

# Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the three months ended March 31, 2012 and should be read in conjunction with the unaudited interim Condensed Consolidated Financial Statements (Interim Financial Statements) as well as the 2011 IGM Financial Inc. Annual Report filed on [www.sedar.com](http://www.sedar.com). Commentary in the MD&A as at and for the three months ended March 31, 2012 is as of May 4, 2012.

## Basis of Presentation and Summary of Accounting Policies

The Interim Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IFRS) and are presented in Canadian dollars (Note 2 of the Interim Financial Statements).

### FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect IGM Financial's current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Company's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Company, as well as the outlook for North American and international economies, for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a

conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

A variety of material factors, many of which are beyond the Company's and its subsidiaries' control, affect the operations, performance and results of the Company, and its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting

changes, operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Company's forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not place undue reliance on forward-looking statements.

Other than as specifically required by law, the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Company's business is provided in its disclosure materials filed with the securities regulatory authorities in Canada, available at [www.sedar.com](http://www.sedar.com).

# IGM Financial Inc.

## Summary of Consolidated Operating Results

IGM Financial Inc. (TSX:IGM) is one of Canada's premier financial services companies. The Company's principal businesses are Investors Group Inc. and Mackenzie Financial Corporation, each operating distinctly within the advice segment of the financial services market.

Total assets under management were \$124.1 billion as at March 31, 2012 compared with \$134.1 billion at March 31, 2011 and \$118.7 billion at December 31, 2011. Average total assets under management for the first quarter of 2012 were \$122.8 billion compared to \$131.9 billion in the first quarter of 2011.

Net earnings available to common shareholders for the three months ended March 31, 2012 were \$199.7 million or 78 cents per share compared to operating earnings available to common shareholders, excluding other items outlined below, of \$211.2 million

or 81 cents per share in 2011. This represents a decrease of 3.7% on a per share basis. Net earnings available to common shareholders, including other items, for the first quarter ended March 31, 2011 were \$212.1 million or 81 cents per share.

Other items for the three months ended March 31, 2011 consisted of net earnings from discontinued operations of \$0.9 million related to the sale of M.R.S. Trust Company and M.R.S. Inc. (MRS).

Shareholders' equity was \$4.5 billion as at March 31, 2012 unchanged from December 31, 2011. Return on average common equity based on operating earnings for the first quarter ended March 31, 2012 was 18.4% compared with 20.3% in 2011. The quarterly dividend per common share declared in the first quarter of 2012 was 53.75 cents, unchanged from the fourth quarter of 2011.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

Three months ended (\$ millions)	2012 MARCH 31		2011 DECEMBER 31		2011 MARCH 31	
	NET EARNINGS	EPS	NET EARNINGS	EPS	NET EARNINGS	EPS
<b>Operating earnings available to common shareholders – Non-IFRS measure</b>	\$ 199.7	\$ 0.78	\$ 196.0	\$ 0.76	\$ 211.2	\$ 0.81
Net earnings – Discontinued operations	–	–	29.6	0.11	0.9	–
Proportionate share of affiliate's provision	–	–	5.0	0.02	–	–
<b>Net earnings available to common shareholders – IFRS</b>	\$ 199.7	\$ 0.78	\$ 230.6	\$ 0.89	\$ 212.1	\$ 0.81
<b>EBITDA – Non-IFRS measure</b>	\$ 360.5		\$ 354.6		\$ 396.3	
Commission amortization	(70.0)		(69.0)		(72.5)	
Amortization of capital assets and intangible assets and other	(8.9)		(10.3)		(8.0)	
Interest expense on long-term debt	(22.9)		(23.2)		(30.3)	
Proportionate share of affiliate's provision	–		5.0		–	
<b>Earnings before income taxes and discontinued operations</b>	258.7		257.1		285.5	
Income taxes	(56.8)		(53.9)		(72.1)	
Net earnings – Discontinued operations	–		29.6		0.9	
Perpetual preferred share dividends	(2.2)		(2.2)		(2.2)	
<b>Net earnings available to common shareholders – IFRS</b>	\$ 199.7		\$ 230.6		\$ 212.1	

## DISCONTINUED OPERATIONS

On November 16, 2011, the Company completed the sale of 100% of the common shares of MRS. In accordance with IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*, the operating results and cash flows of MRS, which were previously included in the Mackenzie reportable segment, have been classified as discontinued operations.

Net earnings from discontinued operations for all periods under review in 2011 are reported as a separate line item on the following tables: Table 1 – *Reconciliation of Non-IFRS Financial Measures*; Table 2 and Table 3 – *Consolidated Operating Results by Segment*; and Table 6 – *Summary of Quarterly Results*.

Refer to Note 3 of the Interim Financial Statements for additional information.

## NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

Net earnings available to common shareholders, which is an additional measure in accordance with IFRS, may be subdivided into two components consisting of:

- Operating earnings available to common shareholders; and
- Other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful.

“Operating earnings available to common shareholders”, “operating diluted earnings per share” (EPS) and “operating return on average common equity” (ROE) are non-IFRS financial measures which are used

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q1 2012 VS. Q1 2011

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2012 MAR. 31	2011 MAR. 31	2012 MAR. 31	2011 MAR. 31	2012 MAR. 31	2011 MAR. 31	2012 MAR. 31	2011 MAR. 31
<b>Revenues</b>								
Fee income	\$ 385.8	\$ 403.2	\$ 195.9	\$ 216.2	\$ 45.4	\$ 49.6	\$ 627.1	\$ 669.0
Net investment income and other	21.5	21.3	(0.2)	0.8	24.7	20.3	46.0	42.4
	407.3	424.5	195.7	217.0	70.1	69.9	673.1	711.4
<b>Expenses</b>								
Commission	123.6	124.0	68.2	76.0	29.6	33.6	221.4	233.6
Non-commission	92.1	85.8	65.7	63.5	12.3	12.7	170.1	162.0
	215.7	209.8	133.9	139.5	41.9	46.3	391.5	395.6
<b>Earnings before interest and taxes</b>	\$ 191.6	\$ 214.7	\$ 61.8	\$ 77.5	\$ 28.2	\$ 23.6	281.6	315.8
Interest expense							(22.9)	(30.3)
Earnings before income taxes and discontinued operations							258.7	285.5
Income taxes							56.8	72.1
<b>Net earnings from continuing operations</b>							201.9	213.4
Net earnings from discontinued operations							–	0.9
<b>Net earnings</b>							201.9	214.3
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							\$ 199.7	\$ 212.1
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 199.7	\$ 211.2

(1) Refer to Non-IFRS Financial Measures disclosure in the Summary of Consolidated Operating Results for an explanation of the Company's use of non-IFRS financial measures.

to provide management and investors with additional measures to assess earnings performance. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

“Earnings before interest and taxes” (EBIT) and “earnings before interest, taxes, depreciation and amortization” (EBITDA) are also non-IFRS financial measures. EBIT and EBITDA are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company’s results. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

“Earnings before income taxes and discontinued operations”, “net earnings from continuing operations” and “net earnings available to common shareholders” are additional IFRS measures which are used to provide management and investors with additional measures to assess earnings performance. These measures are considered additional IFRS measures as they are in addition to the minimum line items required by IFRS and are relevant to an understanding of the entity’s financial performance.

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1, 2 and 3.

TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q1 2012 VS. Q4 2011

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2012 MAR. 31	2011 DEC. 31	2012 MAR. 31	2011 DEC. 31	2012 MAR. 31	2011 DEC. 31	2012 MAR. 31	2011 DEC. 31
<b>Revenues</b>								
Fee income	\$ 385.8	\$ 373.7	\$ 195.9	\$ 192.2	\$ 45.4	\$ 42.4	\$ 627.1	\$ 608.3
Net investment income and other	21.5	16.3	(0.2)	0.2	24.7	19.9	46.0	36.4
	407.3	390.0	195.7	192.4	70.1	62.3	673.1	644.7
<b>Expenses</b>								
Commission	123.6	120.1	68.2	66.4	29.6	27.5	221.4	214.0
Non-commission	92.1	87.8	65.7	57.1	12.3	10.5	170.1	155.4
	215.7	207.9	133.9	123.5	41.9	38.0	391.5	369.4
<b>Earnings before interest and taxes</b>	\$ 191.6	\$ 182.1	\$ 61.8	\$ 68.9	\$ 28.2	\$ 24.3	281.6	275.3
Interest expense							(22.9)	(23.2)
Proportionate share of affiliate’s provision							–	5.0
Earnings before income taxes and discontinued operations							258.7	257.1
Income taxes							56.8	53.9
<b>Net earnings from continuing operations</b>							201.9	203.2
Net earnings from discontinued operations							–	29.6
<b>Net earnings</b>							201.9	232.8
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							\$ 199.7	\$ 230.6
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 199.7	\$ 196.0

(1) Refer to Non-IFRS Financial Measures disclosure in the Summary of Consolidated Operating Results for an explanation of the Company’s use of non-IFRS financial measures.

## REPORTABLE SEGMENTS

IGM Financial's reportable segments, which reflect the current organizational structure and internal financial reporting, are:

- Investors Group
- Mackenzie
- Corporate and Other.

Management measures and evaluates the performance of these segments based on EBIT as shown in Tables 2 and 3. Segment operations are discussed in each of their respective Review of Segment Operating Results sections of the MD&A.

Certain items reflected in Tables 2 and 3 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt. The change in interest expense for the first quarter of 2012 compared to the first quarter of 2011 reflected the repayment of the \$450 million 2001 Series 6.75% debentures on May 9, 2011.
- *2011 Proportionate share of affiliate's provision* – represents changes in litigation provisions recorded by Lifeco in the fourth quarter of 2011. Lifeco recorded net changes in litigation provisions and the Company's after-tax proportionate share was a benefit of \$5.0 million.
- *Income taxes* – changes in the effective tax rates are shown in Table 4.

Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings, and regularly assesses the overall adequacy of its provision for

income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. Any changes in management's best estimates are reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.

- *2011 Net earnings from discontinued operations* – represents the operating results of MRS, previously reported in the Mackenzie segment. Net earnings from discontinued operations were \$0.9 million for the first quarter of 2011 and \$29.6 million for the fourth quarter of 2011.

Net earnings from discontinued operations for the fourth quarter ended December 31, 2011 included the after-tax gain on the sale of MRS of \$30.3 million. Excluding the after-tax gain, the net loss for MRS in the fourth quarter of 2011 totalled \$0.7 million.

- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares.

## SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$124.1 billion at March 31, 2012 compared to \$134.1 billion at March 31, 2011. Changes in total assets under management are detailed in Table 5.

Changes in assets under management for Investors Group and Mackenzie are discussed further in each of their respective Review of Business sections in the MD&A.

