IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c.S.5, as amended

- and -

AGF FUNDS INC.

STATEMENT OF ALLEGATIONS

Staff of the Ontario Securities Commission ("Staff") make the following allegations:

I. Background

1. In November 2003, the Commission, in co-operation with the Investment Dealers' Association of Canada and the Mutual Fund Dealers Association of Canada, began an inquiry into potential late trading and market timing in the Canadian mutual fund industry. The inquiry involved 105 Canadian mutual fund companies, and has been carried out in three phases. The inquiry is in its third and final phase, is expected to continue over the next several weeks and involves a number of mutual fund managers.

II. The Respondent

2. AGF Funds Inc. ("AGF") is registered in Ontario as a mutual fund dealer, investment counsel and portfolio manager, and is responsible for the management of approximately 50 mutual funds ("AGF Funds") with mutual fund assets under management of approximately $24 billion (as of June 30, 2004).

III. Market Timing: Cause and Effect

3. Market timing involves short-term trading of mutual fund securities to take advantage of short term discrepancies between the "stale" values of securities within a mutual fund's portfolio and the current market value of those securities. Stale values can occur in mutual fund portfolios comprised, in whole or in part, of non-North American foreign equities. Stale values of those securities may result in stale values of the units of a mutual fund as a result of the way in which the net asset value ("NAV") of most mutual

funds is calculated for the purpose of determining the price at which an investor may purchase or redeem (buy or sell) a unit of the fund.

4. A market timer will attempt to take advantage of the difference between the "stale" value and an expected price movement of a fund the following day by trading in anticipation of those price movements.

IV. The Harm Caused by Market Timing of Mutual Funds

5. When certain investors engage in frequent trading market timing in foreign funds, and when those investors are not required to pay a proportionate fee to the fund, the economic interest of long-term unitholders of these foreign funds is adversely affected. Significant harm may be incurred by a fund in which frequent trading market timing occurs. Any such harm would be borne by all investors in the fund. In addition to dilution[1], market timing in a fund also may result in certain inefficiencies in that fund. Those inefficiencies, which will vary depending upon the particular fund, may involve increased transaction costs and disruption of a fund's portfolio management strategy (including the maintenance of cash or cash equivalents and/or monetization of investments to meet redemption requirements) and may impair a fund's long-term performance.

V. The Disclosure of AGF Simplified Prospectus and AIF

6. Specific statements contained in the Prospectuses and AIFs filed by AGF for the years 2000 to 2003 (although not identical from year to year) disclosed that AGF could require the payment of a short-term trading fee of up to 2% in circumstances where an investor seeks to either switch between AGF Funds or redeem units of an AGF Fund within 90 days of having purchased the units.

VI. Market Timing in AGF Funds

7. Certain investors holding accounts in AGF Funds have been identified as having profited as a result of frequent trading market timing strategies that were pursued in certain AGF Funds (the "Market Timing Traders"). The Market Timing Traders traded in AGF Funds through one or more Canadian investment dealers.

VII. The Fund Manager's Duty

8. A mutual fund manager is required by Ontario securities law to exercise the powers and discharge the duties of its office honestly and in good faith and in the best interests of the mutual fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. Compliance with this duty requires that a mutual fund manager have regard to the potential for harm to a fund from an investor seeking to employ a frequent trading market

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[1] Dilution of a fund's value caused by market timing can be calculated by taking the percentage difference between the fund's stale price and current market value multiplied by the amount invested.

timing strategy and take reasonable steps to protect a mutual fund from such harm to the extent that a reasonably prudent person would have done in the circumstances.

VIII. CONDUCT CONTRARY TO THE PUBLIC INTEREST

9. AGF implemented certain measures to protect the AGF Funds against the costs incurred as a result of the trading by the Market Timing Traders. Those measures reduced but did not negate the harm resulting from the market timing activities. AGF failed to recognize all costs (and, in particular, dilution) resulting from the frequent trading market timing activities of the Market Timing Traders and did not implement appropriate measures to protect the funds against the associated harm.

10. The conduct of AGF in failing to protect fully the best interests of the Relevant Funds in respect of the frequent trading market timing was contrary to the public interest.

11. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

Dated this 12th day of December, 2004.