assets under management and another \$10 billion in assets under administration. We finished the fiscal year with \$49.3 billion in assets under management and \$12.0 billion in assets under administration, for a total of \$61.3 billion in fee-earning assets – an 85% increase over the year.

In relative terms, we entered fiscal 2005 as one of the dominant fund companies in Canada. At May 31, 2004, we were third largest with assets of \$44.4 billion. A year earlier, we were sixth. Our share of this market expanded to 8.8% from 7.0% in May 2003.

A more detailed look at our acquisitions shows the individual contributions and progress of each company.

Synergy had 24 mutual funds and \$1.57 billion in assets when we purchased it in October 2003. Within two months, the firm was fully integrated into our operations, resulting in substantial cost savings for both CI and the unitholders in the Synergy Funds. Synergy had long been known for its consistent growth, and that has continued. From the date of the acquisition to the end of May, assets in those funds increased approximately 9%.

We have retained the Synergy name to represent the firm's highly regarded momentum and style management funds under the guidance of portfolio managers David Picton and Michael Mahoney. The remaining Synergy funds have been renamed and assigned to other CI portfolio managers or merged into similar CI funds, further enhancing our operating efficiencies.

We acquired Skylon in November 2003 to bolster our presence in labour-sponsored funds and in the fast-growing structured products business. Skylon was integrated into CI in less than a month and is the name under which we now market structured products and the VentureLink family of labour-sponsored funds.

Our Skylon team kept up the momentum of that business. From the closing of the acquisition to the end of the fiscal year, it issued three new structured products, raising a total of \$378 million and increasing total assets by about 50% to just over \$1 billion.

Also in November 2003, we acquired Assante, one of Canada's leading financial advisory firms, with exceptional advisors, a strong brand and high-quality products and services. Its 850 advisors are among the most productive in the industry, with average assets under administration of \$23 million. Assante is also a significant asset manager. Its in-house managed money programs are highly regarded by advisors and held about \$8 billion in assets at the end of the fiscal year.



“THIS ABILITY TO QUICKLY CAPITALIZE ON ACQUISITIONS IS MADE POSSIBLE BY OUR RIGOROUS EXPENSE MANAGEMENT AND HIGH STANDARDS OF EFFICIENCY.”



Our plan is to build on Assante's strengths by enhancing its product and service offerings and by creating an efficient, first-class dealership that is able to profitably accommodate increased growth. Our progress to date has been excellent.

Under the direction of Joe Canavan, President and Chief Executive Officer, Assante has a new management team that has consulted extensively with advisors and employees and is leading the reorganization of the business. While Assante is being operated separately from CI Mutual Funds, we have already begun to reduce costs by applying CI's considerable expertise in operations and technology to the business. We are also finding synergies by sharing resources and functions such as information technology, human resources, and fund administration.

Assante's investment management business continues to post steady growth. The Assante funds have had net sales every month since the acquisition. By fiscal year-end, fund assets had grown 12%.

We are following a similar model with our more recent acquisition of IQON – maintaining it as a separate business to take advantage of its unique brand and character, while sharing resources and improving its operations and services.

We believe that with these changes and by providing an enhanced lineup of products, services and support to the Assante, IQON and Synera advisors and their clients, we can create the premier financial advisory firms in Canada. They will become increasingly profitable and well positioned for further growth in their own right.

Together, these acquisitions have also strengthened and diversified CI's channels for distributing its funds. As always, we maintain strong contacts with thousands of advisors at brokers and dealers across Canada. Our preferred relationship with Sun Life Financial's 4,000 Clarica advisors has been increasingly productive, as has our participation in third-party fund programs at other institutions such as banks and insurance companies. Much like a well-diversified investment portfolio, this diversity within our business can be expected to deliver stronger, more stable returns over the long term.

In spite of the strategic rationale, we would not buy a company unless we believed that it could be financially accretive in the first year of its acquisition. In fact, the companies we acquired mid-way through fiscal 2004 made a significant contribution to our earnings in only half a year.

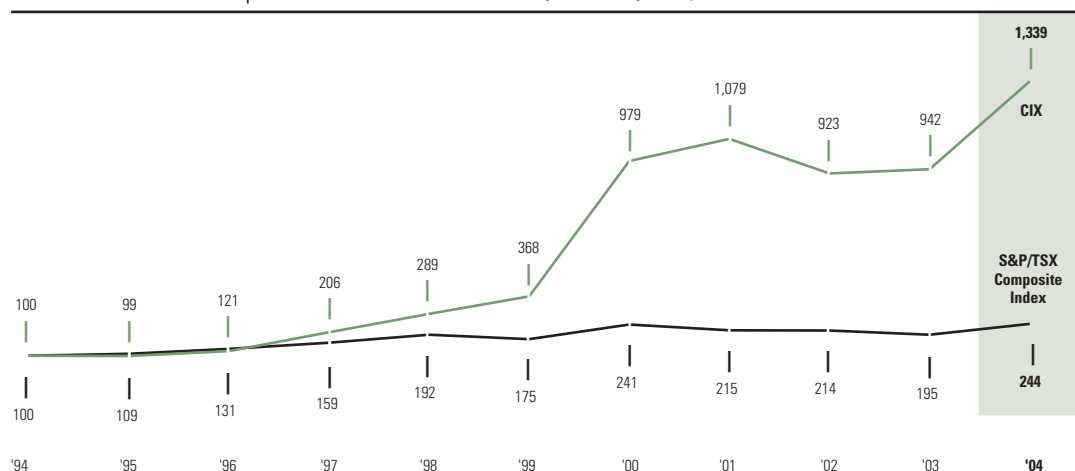
Both Assante's in-house funds and Skylon's structured products played a role in the rebound in CI's total net sales, which were \$920 million for the fiscal year, up from net redemptions of \$596 million a year ago. With the increase in our assets, revenues rose 47% year over year to \$845 million, while operating cash flow increased 50% to \$369 million. Net income was up 211% to \$221 million. I would like to point out that our profitability increased in the fourth quarter versus the third quarter, showing the benefits of our ongoing integration of Synergy, Skylon and Assante. These results demonstrate how our ability to rapidly integrate acquisitions has become a competitive advantage.

This ability to quickly capitalize on acquisitions is made possible by our rigorous expense management and high standards of efficiency. As the company has grown, we have continued to control costs. And this is just as important in the operation of the funds as it is in running our corporation.

We have steadily reduced the operating expenses of CI's funds over the past decade and, in fiscal 2004, they reached their lowest level ever. Expressed as a percentage of assets, operating expenses declined to 27.6 basis points for the quarter ended May 31, 2004, down from 34.4 basis points in the same quarter a year earlier. If we exclude the Assante funds – which had not yet benefited from the steps we are taking to reduce their costs – operating expenses of the funds had fallen to 25.4 basis points. This is clearly one of the best records in the industry for efficiency.

On a corporate level, our emphasis on efficiency reflects our commitment to creating value for our shareholders. In this, too, we have a worthy track record. From the time of CI's initial public offering in June 1994 to the end of the fiscal year, CI has provided an outstanding average annual return of 29.8% – making it the seventh-best performing stock on the S&P/TSX Composite Index. The index's comparable return over the period was 9.4%.

CIX vs S&P/TSX Composite Index Total Return | years ended May 31 except for June 1994; June 1994 = 100





**Peter W. Anderson**

Executive Vice-President,  
CI Fund Management Inc.  
President and  
Chief Executive Officer,  
CI Mutual Funds Inc.

**William T. Holland**

President and  
Chief Executive Officer

**Stephen A. MacPhail**

Executive Vice-President,  
Chief Operating Officer and  
Chief Financial Officer

**Joseph C. Canavan**

President and  
Chief Executive Officer,  
Assante Corporation

As CI has generated increasing levels of free cash flow, we have consistently returned the cash to shareholders through share buybacks and dividends. Our quarterly dividend has been increased six times since December 2001, when it was one cent per share, and now stands at 15 cents per share. As of July 31, that represented a dividend yield of 3.7%, one of the highest on the TSX. While the increase in the dividend has been dramatic, we expect that it will be sustained by CI's growth and profitability.

I would also like to update you on how CI has addressed the important issue of fund governance. As I have explained in previous years, CI has been progressive on this issue, with long-time measures such as a strict Code of Ethics and Conduct for employees and the establishment of the CI Mutual Funds Board of Governors in 1998. This body, with its mandate to oversee the operations of the funds, has always been structured so that independent governors form a majority. I'm pleased to report that as of January 2004, all of the board governors are independent of CI management.

“WE HAVE NOT HESITATED TO REFINE AND EXPAND OUR PRODUCT LINE AND TO RESHAPE OUR COMPANY, AS WE PROVED THIS PAST YEAR.”



In addition, during the fiscal year, CI Mutual Funds adopted a more stringent policy to govern trading by investors in its funds, in response to the heightened concerns within the industry about this issue. Under this policy, CI reviews trading activity on a daily basis and, if any improper trades are identified, takes action that includes issuing warnings, imposing a short-term trading fee of up to 2%, or closing the account. The results of this monitoring are reported to the CI Mutual Funds Board of Governors.

While we believe that our policies on fund governance are comprehensive, we are continually reviewing them for ways to improve their effectiveness. We are committed to safeguarding the interests of the investors in our funds. Perhaps the best example of that commitment is our success in reducing the operating expenses of the funds.

In closing, I would like to highlight one recent milestone – our 10th anniversary as a public company. In June 1994, CI had just \$3.7 billion in assets in 15 mutual funds, but was embarking on a period of rapid growth.

Today, our industry is maturing and we face different issues. It's clear that competition from other fund companies and other investment products will only intensify. We expect that fund companies will face pressure to reduce fees and expenses. The banks are likely to increase their presence in our industry as they become better at using their massive branch networks to provide advisory services and to sell their own funds.

Certain vital characteristics will determine the companies that emerge as leaders in this next stage of the industry's evolution. They will be efficient, low-cost operators with strong brands and reputations. They will have product lineups offering broad selection, solid performance and exceptional value to investors. They will have access to multiple distribution channels, and effective management teams who will make the tough decisions to execute their strategy.

We have positioned CI to be one of those companies. We have a history of anticipating industry trends and moving quickly to meet our clients' changing needs. We have not hesitated to refine and expand our product line and to reshape our company, as we proved this past year.

While the achievements of fiscal 2004 resulted in the most far-reaching changes to CI in many years, they are fully aligned with our long-term goals to be one of the top companies in our business – and to create exceptional value for our shareholders.

As we enter a new decade as a public company, we will not waver in our commitment to those goals. Once again, I thank you for your trust and support.



**William T. Holland**

*President and Chief Executive Officer*

*CI Fund Management Inc.*

*September 10, 2004*

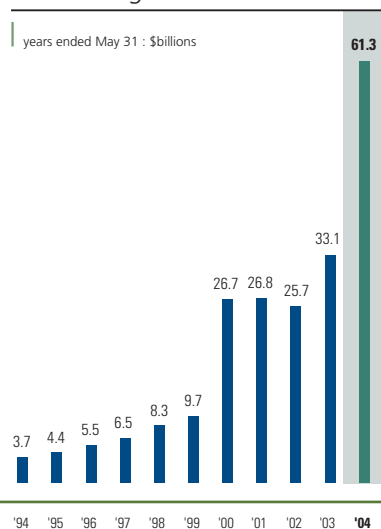
# HISTORICAL FINANCIAL HIGHLIGHTS

YEARS ENDED MAY 31,

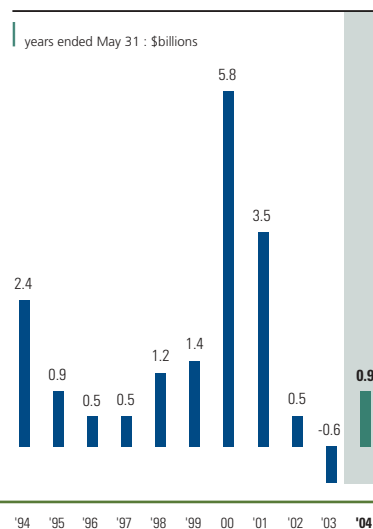
(millions of dollars, except share and per share amounts)	2004	2003	2002	2001
Total fee-earning assets, end of year	<b>61,343</b>	33,084	25,713	26,834
Net sales of funds	<b>920</b>	(596)	481	3,468
<b>Revenue</b>				
Management fees and other income	<b>798.4</b>	525.8	407.0	510.3
Redemption fees	<b>43.4</b>	50.3	41.1	28.7
Performance fees	<b>2.8</b>	0.1	1.1	2.6
<b>Total revenues</b>	<b>844.6</b>	576.2	449.2	541.6
<b>Expenses</b>				
Net selling, general and administrative	<b>88.4</b>	60.5	16.5	26.2
Investment advisor fees	<b>58.6</b>	50.6	39.8	41.5
Trailer fees	<b>197.8</b>	147.4	97.8	115.6
Distribution fees to limited partnerships	<b>5.6</b>	6.8	10.6	16.2
Amortization of deferred sales commissions	<b>34.0</b>	169.9	201.6	183.9
Other (including securitization and minority interest)	<b>68.5</b>	21.0	24.1	33.8
<b>Total expenses</b>	<b>452.9</b>	456.2	390.4	417.2
Income taxes	<b>170.7</b>	49.0	22.0	34.3
Income before amortization of goodwill	<b>221.0</b>	71.0	36.8	90.1
Net income [loss]	<b>221.0</b>	71.0	(61.4)	11.5
Operating cash flow*	<b>368.5</b>	245.6	222.8	291.9
Earnings per share before amortization of goodwill	<b>0.82</b>	0.32	0.21	0.49
Operating cash flow* per share	<b>1.37</b>	1.09	1.27	1.60
EBITDA* per share	<b>1.65</b>	1.32	1.51	1.75
Dividends** per share	<b>0.405</b>	0.29	0.06	0.025
Shareholders' equity, end of year	<b>1,533.9</b>	632.7	56.8	260.8
Shares outstanding, end of year**	<b>295,199,027</b>	235,525,648	170,785,428	180,684,728

\*EBITDA (Earnings before interest, taxes, depreciation and amortization) and operating cash flow are non-GAAP (generally accepted accounting principles) earnings measures, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these performance measures in analyzing CI's results.

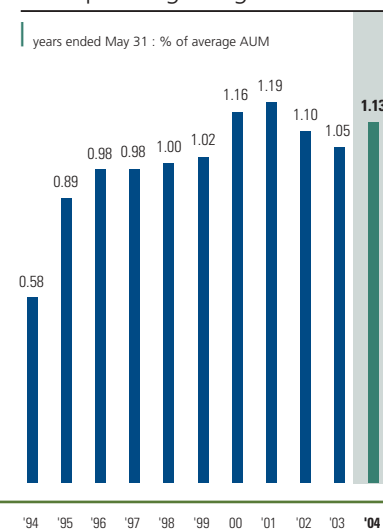
## Fee-earning Assets



## Net Sales



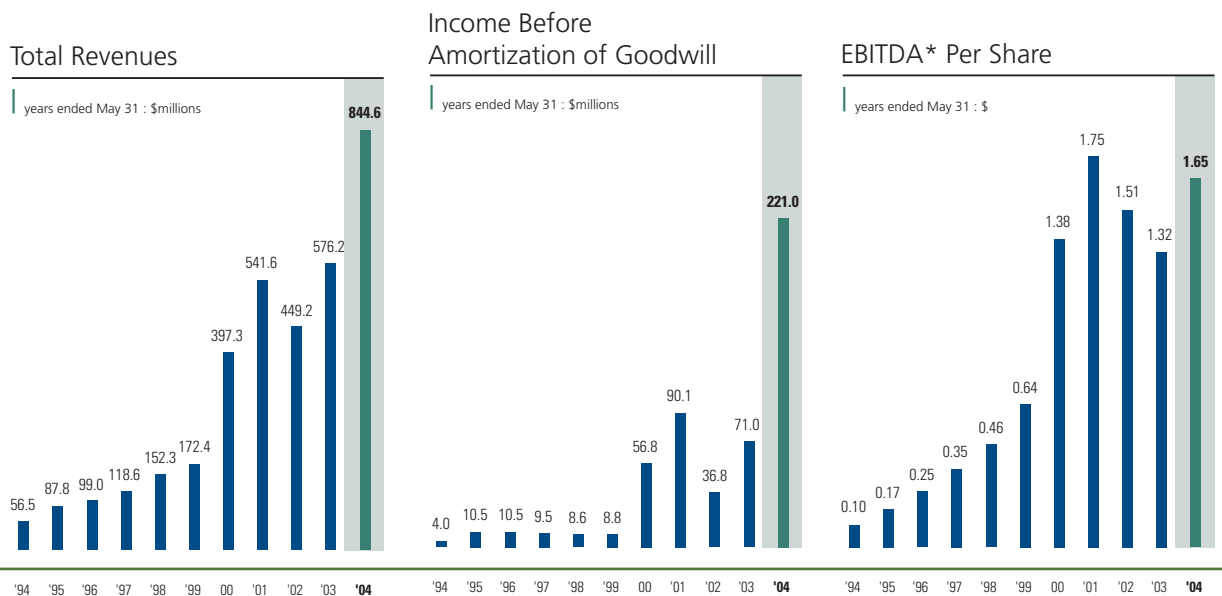
## Net Operating Margin





2000	1999	1998	1997	1996	1995	1994
26,678	9,700	8,302	6,516	5,469	4,394	3,733
5,843	1,369	1,475	461	537	909	2,463
353.4	158.0	143.9	114.5	97.6	87.6	56.5
22.5	14.4	8.4	4.1	1.4	0.1	—
21.4	—	—	—	—	—	—
397.3	172.4	152.3	118.6	99.0	87.8	56.5
25.6	16.2	17.6	13.9	12.2	13.3	17.3
29.2	18.1	16.3	13.1	11.4	11.2	7.8
79.1	37.0	34.9	28.9	24.0	19.9	10.0
16.4	9.6	11.3	11.4	12.9	12.7	8.7
117.8	67.3	47.3	26.4	11.8	1.2	—
21.1	3.0	8.5	7.4	7.7	10.2	4.7
289.2	151.2	135.9	101.1	80.0	68.5	48.5
51.3	12.4	7.7	8.0	8.5	8.8	4.0
56.8	8.8	8.6	9.5	10.5	10.5	4.0
(2.1)	8.7	8.6	9.5	10.5	10.5	4.0
230.0	89.8	64.4	45.1	37.4	20.9	6.0
0.33	0.06	0.06	0.07	0.08	0.08	0.04
1.34	0.63	0.45	0.34	0.28	0.16	0.06
1.38	0.64	0.46	0.35	0.25	0.17	0.10
0.025	0.025	0.02	0.02	0.02	0.01	—
292.1	126.6	140.2	55.8	50.8	43.1	6.0
182,829,928	144,220,460	147,486,888	131,139,160	131,838,104	131,882,104	107,080,000

\*\*Adjusted for two-for-one stock splits in April 1998, January 2000 and November 2000.