TABLE 4: EFFECTIVE INCOME TAX RATE

Three months ended	2012 MAR. 31	2011 DEC. 31	2011 MAR. 31
<b>Income taxes at Canadian federal and provincial statutory rates</b>	26.48 %	28.14 %	28.16 %
Effect of:			
Proportionate share of affiliate's earnings	(2.03)	(2.05)	(1.68)
Loss consolidation <sup>(1)</sup>	(1.90)	(2.93)	(1.04)
Other items	(0.58)	(1.64)	(0.18)
<b>Effective income tax rate – operating earnings</b>	21.97	21.52	25.26
Proportionate share of affiliate's provision	–	(0.55)	–
<b>Effective income tax rate – net earnings continuing operations</b>	21.97 %	20.97 %	25.26 %

(1) See the Transactions with Related Parties section of this MD&A for additional information.

TABLE 5: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2012	2011	2012	2011	2012	2011	2012	2011
	MAR. 31	MAR. 31	MAR. 31	MAR. 31				
<b>Mutual funds</b>								
Gross sales – money market	\$ 185.2	\$ 212.6	\$ 113.6	\$ 156.0	\$ 19.3	\$ 19.4	\$ 318.1	\$ 388.0
Gross sales – long term	1,648.4	1,833.3	1,358.3	1,805.9	120.8	149.4	3,127.0	3,788.2
Total mutual fund gross sales	\$ 1,833.6	\$ 2,045.9	\$ 1,471.9	\$ 1,961.9	\$ 140.1	\$ 168.8	\$ 3,445.1	\$ 4,176.2
Net sales – money market	\$ 11.9	\$ 30.7	\$ (25.6)	\$ (35.8)	\$ 13.9	\$ 15.0	\$ 0.2	\$ 9.9
Net sales – long term	163.3	473.3	(483.8)	(7.4)	16.8	58.4	(304.2)	523.9
Total mutual fund net sales	\$ 175.2	\$ 504.0	\$ (509.4)	\$ (43.2)	\$ 30.7	\$ 73.4	\$ (304.0)	\$ 533.8
<b>Sub-advisory, institutional and other accounts</b>								
Gross sales	\$ –	\$ –	\$ 1,248.7	\$ 1,524.3	\$ –	\$ –	\$ 912.0	\$ 1,400.0
Net sales	–	–	(423.6)	163.9	–	–	(549.1)	85.2
<b>Combined</b>								
Gross sales	\$ 1,833.6	\$ 2,045.9	\$ 2,720.6	\$ 3,486.2	\$ 140.1	\$ 168.8	\$ 4,357.1	\$ 5,576.2
Net sales	175.2	504.0	(933.0)	120.7	30.7	73.4	(853.1)	619.0
<b>Change in total assets under management</b>								
Net sales	\$ 175.2	\$ 504.0	\$ (933.0)	\$ 120.7	\$ 30.7	\$ 73.4	\$ (853.1)	\$ 619.0
Market and income	2,717.2	1,759.3	3,647.4	2,211.9	114.8	72.1	6,286.4	3,977.6
Net change in assets	2,892.4	2,263.3	2,714.4	2,332.6	145.5	145.5	5,433.3	4,596.6
Beginning assets	57,735.3	61,785.3	61,652.0	68,346.3	2,811.5	2,688.1	118,712.8	129,483.5
<b>Ending assets</b>	<b>\$ 60,627.7</b>	<b>\$ 64,048.6</b>	<b>\$ 64,366.4</b>	<b>\$ 70,678.9</b>	<b>\$ 2,957.0</b>	<b>\$ 2,833.6</b>	<b>\$ 124,146.1</b>	<b>\$ 134,080.1</b>

(1) Total Gross Sales and Net Sales excluded \$338 million and \$126 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$124 million and \$79 million in 2011).

Total assets under management excluded \$3.8 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$3.5 billion at March 31, 2011).

## SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 6 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Quarterly operating earnings available to common shareholders are primarily dependent on the level of mutual fund assets under management. Average daily mutual fund assets under management are shown in Table 6. Average daily mutual fund assets under

management remained relatively constant in the second and third quarter of 2010 and increased in the fourth quarter of 2010 and the first quarter of 2011, consistent with improving market conditions. Average daily mutual fund assets under management remained relatively constant in the second quarter of 2011 and decreased in both the third and fourth quarters of 2011 as a result of declining domestic and international markets. Average daily mutual fund assets increased in the first quarter of 2012 consistent with overall market increases.

TABLE 6: SUMMARY OF QUARTERLY RESULTS

	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2
<b>Consolidated Statements of Earnings</b> (\$ millions)								
Revenues								
Management fees	\$ 456.6	\$ 444.2	\$ 464.6	\$ 491.8	\$ 492.1	\$ 479.1	\$ 452.6	\$ 455.5
Administration fees	85.3	84.3	85.2	87.9	87.5	85.4	82.6	83.7
Distribution fees	85.2	79.8	80.8	83.5	89.4	83.4	68.7	71.6
Net investment income and other	46.0	36.4	43.2	34.4	42.4	47.0	36.8	14.4
	673.1	644.7	673.8	697.6	711.4	694.9	640.7	625.2
Expenses								
Commission	221.4	214.0	218.6	228.7	233.6	221.6	207.5	212.1
Non-commission	170.1	155.4	156.0	164.1	162.0	153.5	150.2	150.7
Interest	22.9	23.2	23.2	26.1	30.3	28.7	27.8	27.6
	414.4	392.6	397.8	418.9	425.9	403.8	385.5	390.4
Earnings before undernoted Non-recurring items related to transition to IFRS	258.7	252.1	276.0	278.7	285.5	291.1	255.2	234.8
Proportionate share of affiliate's provision	–	–	–	–	–	(29.3)	–	–
	–	5.0	–	–	–	–	(8.2)	–
Earnings before income taxes	258.7	257.1	276.0	278.7	285.5	261.8	247.0	234.8
Income taxes	56.8	53.9	60.8	63.7	72.1	71.2	71.9	56.4
Net earnings from continuing operations	201.9	203.2	215.2	215.0	213.4	190.6	175.1	178.4
Net earnings from discontinued operations	–	29.6	31.0	1.1	0.9	1.5	0.5	(0.4)
Net earnings	201.9	232.8	246.2	216.1	214.3	192.1	175.6	178.0
Perpetual preferred share dividends	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
<b>Net earnings available to common shareholders</b>	<b>\$ 199.7</b>	<b>\$ 230.6</b>	<b>\$ 244.0</b>	<b>\$ 213.9</b>	<b>\$ 212.1</b>	<b>\$ 189.9</b>	<b>\$ 173.4</b>	<b>\$ 175.8</b>
<b>Reconciliation of Non-IFRS Financial Measures</b> <sup>(1)</sup> (\$ millions)								
Operating earnings available to common shareholders – non-IFRS measure	\$ 199.7	\$ 196.0	\$ 213.0	\$ 212.8	\$ 211.2	\$ 210.2	\$ 181.1	\$ 176.2
Other items:								
Net earnings from discontinued operations	–	29.6	31.0	1.1	0.9	1.5	0.5	(0.4)
Non-recurring items related to transition to IFRS, net of tax	–	–	–	–	–	(21.8)	–	–
Proportionate share of affiliate's provision	–	5.0	–	–	–	–	(8.2)	–
Net earnings available to common shareholders – IFRS	\$ 199.7	\$ 230.6	\$ 244.0	\$ 213.9	\$ 212.1	\$ 189.9	\$ 173.4	\$ 175.8
<b>Earnings per Share</b> (¢)								
Operating earnings available to common shareholders <sup>(1)</sup>								
– Basic	78	76	83	82	82	81	69	67
– Diluted	78	76	82	82	81	80	69	67
Net earnings available to common shareholders								
– Basic	78	90	95	83	82	73	66	67
– Diluted	78	89	94	82	81	73	66	67
<b>Average Daily Mutual Fund Assets</b> (\$ billions)								
	\$ 103.6	\$ 99.6	\$ 103.5	\$ 109.9	\$ 110.0	\$ 105.0	\$ 99.4	\$ 100.5
<b>Total Mutual Fund Assets Under Management</b> (\$ billions)								
	\$ 105.1	\$ 99.7	\$ 97.7	\$ 108.6	\$ 111.7	\$ 107.9	\$ 102.3	\$ 96.5
<b>Total Assets Under Management</b> (\$ billions)								
	\$ 124.1	\$ 118.7	\$ 116.7	\$ 130.2	\$ 134.1	\$ 129.5	\$ 122.7	\$ 115.7

(1) Refer to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

# Investors Group

## Review of the Business

### INVESTORS GROUP STRATEGY

Investors Group strives to ensure that the interests of shareholders, clients, Consultants and employees are closely aligned. Investors Group's business strategy is focused on:

- Growing our distribution network by expanding the number of region offices, attracting new Consultants to our industry and supporting existing Consultants in their growth and development.
- Emphasizing the delivery of financial planning advice, products and services through our exclusive network of Consultants.
- Providing an effective level of administrative support to our Consultants and clients, including active communication during all economic cycles.
- Extending the diversity and range of products offered by Investors Group as we continue to build and maintain enduring client relationships.
- Maximizing returns on business investment by focusing resources on initiatives that have direct benefits to clients and Consultants and result in increased efficiency and improved control over expenditures.

### CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering personal financial planning to its clients within the context of long-term relationships. At the centre of this relationship is a national distribution network of Consultants based in region offices across Canada. One new region office in Calgary was recently announced which will expand our network to 107 region offices.

At March 31, 2012, Investors Group had 4,522 Consultants, compared with 4,608 at the end of 2011 and 4,586 one year ago. In early 2011, Investors Group refined its selection and recruitment practices which will be beneficial to the future growth of the Consultant network. Although this change resulted in a short-term reduction in the number of Consultant appointments in the first quarter of 2011, other quarters in 2011 showed stability and modest growth. During the first quarter of 2012 there was a reduction in the number of Consultants primarily due to slower recruiting in the early part of the year.

The number of Consultants with more than four years experience increased to 2,714 at March 31, 2012

compared to 2,705 at the end of 2011 and 2,655 a year earlier.

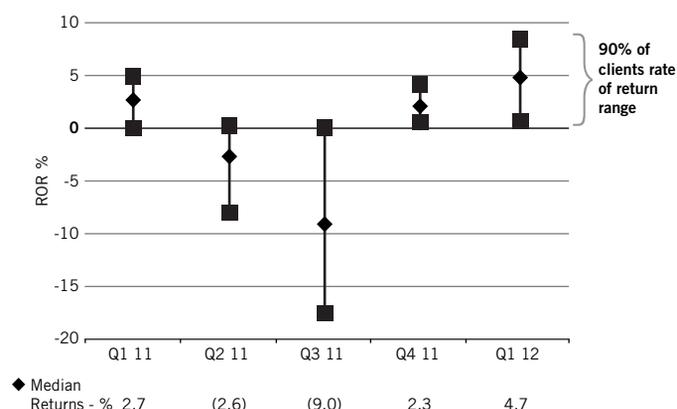
### ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

Administrative support for Consultants and clients includes timely and accurate client account record-keeping and reporting, effective problem resolution support, and continuous improvements to servicing systems.

