


INVESTMENT GUIDE



Investing for a
Tax-Efficient Income Stream

Mutual funds offering steady income and tax-efficiency

“Of all debts,
men are least willing
to pay the taxes.” – Ralph Waldo Emerson

The Challenge of Income

Investors are increasingly looking for an investment that aims to provide tax efficient income without sacrificing the potential for capital gains. What would you do?

Mackenzie T-Series

Mackenzie T-Series consists of 18 funds, each structured to pay a monthly distribution of 8% per year. T-Series distributions are made up, in part, of return of capital (ROC) which is not taxable. This means that investors receive a regular tax-efficient cash flow without redeeming units and without triggering personal capital gains.

THE T-SERIES ADVANTAGE

High level of monthly cash flow – T-Series provides investors with a high monthly cash flow that can be difficult to achieve in the current interest rate environment.

Tax-deferred investing – T-Series distributions allow for some tax deferral. Investors are able to receive tax-efficient cash flow each month without redeeming units or triggering personal capital gains.

Investment flexibility – Having the flexibility to determine the timing of the tax liability can be crucial. T-Series allows the investor to customize the distribution amount between 0-8% through tax-free switching between different series of the same fund.

Selection of investment options – Available on leading Canadian and global mutual funds and also in Canadian and U.S. dollar options, T-Series allows investors a number of ways to generate income and possibly capital growth.

DON'T FORGET ABOUT TAXES

The Benefits of Deferring Taxes

- Higher after-tax income.
- The compounding effects of a larger investment.
- The possibility of paying less tax in the future due to lower marginal tax rates or lower capital gains inclusion rates.

The Logistics of Return of Capital

A fund that meets some or all of your income needs by returning a portion of your original investment is employing ROC. The advantage of this type of income is that it is not immediately taxable. If the fund's value is increasing at a rate that exceeds the distributions payout, the ROC is essentially returning a portion of the fund's unrealized appreciation, or growth. The net result is that the cash flow is tax deferred until the units are sold or the investor's capital is eventually depleted.

ROC results when distributions exceed the taxable income realized by the fund. For example, if a fund generates two cents in interest income over a given period and the fund has a fixed distribution of ten cents over the same period, the remaining eight cents would be deemed ROC. (Remember: any distribution that cannot be categorized as interest, dividends, or capital gains is deemed to be ROC).

ROC is not immediately taxable. It does, however, effectively lower the adjusted cost base (ACB) of the investment. When the investment is ultimately redeemed, any realized gain is then subject to tax. The benefit is that the tax on the gain has been largely deferred and allows the investor to control when they wish to incur the tax liability.

Tax Strategies for T-Series

Since many government tax credits and subsidies are based on a person's taxable income; the lower the income, the greater the benefit. T-Series may be used as an income supplement without reducing some of the government subsidies from programs such as Old Age Security, Guaranteed Income Supplement, spousal tax credits and medical expense credits, and the like. Historically, the majority of T-Series distributions have been made of non-taxable ROC, which is not included in the income calculations for these programs.

1. Old Age Security (OAS) Clawback. The OAS pension is a monthly benefit available, if applied for, to most Canadians aged 65 and over. An individual with an annual income greater than \$63,511 must begin to repay the OAS they receive. This is referred to as the OAS clawback. T-Series cash flows reduce the amount of taxable income, thereby reducing or eliminating the OAS clawback.

2. Guaranteed Income Supplement (GIS). The GIS provides additional money, on top of the OAS, to low income seniors living in Canada. To be eligible, the person must be receiving the OAS and not exceed certain income requirements. An investment in T-Series will result in less taxable income in the hands of the investor and increase the GIS each year.

3. Spousal Tax Credits. Individuals supporting a spouse or common law partner whose net income is less than \$1,089 may claim the spousal credit. That credit is reduced if the spouse or common law partner's net income is more than \$680, but less than \$7,484. A T-Series investment can provide the low income spouse with monthly income without decreasing or eliminating the credit.

Taxes and Traditional Sources of Income

Guaranteed Investment Certificates (GICs). The income from a GIC may be a reliable source of cash flow, but it is not the most tax-efficient. This is because the income is fully taxable when accrued, whether or not it is received.