OPERATING  
REVIEW

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- | INDUSTRY'S BROADEST SELECTION
- | DIVERSE LINEUP OF TOP MANAGERS
- | SUCCESSFUL STRATEGY OF EXPANSION
- | BE WELL ADVISED
- | FOCUS ON EFFICIENCY
- | COMPREHENSIVE APPROACH





**FISCAL 2004** was marked by a stronger global economy and significant gains in equity markets. While the Canadian fund industry benefited from this turn-around, there were indications that investor confidence remained subdued. In the words of one analyst, this is “not the same old cycle” in which fund companies will automatically enjoy strong sales as the economy and markets improve.

CI agrees with this view and believes that the key issues in its industry today are competition and distribution capability. Not only is the fund industry itself highly competitive but mutual funds now compete with a wide array of investment products, including exchange-traded funds, income trusts and structured products. At the same time, the companies that distribute funds have consolidated rapidly and intensified their focus on strengthening their own in-house investment products.

As part of its goal to achieve profitable growth and become one of the largest fund companies in Canada, CI has been addressing these issues for more than five years. In fiscal 2004, as explained in the President’s Message to Shareholders, the acquisitions of Synergy Asset Management Inc., Assante Corporation and Skylon Capital Corp. helped secure CI’s future prospects – making the company larger, more profitable and more competitive, and significantly expanding its distribution network.

CI’s strategic achievements during the year were supported by the continued refinement of its operations. This Operating Review highlights CI’s accomplishments in its main functional areas:

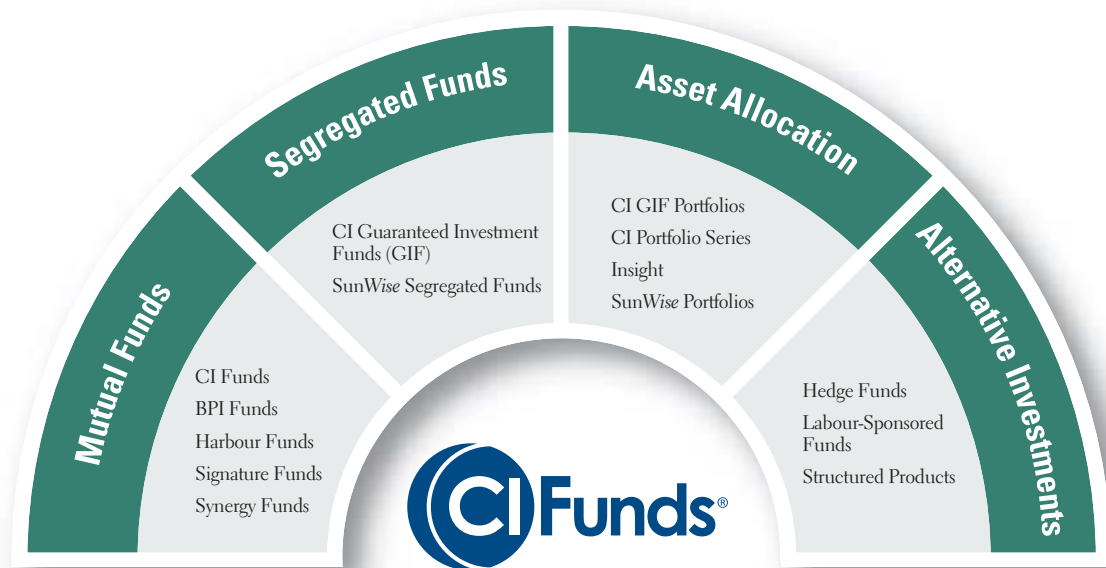
- | Products
- | Investment management
- | Marketing and distribution
- | Assante
- | Administration and operations, and
- | Compliance and fund governance.

## Products – Industry’s Broadest Selection

For several years now, CI has offered the industry’s broadest selection of investment funds through its wholly owned subsidiary CI Mutual Funds. This is the company’s key competitive advantage for two main reasons. First, financial advisors generally prefer to deal with only a few fund companies, and this wide selection enables them to meet the varying needs of their clients within CI. Second, for CI, it means the company is not dependent on one or two “hot” funds and is more likely to keep and attract assets as investor preferences and market conditions change.

CI’s funds include mutual funds, segregated funds, hedge funds and two asset allocation products – CI Portfolio Series and the Insight Program. The fund lineup is further diversified by mandate, such as asset class, region, industry and investment approach, and by specialty funds, such as the tax-efficient CI Sector Fund Limited. Most funds are also available in different classes: Class A for traditional retail funds; Class F funds (which pay no service fee to advisors) for clients in fee-based programs, and Class I (which have a reduced management fee) for institutional clients with large holdings.

CI is able to offer this selection cost effectively by repackaging its funds into new products. Many CI segregated funds invest in CI mutual funds, for example. In addition, the CI Portfolio Series invests in other CI mutual funds to create fully diversified, style-balanced portfolios with the convenience of purchasing and tracking one fund.



Over the past five years, CI's fund lineup has expanded significantly through the acquisition of other companies. CI's strategy is to retain the best funds and portfolio managers while merging duplicate funds for greater efficiencies. In fiscal 2004, CI amalgamated more than 50 mutual funds. With another 15 mergers completed in September 2004, CI will have consolidated 120 mutual funds since 2000.

The integration of the Synergy funds is a good example of how CI uses mergers to both streamline and strengthen its overall fund lineup. When CI acquired Synergy in October 2003, it had 24 mutual funds with a variety of mandates and investment approaches. CI retained the Synergy brand name for the Synergy momentum funds and the unique Synergy style management funds, along with the exceptional team in charge of those funds led by portfolio managers David Picton and Michael Mahoney. The Synergy name now represents a fund family within CI with a distinct management style. Meanwhile, 11 Synergy funds were merged into other CI funds with similar mandates. CI expects to continue this process of streamlining its lineup in fiscal 2005, while maintaining an industry-leading choice of funds.

In fiscal 2004, CI's new product launches were concentrated in one of the fastest-growing segments of the fund industry: structured products. New funds included the DDJ U.S. High Yield Fund, which raised \$40 million in its initial public offering completed in September 2003. The fund is managed by DDJ Capital Management, LLC, a long-time sub-advisor for CI.

CI acquired Skylon in November 2003 for its depth in structured products. Later in the fiscal year, CI introduced three new structured products under the Skylon banner:

- | High Yield & Mortgage Plus Trust, which raised \$115 million;
- | Skylon Growth & Income Trust, which raised \$195 million;
- | Global Resource Split Corp., which raised \$58 million.

CI's Signature Funds Group is portfolio advisor to the latter two funds, demonstrating how CI was able to leverage its existing resources with the Skylon business.

The acquisition of Assante in November 2003 further diversified CI's product capability in managed money. In addition to its exclusive Assante Private Client program for wealthy individuals, Assante offers two proprietary investment solutions: Assante Optima Strategy Pools and Assante Artisan™ Portfolios. Currently available only to clients of Assante advisors, these multi-asset, multi-style, multi-manager investment programs tailor diversified portfolios to the individual needs of each investor.

## Investment Management – Diverse Lineup of Top Managers

CI offers investors a wide choice of leading portfolio management teams, drawing on the expertise of both in-house managers and external sub-advisors from around the globe. Its strategy here is to retain the best available managers across the spectrum of investment mandates and styles – value, blend (growth at a reasonable price), growth and momentum. At CI Mutual Funds, approximately 50% of mutual fund assets under management are handled by CI’s in-house investment teams, which consist of Signature, Harbour and Synergy, all based in Toronto, as well as Altrinsic Global Advisors, LLC of Stamford, Connecticut, and BPI Global Asset Management LLP of Orlando, Florida.

The strength of this combined lineup is evident in CI’s rankings from Morningstar Canada, a well-known investment fund research firm. CI has consistently been one of the top two companies in the industry with the greatest number of funds receiving Morningstar’s five-star rating. The rating is based on risk-adjusted performance relative to the fund’s category, and a fund must have a minimum track record of three years to be rated. At July 31, 2004, CI was second in the industry with 23 funds with the five-star rating. Two Assante Artisan Portfolios also earned five stars.

This strong performance is seen across a range of funds managed by both in-house and external portfolio management teams. For example, CI funds with the five-star rating include two of its largest Canadian equity funds: CI Canadian Investment Fund, managed by Kim Shannon of Sionna Investment Managers Inc., and Signature Select Canadian Fund managed by Eric Bushell of Signature.

Furthermore, the in-house portfolio management groups of Harbour, Synergy and Altrinsic all have first-quartile records in key funds for the five years ending July 31, 2004.

## Portfolio Management

Value	Blend	Growth	Momentum
Altrinsic Global Advisors, LLC Stamford, Connecticut Global equities	Legg Mason Capital Management Baltimore, Maryland American equities	BPI Global Asset Management LLP Orlando, Florida American & global equities	Synergy Funds Group Toronto, Ontario Canadian & global equities
Epoch Investment Partners, Inc. New York, New York American & global equities	Signature Funds Group Toronto, Ontario Canadian equities & income	Trilogy Advisors, LLC New York, New York Global equities & income	
Harbour Funds Group Toronto, Ontario Canadian & global equities & fixed income	Trident Investment Management, LLC New York, New York Global equities		
Sionna Investment Managers Inc. Toronto, Ontario Canadian equities			

Another success story is Bill Miller of Legg Mason Capital Management, lead portfolio manager of CI Value Trust Sector Fund, who continued his personal winning streak in fiscal 2004 by outperforming the S&P 500 Index for an unprecedented 13th consecutive calendar year. He is the only equity mutual fund manager to have outpaced the index for such an extended period.

Through its acquisition of other fund companies in recent years, CI has expanded and aggressively rationalized its lineup of portfolio managers in much the same way it has streamlined its funds. CI has kept those managers offering the best combination of quality and fit with its existing lineup to ensure the best possible selection of managers diversified by mandate and investment style. So while CI retained several of Synergy's in-house managers, those managers and sub-advisors of mandates already well represented at CI were not kept on. As part of this, CI decided in June 2004 not to renew its investment management contract with Webb Capital Management LLP.

CI continues to develop and leverage its in-house expertise, including the Signature Funds group – its largest portfolio management group with about \$12.2 billion in assets under management at July 31, 2004. Signature added to its roster of fixed-income specialists in fiscal 2004. As a result, CI and Assante transferred several core fixed-income mandates to Signature, allowing CI to gain additional efficiencies.

Assante uses a variety of sub-advisors – including CI Mutual Funds – to provide investment management for its diversified investment solutions. As of May 2004, Assante no longer has any in-house portfolio management teams following an agreement with its chief investment officer, Daniel Bubis. Mr. Bubis and associates formed a new investment firm, Tetrem Capital Partners Ltd., while Assante retained Tetrem for all of the mandates previously managed by Mr. Bubis, including the top-performing Optima Strategy Canadian Equity Value Pool. In this way, Assante clients are assured continuity of management for their portfolios.

## Marketing and Distribution – Successful Strategy of Expansion

Global equity markets posted strong gains throughout fiscal 2004, leading to renewed sales in the Canadian investment fund industry. After experiencing net redemptions in almost every month of fiscal 2003, the industry posted positive net sales in 10 of 12 months of fiscal 2004. However, a look at the sales asset mix suggests that investors remained cautious. Net sales were concentrated in dividend and fixed-income funds, while net redemptions were primarily in equity funds.

During the fiscal year, CI had gross sales of \$6,896 million and gross redemptions of \$5,976 million, for total net sales of \$920 million. This change from the prior year, when CI had gross sales of \$4,144 million, gross redemptions of \$4,740 million and net redemptions of \$596 million, reflects stronger sales at CI Mutual Funds and net sales at Skylon and Assante since their acquisition. The three new structured products issued by Skylon raised a total of \$378 million and Assante's proprietary funds continued to attract steady inflows.

At CI Mutual Funds, the top-selling funds during the year included not only income funds such as Signature High Income Fund and Signature Dividend Fund, but also equity funds such as CI Value Trust Sector Fund, CI Canadian Investment Fund and Signature Select Canadian Fund. Product groups with robust sales included the SunWise Segregated Funds, which offer principal guarantees, and the CI Portfolio Series, a family of asset allocation funds available in both mutual and segregated fund versions. These strong sales contributions from such a diverse range of products validate CI's strategy of maintaining a comprehensive lineup.

The driving force behind CI's sales growth is a sales and client services team that is one of the industry's largest. CI believes this strength is crucial in providing support and maintaining relationships with the advisors who know and recommend CI funds to their clients. These advisors and agents, who work at investment dealers, mutual fund dealers, banks and insurance firms across Canada, remain CI's primary distribution channel. As a result of maintaining its commitment to an experienced and well-staffed sales and marketing group, CI was well positioned to capitalize on the market recovery in fiscal 2004.

These sales and marketing efforts are reinforced by initiatives to promote the CI Funds brand. Recent activities have included:

- | Ongoing print and outdoor advertising focused on the benefits of investing with CI, as well as specific products such as CI Portfolio Series;
- | A new radio advertising campaign to be launched in key markets in fiscal 2005;
- | Continued sponsorship of a number of community and sporting events, with the most prominent being the Bell Canadian Open. As Canada's most prestigious golf tournament, it provides valuable exposure for the CI name among target client groups.

CI has pursued a strategy of expanding the distribution channels for its products. One part of this strategy is CI's arrangement with Sun Life Financial as the preferred supplier of wealth management products to its more than 4,000 Clarica agents and managers – the largest such dedicated sales force in the country. This relationship, which was established in 2002 as part of CI's acquisition of

Spectrum Investments and Clarica Diversico from Sun Life, has benefited both parties. Clarica agents have gained access to the industry's widest selection of investment funds, while CI enjoys strong net sales from Clarica advisors.

CI continues to extend its distribution reach through third-party investment programs. Under these programs, CI funds are used in wraps, segregated funds and other investment products offered by other financial institutions such as banks, insurance companies and dealers. For the past several years, CI has dedicated a specialized team to fostering these relationships, with increasing success. In fiscal 2004, the team established four new relationships. Total third-party net sales exceeded \$300 million for the year, while total assets in third-party programs increased 21% to \$2.5 billion at May 31, 2004. CI's success in this area is very much a result of the company's size, broad lineup of funds, and the strength of its brand. By including CI in their programs, these firms benefit from CI's name, as well as its investment expertise.

CI made additional strides in its distribution strategy when it acquired Assante in November 2003 and IQON Financial Management Inc. in June 2004. Assante has a network of about 850 financial advisors who provide their clients with financial advisory services and products, which include Assante's own funds as well as third-party funds such as CI funds. IQON has 360 advisors who distribute CI and other third-party funds, along with other financial products.

With the acquisition of these leading firms, CI established a cornerstone in the financial advisory business. CI is operating Assante and IQON as separate entities from CI Mutual Funds. However, by sharing resources and expertise, CI is improving the operations and the products and services the dealers offer to their advisors and clients. Moreover, the closer affiliation will provide for an even stronger relationship between CI Funds and Assante and IQON advisors.



**CI Funds is a Founders Club Sponsor of the prestigious Bell Canadian Open. Other brand-building activities include outdoor advertising and radio advertising campaigns targeting the key markets of Toronto and Vancouver.**

## Assante – Be Well Advised

In November 2003, CI completed its acquisition of Assante, a highly successful organization that has achieved a great deal in its short history. Together, CI and Assante have undertaken comprehensive and significant steps designed to build on Assante's impressive strengths and take the company to the next level of success.

Under the direction of a new senior management team, and in consultation with advisors and employees, every process, product and service at Assante is being scrutinized with a view to better supporting the Assante advisor. Already, the review has identified opportunities to improve available products and services, reduce the costs of the business and enhance the professionalism of advisors' practices.

Among the key developments, Assante is broadening and implementing wide-ranging improvements to its wealth management products and services, including an expanded slate of insurance products, and improvements to the Artisan and Optima programs.

The company is restructuring its organization to increase efficiency while also enhancing support to advisors and their clients. Measures to reduce expenses range from consolidating office space to sharing functions such as information technology and human resources with CI – demonstrating the benefits of scale that come with being part of a larger organization.

To elevate the knowledge, skills and professionalism of advisors and branch managers, Assante has launched a major program in training and development. Initiatives include the new "Head to Head" sessions, in which advisors will learn from the experiences of other advisors, and increased contact between advisors and the investment managers of the Assante funds.

In technology and administration, Assante is developing a new operating platform for the dealership's back office that will provide a stable base for the company's drive for efficiency and growth.

Assante and CI are also converting the administration of the Assante Artisan and Optima Strategy funds from an outside service provider to the CI system. The Artisan funds were transferred to CI in July 2004 and the Optima Strategy funds will be converted in October. This move will significantly improve the administration and reporting processes of the funds and reduce their operating expenses – savings that will be passed on to the investors in the funds.

Finally, Assante has begun an ambitious new campaign to breathe new life into its brand and raise awareness of the company. As a first step, Assante adopted the name Assante Wealth Management to easily identify the breadth of its services. The company's advertising and promotions will focus on the professionalism and expertise of Assante advisors and the benefits of their ability to develop comprehensive strategies that address all aspects of clients' financial needs. This focus is captured by the tagline, "Be Well Advised." To create additional awareness and prestige for Assante, the company is expanding its sponsorships of community organizations and events. In a significant initiative, Assante has become a national sponsor of the Raise-a-Reader campaign, which encourages families to read together and raises funds for family literacy programs. This sponsorship, announced in September 2004, will benefit children and families across Canada.

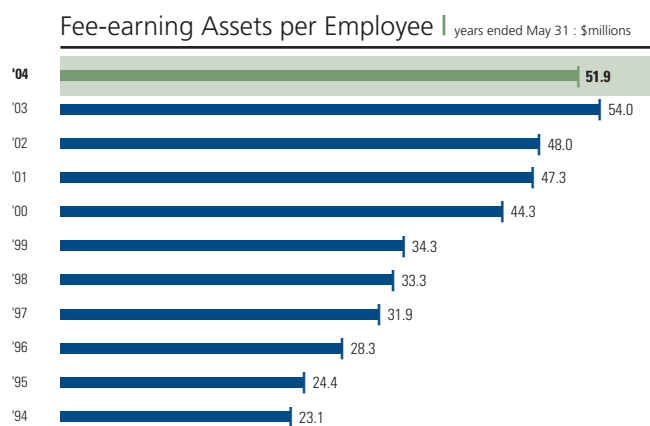
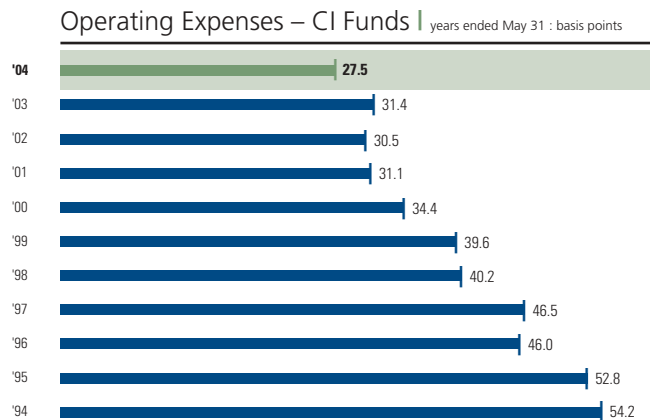




## Administration and Operations – Focus on Efficiency

In the past five years, CI has acquired eight companies and experienced substantial growth – while maintaining its edge as one of the industry’s most cost-efficient companies. This high level of efficiency is a notable competitive advantage that enables CI to launch new products quickly and profitably. Lower operating costs make CI products more attractive, especially at a time when investors are becoming increasingly concerned about fees and expenses. Furthermore, CI’s efficiency puts it in a better position to quickly integrate other firms and reap the financial benefits of the acquisitions.