This administrative support is provided from both the Company's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from the Company's head office in Winnipeg for Consultants and clients in the rest of Canada. The Quebec General Office has over 200 employees and operating units for most functions supporting both the approximately 800 Consultants throughout Quebec and the 19 Quebec region offices. Mutual fund assets under management in Quebec were in excess of \$10 billion as at March 31, 2012.

Regular communication with our clients includes quarterly reporting of their Investors Group mutual fund holdings and the change in asset values of these holdings during the quarter. Individual clients experience different returns as a result of their net cash flow and fund holdings in each quarter as illustrated on the accompanying chart. This chart reflects in-quarter client median rates of return for the five most recent quarters and also illustrates upper and lower range of rates of return around the median for 90% of Investors Group clients.

**In-Quarter Client Rate of Return (ROR) Experience**



For the three months ending March 31, 2012, the client median rate of return was approximately 4.7% and 99% of clients experienced positive returns. For the twelve months ending March 31, 2012, the client median rate of return was approximately (4.7)%.

Communications to Consultants and clients have increased substantially as a result of the significant market volatility experienced in the last few years. Consultants, in turn, maintain a high degree of contact with our clients, continuing to reinforce the importance of long-term planning and a diversified investment portfolio. Ongoing surveys of our clients indicate a strong appreciation of the value of advice provided by our Consultants through varying economic cycles.

## ASSETS UNDER MANAGEMENT

The level of mutual fund assets under management is influenced by three factors: sales, redemptions and net asset values of our funds. Changes in assets under management for the periods under review are reflected in Table 7.

### Fund Performance

At March 31, 2012, 59% of Investors Group mutual funds (Investors, partner and portfolio funds) had a rating of three stars or better from the Morningstar<sup>†</sup> fund ranking service and 15% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 66% for three stars or better and 28% for four and five star funds at March 31, 2012. Morningstar Ratings<sup>†</sup>

are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

### Change in Mutual Fund Assets

#### Under Management – Q1 2012 vs. Q1 2011

Investors Group's mutual fund assets under management were \$60.6 billion at March 31, 2012, a decrease of 5.3% from \$64.0 billion at March 31, 2011. Average daily mutual fund assets were \$59.8 billion in the first quarter of 2012, down 5.1% from \$63.0 billion in the first quarter of 2011.

For the first quarter ended March 31, 2012, sales of Investors Group mutual funds through its Consultant network were \$1.8 billion, a decrease of 10.4% from 2011. Mutual fund redemptions totalled \$1.7 billion, an increase of 7.6% from 2011. Investors Group's twelve month trailing redemption rate for long-term funds was 9.1% at March 31, 2012 compared to 8.4% at March 31, 2011, and remains well below the most recently available corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 15.6% at December 31, 2011. Net sales of Investors Group mutual funds for the first quarter of 2012 were \$175 million compared with net sales of \$504 million in 2011. Sales of long-term funds were \$1.6 billion for the first quarter of 2012, compared with \$1.8 billion in 2011, a decrease of 10.1%. Net sales of long-term funds for the first quarter of 2012 were \$163 million compared to net sales of \$473 million in

TABLE 7: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

Three months ended (\$ millions)	2012 MAR. 31	2011 DEC. 31	2011 MAR. 31	% CHANGE	
				2011 DEC. 31	2011 MAR. 31
Sales	\$ 1,833.6	\$ 1,284.9	\$ 2,045.9	42.7 %	(10.4)%
Redemptions	1,658.4	1,442.4	1,541.9	15.0	7.6
<b>Net sales (redemptions)</b>	175.2	(157.5)	504.0	N/M	(65.2)
Market and income	2,717.2	1,390.4	1,759.3	95.4	54.4
Net change in assets	2,892.4	1,232.9	2,263.3	134.6	27.8
Beginning assets	57,735.3	56,502.4	61,785.3	2.2	(6.6)
<b>Ending assets</b>	\$ 60,627.7	\$ 57,735.3	\$ 64,048.6	5.0 %	(5.3)%
<b>Average daily assets</b>	\$ 59,762.8	\$ 57,525.7	\$ 63,005.6	3.9 %	(5.1)%

2011. During the first quarter, market and income resulted in an increase of \$2.7 billion in mutual fund assets compared to an increase of \$1.8 billion in the first quarter of 2011.

#### **Change in Mutual Fund Assets Under Management – Q1 2012 vs. Q4 2011**

Investors Group's mutual fund assets under management were \$60.6 billion at March 31, 2012, an increase of 5.0% from \$57.7 billion at December 31, 2011. Average daily mutual fund assets were \$59.8 billion in the first quarter of 2012 compared to \$57.5 billion in the fourth quarter of 2011, an increase of 3.9%.

For the first quarter ended March 31, 2012, sales of Investors Group mutual funds through its Consultant network were \$1.8 billion, an increase of 42.7% from the fourth quarter of 2011. Mutual fund redemptions, which totalled \$1.7 billion for the same period, increased 15.0% from the previous quarter. Net sales of Investors Group mutual funds for the current quarter were \$175 million compared with net redemptions of \$158 million in the previous quarter. Sales of long-term funds were \$1.6 billion for the current quarter, compared with \$1.1 billion in the previous quarter, an increase of 48.5%. Net sales of long-term funds for the current quarter were \$163 million compared to net redemptions of \$145 million in the previous quarter.

### **OTHER PRODUCTS AND SERVICES**

#### **Segregated Funds**

The Guaranteed Investment Funds (GIFs) offering of Great-West Life segregated funds includes 14 segregated fund-of-fund portfolios and 6 segregated funds. These funds offer an enhanced selection of death benefit and maturity guarantees and also include a Lifetime Income Benefit (LIB) protection feature on select GIFs. The investment components of these segregated funds are managed by Investors Group. At March 31, 2012, total segregated fund assets were \$1.1 billion compared to \$958 million at March 31, 2011.

#### **Insurance**

Investors Group distributes insurance products through I.G. Insurance Services Inc. For the three months ended March 31, 2012, sales of insurance products as measured by new annualized premiums were \$16.1 million, an increase of 8.4% over \$14.9 million in 2011.

#### **Securities Operations**

Investors Group provides securities services to clients through Investors Group Securities Inc. At March 31, 2012, total assets under administration were \$6.5 billion compared to \$6.4 billion at March 31, 2011.

#### **Mortgage Operations**

Investors Group is a national mortgage lender that offers a full suite of competitively positioned residential mortgage options to new and existing Investors Group clients. Short and long term, variable and fixed rate mortgages with competitive pricing and features are offered to clients as part of a comprehensive financial plan. Investors Group mortgage planning specialists are located throughout each province in Canada, and work with our clients and their Consultants as allowed by the regulations to develop mortgage strategies that meet the individual needs and goals of each client. At March 31, 2012, there were 72 mortgage planning specialists compared to 66 at March 31, 2011.

Mortgage originations were \$589 million in the first quarter of 2012 compared to \$330 million in the first quarter of 2011, an increase of 78.5%. At March 31, 2012, mortgages serviced by Investors Group related to its mortgage banking operations totalled \$6.5 billion compared to \$6.3 billion at December 31, 2011.

Through its mortgage banking operations, mortgages originated by Investors Group mortgage planning specialists are sold to the Investors Mortgage and Short Term Income Fund, Investors Canadian Corporate Bond Fund, securitization programs, and institutional investors. Certain subsidiaries of Investors Group are CMHC-approved issuers of National Housing Act Mortgage-Backed Securities (NHA MBS) and are sellers of NHA MBS into the Canada Mortgage Bond Program (CMB Program). Securitization programs that these subsidiaries participate in also include certain bank-sponsored asset-backed commercial paper (ABCP) programs. Residential mortgages are also held by Investors Group's intermediary operations.

#### **Solutions Banking<sup>†</sup>**

Investors Group's Solutions Banking<sup>†</sup> continues to experience high rates of utilization by Consultants and clients. The offering consists of a wide range of products and services provided by the National Bank of Canada under a long-term distribution agreement and includes: investment loans, lines of credit, personal

loans, creditor insurance, deposit accounts and credit cards. Clients have access to a network of banking machines, as well as a private labeled client website and private labeled client service centre. The Solutions Banking<sup>†</sup> offering supports Investors Group's approach to delivering total financial solutions for our clients through a broad financial planning platform.

#### Additional Products and Services

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

## Review of Segment Operating Results

Investors Group's earnings before interest and taxes are presented in Table 8.

### Q1 2012 VS. Q1 2011

#### Fee Income

Fee income is generated from the management, administration and distribution of Investors Group mutual funds. The distribution of insurance and Solutions Banking<sup>†</sup> products and the provision of securities services provide additional fee income.

Investors Group earns management fees for investment management services provided to its mutual funds, which depend largely on the level and

composition of mutual fund assets under management. Management fees were \$281.0 million in the first quarter of 2012, a decrease of \$16.6 million or 5.6% from \$297.6 million in 2011. Management fee income decreased consistent with the decrease in average daily mutual fund assets of 5.1%, as shown in Table 7, and the decrease in the management fee rate to 189 basis points of average daily mutual fund assets from 192 basis points in 2011. In addition, there was one more calendar day in the first quarter of 2012 than in the first quarter of 2011 which resulted in a \$2.5 million increase in fee income in the current quarter. Management fee income and average management fee rates for both periods also reflected the effect of Investors Group

TABLE 8: OPERATING RESULTS – INVESTORS GROUP

Three months ended (\$ millions)	2012 MAR. 31	2011 DEC. 31	2011 MAR. 31	% CHANGE	
				2011 DEC. 31	2011 MAR. 31
<b>Revenues</b>					
Management fees	\$ 281.0	\$ 273.0	\$ 297.6	2.9 %	(5.6)%
Administration fees	55.5	54.3	57.9	2.2	(4.1)
Distribution fees	49.3	46.4	47.7	6.3	3.4
	385.8	373.7	403.2	3.2	(4.3)
Net investment income and other	21.5	16.3	21.3	31.9	0.9
	407.3	390.0	424.5	4.4	(4.1)
<b>Expenses</b>					
Commission	70.3	67.8	67.8	3.7	3.7
Asset retention bonus and premium	53.3	52.3	56.2	1.9	(5.2)
Non-commission	92.1	87.8	85.8	4.9	7.3
	215.7	207.9	209.8	3.8	2.8
<b>Earnings before interest and taxes</b>	<b>\$ 191.6</b>	<b>\$ 182.1</b>	<b>\$ 214.7</b>	<b>5.2 %</b>	<b>(10.8)%</b>

having waived a portion of the investment management fees on its money market funds to ensure that these funds maintained a positive yield. These waivers totalled \$1.0 million in the first quarter of 2012, unchanged from the prior year.