Systematic Withdrawal Plans (SWPs). These provide investors with monthly cash flow through redemptions. To realize this monthly cash flow, SWPs draw down an investor's balance by selling units of their funds, and is immediately taxed on the resulting capital gains.

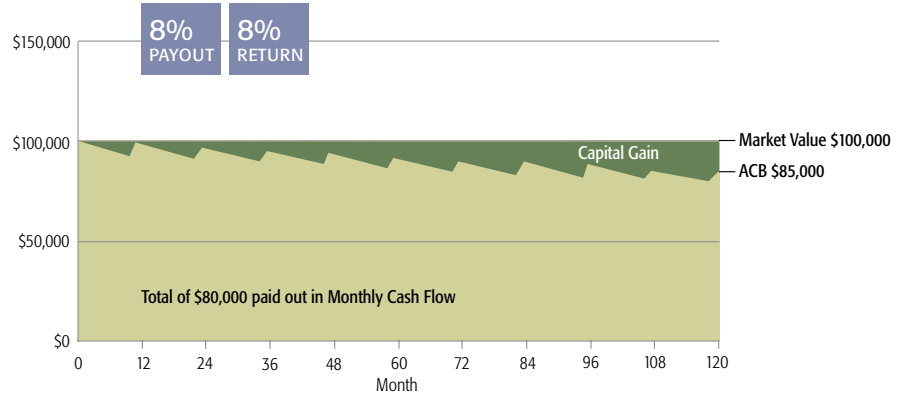
T-SERIES – HOW IT WORKS IN VARIOUS MARKET ENVIRONMENTS

The following assumptions are applied to each of the following three scenarios:

- An initial investment of \$100,000 held for a period of 10 years.
- 8% annual distribution based on year end NAVPU, comprised of ROC (80%) and interest (20%).
- Year-end realized capital gain of 5% of NAVPU, automatically reinvested.
- The investor's marginal tax rate is 43%.

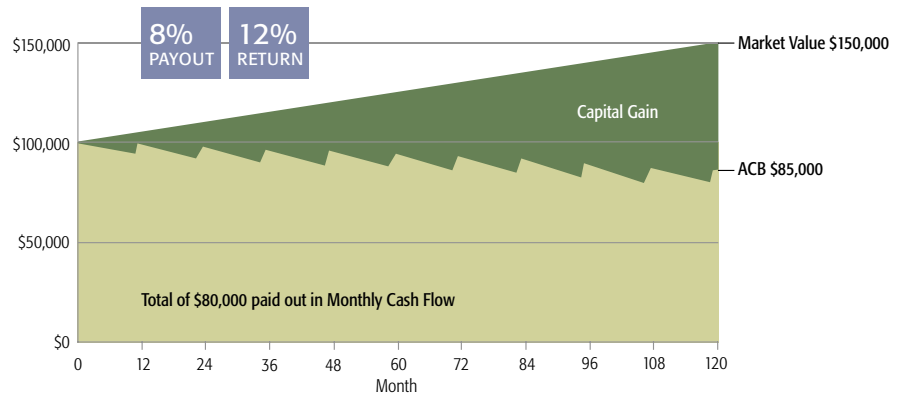
In this scenario, the fund generates enough return to sustain the 8% annual distribution and return the initial investment to the investor. Tax on the majority of the distributions has been deferred to this point, resulting in a capital gain upon redemption.

$$\begin{aligned} \text{Capital gain} &= \text{market value} - \text{ACB} \\ &= \$100,000 - \$85,000 \\ &= \$15,000 \end{aligned}$$