In fiscal 2004, CI integrated Synergy and Skylon within two months of each acquisition, successfully transferring key employees and operations to CI and quickly eliminating most of the costs of running those businesses. The funds were also moved to the CI administrative platform, where CI’s administration and client services departments absorbed the additional workload with only a minimal increase in overhead. This set the stage for substantial reductions in their operating costs that are directly benefiting their investors. By August 31, CI had pared back the average operating expenses of the Synergy Funds by more than 50%.



In fact, CI has steadily reduced the overall operating expenses of its funds for the past decade. Fund operating expenses as a percentage of assets declined from 69.0 basis points in 1993 to 27.5 basis points at the end of fiscal 2004. Excluding the Assante funds, which had not yet been converted to the CI system, operating expenses stood at 24.4 basis points.

Even with the costs associated with the acquisitions, CI increased the operating profit margin on its asset management business, expressed as a percentage of average retail managed assets, to 1.13% in fiscal 2004 from 1.05% in the previous year.

And it achieved these results without compromising its high level of service and sales support. CI maintained its firm commitment to training, quality control and continuous improvement, especially within its client services and administration departments.

In addition, CI has made significant investments in technology to improve operations and efficiency throughout the organization, replacing manual and paper-based processes with automated and online processes wherever possible. In fact, CI has been a leader in making as much information as possible available electronically, which reduces costs, speeds up communications and frees up resources for other services.



Among the technology-based initiatives undertaken in fiscal 2004:

- | CI added new functions to its innovative and convenient Web-based client services tools. CI's eCISS allows advisors to view extensive information about their clients' accounts and their business with CI. With CI e-Service, investors can view and print current information about their accounts and important documents such as statements, confirmations, tax receipts and reports. They can also opt for electronic delivery of these documents, saving the time and expense of mailing paper documents. The number of subscribers to CI e-Service now exceeds 100,000.
- | CI continued to improve the functionality of its main public website, [www.cifunds.com](http://www.cifunds.com), an important source of information about CI funds for investors and advisors. CI is also developing new functions for Advisor Online, its website for advisors, which will be available in the fall of 2004.
- | It successfully launched CI Analyzer, a sophisticated software tool that allows advisors to select appropriate asset allocations and fund portfolios for their clients using CI funds. An enhanced Web-based version of CI Analyzer is under development for launch in fiscal 2005.

Also this past year, CI made enhancements to various operations throughout the organization, including CI's leading-edge portfolio management and trading system and eRep, the customer relationship management system used by CI's sales and marketing department.

## Compliance and Fund Governance – Comprehensive Approach

Employees, officers and directors of CI recognize their obligation to place the interests of investors in the company's products ahead of their personal interests through the application of the highest standards of integrity and ethical business conduct. CI has a number of policies and mechanisms in place to ensure the fair treatment of CI's clients.

At CI Mutual Funds, a key body is the funds' Board of Governors, which has been in place since 1998 and is distinct from the firm's Board of Directors. The Board of Governors has a mandate to consult with CI and the portfolio managers about the investment of the funds' portfolios and operations of the funds. The Governors also review the CI Code of Ethics and Conduct, control mechanisms and compliance procedures, and meet with the compliance officer and other employees, and consider other matters such as customer complaints. They also review the funds' financial statements and have the opportunity to consult the funds' auditors at every meeting.

Since its establishment, independent members have formed a significant majority of the Board of Governors. In fiscal 2004, the CI representative resigned from the board so that it would be fully independent of CI. Furthermore, the Board began to evaluate a proposal for a new mandate that would give it additional responsibilities and powers in reviewing the operations of the funds.

In addition, CI Mutual Funds has a compliance department that monitors trading by CI's portfolio managers for the funds and trading by investors in the funds, as well as personal trading by those employees who have access to non-public information about the funds' portfolios and trading activities. The head of the compliance department reports to the Board of Governors at least four times a year.

During fiscal 2004, the compliance group integrated Synergy and Skylon into its oversight function, revised the CI Code of Ethics and Conduct which outlines the rules of conduct for CI Mutual Funds employees, and put in place new or enhanced policies and procedures, where necessary. One change early in the year was CI's implementation of a stricter policy governing trading by clients in the CI funds. CI monitors trading daily and will take action to eliminate improper trades by issuing warnings, charging short-term trading fees and, if necessary, closing accounts.

At Assante, the company has reorganized and strengthened its compliance department with a focus on providing additional education and support directly to advisors and branch managers.

CI continues to review and enhance its compliance and governance measures, reflecting its commitment to fully safeguarding the interests of its clients.

## Conclusion

CI's efforts to capitalize on its competitive strengths and position itself for future growth paid off in fiscal 2004. It enhanced the diversity and quality of its lineup of funds and portfolio managers, expanded the distribution channels for its products and gained a strong presence in the financial advisory business. These successes were made possible with the acquisitions of Assante, Skylon and Synergy, which also enabled CI to leverage its operational excellence to the benefit of shareholders, advisors and investors.

And they have already delivered measurable results against CI's key goals. With the growth achieved during the year, CI became one of Canada's top three investment fund companies.

The future continues to look promising. CI is financially strong and has proven its expertise at selecting and integrating other firms – another clear advantage as the consolidation of the industry is likely to continue. CI is well positioned to meet the industry's challenges.

MANAGEMENT'S

# DISCUSSION AND ANALYSIS

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# SUMMARY OF FINANCIAL HIGHLIGHTS

YEARS ENDED MAY 31,

(millions of dollars, except share and per share amounts)

	2004	2003	2002
<b>INCOME STATEMENT DATA</b>			
<b>Revenue</b>			
Management fees	710.9	503.6	383.0
Administration fees	58.0	4.9	—
Redemption fees	43.4	50.3	41.1
Performance fees	2.8	0.1	1.1
Other income	29.6	17.3	24.0
Total revenues	844.7	576.2	449.2
<b>Operating Expenses</b>			
Net selling, general and administrative	88.4	60.5	16.5
Investment advisor fees	58.6	50.6	39.8
Investment dealer expenses	39.7	—	—
Trailer fees	197.8	147.4	97.8
Other expenses	23.5	16.9	19.1
<b>Commission Related Expenses</b>			
Amortization of deferred sales commissions	34.0	169.9	201.6
Distribution fees to limited partnerships	5.6	6.8	10.6
<b>Other Items</b>			
Minority interest	5.4	4.1	5.2
Income before taxes	391.7	120.0	58.8
Income taxes	170.7	49.0	22.0
Net income (loss)	221.0	71.0	(61.4)
Earnings per share	0.82	0.32	(0.35)
Operating cash flow*	368.5	245.6	222.8
Operating cash flow* per share	1.37	1.09	1.27
EBITDA*	442.2	297.4	265.5
EBITDA* per share	1.65	1.32	1.51
Dividends per share	0.41	0.29	0.06
Long-term debt, end of year	219.6	120.0	68.8
Shareholders' equity, end of year	1,533.9	632.7	56.8
Shares outstanding, end of year	295.2	235.5	170.8
<b>ASSET MANAGEMENT DATA</b>			
Average retail managed assets	37,236	27,306	20,858
Assets under administration, end of year	20,102	—	—
Total fee-earning assets, end of year	61,343	33,084	25,713
Retail managed assets, end of year	44,403	28,773	20,619
Total gross sales	6,896	4,144	3,641
Total redemptions	5,976	4,740	3,160
Total net sales	920	(596)	481

\*EBITDA (Earnings before interest, taxes, depreciation and amortization) and operating cash flow are non-GAAP (generally accepted accounting principles) earnings measures, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to analyze CI's results based on these performance measures.

SELECTED  
**QUARTERLY INFORMATION**

YEARS ENDED MAY 31,

(millions of dollars, except per share amounts)	2004			
<b>INCOME STATEMENT DATA</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
<b>Revenue</b>				
Management fees	217.3	205.8	151.8	136.0
Administration fees	25.5	26.5	4.9	1.2
Redemption fees	11.9	11.5	10.2	9.7
Performance fees	–	2.6	0.2	–
Other income	9.2	8.6	6.3	5.4
Total revenues	263.9	255.0	173.4	152.3
<b>Operating Expenses</b>				
Net selling, general and administrative	34.3	14.7	26.0	13.3
Investment advisor fees	17.5	16.4	13.0	11.7
Investment dealer fees	18.1	18.8	2.8	–
Trailer fees	57.4	55.8	45.3	39.3
Other expenses	6.2	6.6	4.9	5.8
<b>Commission Related Expenses</b>				
Amortization of deferred sales commissions	11.0	7.5	8.8	6.7
Distribution fees to limited partnerships	1.3	1.4	1.4	1.5
<b>Other items</b>				
Minority interest	1.4	1.5	1.1	1.3
Income before taxes	116.7	132.3	70.1	72.7
Income taxes	41.3	45.3	54.9	29.2
Net income	75.4	87.0	15.2	43.5
Earnings per share	0.26	0.29	0.06	0.19
EBITDA*	133.2	146.2	81.4	81.4
EBITDA* per share	0.45	0.49	0.33	0.35
Dividends per share	0.13	0.10	0.10	0.08
Average retail managed assets	44,368	42,539	32,626	29,417

\*EBITDA (Earnings before interest, taxes, depreciation and amortization) is a non-GAAP (generally accepted accounting principles) earnings measure, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to analyze CI's results based on this performance measure.



(millions of dollars, except per share amounts)

2003

**INCOME STATEMENT DATA**

**Revenue**

	Q4	Q3	Q2	Q1
Management fees	128.0	132.3	135.1	108.1
Administration fees	1.2	1.2	1.3	1.3
Redemption fees	11.7	12.3	13.1	13.2
Performance fees	—	0.1	0.1	—
Other income	2.8	3.8	2.9	7.8
Total revenues	143.7	149.6	152.5	130.4

**Operating Expenses**

Net selling, general and administrative	45.0	5.5	5.4	4.6
Investment advisor fees	12.7	13.0	13.0	11.9
Investment dealer fees	—	—	—	—
Trailer fees	36.3	39.3	41.1	30.7
Other expenses	-3.7	11.6	4.5	4.3

**Commission Related Expenses**

Amortization of deferred sales commissions	26.3	46.0	50.3	47.3
Distribution fees to limited partnerships	1.4	1.6	1.7	2.0

**Other items**

Minority interest	0.7	1.1	1.2	1.2
Income before taxes	25.0	31.5	35.1	28.4
Income taxes	14.6	9.8	13.6	10.9
Net income	10.4	21.7	21.4	17.5
Earnings per share	0.04	0.09	0.09	0.09
EBITDA*	45.6	87.0	87.6	77.2
EBITDA* per share	0.19	0.37	0.37	0.39
Dividends per share	0.08	0.08	0.08	0.05
Average retail managed assets	27,675	28,765	29,079	23,756

\*EBITDA (Earnings before interest, taxes, depreciation and amortization) is a non-GAAP (generally accepted accounting principles) earnings measure, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to analyze CI's results based on this performance measure.

## OVERVIEW OF CI'S BUSINESS

The principal business of CI Fund Management Inc. ("CI") is the management, marketing, distribution and administration of mutual funds, segregated funds, structured products and other fee-earning investment products for Canadian investors through its wholly owned subsidiaries CI Mutual Funds Inc. ("CIMF") and Skylon Capital Corp. ("Skylon"). Commencing in November 2003, as a result of the acquisition of the Canadian operations of Assante Corporation ("Assante"), CI offers, through an extensive network of Assante financial advisors, a wide range of financial advisory services, including asset allocation, retirement planning, trusts, portfolio management, insurance, and estate and tax planning. Commencing in June 2004, as a result of the acquisition of IQON Financial Management Inc. ("IQON"), CI offers through the network of IQON financial advisors financial products such as mutual funds, segregated funds and insurance products. In addition, through its money management subsidiary BPI Global Asset Management LLP ("BGAM"), CI manages institutional assets for clients on a global basis. CI operates through a number of principal operating subsidiaries as listed below.

### CI Fund Management Inc.

#### Principal Operating Subsidiaries at June 30, 2004

CI Mutual Funds Inc.	Assante Corporation	Skylon Advisors Inc.
BPI Global Asset Management LLP	Assante Advisory Services Ltd.	
	Assante Asset Management Ltd.	
	Assante Capital Management Ltd.	
	Assante Financial Management Ltd.	
	IQON Financial Management Inc.	

At June 30, 2004, fee-earning assets totalled \$66.0 billion, as shown in the chart below, represented by \$35.3 billion in mutual and segregated funds, \$8.1 billion in managed assets through Assante, \$0.2 billion in managed labour-sponsored funds, \$1.1 billion in structured products, \$5.0 billion in institutional assets, \$0.8 billion in other administered assets such as labour-sponsored funds, and \$15.5 billion in Assante and IQON assets under administration (net of Assante-managed assets described above).

CI's assets as reported by the Investment Funds Institute of Canada ("IFIC") were \$40.6 billion at June 30, 2004. This figure is \$4.1 billion below CI's actual \$44.7 billion in managed retail assets because IFIC uses a narrow definition of assets under management that does not include the \$1.0 billion of Assante proprietary funds, \$1.8 billion of segregated funds and hedge funds, \$0.2 billion in managed labour-sponsored funds and \$1.1 billion of structured products. As such, CI's assets as reported by IFIC should not be used when determining overall assets under management, product sales or conducting financial analysis of CI.

### CI Fee-earning Asset Profile

As at June 30 (billions of dollars)	2004	2003	% Change
Mutual/segregated funds	<b>35.3</b>	28.8	23
Assante funds	<b>8.1</b>	–	n/a
Managed labour-sponsored funds	<b>0.2</b>	–	n/a
Structured products	<b>1.1</b>	0.2	450
Managed retail assets	<b>44.7</b>	29.0	54
Managed institutional assets	<b>5.0</b>	4.0	25
Total managed assets	<b>49.7</b>	33.0	51
Other administered funds	<b>0.8</b>	0.8	–
Assante/IQON assets under administration (net of Assante funds)	<b>15.5</b>	–	n/a
<b>Total fee-earning assets</b>	<b>66.0</b>	33.8	95

There are five critical components to CI's business:

1. Investment Products
2. Investment Management
3. Investment Product Distribution
4. Investment Product Administration
5. Investment Advisory Services

## INVESTMENT PRODUCTS

CI believes that in order to attract and maintain investor interest, it is essential to offer a wide range of investment products and continually review its product lineup to adapt to changing investor preferences. CI's product line encompasses a broad range of global and domestic funds offering a variety of investment styles. In addition, CI has consistently developed new products, such as sector-specific funds, portfolio-based funds, fee-based portfolio management services, closed-end funds, segregated funds, 100% RSP-eligible foreign funds and hedge funds.

In fiscal 2004, CI launched a number of new funds. In August 2003, CI completed the launch of DDJ U.S. High Yield Fund, a closed-end fund designed to provide exposure to high-yield investments and to generate monthly distributions.

In November 2003, CI completed the launch of High Yield & Mortgage Plus Trust, a closed-end fund designed to provide exposure to high-yield investments and Canadian commercial mortgages and to generate monthly distributions.

In January 2004, CI completed the launch of Skylon Growth & Income Trust, a closed-end fund designed to provide exposure to high-yield securities such as income funds, dividend-paying stocks, high-yield debt and common shares, with the objective of generating monthly distributions and long-term growth.

In March 2004, CI completed the launch of Global Resource Split Corp., a fund with two components designed to provide either an attractive ongoing yield or pure exposure to capital gains by allocating distributions such as dividends to one security and capital appreciation to the other.

As a result of the acquisition of Spectrum Investment Management Limited ("Spectrum") and Clarica Diversico Ltd. ("Diversico") in July 2002 and Synergy Asset Management Inc. ("Synergy") in October 2003, CI's lineup of funds expanded significantly. In order to streamline its lineup and improve the cost efficiencies in operating the funds, CI eliminated 33 funds in October 2002 by merging them into other funds with similar mandates. Similarly, CI eliminated a further 45 funds in September 2003, seven funds in May 2004 and announced in July 2004 that a further 15 funds would be eliminated in September 2004.

## INVESTMENT MANAGEMENT

In order to offer a broad range of investment products, CI retains the services of a number of investment advisors. CI uses three structures to ensure it can attract and maintain the investment management expertise CI believes is necessary to meet investors' needs:

1. CI maintains sub-advisory agreements with independent investment managers who are compensated on the basis of assets under management, as detailed in the following chart:

<b>CI Funds Sub-Advisors</b>	<b>Assets Sub-Advised at May 31, 2004 (millions of dollars)</b>
AGF Funds Inc.	41
AIC Limited	29
AIM Funds Management Inc.	759
Fidelity Investments Canada Limited	621
Howson Tattersall Investment Counsel Ltd.	281
Legg Mason Capital Management	1,247
MFC Global Investment Management (Canada)	73
Sionna Investment Managers Inc.	2,875
TD Asset Management Inc.	14
UBS Global Asset Management (Canada) Co.	600
Trident Investment Management, LLC	641
Trilogy Advisors, LLC	5,439
Epoch Investment Partners, Inc.	838
<b>Total</b>	<b>13,458</b>

Assante also maintains sub-advisory agreements with independent investment managers who are compensated on the basis of assets under management for the Artisan Portfolios and Optima Strategy Pools, as shown in the following chart:

<b>Assante Sub-Advisors</b>	<b>Assets Sub-Advised at May 31, 2004 (millions of dollars)</b>
AGF Funds Inc.	572
AIM/Trimark Group of Funds	127
Alliance Capital Management LP	219
Altamira Investment Services	55
Cohen & Steers Capital Management Inc.	611
Conner, Clark & Lunn Investment Management Ltd.	106
Dynamic Mutual Funds Inc.	106
Dimensional Fund Advisors Inc.	752
Fidelity Investments Canada Limited	152
Sanford C. Bernstein & Co.	260
Franklin Templeton	163
Tetrem Capital Partners Ltd.	1,823
Deutsche Asset Management	660
Trident Investment Management, LLC	4
Trilogy Advisors, LLC	750
<b>Total</b>	<b>6,360</b>

During the year, CI terminated relationships with a number of sub-advisors in conjunction with efforts to eliminate duplication arising from recent acquisitions. Terminated advisors were J. Zechner Associates Inc., MFS Institutional Advisors, Inc., Marsico Capital Management, LLC, Viking Capital Corp., Pictet International Management Ltd. and Thornburg Investment Management, Inc.