Investors Group receives administration fees for providing administrative services to its mutual funds and trusteeship services to its unit trust mutual funds, which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled \$55.5 million in the current quarter compared to \$57.9 million a year ago, a decrease of 4.1%, as a result of the change in average daily mutual fund assets under management.

Distribution fees are earned from:

- Redemption fees on mutual funds sold with a deferred sales charge.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking<sup>†</sup>, an arrangement with the National Bank of Canada.

Distribution fee income of \$49.3 million for the first quarter of 2012 increased by \$1.6 million from \$47.7 million in 2011, primarily due to increases in redemption fees and distribution fee income from insurance products. Redemption fee income increased by \$0.8 million to \$14.5 million in the first quarter of 2012 compared to 2011. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

#### **Net Investment Income and Other**

Net investment income and other includes income related to mortgage banking operations as well as interest earned on cash and cash equivalents, securities and mortgage loans related to intermediary operations. Investors Group reports net investment income as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities and interest on bank indebtedness, if any.

Net investment income and other was \$21.5 million in the first quarter of 2012, an increase of \$0.2 million from \$21.3 million in 2011.

Net investment income related to Investors Group's mortgage banking operations totalled \$21.2 million for

the first quarter of 2012 compared to \$20.9 million in 2011, an increase of \$0.3 million. A summary of mortgage banking operations for the three month periods under review are presented in Table 9. The changes in mortgage banking income were primarily due to:

- Net interest income on securitized loans – which decreased by \$3.5 million for the three month period ended March 31, 2012 to \$12.9 million. The decline resulted from lower net interest margins and the decline of the proportion of securitized loans in the ABCP programs, which currently have a higher interest income margin than loans securitized in the CMB program.
- Gains realized on the sale of residential mortgages – which increased by \$0.5 million for the three month period ended March 31, 2012 to \$3.7 million. The increase in gains was due to improvements in net interest margins on mortgage sales to institutional investors and certain Investors Group managed mutual funds.
- Fair value adjustments and other income – which increased by \$3.3 million for the three month period ended March 31, 2012 to \$4.6 million. The increase resulted from favourable fair value adjustments to interest rate swaps utilized for hedging purposes and the impact of prepayment penalties related to higher renewal and refinance activity over the period. This increase was partially offset by higher issuance costs associated with higher origination volumes.

#### **Expenses**

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Commissions paid on the sale of mutual funds are deferred and amortized over a maximum period of seven years. Commission expense for the first quarter of 2012 increased by \$2.5 million to \$70.3 million compared with \$67.8 million in 2011. This increase was due to higher redemptions on mutual funds sold with a deferred sales charge as well as increases in the distribution of other financial services and products.

TABLE 9: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

(\$ millions)	2012 MAR. 31	2011 DEC. 31	2011 MAR. 31	% CHANGE	
				2011 DEC. 31	2011 MAR. 31
(As at)					
<b>Mortgages serviced</b>	\$ 6,503	\$ 6,269	\$ 5,808	3.7 %	12.0 %
<b>Mortgage warehouse<sup>(1)</sup></b>	\$ 435	\$ 284	\$ 289	53.2 %	50.5 %
(Three months ended)					
<b>Average mortgages serviced</b>					
CMB/MBS Programs	\$ 2,653	\$ 2,638	\$ 2,113	0.6 %	25.6 %
Bank-sponsored ABCP programs	1,046	1,011	1,281	3.5	(18.3)
Securitizations	3,699	3,649	3,394	1.4	9.0
Other	2,647	2,579	2,367	2.6	11.8
	\$ 6,346	\$ 6,228	\$ 5,761	1.9 %	10.2 %
<b>Mortgage originations<sup>(2)</sup></b>	\$ 589	\$ 328	\$ 330	79.6 %	78.5 %
<b>Mortgage sales to:<sup>(3)</sup></b>					
Securitizations	\$ 512	\$ 534	\$ 291	(4.1)%	75.9 %
Other <sup>(4)</sup>	165	180	198	(8.3)	(16.7)
	\$ 677	\$ 714	\$ 489	(5.2)%	38.4 %
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income	\$ 35.6	\$ 36.4	\$ 36.8	(2.2)%	(3.3)%
Interest expense	(22.7)	(22.1)	(20.4)	(2.7)	(11.3)
Net interest income	12.9	14.3	16.4	(9.8)	(21.3)
Gains on sales <sup>(5)</sup>	3.7	4.5	3.2	(17.8)	15.6
Fair value adjustments and other income	4.6	(2.2)	1.3	N/M	N/M
	\$ 21.2	\$ 16.6	\$ 20.9	27.7 %	1.4 %

(1) Warehouse activities include mortgage fundings, mortgage renewals and mortgage refinances.

(2) Excludes renewals and refinances.

(3) Represents principal amounts sold.

(4)(5) Represents sales to institutional investors through private placements, to Investors Mortgage and Short Term Income Fund, and to Investors Canadian Corporate Bond Fund as well as gains realized on those sales.

Asset retention bonus and premium expense is comprised of the following:

- Asset retention bonus, which is based on the value of assets under management, decreased by \$2.5 million to \$45.3 million in the first quarter of 2012 compared to 2011 primarily due to changes in average assets under management.
- Asset retention premium, which is a deferred component of compensation designed to promote Consultant retention, is based on assets under management at each year-end. Asset retention

premium expense decreased by \$0.4 million in the first quarter of 2012 to \$8.0 million, compared to 2011.

Non-commission expenses incurred by Investors Group primarily related to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as subadvisory fees related to mutual funds under management. Non-commission expenses were \$92.1 million for the first quarter of 2012 compared to \$85.8 million in 2011, an increase of \$6.3 million or 7.3%.

## Q1 2012 VS. Q4 2011

### Fee Income

Management fee income increased by \$8.0 million or 2.9% to \$281.0 million in the first quarter of 2012 compared with the fourth quarter of 2011. Management fee income increased consistent with the increase in average daily mutual fund assets of 3.9% as shown in Table 7 and the increase in the management fee rate to 189 basis points of average daily mutual fund assets from 188 basis points in the prior quarter. In addition, there was one less calendar day in the first quarter of 2012 than in the fourth quarter of 2011 which resulted in a \$3.0 million reduction in fee income in the current quarter. Money market fund waivers totalled \$1.0 million in the first quarter of 2012 compared to \$1.2 million in the fourth quarter of 2011.

Administration fees increased to \$55.5 million in the first quarter of 2012 from \$54.3 million in the fourth quarter of 2011 primarily due to the increase in average daily mutual fund assets.

Distribution fee income of \$49.3 million in the first quarter of 2012 increased by \$2.9 million from \$46.4 million in the fourth quarter due to an increase in redemption fee income of \$3.2 million.

### Net Investment Income and Other

Net investment income and other was \$21.5 million in the first quarter of 2012, an increase of \$5.2 million from \$16.3 million in the previous quarter. The increase in net investment income primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled \$21.2 million in the first quarter, an increase of \$4.6 million from

\$16.6 million in the previous quarter as shown in Table 9. The changes in mortgage banking income were primarily due to:

- Net interest income on securitized loans – which decreased by \$1.4 million relative to the previous quarter to \$12.9 million due to lower net interest margins during the period as a result of mortgage interest yield declines.
- Gains realized on the sale of residential mortgages – which decreased by \$0.8 million relative to the previous quarter to \$3.7 million due to lower mortgage sale volumes to institutional investors.
- Fair value adjustments and other income – which increased by \$6.8 million relative to the previous quarter to \$4.6 million. The increase resulted from favourable fair value adjustments to interest rate swaps utilized for hedging purposes and the impact of prepayment penalties related to higher renewal and refinance activity over the period. This increase was partially offset by higher issuance costs associated with higher origination volumes.

### Expenses

Commission expense in the current quarter was \$70.3 million compared with \$67.8 million in the previous quarter. This increase was due to higher redemptions on mutual funds sold with a deferred sales charge as well as increases in the distribution of other financial services and products. The asset retention bonus and premium expense increased by \$1.0 million to \$53.3 million in the first quarter of 2012 consistent with the change in the level of assets under management.

Non-commission expenses were \$92.1 million in the current quarter, an increase of \$4.3 million or 4.9% from \$87.8 million in the fourth quarter of 2011.

# Mackenzie

## Review of the Business

### MACKENZIE STRATEGY

Mackenzie strives to ensure that the interests of shareholders, dealers, advisors, investment clients and employees are closely aligned. Mackenzie's business approach embraces current trends and practices in the global financial services industry and our strategic plan is focused on:

- The delivery of consistent long-term investment performance.
- Offering a diversified suite of investment solutions for financial advisors and investors.
- Continuing to build and solidify our distribution relationships.
- Maximizing returns on business investment by focusing resources on initiatives that have direct benefits to investment management, distribution and client experience.

Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our sales model focuses on multiple distribution channels: Retail, Strategic Alliances and Institutional.

Mackenzie distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace. Within the strategic alliance channel Mackenzie offers certain series of its mutual funds and provides sub-advisory services to third party investment programs offered by banks, insurance companies and other investment companies. Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company. In the institutional channel Mackenzie provides investment management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants, through direct sales efforts and through additional mandates from its existing client relationships.

In the retail distribution channel, Mackenzie faces strong competition from other asset management companies, banks, insurance companies and other financial institutions which distribute their products

and services to the same customers that Mackenzie is seeking to attract. In addition, due to the relative size of strategic alliance and institutional accounts, gross sale and redemption activity in these accounts can be more pronounced than in the retail channel. Mackenzie continues to be well positioned to continue to build and enhance its distribution relationships given its team of experienced investment professionals, broad product shelf, competitively priced products and its focus on client experience and investment excellence.

### Sale of M.R.S. Trust Company and M.R.S. Inc. (MRS)

On November 16, 2011, Mackenzie completed the sale of 100% of the common shares of MRS. The Mackenzie Review of Segment Operating Results in this MD&A excludes the results of operations of MRS, which have been classified as discontinued operations.

### ASSETS UNDER MANAGEMENT

The changes in assets under management are summarized in Table 10.

The change in Mackenzie's assets under management is determined by: (1) the increase or decrease in the market value of the securities held in the portfolios of investments; (2) the level of sales as compared to the level of redemptions; and (3) acquisitions.

### Fund Performance

Long-term investment performance is a key measure of Mackenzie's ongoing success. At March 31, 2012, 54% of Mackenzie's mutual funds were rated in the top two performance quartiles for the one year time frame, 51% for the three year time frame and 65% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar<sup>†</sup> fund ranking service. At March 31, 2012, 80% of Mackenzie's mutual fund assets measured by Morningstar<sup>†</sup> had a rating of three stars or better and 43% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 81% for three stars or better and 42% for four and five star funds at March 31, 2012.