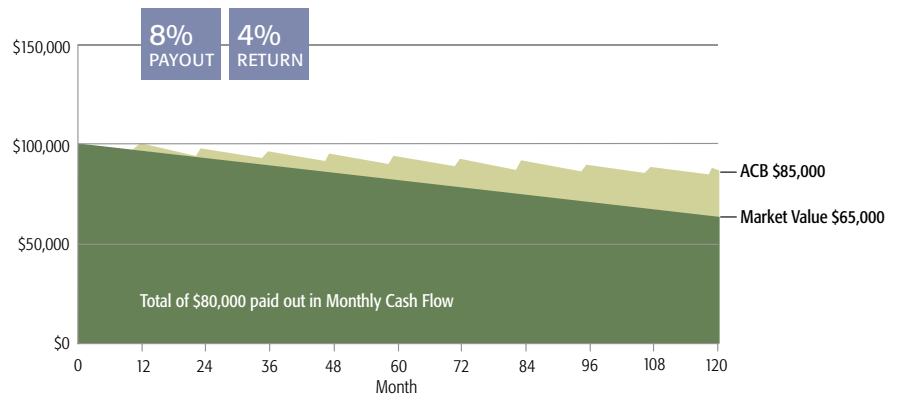
The fund generates a return well beyond the 8% annual distribution. This results in the ability to not only sustain the 8% distribution, but also to provide capital growth on the investment. Upon redemption, the investor will have a capital gain due to the tax deferral of the distributions and the capital growth on the investment.

$$\begin{aligned} \text{Capital gain} &= \text{market value} - \text{ACB} \\ &= \$150,000 - \$85,000 \\ &= \$65,000 \end{aligned}$$



In this example, the fund's return is not high enough to sustain the 8% annual distribution and therefore, the market value of the investment drops below the initial investment value. Upon redemption, the investor will have a capital loss. Absent additional contributions from the investor, the 8% annual distributions will eventually deplete the investor's entire investment in the fund.

$$\begin{aligned} \text{Capital loss} &= \text{market value} - \text{ACB} \\ &= \$65,000 - \$85,000 \\ &= -\$20,000 \end{aligned}$$



MONTHLY INCOME FLOW

Current distribution rates

The goal is to maintain a distribution rate of approximately 8% of the fund's year-end net asset value per unit (NAVPU). This distribution rate was selected to best approximate the potential long-term returns of the funds. Recognizing that market conditions do change, Mackenzie will maintain the flexibility to adjust the rate each year. This will serve to manage capital erosion, as the actual payout will move in line with the NAVPU of each fund. The distributions for 2007 are as follows:

Mackenzie T-Series Distributions for 2007

	2006 Year End NAVPU	2007 Annual Payout	2007 Monthly Payout	Change from 2006
Mackenzie Cundill Canadian Balanced Fund – T	\$13.03	\$1.08	\$0.090	Same
Mackenzie Cundill Canadian Security Fund – T**	\$15.00	\$1.20	\$0.100	
Mackenzie Cundill Global Balanced Fund – T ^	\$13.24	\$1.08	\$0.090	Same
Mackenzie Cundill Global Balanced Fund – T (\$USD)	\$11.35	~\$0.895	~\$0.075	Same
Mackenzie Cundill Value Fund – T* ^	\$15.01	\$1.20	\$0.100	Same
Mackenzie Cundill Value Fund – T (\$USD)	\$12.66	~\$1.02	~\$0.085	Same
Mackenzie Ivy Canadian Fund – T**	\$15.00	\$1.20	\$0.100	
Mackenzie Ivy Foreign Equity Fund – T**	\$15.00	\$1.20	\$0.100	
Mackenzie Ivy Growth & Income Fund – T	\$12.12	\$0.96	\$0.080	Lower, \$0.005/mo
Mackenzie Ivy Global Balanced Fund – T ^	\$11.69	\$0.96	\$0.080	Higher, \$0.005/mo
Mackenzie Ivy Global Balanced Fund – T (\$USD)	\$10.02	~\$0.078	~\$0.065	Higher, \$0.005/mo
Mackenzie Balanced Fund – T	\$12.58	\$1.02	\$0.085	Same
Mackenzie Founders Fund – T~	\$15.00	\$1.20	\$0.100	
Mackenzie Maxxum Monthly Income Fund – T	\$13.05	\$1.08	\$0.090	Higher, \$0.005/mo
Mackenzie Maxxum Canadian Balanced Fund – T	\$16.27	\$1.32	\$0.110	Higher, \$0.005/mo
Mackenzie Maxxum Dividend Fund – T*	\$15.52	\$1.26	\$0.105	Higher, \$0.005/mo
Mackenzie Universal Canadian Balanced Fund – T	\$13.28	\$1.08	\$0.090	Same
Keystone Balanced Portfolio – T	\$15.39	\$1.26	\$0.105	Same
Keystone Balanced Growth Portfolio – T	\$15.49	\$1.26	\$0.105	Same
Keystone Conservative Portfolio – T	\$14.52	\$1.20	\$0.100	Same
Keystone Diversified Income Portfolio – T*	\$13.95	\$1.14	\$0.095	Lower, \$0.005/mo

* launched in May 2006

~launched in December 2006

**launched in April 2007

^ \$USD T-Series funds will have currency conversion apply to \$CAD year-end NAV and monthly distribution amount.