2. CI employs money managers directly. At May 31, 2004, CI managed \$18,463 million in a diversified mix of funds using value and growth-oriented investment approaches. CI's in-house investment teams operate under the Harbour Funds, Signature Funds, Synergy Funds and CI Funds brands and include well-known money managers such as Gerry Coleman, Eric Bushell, David Picton, Robert Lyon and Ben Cheng. In addition, these investment teams managed an additional \$1,471 million at May 31, 2004 for the Assante Optima Strategy Pools and Assante Artisan Portfolio funds.
3. CI has partnership agreements with investment advisors whereby CI owns a controlling interest or has a significant economic interest in the partnership. This structure gives the investment advisor, through direct equity participation in the partnership, an incentive to grow the assets under management and attract money from sources other than CI. An equity stake in the partnership also encourages the advisors to stay with CI over the long term. CI has two investment advisory partnerships of this type:

| BGAM of Orlando, Florida, formed in March 1997, is 66% owned by CI and 34% owned by JBS Advisors, Inc. At May 31, 2004, it had \$1,781 million of growth-oriented mutual fund assets under management, including a portion of two multi-manager funds and \$382 million of retail hedge funds, and institutional assets of \$4,950 million (including \$63 million of institutional hedge funds and \$44 million sub-advised for the Assante Optima Strategy Pools).

| Altrinsic Advisors, LLC ("Altrinsic Advisors"), a value-oriented investment team established in December 2000 and based in Stamford, Connecticut, is 49% owned by CI. It had assets under management of \$1,616 million at May 31, 2004, in several globally oriented funds, two multi-manager funds and a hedge fund. CI also has a 25% profit participation in Altrinsic Global Advisors, LLC ("Altrinsic Global"), whose mandate is to pursue institutional hedge fund assets.

During the year, CI terminated its equity ownership in CI Global Advisors LLP and Trilogy Advisors, LLC ("Trilogy"), in which CI had 55% and 45% interests, respectively. In addition, in June 2004, CI gave notice that it was terminating its equity ownership in Webb Capital Management LLP ("Webb"), in which CI had a 55% ownership. In the case of Trilogy, CI had determined that the prospects for generating a return on its investment was limited and it was in the best interest of CI to negotiate a return of its share ownership in the two companies. In the case of Webb, a decision was made to not extend the sub-advisory contract with Webb and a return of CI's share ownership in Webb is being negotiated in conjunction with the termination of the contract.

## INVESTMENT PRODUCT DISTRIBUTION

CI distributes its investment products through investment dealers, mutual fund dealers (including IQON, which was acquired on June 3, 2004), insurance agents, banks, its preferred distribution arrangement with Clarica advisors and managers and through Assante financial advisors. In order to support these distribution channels, CI ensures it has an extensive number of knowledgeable and experienced staff members, including CI representatives who deal directly with the distributors of CI's funds and in-house fund support personnel, who, in addition to providing product information, have access to detailed records of distributors' fund assets and transactions with CI. CI also provides distributors with extensive information about its funds through the internet, through various publications and through appearances and presentations by the funds' advisors.

In addition, Assante has its own suite of proprietary products known as the Assante Optima Strategy Pools and the Assante Artisan Portfolios distributed exclusively through Assante financial advisors. Distribution of these funds are supported by an extensive number of staff specific to the Assante operations whose experience includes all aspects of fund support, as well as knowledge in dealership, compliance, estate, trust, tax and insurance matters.

Over the past three years, CI has taken extensive measures to broaden its distribution of financial products:

1. It maintains a broad range of funds that encompass numerous styles and fund mandates to ensure financial advisors have the widest choice within CI.
2. It has expanded its asset base significantly through acquisition. This ensures that CI is one of the largest investment product complexes in Canada, thereby increasing the likelihood of maintaining shelf space with distributors of financial products as they have reduced the number of fund families they are willing to support and promote.
3. In July 2002, in conjunction with the purchase of Spectrum and Diversico, CI entered into a preferred distribution arrangement with Sun Life Financial Inc. ("Sun Life"), a related party, that covers approximately 4,000 Clarica advisors and managers. The arrangement provides that CI's funds will be the predominant wealth management products sold by Clarica advisors and managers.
4. In November 2003, CI purchased Skylon to use as a base to expand CI's distribution of structured products such as closed-end funds, which were becoming increasingly popular among certain financial advisors.
5. In November 2003, CI purchased the Canadian operations of Assante, which has approximately 900 financial advisors that distributed proprietary Assante funds and third-party funds. The acquisition ensures CI maintains a relationship with these advisors.
6. In June 2004, CI purchased IQON, which has approximately 360 financial advisors that distribute third-party funds, including CI funds. The acquisition ensures CI maintains a relationship with these advisors.
7. CI continues to emphasize distribution through third-party channels and entered into four new arrangements for the distribution of CI's products in fiscal 2004.

## INVESTMENT PRODUCT ADMINISTRATION

Providing investors and distributors of CI funds with accurate and timely information on purchases, redemptions, transfers, switches and holdings requires a highly efficient administrative operation. CI has made extensive investments in technology to enable its clients to receive information quickly and in a cost-efficient manner, ensuring that CI continues to be one of the most efficient fund administrators in the industry. CI believes that the costs it incurs to administer its funds are among the lowest in the industry as a percentage of assets and that low operating costs will become a competitive advantage in the future. The table below depicts the reduction in costs CI has achieved over the past six years in the administration of CI funds. (Note that this table does not include the operating costs of the funds of companies acquired by CI until those funds have been integrated into CI and therefore have operating costs consistent with CI Funds).

<b>Year</b>	<b>Fund Operating Expenses as a % of assets (in basis points)</b>
1999	39.6
2000	34.4
2001	31.1
2002	30.5
2003	31.4
2004	27.5

CI believes that it holds a competitive advantage in its ability to consolidate fund operations onto its administrative platform and achieve significant cost savings in the administration of financial products. In fiscal 2003, CI consolidated the Spectrum fund administration onto CI's administrative platform within six weeks of the acquisition. The consolidation of the Diversico fund administration function, including all segregated funds, was completed by January 2003. In fiscal 2004, CI consolidated the administration of the Synergy and Skylon fund assets onto CI's platform within four weeks of the acquisition of these firms. This has resulted in significant cost savings in the operations of these funds, which directly benefits their investors.

In late fiscal 2004, CI initiated the process of converting the Assante funds onto CI's operating platform. The conversion will be completed in early fiscal 2005 and will result in significant cost savings and enhanced service for the Assante products.

A key strength of CI is its ability to quickly provide administrative capacity for new products in a cost-effective manner. In recent years, CI has successfully launched numerous new products, including institutional class funds, portfolio funds, segregated funds, 100% RSP-eligible foreign funds, hedge funds, closed-end funds, a wrap program and group RSPs, as well as managing one of the largest blocks of RESP accounts in Canada. These new products have had the appropriate administrative support to achieve market penetration and have contributed significantly to CI's assets under management.

## INVESTMENT ADVISORY SERVICES

CI provides financial advisory services to clients through the financial advisors at Assante and IQON. The level of services provided range from offering basic financial advisory services focusing on products such as mutual funds, segregated funds and other insurance products to a full suite of financial advisory services including portfolio management, investment advice, distribution of securities, insurance products, banking products and financial, tax, succession, wealth and estate planning.

At June 30, 2004, Assante had 847 financial advisors with a total of \$19.4 billion in assets under administration resulting in average assets under administration of \$22.9 million per Assante financial advisor.

At June 30, 2004, IQON had 351 financial advisors with a total of \$4.2 billion in assets under administration resulting in average assets under administration of \$12.0 million per IQON financial advisor.

In order to support the distribution of financial advisory services by Assante and IQON financial advisors, CI's focus is on providing services such as compliance oversight, support for tax and legal services, portfolio management services, product review of third party products, a centralized dealership administrative operation, product design, insurance administration, marketing support, educational support, financing and other related services.

## OVERVIEW OF CI'S REVENUES AND EXPENSES

### Revenues

The majority of CI's revenues is earned from the management services it provides as fund manager to the CI funds and Assante proprietary products and are reported as management fees. The key determinant of CI's management fee revenue is its managed retail assets, which is determined by both market returns and net sales of these funds. CI focuses on offering retail funds – especially equity funds, which earn management fees of approximately 2.00%. Approximately 81% of CI's managed retail assets are in retail equity funds. CI also offers funds with lower management fees that are designed for fee-based products or fund-of-fund products. These funds, known as Class F and Class I funds, have management fees that are at levels approximately one percentage point or more below CI's basic retail or Class A fund. In return for lower management fees, Class I and Class F funds do not pay trailer fees. CI is able to provide cost-efficient service to Class I funds because of the large size of these accounts. At May 31, 2004, there were \$261 million and \$1,870 million in Class F and Class I funds, respectively, compared with \$120 million and \$1,259 million on May 31, 2003.

Income potential from sources other than management fees has also become significant. CI earns administration fees predominately on assets under administration at Assante and (subsequent to June 3, 2004), at IQON. Administration fees should be considered in conjunction with investment dealer fees, which represent payments to investment advisors on assets under administration.

CI also earns revenues from redemption fees. Investors pay redemption fees when funds are purchased on a deferred sales charge basis and the investment is redeemed within the applicable redemption period, generally seven years. Redemption fees, which have rates that start as high as 5.5% and decrease to zero over the redemption period, are calculated as a percentage of the initial value of the funds sold.

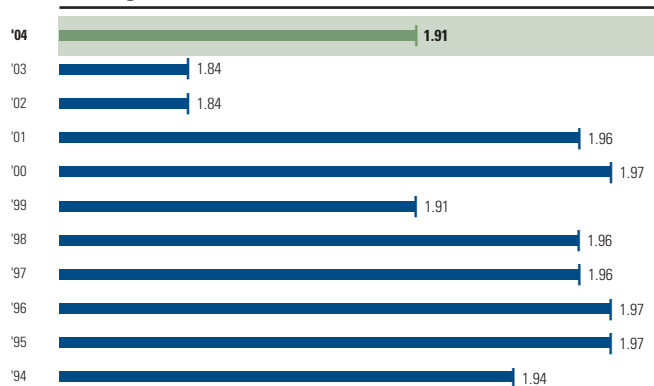
CI manages a number of hedge funds that provide performance fees. In general, the fees amount to 20% of returns in excess of certain thresholds, with CI receiving approximately 40% and the investment advisor and the fund distributor receiving the remainder. At May 31, 2004, CI managed \$443 million of hedge fund assets that potentially could earn performance fees.

CI's ownership stakes in BGAM and Altrinsic Advisors position CI to benefit from the growth in revenues and profits on assets that these firms manage for organizations other than CI. At May 31, 2004, BGAM had \$4.9 billion in institutional assets (\$3.4 billion at May 31, 2003). Income related to institutional assets is reported under other income and should be considered in conjunction with expenses related to institutional assets reported under other expenses.

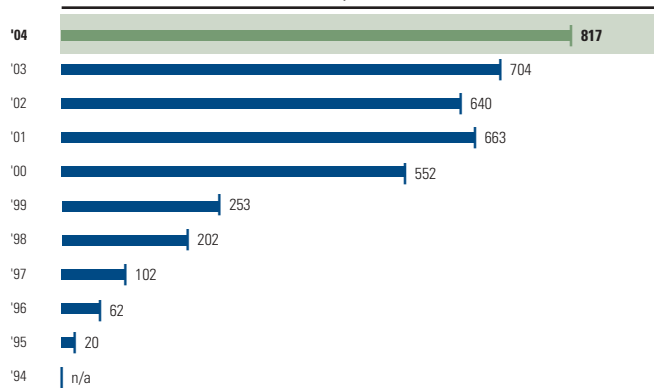
CI also may earn revenue or incur losses on investments in seed capital in its hedge funds or other strategic investments such as investments in potential candidates for acquisition.



Management Fees | years ended May 31 : % of average AUM



Portfolio Value of Redemption Fees | years ended May 31 : \$millions



## Expenses

CI incurs two distinct types of expenses: expenses incurred on behalf of the funds it administers that are generally recovered from the funds; and all other expenses incurred in the management of the business that are not recovered from the funds.

Expenses incurred on behalf of the funds are reflected in CI's overall selling, general and administrative ("SG&A") expenses. The amount of expenses recovered from funds is reported as a reduction of total SG&A expenses. The SG&A expenses remaining after deducting the expenses recovered from funds is disclosed as net SG&A.

Net SG&A expenses are primarily marketing expenses incurred to support CI funds, Assante proprietary funds and expenses associated with the dealership operation of Assante (and IQON after June 3, 2004). In general, marketing expenses specific to CI funds are managed in proportion to CI's assets under management. Net SG&A expenses relative to assets are higher for Assante than for CI funds due to the more extensive support provided to Assante funds and the complexities of a dealership operation. CI anticipates that the relative cost of the Assante operations will decrease over the next few years as economies of scale are achieved and changes to operating technology are implemented to improve efficiency.

In addition to net SG&A expenses, major expenses include investment advisor fees, investment dealer fees, trailer fees and selling commissions paid to financial advisors.

Expenses related to portfolio management are recorded as investment advisor fees. Advisory fees paid to investment advisors, other than those employed directly by CI, are generally paid on the basis of a percentage of assets under management. CI's advisors have different fee agreements and therefore the mix of funds will affect the overall expense level.

In addition, BGAM and Altrinsic Advisors will generally become more profitable as their assets under management increase. CI, through its equity ownership, participates in the profitability of these companies, effectively reducing its investment advisory expenses as a percentage of assets under management.

Investment dealer fees represent commissions paid to Assante financial advisors (and IQON financial advisors after June 3, 2004) and are based on a percentage of administration fees earned on assets under administration. Payments are determined according to a grid that provides payments at higher percentages as the individual advisor's assets under administration increase.

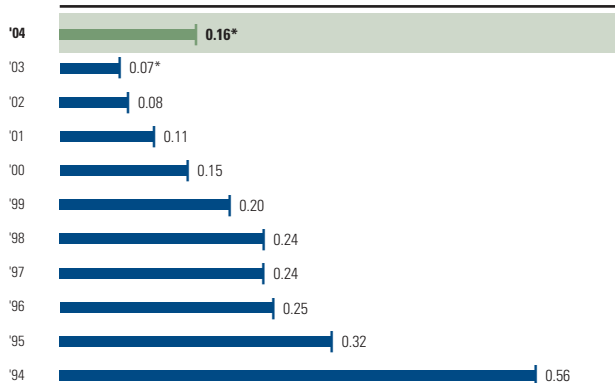
Trailer fees are paid to investment and mutual fund dealers and life insurance agents to assist them in providing ongoing support to investors in CI funds. Trailer fees are also paid to Assante financial advisors on Assante funds for a similar reason. Trailer fees are calculated as a percentage of average assets and vary with overall assets under management. Trailer fees are not paid on Class F and Class I mutual funds and institutional assets.

Commissions paid from CI's cash resources on the sale of funds on a deferred sales charge basis are, for financial reporting purposes, amortized evenly over the 84 months immediately following the sale of the funds (36 months prior to June 1, 2003, as described below). The actual cash payment in any period is reported in the Consolidated Statements of Cash Flows in Investing Activities as sales commissions.

Commencing on June 1, 2003, CI revised its estimate for the period of amortization of deferred sales commissions from 36 months to 84 months. The revised period was determined by management to be consistent with the period over which CI currently benefits from sales commissions paid and it improves the comparability of CI's financial results with other companies.

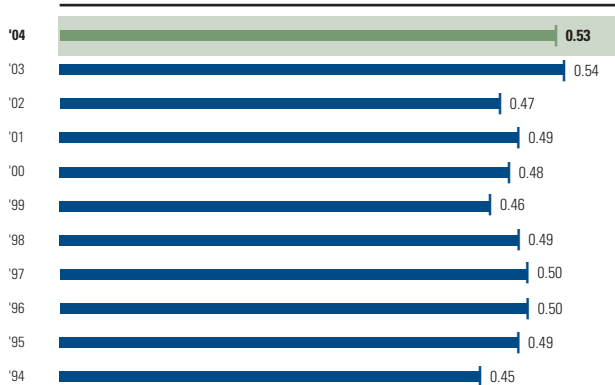
Commissions incurred on certain CI assets were financed historically by limited partnerships. The expenses for commissions financed by limited partnerships are reported as distribution fees paid to limited partnerships and are calculated as a percentage of the assets. The effective amortization period for commissions financed by limited partnerships is the life of the CI Master Limited Partnership, which will terminate by 2016.

Net SG&A | years ended May 31 : % of average AUM

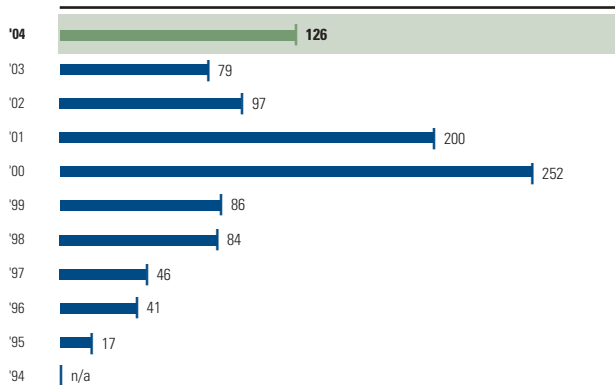


\*excluding options-related expense

Trailer Fees | years ended May 31 : % of average AUM



DSC Financed | years ended May 31 : \$millions



### Other Items

Operating profit margin, EBITDA and free cash flow, as defined below, are non-GAAP (generally accepted accounting principles) earnings measures that do not have any standardized meaning prescribed by GAAP. They are therefore unlikely to be comparable to similar measures presented by other issuers. However, management believes that most shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these performance measures in analyzing CI's results.

CI monitors its operating profitability on assets under management by measuring the operating margin calculated as a percentage of average retail managed assets. CI's operating profit margin is defined as management fees from CI's funds (including Assante funds) less investment advisor fees, trailer fees, and net SG&A expenses, calculated as a percentage of average retail managed assets. This measure allows CI to manage profitability when changes in the market value of assets under management affect revenue flows and permits adjustments to discretionary expenditures in order for CI to maintain its margins.

Prior to April 9, 2003, all stock options were share-settled. Hence, the diluted earnings per share were calculated using the treasury stock method. For the period from April 9, 2003 forward, there is no dilution because the potential expense from stock options is recorded as a liability, following the amendment to the option plan which allows option holders to elect cash settlement. The calculation of diluted earnings per share for the fourth quarter in fiscal 2003 is based on a pro-rated "diluted" weighted average number of shares using the treasury method for the first 39 days and basic shares outstanding for the remaining 53 days.

## YEAR ENDED MAY 31, 2004 COMPARED WITH YEAR ENDED MAY 31, 2003

### Market Review

Global markets for the 12-month period ended May 31, 2004, experienced their strongest gains since fiscal 2000, and a reversal from the declines experienced in fiscal 2001, 2002 and 2003.