### Additions to Mutual Fund Product Offering

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. Mackenzie continues to adjust its product shelf by providing enhanced investment solutions for financial advisors to offer their investment clients. Initiatives

TABLE 10: CHANGE IN ASSETS UNDER MANAGEMENT – MACKENZIE

Three months ended (\$ millions)	2012		2011		% CHANGE	
	MAR. 31	DEC. 31	MAR. 31	DEC. 31	DEC. 31	MAR. 31
Sales	\$ 2,720.6	\$ 2,087.7	\$ 3,486.2		30.3 %	(22.0)%
Redemptions	3,653.6	3,333.6	3,365.5		9.6	8.6
<b>Net sales (redemptions)</b>	<b>(933.0)</b>	<b>(1,245.9)</b>	<b>120.7</b>		<b>25.1</b>	<b>N/M</b>
Market and income	3,647.4	1,981.7	2,211.9		84.1	64.9
Net change in assets	2,714.4	735.8	2,332.6		268.9	16.4
Beginning assets	61,652.0	60,916.2	68,346.3		1.2	(9.8)
<b>Ending assets</b>	<b>\$ 64,366.4</b>	<b>\$ 61,652.0</b>	<b>\$ 70,678.9</b>		<b>4.4 %</b>	<b>(8.9)%</b>
<b>Consists of:</b>						
Mutual funds	\$ 41,534.9	\$ 39,140.7	\$ 44,824.2		6.1 %	(7.3)%
Sub-advisory, institutional and other accounts	22,831.5	22,511.3	25,854.7		1.4	(11.7)
	\$ 64,366.4	\$ 61,652.0	\$ 70,678.9		4.4 %	(8.9)%
<b>Daily average mutual fund assets</b>	<b>\$ 40,922.3</b>	<b>\$ 39,317.4</b>	<b>\$ 44,219.0</b>		<b>4.1 %</b>	<b>(7.5)%</b>
<b>Monthly average total assets<sup>(1)</sup></b>	<b>\$ 63,829.5</b>	<b>\$ 62,160.7</b>	<b>\$ 69,546.5</b>		<b>2.7 %</b>	<b>(8.2)%</b>

(1) Based on daily average mutual fund assets and month-end average sub-advisory, institutional and other assets.

undertaken in the first quarter of 2012 included the introduction of two new services: One-Step Dollar Cost Averaging and the Flexible Payment Service.

Mackenzie's One-Step Dollar Cost Averaging provides investors with a proven, systematic means of investing in the financial markets and staying invested over time.

The Flexible Payment Service (FPS) was designed for investors who are drawing cash from their investments. Mackenzie's FPS allows investors to customize the amount of cash they receive by choosing monthly payments, either at a percentage rate or a specific dollar amount.

#### **Change in Assets under Management – Q1 2012 vs. Q1 2011**

Mackenzie's total assets under management at March 31, 2012 were \$64.4 billion, a decrease of 8.9% from \$70.7 billion at March 31, 2011. Mackenzie's mutual fund assets under management were \$41.5 billion at March 31, 2012, a decrease of 7.3% from \$44.8 billion at March 31, 2011. Mackenzie's sub-advisory, institutional and other accounts at March 31, 2012 were \$22.8 billion, a decrease of 11.7% from \$25.9 billion last year.

In the three months ended March 31, 2012, Mackenzie's gross sales were \$2.7 billion, a decline of 22.0% from \$3.5 billion in the comparative period last year. Redemptions in the current period were \$3.6 billion, an increase of 8.6% from \$3.4 billion last year. Net redemptions for the three months ended March 31, 2012 were \$0.9 billion, as compared to net sales of \$0.1 billion last year. During the current quarter, market and income resulted in assets increasing by \$3.7 billion as compared to an increase of \$2.2 billion last year.

Redemptions of long-term mutual funds in the current quarter were \$1.8 billion unchanged from the first quarter of 2011. As at March 31, 2012, Mackenzie's twelve-month trailing redemption rate for long-term funds was 16.2%, as compared to 16.5% last year. The most recently available corresponding average twelve-month trailing redemption rate for long-term funds for all other members of IFIC was approximately 14.8% at December 31, 2011. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and

deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

#### Change in Assets under Management – Q1 2012 vs. Q4 2011

Mackenzie's total assets under management at March 31, 2012 were \$64.4 billion, an increase of 4.4% from \$61.7 billion at December 31, 2011 as summarized in Table 10. Mackenzie's mutual fund assets under

management increased \$2.4 billion or 6.1% to \$41.5 billion in the quarter and Mackenzie's sub-advisory, institutional and other accounts increased \$0.3 billion or 1.4% to \$22.8 billion at March 31, 2012.

Redemptions of long-term mutual fund assets in the current quarter were \$1.8 billion as compared to \$1.5 billion in the quarter ended December 31, 2011. Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended March 31, 2012 was 18.6% as compared to 16.0% in the fourth quarter of 2011.

## Review of Segment Operating Results

Mackenzie's earnings before interest and taxes are presented in Table 11.

#### Q1 2012 VS. Q1 2011

##### Revenues

Mackenzie's management fee revenues are earned from services it provides as fund manager to its mutual funds and as investment advisor to sub-advisory and

institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail basis. Mackenzie also offers certain series of its mutual funds with management fees that are designed for fee-based programs, institutional investors and third party investment programs offered by banks, insurance companies and investment dealers. Mackenzie does not pay commissions on these non-retail series of its mutual funds. At March 31, 2012, there were \$10.4 billion or

TABLE 11: OPERATING RESULTS – MACKENZIE<sup>(1)</sup>

Three months ended (\$ millions)	2012 MAR. 31	2011 DEC. 31	2011 MAR. 31	% CHANGE	
				2011 DEC. 31	2011 MAR. 31
<b>Revenues</b>					
Management fees	\$ 164.0	\$ 159.9	\$ 183.3	2.6 %	(10.5)%
Administration fees	26.9	27.4	27.0	(1.8)	(0.4)
Distribution fees	5.0	4.9	5.9	2.0	(15.3)
	195.9	192.2	216.2	1.9	(9.4)
Net investment income and other	(0.2)	0.2	0.8	N/M	N/M
	195.7	192.4	217.0	1.7	(9.8)
<b>Expenses</b>					
Commission	22.2	22.5	25.7	(1.3)	(13.6)
Trailing commission	46.0	43.9	50.3	4.8	(8.5)
Non-commission	65.7	57.1	63.5	15.1	3.5
	133.9	123.5	139.5	8.4	(4.0)
<b>Earnings before interest and taxes</b>	<b>\$ 61.8</b>	<b>\$ 68.9</b>	<b>\$ 77.5</b>	<b>(10.3)%</b>	<b>(20.3)%</b>

(1) 2011 Results exclude the operating results of Discontinued Operations.

24.9% of mutual fund assets in these series of funds, as compared to \$10.6 billion or 23.7% at March 31, 2011.

Management fees were \$164.0 million for the three months ended March 31, 2012, a decrease of \$19.3 million or 10.5% from \$183.3 million last year. The change in management fees was consistent with the decrease in Mackenzie's monthly average total assets under management combined with the change in mix of assets under management. In addition, there was one more calendar day in the first quarter of 2012 than in the first quarter of 2011 which resulted in an increase in management fees in the current quarter.

Monthly average total assets under management were \$63.8 billion in the three month period ended March 31, 2012 compared to \$69.5 billion in 2011, a decrease of 8.2%.

Mackenzie's average management fee rate was 103.3 basis points in the three month period ended March 31, 2012, compared to 106.9 basis points in 2011. Factors contributing to the decrease in the average management fee rate as compared to 2011 are as follows:

- Institutional assets and non-retail mutual funds have lower management fees than retail mutual funds. The proportion of Mackenzie's institutional accounts and non-retail mutual funds increased as a percentage of Mackenzie's total assets under management resulting in a decrease to the average management fee rate.
- Changes in the relative proportion of equity and fixed income assets under management, due to market and income as well as net cash flows, as accounts with fixed income mandates have lower management fees.

Mackenzie earns administration fees primarily from providing services to its mutual funds. Administration fees were \$26.9 million for the three months ended March 31, 2012, as compared to \$27.0 million in 2011.

Effective August 1, 2007, Mackenzie assumed responsibility for the operating expenses of the Mackenzie funds, other than GST/HST and certain specified fund costs, in return for a fixed rate administration fee established for each fund based on the following criteria:

- From August 1, 2007 until December 31, 2009, and thereafter as may be applicable, the funds that existed as at August 1, 2007 may be required to pay a monthly operating expense adjustment to Mackenzie if the combined average monthly net assets for all Mackenzie funds and series that were subject to the

administration fee proposal that was approved by investors on August 7, 2007 fall to a level that is 95% of the amount of their total net assets on August 1, 2007. If it becomes payable, Mackenzie will be entitled to receive an operating expense adjustment for that month from each of those funds and series in such amount that will result in all of those series, collectively, paying an administration fee for the month equal to the administration fee that would have been payable had the monthly net assets equaled 95% of the net assets on August 1, 2007 throughout the month.

- As the applicable mutual fund asset levels as at December 31, 2009 were below 95% of the net asset levels on August 1, 2007, the monthly operating expense adjustment continues until the first month where average asset levels exceed 95% of the net asset levels on August 1, 2007. If, in a subsequent month, the monthly net assets increase to an amount equal to or greater than 95% of the net assets on August 1, 2007, the operating expense adjustment will no longer be payable.

Due to the level of mutual fund assets, Mackenzie continued to receive an operating expense adjustment in the current period. The operating expense adjustments in the three months ended March 31, 2012 were \$4.1 million as compared to \$1.6 million in 2011.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Distribution fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Distribution fees for low load assets range from 3.0% in the first year and decrease to zero after three years. Distribution fee income in the three months ended March 31, 2012 was \$5.0 million, a decrease of \$0.9 million from \$5.9 million last year.

### Expenses

Mackenzie's expenses were \$133.9 million for the three months ended March 31, 2012, a decrease of \$5.6 million or 4.0% from \$139.5 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset

associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets. Commission expenses were \$22.2 million in the three months ended March 31, 2012, as compared to \$25.7 million last year.

Trailing commissions paid to dealers are calculated as a percentage of mutual fund assets under management and vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$46.0 million in the three months ended March 31, 2012, a decrease of \$4.3 million or 8.5% from \$50.3 million last year. The change in trailing commissions in the three month period ended March 31, 2012 is consistent with the period over period movement in average mutual fund assets under management and the change in asset mix within Mackenzie's mutual funds. Trailing commissions as a percentage of average mutual fund assets under management were 45.2 basis points in the three months ended March 31, 2012 as compared to 46.1 basis points last year.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$65.7 million in the three months ended March 31, 2012, an increase of \$2.2 million or 3.5% from \$63.5 million last year. Mackenzie actively manages its non-commission expenses to enhance its future operating capabilities while at the same time investing in revenue generating initiatives to further grow its business.