Mackenzie T-Series Tax Efficiency for 2006

	Total 2006 Annual Distrib.	Income	Return of Capital	% ROC
Mackenzie Balanced Fund – T	\$1.02	\$0.0854	\$0.9346	92%
Mackenzie Cundill Canadian Balanced Fund – T	\$1.08	\$0.1500	\$0.9300	86%
Mackenzie Cundill Global Balanced Fund – T	\$1.08	\$0.1230	\$0.9570	89%
Mackenzie Cundill Global Balanced Fund – T (\$USD)	\$0.64	\$0.0729	\$0.5669	89%
Mackenzie Cundill Value Fund – T*	\$0.80	\$0.1006	\$0.6994	87%
Mackenzie Cundill Value Fund – T (\$USD)*	\$0.62	\$0.0002	\$0.6210	100%
Mackenzie Ivy Global Balanced Fund – T	\$0.90	\$0.0000	\$0.9000	100%
Mackenzie Ivy Global Balanced Fund – T (\$USD)	\$0.53	\$0.0000	\$0.5331	100%
Mackenzie Ivy Growth & Income Fund – T*	\$1.02	\$0.1105	\$0.9095	89%
Mackenzie Maxxum Canadian Balanced Fund – T*	\$1.26	\$0.1605	\$1.0995	87%
Mackenzie Maxxum Dividend Fund – T*	\$0.80	\$0.0280	\$0.7720	96%
Mackenzie Maxxum Monthly Income Fund – T	\$1.02	\$0.1334	\$0.8866	87%
Mackenzie Universal Canadian Balanced Fund – T	\$1.08	\$0.0000	\$1.0800	100%
Keystone Balanced Portfolio – T	\$1.26	\$0.0000	\$1.2600	100%
Keystone Balanced Growth Portfolio – T	\$1.26	\$0.0000	\$1.2600	100%
Keystone Conservative Portfolio – T	\$1.20	\$0.0145	\$1.1855	99%
Keystone Diversified Income Portfolio – T*	\$1.20	\$0.1043	\$1.0957	91%

*Some funds may have had additional year-end capital gains distributions in December which were not included in the "Tax Efficiency" calculation.

THE FUNDS

T-Series Fund Codes

	SCS	RCS	Low Load
Mackenzie Balanced Fund	1268	1471	2169
Mackenzie Founders Fund	2339	3345	3346
Mackenzie Cundill Canadian Balanced Fund	1225	1467	2161
Mackenzie Cundill Canadian Security Fund	2400	3410	3413
Mackenzie Cundill Global Balanced Fund	1226	1468	2163
Mackenzie Cundill Global Balanced Fund (\$USD)	2294	3312	3295
Mackenzie Cundill Value Fund	2291	3314	3316
Mackenzie Cundill Value Fund (\$USD)	2293	3311	3293
Mackenzie Ivy Canadian Fund	2404	3411	3414
Mackenzie Ivy Foreign Equity Fund	2407	3412	3415
Mackenzie Ivy Global Balanced Fund	1227	1469	2167
Mackenzie Ivy Global Balanced Fund (\$USD)	2295	3313	3299
Mackenzie Ivy Growth & Income Fund	1228	1470	2168
Mackenzie Maxxum Canadian Balanced Fund	1568	1811	2179
Mackenzie Maxxum Dividend Fund	2292	3315	3317
Mackenzie Maxxum Monthly Income Fund	1269	1472	2183
Mackenzie Universal Canadian Balanced Fund	1270	1473	2185
Keystone Balanced Growth Portfolio	2136	3143	2202
Keystone Balanced Portfolio	2135	3142	2203
Keystone Conservative Portfolio	2137	3141	2204
Keystone Diversified Income Portfolio	2209	3216	3214

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