For fiscal 2004, the S&P/TSX Composite Index rose 24.9%, the S&P500 Index rose 17.8%, the Dow Jones Industrial Average rose 17.1%, the NASDAQ Composite Index rose 24.5% and the MSCI World Index rose 23.5%. (All index returns are in Canadian dollars.) From a Canadian perspective, the gains in foreign markets were offset in part by the strengthening Canadian dollar, which rose 0.3% to \$0.73 U.S. during the year. The increases in global equity markets had a positive impact on overall mutual fund sales and a positive effect on CI's funds.

Industry net sales of mutual funds as reported by IFIC were strong year over year, with \$14.6 billion in net sales for the year ended May 31, 2004. This compared with industry net redemptions of \$7.9 billion for the year ended May 31, 2003. Though sales and assets reported by IFIC do not give a comprehensive view of CI's sales and assets, they are helpful as an indicator of trends impacting a significant portion of CI's business.

### Operating Review

#### Acquisition Highlights – Fiscal 2004

CI's operating and financial results for fiscal 2004 include the acquisition of Synergy, Skylon and Assante.

The acquisition of Synergy closed on October 6, 2003. CI paid total consideration of \$117 million, consisting of \$94 million in cash and 1.66 million common shares of CI. Synergy had approximately \$55 million of available tax losses. At closing, Synergy had total mutual fund assets of \$1.6 billion.

The acquisition of Skylon, a firm specializing in labour-sponsored funds and structured products, closed on November 7, 2003. CI paid total consideration of approximately \$34 million in cash. Skylon had approximately \$6.4 million of available tax losses. At closing, Skylon's assets under management consisted of \$167 million in labour-sponsored funds and \$613 million in structured products and administered assets.

The acquisition of Assante closed on November 14, 2003. CI paid \$887 million in the form of \$310 million in cash and 38.8 million common shares of CI. The cash payment was reduced by \$160 million of Assante debt outstanding at closing. Assante had \$18.1 billion in assets under administration at closing, including \$7.2 billion in assets under management.

In order to maintain its 34% interest in CI after the issuance of CI shares to purchase Synergy and Assante, Sun Life subscribed for a total of 20.7 million common shares of CI for total consideration of \$265.3 million in cash. CI used these proceeds to fund, in part, the cash component of the above transactions.

For details of the accounting treatment of these acquisitions, reference is made to Note 4 accompanying the financial statements for the year ended May 31, 2004.

As a result of the acquisitions in fiscal 2004, CI now has three reportable segments: Asset Management, Asset Administration and Other. These segments reflect CI's internal financial reporting and performance measurement.

The Asset Management segment includes the operating results and net assets of CIMF and Assante Asset Management Ltd., which derive their revenues principally from the fees earned on the management of several families of mutual and segregated funds.

The Asset Administration segment includes the operating results and net assets of Assante Advisory Services Ltd. and most of its subsidiaries, including Assante Capital Management Ltd. and Assante Financial Management Ltd. These companies derive their revenues principally from commissions and fees earned on the sale of mutual funds and other financial products, and ongoing service to clients.

The Other segment mainly comprises revenues earned from managed institutional assets and corporate activities.

In the prior fiscal year, CI operated as one reportable segment.

The majority of CI's income relates to the Asset Management segment, which offers funds through brokers, independent financial planners (including IQON financial advisors), insurance advisors, Assante financial advisors, and Clarica financial advisors. The revenues and expenses of these segments are summarized in Note 13 to the financial statements and described in the detailed discussion of revenues and expenses below.

### **Assets and Sales**

Total fee-earning assets, which includes mutual and segregated funds, Assante funds, managed labour-sponsored funds and structured products (collectively retail managed assets), managed institutional assets, other administered funds and Assante assets under administration (net of Assante funds) at May 31, 2004, were \$61.3 billion, up 85% from \$33.1 billion at May 31, 2003. CI's assets as reported by IFIC were \$40.3 billion at May 31, 2004. This figure is \$4.1 billion below CI's actual \$44.4 billion in non-institutional managed assets because IFIC uses a narrow definition of assets under management that does not include CI's \$2.8 billion of segregated funds, hedge funds, and pooled funds, \$0.2 billion of managed labour-sponsored funds and \$1.1 billion of structured products.

Average total retail managed assets were \$37.2 billion in fiscal 2004, an increase of 36% from \$27.3 billion in fiscal 2003. As most of CI's revenues and expenses are based on assets throughout the year, average asset levels are critical to the analysis of CI's financial results. The increase in CI's assets was directly attributable to the acquisition of \$9.6 billion in assets from the Assante, Skylon and Synergy acquisitions and the increase in the market value of CI's funds resulting from the increase of all major equity markets around the world in fiscal 2004.

Gross sales of CI's retail managed funds were \$6.896 billion for the year ended May 31, 2004, compared with \$4.144 billion for the same period in 2003. Net sales (gross sales less redemptions) were \$920 million for the year ended May 31, 2004, compared with \$596 million of net redemptions for the same period in 2003. The significant increase in CI's net sales from 2003 reflects a combination of decreased redemptions and increased gross sales of CI's funds, three successful structured product offerings and strong sales of Assante funds. Improved equity markets, expanded distribution, and improved fund performance all contributed to the increase in gross sales of CI funds.

### **Revenues**

Total revenues increased 46.6% to \$844.7 million for the year ended May 31, 2004, from \$576.2 million for the same period in 2003. Revenues from management fees were \$711.0 million for the year ended May 31, 2004, up 41.2% from \$503.6 million in 2003. The increase was attributable to management fees on the increased assets from the Assante/Synergy/Skylon acquisitions, market-related increases in asset levels and changes in asset mix, as there were higher levels of equity funds, which have higher management fees than money market or bond funds, offset partly by a higher proportion of Class I and Class F funds that have lower management fees. As a percentage of average retail managed assets, management fees were 1.91% for fiscal 2004, up from 1.84% in fiscal 2003.

Administration fees are fees earned on assets under administration in the Assante business and fees earned from certain labour-sponsored funds and the administration of third-party business. These have increased from \$4.9 million last year to \$58.0 million this year. The primary contribution to the increase was the revenues earned by Assante on assets under administration (\$53.3 million versus nil in the prior year). It should be noted that these administrative fees represent only the period from closing on November 14, 2003 to May 31, 2004 and that they are expected to be significantly higher in fiscal 2005. In addition, in fiscal 2005, administration fees will include fees earned on IQON assets under administration. Administration fees should be considered in conjunction with investment dealer fees.

Redemption fees fell from \$50.3 million in fiscal 2003 to \$43.4 million in fiscal 2004 as a result of lower overall redemptions, a decreased level of assets which are subject to redemption fees, and the aging of assets, which results in lower applicable redemption fees.

Performance fees totalled \$2.8 million for the year ended May 31, 2004, versus \$0.1 million in 2003, due to the positive performance of certain CI hedge funds. This reflects the positive returns in equity markets in fiscal 2004, in contrast to the prior fiscal year.

CI incurred a gain on the sale of marketable securities of \$0.7 million in fiscal 2004, compared with a loss in fiscal 2003 of \$5.0 million. The gain in fiscal 2004 arose primarily from the sale of marketable securities representing seed capital investments in certain CI funds.

Other income was \$28.8 million for fiscal 2004, up 29.1% from \$22.3 million in fiscal 2003. The largest component of other income was income from CI's U.S. subsidiary, BGAM, of \$19.0 million, up 19.5% from \$15.9 million in fiscal 2003, reflecting increased institutional business. In addition, Assante contributed other income of \$7.3 million (nil in fiscal 2003).

Total revenues for the year ended May 31, 2004 were \$763.4 million, \$111.5 million and \$20.2 million for the Asset Management segment, Asset Administration segment and the Other segment, respectively. Intersegment transactions totalled \$50.5 million for the payment of trailer fees and deferred sales commissions from the Asset Management segment to the Asset Administration segment.

## Expenses

Total SG&A expenses were \$198.2 million in fiscal 2004, compared with \$152.8 million in fiscal 2003.

Included in total SG&A expenses in fiscal 2004 is \$40.0 million (\$42.8 million in fiscal 2003) of compensation expense related to CI's decision to amend the Employee Incentive Stock Option Plan in fiscal 2003 to allow option holders to elect to receive cash from the company rather than purchasing optioned shares that would be sold in the open market. The amendment applied to the existing 11,764,922 options outstanding at April 9, 2003, and future option grants. At May 31, 2003, based on the price of CI shares of \$11.90 per share, the potential payment on all options outstanding, including a portion of unvested amounts, was \$31.2 million. At May 31, 2004, based on the price of CI shares of \$16.44 per share, the potential payment on all options outstanding, including a portion of unvested amounts has increased by an additional \$14.9 million to \$46.1 million. Under Canadian GAAP, the accounting standard for cash-settled options requires the potential cash payment to be accrued as a liability over the vesting period of the option, adjusted for any actual payments made. As a result, CI recorded an expense in fiscal 2004 of \$40.0 million, of which \$23.5 million was from option holders electing cash settlement, \$1.6 million from option holders electing share settlement and \$14.9 million representing the change in liability reported at May 31, 2004, for outstanding vested options and for a portion of unvested options. Though CI acknowledges that the option expense is clearly a cost of business that is tied to the performance of CI's common share price, the financial results presented below both include and exclude the expense to aid the reader in conducting a comparative analysis.

Net of the expense related to options, total SG&A expenses were \$158.2 million, up 43.8% from \$110.0 million in fiscal 2003. The increase in SG&A expenses is attributable to the additional costs incurred by CI as a result of the acquisition of Assante/Synergy/Skylon. These costs represent a combination of fund operating expenses and general operating expenses as described below.

Expenses incurred but recovered as operating expenses of the funds rose 19.1% to \$109.8 million for the year ended May 31, 2004, compared with \$92.2 million in 2003. As a percentage of assets under management, expenses charged to mutual funds decreased 11.8% from 0.34% in fiscal 2003 to 0.30% in fiscal 2004. The decrease in overall expenses resulted from the integration of Synergy and Skylon into CI, which has led to improved operating efficiencies, combined with cuts in general expenses achieved through reductions in staff numbers and in variable costs. The benefits of these cost reductions will not be fully realized until fiscal 2005, as the costs of integration become fully amortized. Further improvement in efficiencies resulted from the increase in asset levels generated by strong equity markets, as costs were being allocated over a larger asset base. Improvements in the operating expenses of the Assante funds were not material in fiscal 2004, as the conversion of the Assante funds will not be completed until mid-fiscal 2005. This conversion, along with other operating enhancements currently being implemented, is expected to produce significant reductions in the operating expenses of the Assante funds in fiscal 2005.

Net SG&A expenses were \$88.4 million, up from \$60.5 million in the prior fiscal year. As explained above, fiscal 2004 included \$40.0 million in option-related expenses, compared with \$42.8 million in fiscal 2003. As a percentage of retail managed assets, the net SG&A expenses increased to 0.24% in fiscal 2004 from 0.22% in fiscal 2003. Excluding the option-related expense, net SG&A expenses were \$58.7 million or 0.16% of assets under management in fiscal 2004, compared with \$18.9 million or 0.07% in fiscal 2003. The majority of the increase in net SG&A expenses was due to SG&A expenses of the acquired Assante operations. Assante's asset management and dealership activities require significantly more support than do CI's fund operations.

Net SG&A expenses related to CI's business excluding the option expense and Assante were \$20.1 million for the year, up from \$18.9 million in the prior year. As a percentage of retail managed assets (excluding Assante), this net SG&A expense was 6.1 basis points, compared with 6.9 basis points in fiscal 2003. The increase reflected the expansion in the product lineup and assets, including the Skylon business. Net SG&A expenses attributable to the Assante business were \$33.5 million, of which \$15.4 million was attributable to the Asset Management segment and \$18.1 million was attributable to the Asset Administration segment.

Investment advisor fees increased 15.8% from \$50.6 million in fiscal 2003 to \$58.6 million in fiscal 2004 due to higher levels of assets under management. As a percentage of average retail managed assets, investment advisor fees were 0.16% in fiscal 2004, down from 0.19% in fiscal 2003. CI was able to reduce advisor fees by eliminating or renegotiating some of the sub-advisor relationships maintained by Synergy, Skylon and Assante that were at higher fee levels than CI's existing arrangements.

Investment dealer fees are the direct costs attributable to the operation of the Assante dealership (and IQON starting in the first quarter of fiscal 2005), including payments to financial advisors based on the revenues generated from assets under administration. These fees were \$39.7 million in fiscal 2004 from the date of the Assante acquisition on November 14, 2003 to May 31, 2004, and should be viewed in conjunction with administrative fee revenue specific to Assante of \$53.3 million as described above when calculating the gross contribution of the dealership operation before general and operating expenses.

Trailer fees increased from \$147.4 million to \$197.8 million in fiscal 2004. This overall increase resulted from increased assets under management due to the acquisitions in fiscal 2004 and from the market appreciation of the funds, partly offset by an increase in the percentage of CI's mutual fund assets in Class F and Class I funds, which do not pay trailer fees. As a percentage of average assets, trailer fees were 0.53% in fiscal 2004, compared with 0.54% in the prior fiscal year.



CI's operating margin on the asset management business (which excludes costs related to the Assante dealership operation), as a percentage of average retail managed assets and adjusted for the \$40.0 million option expense as discussed above, was 1.13%, up from 1.05% in the prior fiscal year. The increase resulted from higher management fees, lower trailer fees, lower investment advisor fees and offset in part by higher net selling, general and administrative expenses.

Distribution fees to limited partnerships totalled \$5.6 million, down from \$6.8 million in fiscal 2003. As a percentage of average retail managed assets, distribution fees to limited partnerships decreased from 0.025% to 0.015%, reflecting a lower percentage of CI's overall assets under management that have been financed by limited partnerships.

Amortization of deferred sales commissions represented CI's largest expense decrease, falling from \$169.9 million in fiscal 2003 to \$34.0 million in fiscal 2004. The decline reflected the completion of the amortization of the majority of the deferred sales commissions paid during CI's record sales in fiscal 2000 and fiscal 2001, and the revision commencing on June 1, 2003 of CI's accounting estimate for the period of amortization of deferred sales commissions from 36 months to 84 months. Had CI not changed the accounting estimate, amortization of deferred sales commission in fiscal 2004 would have been approximately \$105.1 million reducing the May 31, 2004 balance sheet value of unamortized deferred sales commissions to \$182.8 million, reducing income before tax by \$71.1 million and reducing net income by \$45.5 million. As this is a non-cash item, there would be no affect on CI's cash position.

Interest expense in fiscal 2004 was \$8.6 million, up from \$5.5 million in fiscal 2003, reflecting higher average debt levels.

Other expenses rose from \$11.4 million in fiscal 2003 to \$13.5 million in fiscal 2004. Other expenses should be viewed in conjunction with revenues recognized under other income of \$28.8 million. The primary contributors to other expenses were expenses associated with CI's institutional business, which rose from \$9.0 million in fiscal 2003 to \$10.3 million in fiscal 2004. Expenses attributable to CI's third-party back-office processing fell to nil in fiscal 2004 from \$1.5 million in the prior year. In fiscal 2003, the majority of CI's third-party processing arrangements were terminated and no significant income or expense of this type is anticipated going forward.

Minority interest in CI's earnings was \$5.4 million for the year ended May 31, 2004, compared with \$4.1 million in 2003. This reflects the 34% interest of JBS Advisors, Inc. in BGAM. The institutional portion of earnings to which minority interest applies is the institutional revenues of \$19.0 million recorded in other income, less institutional expenses of \$10.3 million recorded in other expenses as described above, which results in \$8.7 million of institutional earnings before minority interest.

## Income

Income before income taxes was \$391.7 million for fiscal 2004, an increase of 226.4% from \$120.0 million in the prior year. The income tax provision increased from \$49.0 million to \$170.7 million in fiscal 2004, of which \$86.3 million was represented by current taxes and \$84.4 million by future taxes. The high level of future taxes resulted from the timing differential between the expensing of sales commissions and the amortization of the commission and the utilization of \$55.0 million of tax losses available on the acquisition of Synergy.

The provision for income taxes for the year ended May 31, 2004 reflects an effective tax rate of 43.6%, versus 40.8% in the prior year. The income tax provision was negatively impacted by substantively enacted increases to income tax rates resulting in a \$28.9 million non-cash charge. This item pushed the effective tax rate up from CI's statutory tax rate of 36.4% this year, which was down from 37.8% in 2003.

Income for the year ended May 31, 2004, was \$221.0 million (\$0.82 per share and \$0.82 per diluted share), compared with \$71.0 million (\$0.32 per share or \$0.31 per diluted share) in 2003. The increase reflects CI's higher level of assets under management, which increased operating profitability, combined with the significant decline in amortization of deferred sales commissions.

Net income in fiscal 2004 adjusted to eliminate the effect of the option expense was \$239.4 million (\$0.89 per share and \$0.89 per diluted share), compared with \$101.7 million (\$0.45 per share and \$0.45 per diluted share) in fiscal 2003.

For the year ended May 31, 2004, earnings before interest, taxes, depreciation and amortization (EBITDA) totalled \$442.2 million (\$1.65 per share and \$1.65 per diluted share). This compares with \$297.4 million (\$1.32 per share or \$1.30 per diluted share) in the prior fiscal year. EBITDA in fiscal 2004 adjusted to eliminate the effect of the option expense for the reason described above were \$471.9 million (\$1.76 per share or \$1.76 per diluted share), compared with \$339.1 million (\$1.51 per share or \$1.48 per diluted share) in fiscal 2003.

In fiscal 2004, CI granted 2.3 million stock options to employees and directors of the company. An estimate of the value of the options issued over their five-year life based on the projection of the average option life and corresponding stock volatility along with current dividend and interest rate assumptions is approximately \$5.8 million or 1.3% of fiscal 2004 EBITDA. This estimate of \$5.8 million is not reflected in the financial statements. As CI accounts for its stock options as a liability, reflecting their cash-settlement feature, the actual expense will be determined by the price at exercise less the strike price, which may be more or less than \$5.8 million. If option holders elect a cash payment for their options, the payment will be deductible for tax purposes based on current applicable tax laws.

### **Financing and Liquidity**

CI's capital requirements are primarily to finance commissions arising from the sale of funds on a deferred sales charge basis. In fiscal 2004, CI financed \$125.9 million in sales commissions with its own cash resources, up from \$78.9 million in fiscal 2003. In addition, CI used \$21.4 million to repurchase 1.7 million common shares of CI Fund Management Inc. at an average price of \$12.74 per share. In addition, CI's ownership of shares of Assante prior to the acquisition reduced the number of shares CI issued, providing to CI the benefit of having effectively repurchased an additional 5.0 million shares at an average price of \$11.10 per share. This compares with \$104.2 million used to repurchase 10.1 million common shares at an average price of \$10.30 per share in fiscal 2003. On May 31, 2004, the closing price of CI Fund Management Inc. was \$16.44 per common share.