## Q1 2012 VS. Q4 2011

### Revenues

Management fees were \$164.0 million for the current quarter, an increase of \$4.1 million or 2.6% from \$159.9 million in the fourth quarter of 2011. Factors contributing to the net increase in management fees are as follows:

- Monthly average total assets under management were \$63.8 billion in the current quarter compared to \$62.2 billion in the quarter ended December 31, 2011, an increase of 2.7%.
- Mackenzie's average management fee rate was 103.3 basis points in the current quarter as compared to 102.1 basis points in the fourth quarter of 2011.
- There was one less calendar day in the first quarter of 2012 than in the fourth quarter of 2011.

Administration fees were \$26.9 million in the current quarter compared to \$27.4 million in the quarter ended December 31, 2011. Included in administration fees for the current quarter were fund operating expense adjustments of \$4.1 million as compared to \$4.7 million in the fourth quarter of 2011.

### Expenses

Mackenzie's expenses were \$133.9 million for the current quarter, an increase of \$10.4 million or 8.4% from \$123.5 million in the fourth quarter of 2011.

Commission expense, which represents the amortization of selling commissions, was \$22.2 million in the quarter ended March 31, 2012, as compared to \$22.5 million in the fourth quarter of 2011. Trailing commissions were \$46.0 million in the current quarter, an increase of \$2.1 million or 4.8% from \$43.9 million in the fourth quarter of 2011.

Non-commission expenses were \$65.7 million in the current quarter, an increase of \$8.6 million or 15.1% from \$57.1 million in the fourth quarter of 2011. Due to the increase in sales activities and transactional volumes in the first quarter of the year, Mackenzie's non-commission expenses are generally higher in this quarter as compared to other quarters.

## Corporate and Other Review of Segment Operating Results

The Corporate and Other segment includes net investment income not allocated to the Investors Group or Mackenzie segments, the Company's proportionate share of earnings of its affiliate, Great-West Lifeco Inc.,

operating results for Investment Planning Counsel Inc., other income, as well as consolidation elimination entries.

Corporate and other earnings before interest and taxes are presented in Table 12.

TABLE 12: OPERATING RESULTS – CORPORATE AND OTHER

Three months ended (\$ millions)	2012 MAR. 31	2011 DEC. 31	2011 MAR. 31	% CHANGE	
				2011 DEC. 31	2011 MAR. 31
<b>Revenues</b>					
Fee income	\$ 45.4	\$ 42.4	\$ 49.6	7.1 %	(8.5)%
Net investment income and other	24.7	19.9	20.3	24.1	21.7
	70.1	62.3	69.9	12.5	0.3
<b>Expenses</b>					
Commission	29.6	27.5	33.6	7.6	(11.9)
Non-commission	12.3	10.5	12.7	17.1	(3.1)
	41.9	38.0	46.3	10.3	(9.5)
<b>Earnings before interest and taxes</b>	<b>\$ 28.2</b>	<b>\$ 24.3</b>	<b>\$ 23.6</b>	<b>16.0 %</b>	<b>19.5 %</b>

### Q1 2012 VS. Q1 2011

Net investment income and other totalled \$24.7 million in the first quarter of 2012, an increase of \$4.4 million compared with 2011.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.2 million higher in the first quarter of 2012 compared to the same period in 2011.

### Q1 2012 VS. Q4 2011

Net investment income and other totalled \$24.7 million in the first quarter of 2012, an increase of \$4.8 million from the previous quarter.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.0 million lower in the first quarter of 2012 compared with the previous quarter.

# IGM Financial Inc.

## Consolidated Financial Position

IGM Financial's total assets were \$11.3 billion at March 31, 2012, compared to \$11.2 billion at December 31, 2011.

### SECURITIES

The composition of the Company's securities holdings is detailed in Table 13.

#### Fair Value Through Profit or Loss Securities

Securities classified as fair value through profit or loss include common shares, Canada Mortgage Bonds, which are discussed below, and fixed income securities comprised of the restructured notes of the master asset vehicle (MAV) conduits. Unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Canada Mortgage Bonds were initially purchased in 2009 as part of the Company's ongoing interest rate risk management activities related to its participation in the Canada Mortgage Bond Program (CMB Program). The Canada Mortgage Bonds are financed through repurchase agreements, which represent short-term funding transactions where the Company sells securities that it owns and commits to repurchase these securities at a specified price on a specified date in the future.

Canada Mortgage Bonds had a fair value of \$223.7 million at March 31, 2012. The obligation to repurchase the securities is recorded at amortized cost and had a carrying value of \$225.0 million. The interest expense related to these obligations is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Earnings.

### LOANS

Loans totalled \$4.4 billion at March 31, 2012 and represented 38.7% of total assets, compared to 36.6% at December 31, 2011. Loans consisted of residential mortgages:

- Sold to securitization programs which are classified as loans and receivables and totalled \$3.9 billion compared to \$3.8 billion at December 31, 2011. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$4.0 billion at March 31, 2012, compared to \$3.8 billion at December 31, 2011.
- Related to the Company's mortgage banking operations which are classified as held for trading and totalled \$458.6 million compared to \$292.1 million at December 31, 2011. These loans are held by the Company pending sale or securitization.
- Related to the Company's intermediary operations which are classified as loans and receivables and totalled \$28.8 million, compared to \$31.3 million at December 31, 2011.

The collective allowance for credit losses was \$0.7 million at March 31, 2012, compared to \$0.8 million at December 31, 2011.

Residential mortgages originated by Investors Group are funded primarily through sales to third parties on a fully serviced basis, including CMHC or Canadian bank sponsored securitization programs. Investors Group services residential mortgages of \$8.4 billion, including \$1.9 billion originated by subsidiaries of Great-West Lifeco Inc.

TABLE 13: SECURITIES

(\$ millions)	MARCH 31, 2012		DECEMBER 31, 2011	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Available for sale</b>				
Common shares	\$ –	\$ –	\$ 4.9	\$ 4.9
Proprietary investment funds	30.0	31.8	30.7	31.1
	30.0	31.8	35.6	36.0
<b>Fair value through profit or loss</b>				
Common shares	4.8	4.6	–	–
Canada Mortgage Bonds	220.4	223.7	220.5	227.2
Fixed income securities	30.7	31.6	30.8	29.2
	255.9	259.9	251.3	256.4
	\$ 285.9	\$ 291.7	\$ 286.9	\$ 292.4

The Company's exposure to and management of credit risk and interest rate risk related to its loan portfolios and its mortgage banking operations is discussed in the Financial Instruments section of this MD&A.

## INVESTMENT IN AFFILIATE

The Company currently has a 4% equity interest in Great-West Lifeco Inc. (Lifeco), an affiliated company. Both IGM Financial and Lifeco are controlled by Power Financial Corporation.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence over Lifeco. The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment. Changes in the carrying value for the three month period ended March 31, 2012 compared with the same period in 2011 are shown in Table 14.

## SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by Investors Group mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the CMB Program and through Canadian bank-sponsored ABCP programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is mitigated through the use of insurance.

Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. The Company has retained prepayment risk and certain elements of credit risk associated with the transferred assets. As a result, the Company's securitization transactions through the CMB and ABCP programs are accounted for as secured borrowings. The Company records the transactions under these programs as follows: (i) the mortgages and related obligations are carried at amortized cost; and (ii) interest income and interest expense, utilizing the effective interest rate method, are recorded over the term of the mortgages.

In the first quarter of 2012, the Company securitized loans through its mortgage banking operations with cash proceeds of \$505 million compared to \$289 million in 2011. The fair value of the Company's retained interest was \$40.5 million at March 31, 2012 compared to \$24.3 million at December 31, 2011. The retained interest includes cash reserve accounts of \$13.0 million, which are reflected on the balance sheet, and rights to future excess spread of \$85.0 million, which are not reflected on the balance sheet. The retained interest also includes the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. This component of the swap is recorded on the balance sheet and had a negative fair value of \$57.5 million at March 31, 2012. Additional information related to the Company's securitization activities can be found in the Financial Instruments section of this MD&A and in Note 6 of the Interim Financial Statements.

TABLE 14: INVESTMENT IN AFFILIATE

Three months ended March 31

(\$ millions)

	2012	2011
<b>Carrying value, beginning of period</b>	\$ 612.5	\$ 580.5
Proportionate share of earnings	19.7	16.9
Dividends received	(11.6)	(11.6)
Proportionate share of other comprehensive income (loss) and other adjustments	(8.7)	(16.5)
<b>Carrying value, end of period</b>	\$ 611.9	\$ 569.3
<b>Fair value, end of period</b>	\$ 925.8	\$ 1,015.7

## Consolidated Liquidity and Capital Resources

### LIQUIDITY

Cash and cash equivalents totalled \$889.9 million at March 31, 2012 compared with \$1.05 billion and \$1.48 billion at December 31, 2011 and March 31, 2011, respectively. Cash and cash equivalents related to the Company's deposit operations were \$14.2 million at March 31, 2012 compared with \$14.0 million and \$287.4 million at December 31, 2011 and March 31, 2011, respectively, as shown in Table 15.

Working capital totalled \$1.01 billion at March 31, 2012 compared with \$979.7 million and \$723.6 million at December 31, 2011 and March 31, 2011, respectively. Working capital excludes the Company's deposit operations as shown in Table 15.

Working capital is utilized to:

- Finance ongoing operations, including the funding of selling commissions.
- Temporarily finance mortgages in its mortgage banking operations.
- Pay interest and dividends related to long-term debt and preferred shares.
- Maintain liquidity requirements for regulated entities.
- Pay quarterly dividends on its outstanding common shares.
- Finance common share purchases related to the Company's normal course issuer bid.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization (EBITDA) totalled \$360.5 million in the first quarter of 2012 compared to \$396.3 million in the first quarter of 2011 and \$354.6 million in the fourth quarter of 2011. EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled \$70.0 million in the first quarter of 2012 compared to \$72.5 million in the first quarter of 2011 and \$69.0 million in the fourth quarter of 2011. As well as being an important alternative measure of performance, EBITDA is a common measure utilized by investment analysts and credit rating agencies in reviewing asset management companies.

Refer to the Financial Instruments section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity risk.

### Cash Flows

Table 16 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Interim Financial Statements for the quarter ended March 31, 2012. Cash and cash equivalents from continuing operations decreased by \$162.5 million in the quarter compared to a decrease of \$103.9 million in the first quarter of 2011.