CI also had net purchases of marketable securities in the amount of \$32.4 million in fiscal 2004, resulting in total marketable securities of \$28.8 million at May 31, 2004. Marketable securities are comprised of seed capital investments and other portfolio investments.

Capital expenditures incurred during the year ended May 31, 2004, of \$7.4 million were primarily for computer hardware and software related to the improvement of systems technology, to support new systems for portfolio trading, reporting and compliance and related to the Assante operations. In fiscal 2004, as in prior years, capital assets for use in the operations of CI's funds were leased with such payments recovered over time through expenses recovered from the funds. Future payments are included under Note 14 – "Commitments and Contingencies" in the Notes to the Consolidated Financial Statements.

In fiscal 2004, CI paid \$108.8 million in dividends to holders of CI common shares, which amounted to 45.9% of free cash flow as described below. Free cash flow (operating cash flow less sales commissions and minority interest for the year) was \$237.2 million, up 45.9% from \$162.6 million in fiscal 2003.

As discussed earlier, in fiscal 2004 CI acquired Skylon, Synergy and Assante for total cash consideration of \$438.0 million and the issuance of 40.5 million common shares of CI.

All of the above funding requirements were met by cash, short-term investments and marketable securities of \$52.6 million at May 31, 2003, cash provided by operating activities in fiscal 2004 of \$368.5 million, the issuance of 0.2 million common shares of CI Fund Management Inc. from the exercise of stock options at an average price of \$4.07 per share for total gross proceeds of \$0.6 million, the issuance of 20.7 million shares to Sun Life for proceeds of \$265.3 million, and the use of CI's \$500 million line of credit with a Canadian chartered bank.

CI has sufficient cash flow to meet anticipated capital expenditures, deferred sales commissions and dividends.

At May 31, 2004, CI had cash and marketable securities totalling \$53.9 million, and \$254.8 million available under the \$500 million line of credit (\$245.2 million drawn at an average all-in cost of 2.31%).

At May 31, 2004, CI's retail managed assets had a current redemption value of \$817 million (\$2.77 per share) at May 31, 2004, compared with \$704 million (\$2.99 per share) at May 31, 2003.

CI's business does not require the use of any financial instruments for hedging risk other than to hedge the currency risk associated with seed capital investments in U.S. dollar-denominated hedge funds of CI's money management subsidiaries. On May 31, 2004, CI had a \$9.5 million US currency forward contract outstanding to offset its U.S. investment in a hedge fund. On June 30, 2004, this contract was unwound with a realized gain of \$0.3 million. Debt outstanding is borrowed on the basis of a floating interest rate. Levels of interest paid are significantly below CI's cash flow and the potential impact of increased interest costs due to an increase in interest rates is minimal and therefore the exposure is not hedged. The existing loan agreement provides CI with the option of fixing interest rates, should CI change its view on its exposure to rising interest rates. CI has no other off-balance sheet arrangements or financial instruments.

### **Related Party Transactions**

CI's only related party is Sun Life as a result of its 34% ownership of CI's outstanding common shares. In fiscal 2003, in conjunction with the acquisition of Spectrum and Clarica Diversico, CI and Sun Life entered into an arrangement whereby, among other things, Sun Life would distribute CI's funds through Sun Life's Clarica sales force on a preferred basis and that CI would perform essentially all administrative and management services to Sun Life's Clarica and SunWise segregated funds. These activities are in the normal course of business for CI and Sun Life is compensated at normal commercial rates as a distributor of fund products as is disclosed in the funds' prospectus. These payments are in the form of commissions on sales of funds on a deferred sales charge basis (\$32.0 million versus \$21.2 million in fiscal 2003) and trailer fees (\$58.5 million versus \$52.9 million in fiscal 2003).

In addition, CI had a sub-advisory arrangement with Sun Life's U.S. based investment management company, MFS Institutional Advisors, Inc. ("MFS") of Boston, Massachusetts, who was a sub-advisor on a number of CI's funds. MFS was paid sub-advisory fees based on assets managed and at commercial rates. The sub-advisory arrangement with MFS was terminated in December 2003 in conjunction with CI's efforts to consolidate investment advisory relationships. Payments to Sun Life for sub-advisory services were \$0.4 million (\$2.1 million in fiscal 2003).

## QUARTER ENDED MAY 31, 2004 COMPARED WITH QUARTER ENDED MAY 31, 2003

### Market Review

Global markets, though up strongly on a year-over-year basis, during CI's quarter ended May 31, 2004, experienced marginal gains to losses – a reversal from the positive trend of the prior three quarters. During the quarter, the S&P/TSX Composite Index declined 3.8%, the S&P 500 Index rose 0.3%, the Dow Jones Industrial Average declined 1.3%, the NASDAQ Composite Index was flat and the MSCI World Index rose 0.3%. (All index returns are in Canadian dollars.) From a Canadian perspective, the performance in foreign markets was positively affected by the decline in the Canadian dollar, which fell 2.0% to \$0.73 U.S. during the quarter.

Notwithstanding the market performance, industry net sales of mutual funds as reported by IFIC continued to trend upward, with \$5.9 billion in net sales for the quarter ended May 31, 2004. This compared with industry net redemptions of \$2.4 billion for the quarter ended May 31, 2003, indicating a positive trend for the overall mutual fund industry which represents a significant portion of CI's business.

### Operating Review

CI's operating and financial results for the quarter ended May 31, 2004 include the results of Synergy, Skylon and Assante for the entire period, as all acquisitions closed in the second quarter of fiscal 2004. For details of the accounting treatment of these acquisitions, reference is made to Note 4 to the financial statements for the year ended May 31, 2004.

CI's total managed assets at May 31, 2004, were \$49.3 billion, up 52.6% from \$32.3 billion at May 31, 2003, and down 0.6% from \$49.6 billion at February 29, 2004. The increase of \$17.0 billion from May 31, 2003, was attributable to \$9.6 billion of acquired assets, market appreciation and increased institutional assets.

At May 31, 2004, CI had total fee-earning assets of \$61.3 billion, comprised of managed assets of \$49.3 billion, \$11.3 billion of assets under administration at Assante (net of \$8.1 billion of assets included in managed assets), and \$0.7 billion of other administered assets, which were primarily labour-sponsored funds.

CI's managed assets of \$49.3 billion were comprised of \$35.1 billion in mutual and segregated funds (\$28.6 billion at May 31, 2003), \$8.1 billion of assets under management in proprietary funds at Assante (nil at May 31, 2003), \$4.9 billion in institutional assets (\$3.5 billion at May 31, 2003), \$0.2 billion of managed labour-sponsored fund assets (nil at May 31, 2003) and \$1.0 billion in structured products (\$0.2 billion at May 31, 2003). The \$35.1 billion in mutual and segregated funds included \$1.9 billion in Class I funds (for which CI negotiates the management fees with institutional clients) and \$0.3 billion in Class F funds (which have reduced management fees, but pay no trailer fees to financial advisors). At May 31, 2003, Class I and Class F funds had \$1.3 billion and \$0.2 billion in assets, respectively.

Average assets for the quarter were approximately \$44.4 billion, up 60% from \$27.7 billion for the quarter ended May 31, 2003.

CI had overall net sales of retail managed assets during the quarter of \$502 million. This compares with \$320 million of net redemptions for the quarter ended May 31, 2003. During the quarter, net sales were as follows: CI segregated and mutual funds, \$267 million; Assante proprietary products, \$162 million; and \$73 million in labour-sponsored funds and structured products.

During the quarter, CI continued to be one of the industry's leaders for performance as measured by Morningstar Canada fund rankings. At May 31, 2004, CI had 25 funds with the top five-star rating, maintaining its position of being ranked as one of the top two companies in the industry over the past two years based on total five-star funds.

## Revenues

Total revenues for the quarter ended May 31, 2004, were \$263.9 million, compared with \$143.7 million in the prior year – an increase of 83.6%. The increase resulted from the higher level of fee-earning assets produced by market appreciation and the acquisitions of Synergy, Skylon and Assante in the quarter ended November 30, 2003. The most significant component of revenues for the quarter was management fees, which increased by 69.8% from \$128.0 million in the quarter ended May 31, 2003 to \$217.3 million in fiscal 2004.

Administration fees are predominantly fees earned on assets under administration in the Assante business, but also include fees earned from certain labour-sponsored funds and the administration of third-party assets. Administration fees rose from \$1.2 million in the prior year to \$25.5 million, primarily due to revenues earned by Assante on assets under administration (\$24.3 million versus nil in fiscal 2003). Administration fees from the Assante business should be considered in conjunction with investment dealer fee expenses, which represent payments to Assante investment advisors on assets under administration and which are described below.

Redemption fees for the quarter increased slightly from \$11.7 million to \$11.9 million in fiscal 2004, due to the higher level of assets subject to redemption fees as a result of the acquisition of Assante and Synergy, offset partly by a decline in overall redemptions of CI funds that are subject to redemption fees and by the aging of the assets subject to redemption fees, which means they have lower applicable redemption fee rates.

Performance fees realized during the quarter were negligible, as they were in the prior year. Performance fees are generally based on calendar year results for the funds that generate them and therefore generally are recognized in CI's third quarter results.

Other income was \$8.9 million for the quarter ended May 31, 2004, up 117% from \$4.1 million in the prior year. This was primarily income from CI's U.S. subsidiary, BGAM, of \$5.1 million, up from \$3.7 million in the prior year due to increased institutional assets, and the non-administrative fee income earned by Assante of \$3.5 million (nil in the prior year).

There was a gain on marketable securities of \$0.3 million during the period, compared with a realized loss of \$1.2 million in the prior year.

Intersegment revenues for the quarter totalled \$233.0 million for the Asset Management segment, \$50.8 million for the Asset Administration segment and \$4.0 million for the other segment. Intersegment elimination of total revenues were \$23.8 million for the quarter relating to the payment of deferred sales commissions and trailer fees from the Asset Management segment to the Asset Administration segment.

## Expenses

Selling, general and administrative ("SG&A") expenses fell 6% from \$69.0 million to \$65.1 million in fiscal 2004. Included in SG&A expenses is \$15.2 million related to stock option expense (\$42.8 million in fiscal 2003). Under the accounting rules for options with a cash settlement election, the potential cash payment is accrued over the vesting period of the option, adjusted for any payments made. The \$15.2 million expense reflected the impact of a \$1.39 increase in the price of CI common shares from \$15.05 at February 29, 2004, to \$16.44 at May 31, 2004. The \$42.8 million of compensation expense in fiscal 2003 related to CI's decision to amend the Employee Incentive Stock Option Plan to allow option holders to elect to receive cash from the company rather than purchasing optioned shares that would be sold in the open market was discussed above. Net of expenses related to stock option expense, SG&A expense rose 90% from \$26.2 million to \$49.9 million in fiscal 2004. The increase was primarily related to expenses associated with the acquisitions of Assante, Skylon and Synergy.

A large component of the SG&A expenses are expenses incurred in the operation of the mutual and segregated funds (which are recovered from the funds generally as incurred), which rose from \$24.0 million to \$30.8 million. The increase in the cost of fund operations reflected the additional cost of the Synergy and Assante assets acquired in fiscal 2004. Due to the achievement of cost synergies on the acquired assets, combined with the benefits of economies of scale created by the market appreciation of the CI funds, fund operating expenses as a percentage of assets under management declined 20% to 27.6 basis points for the quarter ended May 31, 2004, from 34.4 basis points in the quarter ended May 31, 2003. This reduction benefits unitholders in CI's funds.

SG&A expenses, net of expenses recovered from the funds, fell from \$45.0 million in fiscal 2003 to \$34.3 million in fiscal 2004. Net SG&A expenses include the effect of the option expense of \$42.8 million in fiscal 2003 and \$15.2 million in fiscal 2004 as described above. Net SG&A expenses for the fourth quarter of fiscal 2004 excluding this expense were \$23.1 million (\$3.3 million in the prior year). The majority of the increase in net SG&A expenses was due to SG&A expenses of the acquired Assante operations pertaining to its asset management and dealership activities. Net SG&A expenses related to CI's business excluding the option expense and Assante were \$5.8 million for the quarter, up from the \$3.3 million in the prior year, due to CI's expanded product offerings such as the Skylon structured products. Net SG&A expenses attributable to the Assante business were \$15.1 million, of which \$7.2 million was attributable to the Asset Management segment and \$7.9 million attributed to the Asset Administration segment.

Investment advisor fees were \$17.5 million for the quarter, up 38% from \$12.7 million. As a percentage of assets under management, the cost of investment advisor fees declined from 18.2 basis points to 15.7 basis points. This was achieved through cost efficiencies realized by rationalizing investment management activities, efficiencies gained from market appreciation of the managed assets and changes to existing contracts.

Investment dealer fees are the direct costs attributable to the operation of the Assante dealership, including payments to financial advisors based on the revenues generated from assets under administration. These fees were \$18.1 million (nil for the quarter ended May 31, 2003) and should be viewed in conjunction with administration fee revenue of \$25.5 million as described above when calculating the gross contribution of the dealership operation before general and operating expenses.

Trailer fees rose from \$36.3 million in fiscal 2003 to \$57.4 million in fiscal 2004, an increase of 58%. This increase, which was slightly below the 60% increase in average assets, reflected the trailer fees on the Skylon, Synergy and Assante assets, as well as market appreciation of CI's funds.

Distribution fees to limited partnerships declined from \$1.4 million to \$1.3 million due to the redemption of assets that had commissions funded by the limited partnerships. CI has not financed commissions with limited partnerships since 1994; however, BPI Financial Corporation, which CI acquired in 1999, used limited partnerships until 1997.

Amortization of deferred sales commissions fell from \$26.3 million to \$11.0 million. The decline reflected the completion of the amortization of the majority of the deferred sales commissions from CI's record industry-leading sales in 2000 and the revision, commencing on June 1, 2003, of CI's accounting estimate for the period of amortization of deferred sales commissions from 36 months to 84 months. Had CI not changed the accounting estimate, amortization of deferred sales commission, in the fourth quarter of fiscal 2004 would have been \$24.6 million, reducing income before tax by \$13.6 million and net income by \$8.7 million. The effect on the balance sheet is discussed above under Year Ended May 31, 2004 Compared With Year Ended May 31, 2003.

Interest expense increased from \$1.4 million in fiscal 2003 to \$2.2 million in fiscal 2004 because of the higher levels of debt associated with CI's acquisition of Skylon, Synergy and Assante. Other expenses increased from \$2.5 million in fiscal 2003 to \$3.3 million in fiscal 2004. These expenses are primarily related to the management of institutional assets at CI's U.S. subsidiary, which increased to \$2.7 million from \$2.0 million in the prior year.

Minority interest for the quarter ended May 31, 2004, was \$1.4 million, up slightly from \$0.7 million in the prior year. Minority interest is the 34% of BGAM owned by the investment managers of that firm.

## Income

Income before taxes was \$116.7 million for the quarter ended May 31, 2004, an increase of 367% from \$25.0 million in the prior year. The income tax provision increased from \$14.6 million in fiscal 2003 to \$41.3 million in the current year. The non-deductible stock-based compensation expense of \$8.1 million recorded in the fourth quarter of fiscal 2003 had the effect of increasing the effective tax rate on the provision for income taxes to 58.6%. In the current quarter, the effective tax rate is 35.4%.

Net income for the period was \$75.4 million (\$0.26 per share), compared with net income of \$10.4 million (\$0.04 per share) in the prior year. Adjusted for the option expense, net income was \$82.9 million or \$0.28 per share, compared with \$41.1 million or \$0.18 per share in fiscal 2003. This reflected an increase in the overall profitability of CI and the \$15.3 million (pre-tax) reduction in the amount of amortization of deferred sales commissions.

EBITDA was \$133.2 million (\$0.45 per share) for the quarter, an increase of 192% from \$45.6 million (\$0.19 per share) in fiscal 2003. Net of the effect of the option expense, EBITDA was \$144.5 million (\$0.49 per share) for the quarter ended May 31, 2004, compared to \$87.3 million (\$0.37 per share) in the prior year.

Free cash flow for the quarter was \$63.7 million, up from \$37.1 million in the prior fiscal year. The primary contributor to the increase in free cash flow was the increase in profitability and in future income taxes, offset partly by an increase in sales commissions paid during the quarter. Free cash flow was 73% greater than the \$36.9 million dividend (\$0.125 per share) paid during the quarter.

CI's operating margin on its asset management business was 1.16% for the quarter, up from 1.09% in the prior year. (Although the option expense is a compensation cost, the expense is based on an accrual affected by the price of CI shares at the end of the quarter and is therefore subject to volatility that may distort the actual cost that may be incurred over the life of the options.) The increase from the prior year was attributable to higher management fees, which rose from 1.84% to 1.95%; lower investment advisor fees, which declined from 0.18% to 0.16%; lower trailer fees, which declined from 0.52% to 0.51%; and higher net SG&A expenses, which rose from 0.05% to 0.12%.

## OUTLOOK

During fiscal 2004, global equity markets and investor sentiment improved considerably. This has been reflected in a rising trend for overall sales of managed assets, including mutual and segregated funds. In addition, over fiscal 2004, CI has maintained its position in the industry as one of the top two companies with the most funds with Morningstar Canada's five-star rating. CI believes that the good performance of its funds, expanded areas of distribution, and high levels of support, have all been critical in the improvement of CI's fund sales in fiscal 2004. However, the increased asset levels of CI's funds stemming from general market appreciation have had the greatest impact on the company's profitability.

Operationally, CI has positioned itself to take advantage of favourable market conditions by consolidating investment managers, streamlining its fund lineup and focusing on managing operations efficiently to lower corporate and fund operating expenses. In addition, CI is making significant progress in the enhancement of the Assante operations, which should create a strong platform for continued growth in this business.

The acquisition of IQON in June 2004 reflects CI's ongoing commitment to expanding its distribution capabilities and CI is taking steps to enhance product availability to IQON advisors as part of creating a platform for continued growth in the IQON business.

The Purchase Agreement providing for the purchase by CI of the Spectrum and Diversico assets from Sun Life and the issuance of common shares of CI to Sun Life as consideration for the purchase on July 25, 2002, and a Shareholders' Agreement between CI, Sun Life and Messrs. Ray Chang and Bill Holland, among other things, provided that during the period up to July 25, 2005:

1. Sun Life's ownership of CI shares would be limited to 34% of the outstanding common shares of CI. In the event that Sun Life desires to increase its ownership of CI beyond 34% by purchasing additional shares of CI, it is required to make an offer for all shares. Otherwise, the 34% threshold can only be exceeded if it arises as a result of CI buying back shares under the normal course issuer bid or other actions taken by CI;
2. Sun Life has the right to maintain its proportionate interest in CI, to a maximum of 34%, in the event that CI issues shares resulting in the dilution of Sun Life's share position;
3. Sun Life has the right to nominate two individuals for election as members of the Board of Directors who Messrs. Chang and Holland would vote for; and
4. Messrs. Holland, Stephen MacPhail and Peter Anderson would be subject to three-year executive employment agreements with CI.