TABLE 15: DEPOSIT OPERATIONS – FINANCIAL POSITION

(\$ millions)	2012 MAR. 31	2011 DEC. 31	2011 MAR. 31 <sup>(1)</sup>
<b>Assets</b>			
Cash and cash equivalents	\$ 14.2	\$ 14.0	\$ 287.4
Securities	–	–	213.9
Accounts & other receivables	119.0	122.3	68.5
Loans	27.8	28.0	420.5
<b>Total assets</b>	<b>\$ 161.0</b>	<b>\$ 164.3</b>	<b>\$ 990.3</b>
<b>Liabilities and shareholders' equity</b>			
Deposit liabilities	\$ 147.1	\$ 150.7	\$ 818.2
Other liabilities	1.0	1.0	53.9
Subordinated debt	–	–	20.0
Shareholders' equity	12.9	12.6	98.2
<b>Total liabilities and shareholders' equity</b>	<b>\$ 161.0</b>	<b>\$ 164.3</b>	<b>\$ 990.3</b>

(1) March 31, 2011 includes assets, liabilities and shareholder's equity of MRS Trust which was sold in November 2011.

TABLE 16: CASH FLOWS

Three months ended March 31 (\$ millions)	2012	2011	CHANGE
Operating activities – continuing operations			
Before payment of commissions	\$ 183.7	\$ 238.8	(23.1)%
Commissions paid	(72.2)	(88.2)	18.1
Net of commissions paid	111.5	150.6	(26.0)
Financing activities – continuing operations	13.2	(177.2)	107.4
Investing activities – continuing operations	(287.2)	(77.3)	N/M
<b>Decrease in cash and cash equivalents from continuing operations</b>	<b>(162.5)</b>	<b>(103.9)</b>	<b>(56.4)</b>
Increase in cash and cash equivalents from discontinued operations	–	12.0	(100.0)
Cash and cash equivalents from continuing and discontinued operations, beginning of period	1,052.4	1,573.6	(33.1)
Cash and cash equivalents, end of period	889.9	1,481.7	(39.9)
Less: Cash and cash equivalents from discontinued operations, end of period	–	(299.8)	100.0
<b>Cash and cash equivalents, end of period – continuing operations</b>	<b>\$ 889.9</b>	<b>\$ 1,181.9</b>	<b>(24.7)%</b>

Operating activities from continuing operations, before payment of commissions, generated \$183.7 million during the quarter ended March 31, 2012, as compared to \$238.8 million in 2011. Cash commissions paid were \$72.2 million in 2012 compared to \$88.2 million in 2011. Net cash flows from operating activities, net of commissions paid, were \$111.5 million in 2012 as compared to \$150.6 million in 2011.

Financing activities from continuing operations during the first quarter of 2012 compared to 2011 primarily related to:

- A net decrease of \$3.6 million in deposits and certificates in 2012 compared to a net decrease of \$3.9 million in 2011.
- A net payment of \$2.3 million in 2012 arising from obligations related to assets sold under repurchase agreements compared to net proceeds of \$6.0 million in 2011.
- A net increase of \$190.5 million in 2012 arising from obligations to securitization entities compared to a net increase of \$21.5 million in 2011.
- Proceeds received on the issuance of common shares of \$7.8 million in 2012 compared with \$20.7 million in 2011.
- The purchase of 845,000 common shares in 2012 under IGM Financial's normal course issuer bid at a cost of \$39.0 million compared with the purchase of

2,000,000 common shares at a cost of \$86.2 million in 2011.

- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2012, unchanged from 2011.
- The payment of regular common share dividends which totalled \$138.0 million in 2012 compared to \$133.1 million in 2011.

Investing activities from continuing operations during the first quarter of 2012 compared to 2011 primarily related to:

- The purchases of securities totalling \$6.0 million and sales of securities with proceeds of \$7.4 million in 2012 compared to \$5.4 million and \$11.5 million, respectively, in 2011.
- A net increase in loans of \$282.2 million in 2012 compared to a net increase of \$77.7 million in 2011 primarily related to residential mortgages in the Company's mortgage banking operations.

## CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the

quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity which totalled \$5.8 billion at March 31, 2012, unchanged from December 31, 2011. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was \$1,325.0 million at March 31, 2012, unchanged from December 31, 2011. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Perpetual preferred shares of \$150 million remain unchanged.

The Company purchased 845,000 common shares in the first quarter of 2012 at a cost of \$39.0 million under its normal course issuer bid (refer to Note 7 to the Interim Financial Statements). The Company commenced a normal course issuer bid on April 12, 2012 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Corporation's stock option plan and for other capital management purposes. Other activities in the first quarter of 2012 included the declaration of perpetual preferred share dividends of \$2.2 million or \$0.36875 per share and common share dividends of \$137.7 million or \$0.5375 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

The current rating by Standard & Poor's (S&P) of the Company's senior debt and liabilities is "A+" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured

debentures is "A (High)" with a stable outlook.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price, nor other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The "A+" rating assigned to the Company's senior unsecured debentures by S&P is the third highest of the ten major rating categories for long-term debt and indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the Company is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than companies in higher rated categories. S&P uses "+" or "-" designations to indicate the relative standing within the major rating categories.

According to S&P, the "Stable" rating outlook means that S&P considers that the rating is unlikely to change over the intermediate term. A stable outlook is not necessarily a precursor to an upgrade.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the third highest of the ten rating categories for long-term debt. Under the DBRS system, debt securities rated A (High) are of good credit quality and protection of interest and principal is considered substantial. While this is a favourable rating, entities in the A (High) category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated companies. A reference to "high" or "low" reflects the relative strength within the rating category, while the absence of either a "high" or "low" designation indicates the rating is placed in the middle of the category.

According to DBRS, the "Stable" rating trend helps give investors an understanding of DBRS's opinion regarding the outlook for the rating.

## FINANCIAL INSTRUMENTS

Table 17 presents the carrying value and the fair value of financial instruments.

Fair value is determined using the following methods and assumptions:

- The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, repurchase agreements, and certain other financial liabilities.
- Securities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans are valued by discounting the expected future cash flows at market interest rates for loans with similar credit risk and maturity.

- Obligations to securitization entities are valued by discounting the expected future cash flows by prevailing market yields for securities issued by these securitization entities having like maturities and characteristics.
- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

See Note 23 to the Annual Consolidated Financial Statements included in the 2011 IGM Financial Inc. Annual Report (Annual Financial Statements) which provides additional discussion on the determination of fair value of financial instruments.

TABLE 17: FINANCIAL INSTRUMENTS

(\$ millions)	MARCH 31, 2012		DECEMBER 31, 2011	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Assets</b>				
Cash and cash equivalents	\$ 889.9	\$ 889.9	\$ 1,052.4	\$ 1,052.4
Securities	291.7	291.7	292.5	292.5
Accounts and other receivables	319.7	319.7	282.0	282.0
Loans	4,372.4	4,435.8	4,085.9	4,144.3
Derivative instruments	67.2	67.2	88.1	88.1
Other financial assets	1.8	1.8	6.3	6.3
Total financial assets	\$ 5,942.7	\$ 6,006.1	\$ 5,807.2	\$ 5,865.6
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 288.9	\$ 288.9	\$ 300.1	\$ 300.1
Repurchase agreements	225.0	225.0	227.3	227.3
Derivative instruments	80.5	80.5	111.4	111.4
Deposits and certificates	147.1	148.7	150.7	152.0
Other financial liabilities	221.2	221.2	221.3	221.3
Obligations to securitization entities	4,017.6	4,102.1	3,827.4	3,930.4
Long-term debt	1,325.0	1,593.7	1,325.0	1,586.7
Total financial liabilities	\$ 6,305.3	\$ 6,660.1	\$ 6,163.2	\$ 6,529.2

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the three months ended March 31, 2012. The Company actively manages risks that arise as a result of holding financial instruments which include liquidity, credit and market risk.

#### Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's liquidity management practices include:

- Controls over liquidity management processes.
- Stress testing of various operating scenarios.
- Oversight of liquidity management by Committees of the Board of Directors.

As part of ongoing liquidity management during 2012 and 2011, the Company:

- Repaid the \$450.0 million 2001 Series 6.75% debentures on maturity.
- Continued to assess additional funding sources for the Company's mortgage banking operations.

A key liquidity requirement for the Company is the funding of commissions paid on the sale of mutual funds. Commissions on the sale of mutual funds continue to be paid from operating cash flows.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are sold or securitized to:

- Investors Mortgage and Short Term Income Fund and Investors Canadian Corporate Bond Fund;
- Third parties, including CMHC or Canadian bank sponsored securitization trusts; or
- Institutional investors through private placements.

Certain subsidiaries of Investors Group are approved issuers of NHA MBS and are approved sellers into the CMB Program. This issuer and seller status provides Investors Group with additional funding sources for residential mortgages. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change. A condition of the NHA MBS and CMB Programs is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is similarly dependent upon market conditions that are subject to change.

The Company's contractual obligations are reflected in Table 18.

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's operating lines of credit. The Company's operating lines of credit with various Schedule I Canadian chartered banks totalled \$325 million as at March 31, 2012, unchanged from December 31, 2011. The operating lines of credit as at March 31, 2012 consisted of committed lines of \$150 million and uncommitted lines of \$175 million. The Company has accessed its uncommitted operating lines of credit in the past, however, any advances made by a bank under the uncommitted operating lines are at the bank's sole discretion. As at March 31, 2012 and December 31, 2011, the Company was not utilizing its committed lines of credit or its uncommitted operating lines of credit.

The Company accessed the capital markets most recently in December 2010, however, its ability to access capital markets to raise funds in future is dependent on market conditions.

TABLE 18: CONTRACTUAL OBLIGATIONS

As at March 31, 2012 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	\$ 118.5	\$ 9.7	\$ 14.3	\$ 4.6	\$ 147.1
Derivative instruments	–	30.0	48.0	2.5	80.5
Obligations to securitization entities	–	663.7	3,342.3	11.6	4,017.6
Long-term debt	–	–	–	1,325.0	1,325.0
Operating leases <sup>(1)</sup>	–	47.6	138.2	81.9	267.7
<b>Total contractual obligations</b>	<b>\$ 118.5</b>	<b>\$ 751.0</b>	<b>\$ 3,542.8</b>	<b>\$ 1,425.6</b>	<b>\$ 5,837.9</b>

(1) Includes office space and equipment used in the normal course of business. Lease payments are charged to earnings in the period of use.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above will be sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the performance of debt and equity markets. The Company's liquidity position and its management of liquidity risk have not changed materially since December 31, 2011.

#### **Credit Risk**

Credit risk is the potential for financial loss to the Company if a counterparty in a transaction fails to meet its obligations. The Company's cash and cash equivalents, securities holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

At March 31, 2012, cash and cash equivalents of \$889.9 million consisted of cash balances of \$88.3 million on deposit with Canadian chartered banks and cash equivalents of \$801.6 million. Cash equivalents are primarily comprised of Government of Canada treasury bills totalling \$155.8 million, provincial government and government guaranteed commercial paper of \$363.7 million and bankers' acceptances issued by Canadian chartered banks of \$281.7 million. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

Fair value through profit or loss securities include Canada Mortgage Bonds with a fair value of \$223.7 million and fixed income securities which are comprised of the restructured notes of the MAV conduits with a fair value of \$31.7 million. These fair values represent the maximum exposure to credit risk at March 31, 2012. Refer to Note 5 to the Annual Financial Statements for information related to the valuation of the MAV conduits.