After the expiry of the standstill agreement on July 25, 2005, the above rights and obligations are terminated and any Sun Life purchases will be subject only to the normal takeover rules under existing securities laws.

At this time, Sun Life has not provided CI with any indication that it has any intention of changing its current level of shareholding either prior to or after the expiry of the standstill agreement. Should this situation change, CI will evaluate what options are in the best interests of all shareholders at that time.



In November 2003, the Ontario Securities Commissions (“OSC”) announced that it was initiating a review of the Canadian mutual fund industry to determine whether or not there was late trading of funds past the 4:00 p.m. ET deadline or market timing of mutual funds (defined as trading designed to take advantage of stale-dated pricing between the 4:00 p.m. ET daily pricing period and non-North American markets that closed in different time zones). Several mutual fund companies, including CIMF, provided information to the OSC relating to these issues at that time.

In February 2004, the OSC conducted a follow-up request for more detailed information regarding these matters, including requesting information from CIMF. In May 2004, the OSC sent out a third request for information that included a broader review of funds in which frequent trading may have been occurring. CIMF has provided the OSC with all requested information. CI has found no evidence of any late trading in any of its funds and has disclosed to the OSC that there has been some instances of frequent trading in some of its funds.

In response to changed market perceptions towards frequent trading, in November 2003, CI implemented restrictions on frequent trading in its funds that subject certain trades that are redeemed or switched within 30 business days to a 2% fee.

In other matters, the Board of Directors declared a dividend of \$0.15 per share payable on September 15, 2004, to shareholders of record on September 1, 2004. The increased dividend reflects continuing strength in CI’s profitability and cash flow.

CONSOLIDATED

# FINANCIAL STATEMENTS

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# MANAGEMENT'S REPORT TO SHAREHOLDERS

Management of CI Fund Management Inc. is responsible for the integrity and objectivity of the consolidated financial statements and all other information contained in the Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are based on management's best information and judgment.

In fulfilling its responsibilities, management has developed internal control systems and procedures designed to provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are executed in accordance with appropriate authorization, and that accounting records may be relied upon to properly reflect the Corporation's business transactions.

The Audit Committee of the Board of Directors is composed of outside directors who meet periodically and independently with management and the auditors to discuss the Corporation's financial reporting and internal control. The Audit Committee reviews the results of the audit by the auditors and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval. The external auditors have unrestricted access to the Audit Committee.

Management recognizes its responsibility to conduct the Corporation's affairs in the best interests of its shareholders.



William T. Holland  
President and Chief Executive Officer



Stephen A. MacPhail  
Executive Vice-President, Chief Operating Officer  
and Chief Financial Officer

July 5, 2004

# AUDITORS' REPORT

To the Shareholders of  
**CI Fund Management Inc.**

We have audited the consolidated balance sheets of **CI Fund Management Inc.** ["CI"] as at May 31, 2004 and 2003 and the consolidated statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of CI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of CI as at May 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
July 5, 2004.

*Ernst & Young LLP*

Chartered Accountants

# CONSOLIDATED BALANCE SHEETS

AS AT MAY 31,

(in thousands of dollars)

**2004**

2003

## ASSETS

### Current

Cash	<b>25,117</b>	1,773
Client and trust funds on deposit <i>[note 3]</i>	<b>89,966</b>	–
Marketable securities	<b>28,829</b>	50,789
Accounts receivable and prepaid expenses <i>[note 10(c)]</i>	<b>96,438</b>	41,143
Income taxes recoverable	<b>6,881</b>	6,090
Future income taxes <i>[note 12]</i>	<b>27,865</b>	9,932
<b>Total current assets</b>	<b>275,096</b>	109,727
Capital assets <i>[note 7]</i>	<b>26,085</b>	4,689
Deferred sales commissions, net of accumulated amortization of \$266,265 [2003 - \$233,003]	<b>253,867</b>	145,876
Fund contracts <i>[notes 4 and 6]</i>	<b>1,010,682</b>	432,582
Goodwill <i>[note 4]</i>	<b>919,203</b>	329,680
Other assets <i>[note 8]</i>	<b>8,829</b>	3,096
	<b>2,493,762</b>	1,025,650

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Current

Accounts payable and accrued liabilities <i>[note 11]</i>	<b>116,068</b>	42,014
Client and trust funds payable <i>[note 3]</i>	<b>89,966</b>	–
Income taxes payable	<b>11,396</b>	–
Stock-based compensation <i>[note 10(b)]</i>	<b>46,127</b>	31,223
Deferred revenue	<b>4,272</b>	–
Current portion of long-term debt <i>[note 9]</i>	<b>25,538</b>	24,000
<b>Total current liabilities</b>	<b>293,367</b>	97,237
Deferred lease inducements	<b>2,712</b>	3,213
Long-term debt <i>[note 9]</i>	<b>219,627</b>	120,000
Future income taxes <i>[note 12]</i>	<b>442,765</b>	169,653
<b>Total liabilities</b>	<b>958,471</b>	390,103
Minority interest	<b>1,422</b>	2,822

### Shareholders' equity

Share capital <i>[note 10(a)]</i>	<b>1,740,983</b>	938,657
Deficit	<b>(207,114)</b>	(305,932)
<b>Total shareholders' equity</b>	<b>1,533,869</b>	632,725
	<b>2,493,762</b>	1,025,650

See accompanying notes

On behalf of the Board:



William T. Holland  
Director



G. Raymond Chang  
Director

# CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

FOR THE YEARS ENDED MAY 31,

(in thousands of dollars, except per share amounts)	<b>2004</b>	2003
<b>Revenue</b>		
Management fees	<b>710,950</b>	503,595
Administration fees	<b>58,037</b>	4,949
Redemption fees	<b>43,375</b>	50,251
Performance fees	<b>2,833</b>	112
Gain (loss) on sale of marketable securities	<b>690</b>	(4,971)
Other income	<b>28,788</b>	22,267
	<b>844,673</b>	576,203
<b>Expenses</b>		
Selling, general and administrative <i>[note 10(b)]</i>	<b>198,174</b>	152,766
Less: expenses recovered from funds	<b>109,782</b>	92,244
Net selling, general and administrative	<b>88,392</b>	60,522
Investment advisor fees	<b>58,583</b>	50,574
Investment dealer fees	<b>39,710</b>	–
Trailer fees	<b>197,766</b>	147,422
Distribution fees to limited partnerships <i>[note 5]</i>	<b>5,594</b>	6,772
Amortization of deferred sales commissions <i>[note 2]</i>	<b>33,988</b>	169,940
Amortization of fund contracts	<b>1,400</b>	–
Interest <i>[note 9]</i>	<b>8,588</b>	5,495
Other	<b>13,518</b>	11,411
	<b>447,539</b>	452,136
Minority interest	<b>5,390</b>	4,085
Income before income taxes	<b>391,744</b>	119,982
Provision for (recovery of) income taxes <i>[note 12]</i>		
Current	<b>86,314</b>	94,628
Future	<b>84,386</b>	(45,638)
	<b>170,700</b>	48,990
<b>Net income for the year</b>	<b>221,044</b>	70,992
Deficit, beginning of year	<b>(305,932)</b>	(236,690)
Cost of shares repurchased in excess of stated value <i>[note 10(a)]</i>	<b>(13,457)</b>	(75,495)
Dividends declared	<b>(108,769)</b>	(64,739)
<b>Deficit, end of year</b>	<b>(207,114)</b>	(305,932)
Earnings per share <i>[note 10(d)]</i>	<b>0.82</b>	0.32
Diluted earnings per share <i>[note 10(d)]</i>	<b>0.82</b>	0.31

*See accompanying notes*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31,

(in thousands of dollars)	2004	2003
<b>Operating Activities</b>		
Net income for the year	221,044	70,992
Add (deduct) items not involving cash		
Loss (gain) on sale of marketable securities	(690)	4,971
Amortization of deferred sales commissions and fund contracts	35,388	169,940
Amortization of other	6,510	2,007
Stock-based compensation	16,479	39,283
Minority interest	5,390	4,085
Future income taxes	84,386	(45,638)
	<b>368,507</b>	245,640
Net change in non-cash working capital balances related to operations	1,036	(67,802)
<b>Cash provided by operating activities</b>	<b>369,543</b>	177,838
<b>Investing Activities</b>		
Additions to capital assets	(7,390)	(254)
Purchase of marketable securities	(50,450)	(57,677)
Proceeds on sale of marketable securities	18,052	44,774
Sales commissions paid	(125,879)	(78,923)
Additions to other assets	(325)	–
Dispositions of other assets	–	823
Cash acquired (paid) on acquisitions, including transaction costs and cash acquired <i>[note 4]</i>	(412,133)	9,744
<b>Cash used in investing activities</b>	<b>(578,125)</b>	(81,513)
<b>Financing Activities</b>		
Long-term debt <i>[note 9]</i>	101,165	61,500
Repurchase of share capital <i>[note 10(a)]</i>	(21,392)	(104,176)
Issuance of share capital <i>[notes 4 and 10(a)]</i>	265,948	14,192
Distributions to minority interest	(5,026)	(4,437)
Dividends paid to shareholders	(108,769)	(64,739)
<b>Cash provided by (used in) financing activities</b>	<b>231,926</b>	(97,660)
<b>Net increase (decrease) in cash during the year</b>	<b>23,344</b>	(1,335)
Cash, beginning of year	1,773	3,108
<b>Cash, end of year</b>	<b>25,117</b>	1,773
<b>Supplemental cash flow information</b>		
Interest paid	7,334	5,421
Income taxes paid	86,458	139,509

*See accompanying notes*

NOTES TO CONSOLIDATED

# FINANCIAL STATEMENTS

MAY 31, 2004 AND 2003 (in thousands of dollars, except per share amounts)

CI Fund Management Inc. ["CI"] is incorporated under the laws of Ontario. CI's primary business is the management and distribution of a broad range of financial products and services, including mutual funds, segregated funds, financial planning, insurance, investment advice, wealth management and estate and succession planning.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

### **Basis of presentation**

The consolidated financial statements include the accounts of CI Fund Management Inc. ["CI"], CI Mutual Funds Inc. ["CIMF"], Assante Corporation ["Assante"], BPI Global Asset Management LLP ["BGAM"] and Skylon Capital Corp. ["Skylon"] and their subsidiaries.

Hereinafter, CI and its subsidiaries are referred to as CI.

CI's investment in Altrinsic Advisors, LLC, Altus Hedge Partners International Inc. and Trilogy Advisors, LLC are accounted for using the equity method. Accordingly, CI's proportionate share of earnings is included in income. During fiscal 2003, CI disposed of its investment in Altus Hedge Partners International Inc. During fiscal 2004, CI disposed of its investment in Trilogy Advisors, LLC.

### **Revenue recognition**

Management fees are based upon the net asset value of the respective funds and are recognized on an accrual basis. Management fees received in advance of amounts earned are disclosed separately as deferred revenue.

Administration fees and other income are recognized as services are provided under contractual arrangements. Administration fees include commission revenue, which is recorded on a trade date basis.

Redemption fees payable by unitholders of deferred sales charge mutual funds, the sales commission of which was financed by CI, are recognized as revenue on the trade date of the redemption of the applicable mutual fund securities.

Performance fees are recognized when performance thresholds have been satisfied and management is assured of their realization.



### Deferred sales commissions

Commissions paid on sales of deferred sales charge mutual funds represent commissions paid by CI to brokers and dealers, and are recorded on the trade date of the sale of the applicable mutual fund securities. These commissions are deferred and amortized over 84 months from the date recorded.

### Goodwill

Goodwill is recorded as the excess of purchase price over identifiable assets acquired. CI evaluates the carrying value of goodwill for each segment for potential impairment based on comparison to the allocated market capitalization by segment. If this test indicates a potential impairment for any segment, the carrying value of goodwill is evaluated against estimated discounted future cash flows for that segment. These evaluations are performed on an annual basis, or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment would be written off to income.

### Fund contracts

Fund contracts are recorded net of any write-down for impairment. CI evaluates the carrying value of fund contracts for potential impairment based on estimated discounted future cash flows. These evaluations are performed on an annual basis, or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment would be written off to income.

Fund administration contracts are amortized on a straight-line basis over twenty-five years. Fund management contracts with definite lives are amortized on a straight-line basis over eight years. Fund management contracts with indefinite lives are not amortized.

### Marketable securities

Marketable securities consist of investments in mutual fund units and shares of publicly traded companies. These investments are carried at the lower of cost and market value.

### Capital assets

Capital assets are recorded at cost less accumulated amortization. These assets are amortized over their estimated useful lives as follows:

Computer hardware	30% declining balance or straight-line over three to four years
Computer software	Straight-line over two to four years
Office equipment	20% declining balance or straight-line over five years
Leasehold improvements	Straight-line over the term of the lease
Property	Straight-line over twenty-five years

### Foreign currency translation

Foreign currency denominated items are translated into Canadian dollars as follows:

Integrated foreign subsidiaries are financially or operationally dependent on CI. Monetary assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars using historical rates. Revenue and expenses are translated at average rates prevailing during the year. Translation exchange gains and losses of integrated foreign subsidiaries are included in income.

Other foreign currency transactions are translated into Canadian dollars using the exchange rate in effect on the transaction date. At the balance sheet date, monetary assets and liabilities are translated into Canadian dollars using the exchange rates in effect at that date, revenue and expenses are translated at exchange rates prevailing during the year and the resulting translation exchange gains and losses are included in income.

Exchange gains and losses on forward contracts are included in income in the same period as the gains or losses on the items hedged.

#### **Deferred lease inducements**

Lease inducements are deferred and amortized on a straight-line basis over the term of the lease.

#### **Stock-based compensation**

CI has a stock-based compensation plan, which as described in note 10[b] includes a cash settlement option. Compensation expense is recognized and recorded as a liability based upon the intrinsic value of outstanding stock options as at the balance sheet date and the proportion of their vesting periods that have elapsed. On the exercise of stock options for shares, the liability recorded with respect to the options and consideration paid by the employees are credited to share capital.

#### **Fair value of financial instruments**

The estimated fair values of all financial instruments approximate their carrying amounts in the consolidated balance sheets.

CI had a forward contract outstanding as at May 31, 2004 to sell U.S. \$9,500 at a forward rate of \$1.3803 on October 26, 2004. The contract was settled on June 30, 2004 and CI realized a gain of \$339.

#### **Income taxes**

The liability method of tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

#### **Earnings per share**

The treasury stock method is used in the calculation of per share amounts. Basic per share amounts are determined by dividing income by the weighted average number of shares outstanding during the year. Prior to the amendment of the employee incentive stock option plan to introduce a cash settlement option, diluted per share amounts were determined by adjusting the weighted average number of shares outstanding for the dilutive effect of stock options. Subsequent to the amendment, there is no dilutive effect as CI accounts for its stock options as a liability.

#### **Business acquisitions**

The purchase method of accounting is used for business acquisitions and the results of operations are consolidated from the date of acquisition.

#### **Use of estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the consolidated financial statements and the reported amounts of certain revenue and expenses during the reporting year. Actual results could differ from those estimates.

## 2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

### **Deferred sales commissions**

Effective June 1, 2003, CI revised its accounting estimate for the period of amortization of deferred sales commissions from 36 months to 84 months. The revised estimate period has been determined by management to be consistent with the period over which CI currently benefits from the sales commissions paid.

### **Stock-based compensation**

As described in note 10[b], CI amended the terms of its employee incentive stock option plan on April 9, 2003 to introduce a cash settlement option. The amendment had the effect of decreasing net income for the year ended May 31, 2004 by \$17,161 [2003 - \$30,823].

## 3. CLIENT AND TRUST FUNDS

Included in trust funds on deposit are amounts representing cash held in trust with Canadian financial institutions for clients in respect of self-administered Registered Retirement Savings Plans and Registered Retirement Income Funds, and amounts received from clients for which the settlement date on the purchase of securities has not occurred or accounts in which the clients maintain a cash balance. The corresponding liabilities are included in trust funds payable.

## 4. BUSINESS ACQUISITIONS

### **Year ended May 31, 2004**

On October 6, 2003, CI completed its acquisition of all of the outstanding common shares of Synergy Asset Management Inc. ["Synergy"], manager of the Synergy mutual funds. As consideration, CI paid \$94,283 in cash and issued 1,655,874 common shares of CI.

On November 7, 2003, CI completed its acquisition of all of the outstanding common shares of Skylon Capital Corp., manager of the VentureLink Group of Funds and a series of retail structured products. As consideration, CI paid \$33,817 in cash, and must pay a portion of future performance fees, where earned on certain funds, which will be netted against performance fees earned in that period.

On November 14, 2003, CI completed its acquisition of all of the outstanding common shares of the Canadian operations of Assante Corporation, consisting of an investment management business and a network of financial advisors. As consideration, CI paid \$309,942 in cash and issued 38,846,974 common shares of CI.

In conjunction with the above three transactions, Sun Life Assurance Company of Canada purchased 20,698,368 common shares of CI from treasury for \$265,336 in order to maintain its proportionate share of ownership of CI.

In addition, CI issued 932,576 stock appreciation rights with a strike price of \$13.34 that expire in 2007.

Details of the net assets acquired, at fair value, are as follows:

	<b>Skylon Capital Corp. \$</b>	<b>Synergy Asset Management Inc. \$</b>	<b>Assante Corporation \$</b>	<b>Total \$</b>
Cash	1,188	1,802	24,387	27,377
Trust funds on deposit	–	–	91,988	91,988
Accounts receivable and prepaid expenses	2,957	1,259	45,586	49,802
Capital assets	–	378	19,855	20,233
Deferred sales commissions	–	5,600	10,500	16,100
Fund administration contracts	–	–	32,500	32,500
Fund management contracts	17,000	35,000	495,000	547,000
Other assets	–	485	6,192	6,677
Accounts payable and accrued liabilities	(1,216)	(3,619)	(60,927)	(65,762)
Trust funds payable	–	–	(91,988)	(91,988)
Future income taxes	(6,120)	5,255	(169,928)	(170,793)
Other liabilities	–	–	(14,876)	(14,876)
Goodwill on acquisition	20,351	70,406	498,766	589,523
	<b>34,160</b>	<b>116,566</b>	<b>887,055</b>	<b>1,037,781</b>

Details of the consideration given, at fair value, are as follows:

	<b>Skylon Capital Corp. \$</b>	<b>Synergy Asset Management Inc. \$</b>	<b>Assante Corporation \$</b>	<b>Total \$</b>
Cash	33,817	94,283	309,942	438,042
CI common shares	–	22,189	520,549	542,738
Assante Corporation				
shares already owned	–	–	55,533	55,533
Transaction costs	343	94	1,031	1,468
	<b>34,160</b>	<b>116,566</b>	<b>887,055</b>	<b>1,037,781</b>

The common shares of CI issued as consideration were valued at \$13.40 per share, the closing price immediately prior to the announcement date of the three acquisitions on August 22, 2003.

The goodwill on acquisition is not deductible for income tax purposes. \$485,623 of the balance relates to the Asset Management segment and \$103,900 relates to the Asset Administration segment.

Immediately following the Synergy acquisition, Synergy was amalgamated into CIMF.

Included in other liabilities are accruals for severance and exit costs of \$10,000 related to the three acquisitions, of which \$5,600 has been paid prior to May 31, 2004.

#### **Year ended May 31, 2003**

On July 25, 2002, CI acquired all of the outstanding shares of Spectrum Investment Management Limited ["Spectrum"], the mutual fund management subsidiary of Sun Life Assurance Company of Canada, and Clarica Diversico Ltd. ["Diversico"], the mutual fund management subsidiary of Clarica Life Insurance Company.

Details of the net assets acquired, at fair value, are as follows:

	\$
Cash	10,133
Fund management contracts	432,582
Other assets	23,760
Future income taxes	(127,716)
Other liabilities	(16,414)
Goodwill on acquisition	329,680
	652,025

Details of the consideration given, at fair value, are as follows:

	\$
CI common shares	651,636
Transaction costs	389
	652,025

The common shares of CI issued as consideration were valued at \$9.15 per share, the weighted average price on July 24, 2002.

The goodwill on acquisition relates to the Asset Management segment and is not deductible for income tax purposes.

Immediately following the acquisition, Spectrum and Diversico were amalgamated into CIMF.

## 5. LIMITED PARTNERSHIPS

During various periods for certain Funds prior to July 31, 1997, selling commissions on sales of securities of the Funds under the deferred sales charge method were financed by various limited partnerships. In return, the limited partnerships receive any redemption fees paid with respect to the related securities and CI is obligated to pay the limited partnerships an annual fee based on the net asset value of the securities sold so long as such securities remain outstanding and the applicable partnership has not been wound up. As at May 31, 2004, the net asset value of securities of the Funds financed by the limited partnerships was \$909,000 [2003 - \$1,047,000].

## 6. FUND CONTRACTS

Fund contracts consist of the following:

	2004		2003	
	Cost	Accumulated	Cost	Accumulated
	\$	amortization	\$	amortization
	\$	\$	\$	\$
Fund administration contracts	32,500	650	-	-
Fund management contracts				
Definite life	12,000	750	-	-
Indefinite life	967,582	-	432,582	-
	1,012,082	1,400	432,582	-
Less accumulated amortization	1,400		-	
<b>Net book value</b>	<b>1,010,682</b>		<b>432,582</b>	

## 7. CAPITAL ASSETS

Capital assets consist of the following:

	2004		2003	
	Cost	Accumulated	Cost	Accumulated
	\$	amortization	\$	amortization
	\$	\$	\$	\$
Computer hardware and software	38,453	20,377	17,004	15,694
Office equipment	7,511	5,006	5,151	4,224
Leasehold improvements	9,312	4,027	5,509	3,298
Property	345	126	345	104
	55,621	29,536	28,009	23,320
Less accumulated amortization	29,536		23,320	
<b>Net book value</b>	<b>26,085</b>		<b>4,689</b>	

## 8. OTHER ASSETS

Other assets consist of the following:

	2004	2003
	\$	\$
Investment in limited partnership	1,366	1,454
Investment in BGAM-managed funds	1,568	1,438
Deferred charges	930	—
Long-term fees receivable	3,577	—
Other	1,388	204
	8,829	3,096

## 9. LONG-TERM DEBT

CI has arranged a revolving credit facility with a Canadian chartered bank for general corporate purposes for \$500,000. Amounts may be borrowed under this facility through prime rate loans, which bear interest at the greater of the bank's prime rate and one month bankers' acceptance rates plus 0.75%, or bankers' acceptances, which bear interest at bankers' acceptance rates plus 0.30%.

CI may also borrow under this facility in the form of letters of credit, which bear a fee of 0.30% on any undrawn portion. At May 31, 2004, CI had accessed \$1,409 [2003 - nil] by way of letters of credit.

Loans are made by the bank under a 364-day revolving credit facility, the term of which may be extended annually at the bank's option. If the bank elects not to extend the term, the outstanding principal amount shall be repaid in equal monthly installments over the following four years.

The facility is collateralized by a registered general security agreement from CI and certain subsidiaries of CI, assignment of the shares in CIMF, Assante, certain subsidiaries of Assante and Skylon, and assignment of the management agreements and redemption fees of CIMF and certain subsidiaries of Assante. The facility also requires CI to meet certain financial ratios on a quarterly basis.

As at May 31, 2004, \$245,165 [2003 - \$144,000] has been drawn on this facility in the form of bankers' acceptances at an effective interest rate of 2.31% [2003 - 3.60%]. Interest expense attributable to the long-term debt for the year ended May 31, 2004 was \$6,554 [2003 - \$5,318].

## 10. SHARE CAPITAL

(a) Details with respect to share capital are as follows:

<b>Common shares</b>		
	<b>Number of shares (in thousands)</b>	<b>Stated value \$</b>
<b>Authorized</b>		
Unlimited preference shares		
Unlimited common shares		
<b>Issued</b>		
<b>May 31, 2002</b>	170,786	293,450
Issuance of share capital <i>[note 4]</i>	71,217	651,636
Share repurchase	(10,114)	(28,681)
Exercise of stock options	3,637	22,252
<b>May 31, 2003</b>	235,526	938,657
Issuance of share capital <i>[note 4]</i>	61,203	808,074
Share repurchase	(1,680)	(7,935)
Exercise of stock options	150	2,187
<b>May 31, 2004</b>	<b>295,199</b>	<b>1,740,983</b>

For shares issued on the exercise of stock options after the amendment to the employee incentive stock option plan on April 9, 2003 [note 10(b)], the liabilities at the dates on which the stock options were exercised amounted to \$1,575 [2003 - \$8,060] and were included in the stated value of the shares issued.

During fiscal 2004, 1,679,700 common shares [2003 - 10,114,000] were repurchased under a normal course issuer bid at an average cost of \$12.74 per share [2003 - \$10.30] for a total consideration of \$21,392 [2003 - \$104,176]. Deficit was increased by \$13,457 [2003 - \$75,495] for the cost of the shares repurchased in excess of their stated value.

### (b) Employee incentive stock option plan

CI has an employee incentive stock option plan [the "Plan"] for the executives and key employees of CI. The maximum number of common shares that may be issued under the Plan is 41,722,566. As at May 31, 2004, there are 9,685,799 common shares [2003 - 10,071,675] reserved for issuance on exercise of stock options. These options vest over periods of up to five years, may be exercised at prices ranging from \$4.00 to \$15.59 per common share with a total intrinsic value of \$54,561 as at May 31, 2004 and expire at dates up to 2009.

On April 9, 2003, the Board of Directors approved an amendment to the Plan, which introduced a cash settlement alternative to be included both in existing options and in options to be granted in the future. Consequently, CI will recognize a liability and compensation expense in future periods based upon the intrinsic value of the existing options and the proportion of their vesting periods that have elapsed. Based on a market price of \$10.68 per common share on April 9, 2003, CI immediately recognized a compensation expense of \$36,018. The total stock-based compensation expense for the year ended May 31, 2004 of \$39,988 [2003 - \$42,841] has been included in selling, general and administrative expenses.

Details of the Plan activity and status for the years ended May 31 are as follows:

	2004		2003	
	Number of options (in thousands)	Weighted average exercise price \$	Number of options (in thousands)	Weighted average exercise price \$
<b>Options outstanding, beginning of year</b>	<b>10,072</b>	<b>8.27</b>	12,720	6.72
Options granted	2,273	15.59	1,928	10.51
Options exercised	(2,601)	5.15	(4,171)	3.98
Options cancelled	(58)	10.94	(405)	14.39
<b>Options outstanding, end of year</b>	<b>9,686</b>	<b>10.81</b>	10,072	8.27
<b>Options exercisable, end of year</b>	<b>4,060</b>	<b>9.22</b>	3,811	6.86

Details of the Plan options outstanding and exercisable as at May 31, 2004 are as follows:

Exercise price \$	Number of options outstanding (in thousands)	Weighted average remaining contractual life (years)	Number of options exercisable (in thousands)
4.00	40	0.6	40
4.15	20	0.6	20
4.51	889	1.3	500
4.73	883	1.4	478
4.78	207	0.9	207
10.51	1,811	3.9	580
11.00	1,087	1.8	806
11.27	1,214	2.8	599
12.01	1,262	3.0	830
15.59	2,273	4.9	—
<b>4.00 to 15.59</b>	<b>9,686</b>	<b>3.1</b>	<b>4,060</b>

#### (c) Employee share purchase loans

CI has an employee share purchase loan program for key employees. These loans are renewable yearly and bear interest at prescribed rates. As at May 31, 2004, the carrying amount of employee share purchase loans is \$7,259 [2003 - \$11,831] and is included in accounts receivable and prepaid expenses. These loans become due immediately upon termination of employment or sale of the shares that are held as collateral. As at May 31, 2004, the shares held as collateral have a market value of approximately \$21,309 [2003 - \$25,144].

#### (d) Earnings per share

The weighted average number of shares outstanding for the years ended May 31 is as follows:

(in thousands)	2004	2003
Basic	<b>268,103</b>	224,850
Diluted	<b>268,103</b>	228,447



Before April 9, 2003, stock options were share-settled and the diluted earnings per share were calculated using the treasury stock method. On April 9, 2003, CI introduced a cash settlement alternative to its stock option plan. Diluted earnings per share were calculated using the diluted weighted average number of shares outstanding, which includes the dilutive effect, if any, of stock options. For the year ended May 31, 2003, the effect of options for 1,332,300 shares was excluded because such options were not "in the money" during the year. For the year ended May 31, 2004, there was no dilutive effect as CI accounts for its stock options as a liability.

#### (e) Stock appreciation rights

In conjunction with the acquisition of Assante, CI has issued share appreciation rights to certain former option holders. The intrinsic value of these rights at the date of grant has been included as a liability in the fair value of net assets acquired. These rights may only be settled for cash.

## 11. RELATED PARTY TRANSACTIONS

CI enters into transactions related to the advisory and distribution of the Funds with Sun Life Assurance Company of Canada, a shareholder of CI, and its subsidiaries ["Sun Life"]. These transactions are in the normal course of operations and have been recorded at the agreed upon exchange amounts. During the year ended May 31, 2004, CI incurred charges for deferred sales commissions of \$31,976 [2003 - \$21,162], investment advisor fees of \$379 [2003 - \$2,097] and trailer fees of \$58,511 [2003 - \$52,929] to Sun Life. The balance payable to Sun Life as at May 31, 2004 of \$6,085 [2003 - \$5,328] is included in accounts payable and accrued liabilities.

## 12. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of CI's future income tax liabilities and assets as at May 31 are as follows:

	2004 \$	2003 \$
<b>Future income tax liabilities</b>		
Fund contracts	353,316	121,200
Deferred sales commissions	91,242	49,036
Other	18,668	3,222
<b>Total future income tax liabilities</b>	<b>463,226</b>	<b>173,458</b>
<b>Future income tax assets</b>		
Stock-based compensation	16,661	9,932
Non-capital loss carryforwards	16,803	-
Acquisition related costs	11,204	-
Other	3,658	3,805
<b>Total future income tax assets</b>	<b>48,326</b>	<b>13,737</b>
<b>Net future income tax liabilities</b>	<b>414,900</b>	<b>159,721</b>

The net future income tax liabilities are classified in the consolidated balance sheets as follows:

	<b>2004</b>	2003
	<b>\$</b>	\$
Current future income tax assets	<b>27,865</b>	9,932
Non-current future income tax liabilities	<b>442,765</b>	169,653

The following is a reconciliation between CI's statutory and effective income tax rates:

	<b>2004</b>	2003
	<b>%</b>	%
Combined Canadian federal and provincial income tax rate	<b>36.4</b>	37.8
Increase (decrease) in taxes resulting from:		
Compensation expense on share settled options	<b>0.1</b>	2.8
Non-taxable portion of capital losses (gains)	–	0.9
Impact of rate changes on future income taxes	<b>7.3</b>	(0.1)
Other, net	<b>(0.2)</b>	(0.6)
	<b>43.6</b>	40.8

Substantively enacted increases to income tax rates during the year have resulted in a \$28,900 non-cash charge in the future tax provision for the year.

### 13. SEGMENTED INFORMATION

As a result of the acquisitions in fiscal 2004, CI now has three reportable segments: Asset Management, Asset Administration and Other. These segments reflect CI's internal financial reporting and performance measurement.

The Asset Management segment includes the operating results and net assets of CIMF and Assante Asset Management Ltd., which derive their revenues principally from the fees earned on the management of several families of mutual and segregated funds.

The Asset Administration segment includes the operating results and net assets of Assante Advisory Services Ltd. and most of its subsidiaries, including Assante Capital Management Ltd. and Assante Financial Management Ltd. These companies derive their revenues principally from commissions and fees earned on the sale of mutual funds and other financial products, and ongoing service to clients.

The Other segment mainly comprises revenues earned from managed institutional assets and corporate activities.

In the prior fiscal year, CI operated as one reportable segment.

Segmented information for the year ended May 31, 2004 is as follows:

	<b>Asset Management \$</b>	<b>Asset Administration \$</b>	<b>Other \$</b>	<b>Intersegment Elimination \$</b>	<b>Total \$</b>
Management fees	710,950	–	–	–	710,950
Administration fees	–	108,495	–	(50,458)	58,037
Other revenue	52,492	3,003	20,191	–	75,686
<b>Total revenue</b>	<b>763,442</b>	<b>111,498</b>	<b>20,191</b>	<b>(50,458)</b>	<b>844,673</b>
Net selling,					
general and administrative	65,186	18,085	5,121	–	88,392
Investment advisor fees	58,583	–	–	–	58,583
Investment dealer fees	–	80,076	–	(40,366)	39,710
Trailer fees	204,164	–	–	(6,398)	197,766
Amortization of deferred					
sales commissions	34,252	–	–	(264)	33,988
Amortization of fund contracts	750	650	–	–	1,400
Other expenses	6,349	–	12,763	–	19,112
<b>Total expenses</b>	<b>369,284</b>	<b>98,811</b>	<b>17,884</b>	<b>(47,028)</b>	<b>438,951</b>
<b>Income before income taxes and non-segmented items</b>	<b>394,158</b>	<b>12,687</b>	<b>2,307</b>	<b>(3,430)</b>	<b>405,722</b>
Interest expense					8,588
Minority interest					5,390
Provision for income taxes					170,700
<b>Net income for the year</b>					<b>221,044</b>
Identifiable assets	1,334,106	172,774	71,109	(3,430)	1,574,559
Goodwill	815,303	103,900	–	–	919,203
<b>Total assets</b>	<b>2,149,409</b>	<b>276,674</b>	<b>71,109</b>	<b>(3,430)</b>	<b>2,493,762</b>

## 14. COMMITMENTS AND CONTINGENCIES

### Lease commitments

CI has entered into leases relating to the rental of office premises and computer equipment. The approximate future minimum annual rental payments under such leases are as follows:

	<b>\$</b>
2005	12,463
2006	7,295
2007	6,171
2008	5,385
2009	4,240
2010 and thereafter	7,654

**Shareholder advisor agreements**

CI is a party to shareholder advisor agreements, which provide that the shareholder advisor has the option to require CI to purchase a practice that cannot otherwise be transitioned to a qualified buyer. The purchase price would be in accordance with a pre-determined formula contained in the shareholder advisor agreement.

**Indemnities**

CI has agreed to indemnify its directors and officers, and certain of its employees in accordance with CI's by-laws. CI maintains insurance policies that may provide coverage against certain claims.

**Litigation**

CI is engaged in litigation arising in the ordinary course of business. None of this litigation is expected to have a material adverse effect on the consolidated financial position of CI.

## 15. SUBSEQUENT EVENT

On June 3, 2004, CI acquired all of the outstanding common shares of IQON Financial Management Inc., a mutual fund dealership, and Synera Financial Services Inc., an independent insurance advisory firm, from Sun Life. As consideration, CI paid \$38,500 in cash. The net book value of the two companies is not significant.

## 16. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2004 consolidated financial statements.

CORPORATE  
**DIRECTORY**

SEPTEMBER 10, 2004

CI FUND MANAGEMENT INC.

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**DIRECTORS**

**Ronald D. Besse**

President,  
Besseco Holdings Inc.;  
Lead Director

Toronto, Ontario

**G. Raymond Chang**

President,  
G. Raymond Chang Ltd.;  
Director and Chairman  
of the Board (non-executive)

Toronto, Ontario

**Paul W. Derksen**

Executive Vice-President  
and Chief Financial Officer,  
Sun Life Financial Inc.;  
Director

Mississauga, Ontario

**William T. Holland**

President and  
Chief Executive Officer,  
CI Fund Management Inc.;  
Director

Toronto, Ontario

**A. Winn Oughtred**

Partner,  
Borden Ladner Gervais LLP;  
Director

Toronto, Ontario

**George W. Oughtred**

President,  
Privatbanken Holdings Inc.;  
Director

Calgary, Alberta

**C. James Prieur**

President and  
Chief Operating Officer,  
Sun Life Financial Inc.;  
Director

Toronto, Ontario

**David J. Riddle**

President,  
C-Max Capital Inc.;  
Director

Vancouver, B.C.

# CORPORATE INFORMATION

SEPTEMBER 10, 2004

## HEAD OFFICE

### CI Place

151 Yonge Street, Eleventh Floor  
Toronto, Ontario M5C 2W7  
Telephone: 416-364-1145  
Toll Free: 1 800 268-9374  
www.cifunds.com

## INVESTOR RELATIONS

Contact: Stephen A. MacPhail  
Telephone: 416-364-1145  
Toll Free: 1 800 268-9374  
E-mail: investorrelations@cifunds.com

## TRADING SYMBOL

CI Fund Management Inc. trades on the Toronto Stock Exchange under the symbol "CIX".

## AUDITORS

### Ernst & Young LLP

Chartered Accountants  
Toronto-Dominion Centre  
P.O. Box 251  
Toronto, Ontario M5K 1J7

## REGISTRAR AND TRANSFER AGENT

### Computershare Trust Company of Canada

9th Floor, 100 University Avenue  
Toronto, Ontario M5J 2Y1  
Telephone: 1 800 564-6253  
E-mail: caregistry@computershare.com

## DIGITAL REPORT

This Annual Report can be downloaded from CI's website at [www.cifunds.com](http://www.cifunds.com) under "Corporate Information".

## ANNUAL MEETING

The Annual and Special Meeting of Shareholders will be held on November 17, 2004 at 2:00 p.m. in Toronto, Ontario.

**This Annual Report contains forward-looking statements with respect to CI, including its business operations and strategy and financial performance and condition. Although management believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, including interest rates, business competition, changes in government regulations or in tax laws, and other factors discussed in materials filed with applicable securities regulatory authorities from time to time.**