The Company regularly reviews the credit quality of the mortgage portfolios, related to the Company's mortgage banking operations and its intermediary operations, as well as the adequacy of the collective allowance. As at March 31, 2012, mortgages totalled \$4.4 billion and consisted of residential mortgages:

- Sold to securitization programs which are classified as loans and receivables and totalled \$3.9 billion compared to \$3.8 billion at December 31, 2011. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$4.0 billion at March 31, 2012, compared to \$3.8 billion at December 31, 2011.
- Related to the Company's mortgage banking operations which are classified as held for trading and totalled \$458.6 million compared to \$292.1 million at December 31, 2011. These loans are held by the Company pending sale or securitization.
- Related to the Company's intermediary operations which are classified as loans and receivables and totalled \$28.8 million at March 31, 2012, compared to \$31.3 million at December 31, 2011.

As at March 31, 2012, the mortgage portfolios related to the Company's intermediary operations were geographically diverse, 100% residential (December 31, 2011 – 100%) and 99.5% insured (December 31, 2011 – 99.4%). As at March 31, 2012, impaired and uninsured non-performing mortgages over 90 days were \$0.1 million, compared to nil at December 31, 2011. The characteristics of the mortgage portfolio have not changed significantly during 2012.

The NHA MBS and CMB Program requires that all securitized mortgages be insured against default by an approved insurer. At March 31, 2012, 80.9% of loans securitized through ABCP programs are also insured. At March 31, 2012, 89.7% of the securitized portfolio and the residential mortgages classified as held for trading were insured compared to 93.0% at December 31, 2011. As at March 31, 2012, impaired loans on these portfolios were \$1.8 million, compared to \$1.1 million at December 31, 2011. Uninsured non-performing mortgages over 90 days on these portfolios were \$0.8 million at March 31, 2012, compared to nil at December 31, 2011.

The collective allowance for credit losses was \$0.7 million at March 31, 2012, compared to \$0.8 million at December 31, 2011, and is considered

adequate by management to absorb all credit related losses in the mortgage portfolios.

The Company retains certain elements of credit risk on securitized loans. At March 31, 2012, 94.2% of securitized loans were insured against credit losses. The Company's credit risk on its securitization activities is limited to its retained interest. The fair value of the Company's retained interests in securitized mortgages was \$40.5 million at March 31, 2012 compared to \$24.3 million at December 31, 2011. Retained interests include:

- *Cash reserve accounts and rights to future net interest income* – which were \$13.0 million and \$85.0 million, respectively, at March 31, 2012. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages.

The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of \$43.3 million is subordinated to the interests of the trust and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Credit risk on these mortgages is mitigated by any insurance on these mortgages, as previously discussed, and the Company's credit risk on insured loans is to the insurer.

Rights to future net interest income under the NHA MBS and CMB Program totalled \$54.7 million. Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. Outstanding mortgages securitized under these programs are \$2.7 billion.

- *Fair value of principal reinvestment account swaps* – had a negative fair value of \$57.5 million at March 31, 2012 which is reflected on the Company's balance sheet. These swaps represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. The notional amount of these swaps was \$622.9 million at March 31, 2012.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed

income securities and mortgage portfolios has not changed materially since December 31, 2011.

The Company utilizes derivatives to hedge interest rate risk and reinvestment risk associated with its mortgage banking and securitization activities, as well as market risk related to certain stock-based compensation arrangements.

The Company participates in the CMB Program by entering into back-to-back swaps whereby Canadian Schedule I chartered banks designated by the Company are between the Company and the Canadian Housing Trust. The Company receives coupons on NHA MBS and eligible principal reinvestments and pays coupons on the Canada Mortgage Bonds. The Company also enters into interest rate swaps to hedge interest rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled \$27.6 million at March 31, 2012 and the outstanding notional amount was \$4.6 billion. Certain of these swaps relate to securitized mortgages that have been recorded in the Company's balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of \$2.8 billion and having a negative fair value of \$31.8 million, are not reflected on the balance sheet. Principal reinvestment account swaps and hedges of reinvestment and interest rate risk, with an outstanding notional amount of \$1.8 billion and having fair value of \$4.2 million, are reflected on the balance sheet. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$64.7 million at March 31, 2012 compared to \$87.1 million at December 31, 2011.

The Company utilizes interest rate swaps to hedge interest rate risk associated with mortgages securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled \$16.2 million on an outstanding notional amount of \$847.0 million at March 31, 2012. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$0.4 million at March 31, 2012 compared to \$0.6 million at December 31, 2011.

The Company also utilizes interest rate swaps to hedge interest rate risk associated with its investments in Canada Mortgage Bonds. The negative fair value of these interest rate swaps totalled \$3.5 million on an outstanding notional amount of \$200.0 million at March 31, 2012. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which

are in a gain position, was nil at March 31, 2012, unchanged from December 31, 2011.

The Company enters into other derivative contracts which primarily consist of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by the Company as well as total return swaps and forward agreements on IGM Financial common shares utilized to hedge deferred compensation arrangements. The fair value of interest rate swaps, total return swaps and forward agreements was \$2.2 million on an outstanding notional amount of \$277.5 million at March 31, 2012 compared to a fair value of nil on an outstanding notional amount of \$76.4 million at December 31, 2011. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was \$2.5 million at March 31, 2012, compared to \$0.8 million at December 31, 2011.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$67.6 million does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements, was \$0.1 million at March 31, 2012. Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at March 31, 2012. Management of credit risk related to derivatives has not changed materially since December 31, 2011.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Note 6 of the Interim Financial Statements and Notes 2, 7 and 22 to the Annual Financial Statements.

### **Market Risk**

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices. The Company's financial instruments are generally denominated in Canadian dollars, and do not have significant exposure to changes in foreign exchange rates.

### **Interest Rate Risk**

The Company is exposed to interest rate risk on its loan portfolio, fixed income securities, Canada Mortgage Bonds and on certain of the derivative financial

instruments used in the Company's mortgage banking and intermediary operations.

The objective of the Company's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at March 31, 2012, the total gap between deposit assets and liabilities was within the Company's trust subsidiary's stated guidelines.

The Company utilizes interest rate swaps with Canadian Schedule I chartered bank counterparties in order to reduce the impact of fluctuating interest rates on its mortgage banking operations, as follows:

- The Company has funded fixed rate mortgages with ABCP as part of the securitization transactions with bank-sponsored securitization trusts. The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that ABCP rates rise. However, the Company remains exposed to the basis risk that ABCP rates are greater than the bankers' acceptances rates that it receives on its hedges.
- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages declines. As previously discussed, as part of the CMB Program, the Company also is entitled to investment returns on reinvestment of principal repayments of securitized mortgages and is obligated to pay Canada Mortgage Bond coupons that are generally fixed rate. The Company hedges the risk that reinvestment returns decline by entering into interest rate swaps with Canadian Schedule I chartered bank counterparties.
- The Company is exposed to the impact that changes in interest rates may have on the value of its investments in Canada Mortgage Bonds. The Company enters into interest rate swaps with Canadian Schedule I chartered bank counterparties to hedge interest rate risk on these bonds.
- The Company is also exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by the Company. The Company may enter into interest rate swaps to hedge this risk.

As at March 31, 2012, the impact to annual net earnings of a 100 basis point change in interest rates would have been approximately \$4.3 million. The Company's exposure to and management of interest rate risk has not changed materially since December 31, 2011.

### **Equity Price Risk**

The Company is exposed to equity price risk on its proprietary investment funds which are classified as available for sale securities and on its common shares which are classified as fair value through profit or loss, as shown in Table 13. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines there is objective evidence of impairment in value, at which time they are recorded in the Consolidated Statements of Earnings.

The Company sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial. The Company hedges this risk through the use of forward agreements and total return swaps.

## **RISKS RELATED TO ASSETS UNDER MANAGEMENT**

At March 31, 2012, IGM Financial's total assets under management were \$124.1 billion compared to \$118.7 billion at December 31, 2011.

The Company is subject to the risk of asset volatility from changes in the Canadian and global financial and equity markets. Changes in these markets have caused in the past, and will cause in the future, changes in the Company's assets under management, revenues and earnings. Global economic conditions, exacerbated by financial crises, changes in the equity marketplace, currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties and other factors including political and government

instability that are difficult to predict affect the mix, market values and levels of assets under management.

The Company's assets under management may be subject to unanticipated redemptions as a result of such events. Changing market conditions may also cause a shift in asset mix between equity and fixed income assets due to market and income as well as net cash flows, potentially resulting in a decline in the Company's revenue and earnings depending upon the nature of the assets under management and the level of management fees earned.

Interest rates at unprecedented low levels have significantly decreased the yields of the Company's money market and managed yield mutual funds. Since 2009, Investors Group and Mackenzie have waived a portion of investment management fees or absorbed some expenses to ensure that these funds maintained positive yields. The Company will review its practices in this regard in response to changing market conditions.

Redemption rates for long-term funds are summarized in Table 19 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

IGM Financial provides Consultants, independent financial advisors, and strategic alliance and institutional clients with a high level of service and support and a broad range of investment products based on asset classes, countries or regions, and investment management styles which, in turn, should result in maintaining strong client relationships and lower rates of redemptions. The Company's subsidiaries also continually review product pricing to ensure competitiveness in the marketplace in relation to the nature and quality of services provided.

The mutual fund industry and financial advisors continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility Consultants and independent financial advisors play a key role in assisting investors to maintain perspective and focus on their long-term objectives.

TABLE 19: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

As at March 31	2012	2011
<b>IGM Financial Inc.</b>		
Investors Group	9.1 %	8.4 %
Mackenzie	16.2 %	16.5 %
Counsel	11.2 %	12.2 %

## OTHER RISK FACTORS

### Distribution Risk

*Investors Group Consultant Network* – Investors Group derives all of its mutual fund sales through its Consultant network. Investors Group Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on Investors Group's results of operations and business prospects. Investors Group is focused on growing its distribution network of Consultants and on responding to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice, as discussed in the Investors Group Review of the Business section of this MD&A.

*Mackenzie* – Mackenzie derives the majority of its mutual fund sales through an independent retail financial advisor network. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

### The Regulatory Environment

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the

requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The Company and its subsidiaries are also subject to the requirements of self-regulatory organizations to which they belong. These and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. These requirements include those that apply to IGM Financial as a publicly traded company and those that apply to the Company's subsidiaries based on the nature of their activities. They include regulations related to securities markets, the provision of financial products and services, including fund management, distribution, insurance and mortgages, and other activities carried on by the Company in the markets in which it operates. Regulatory standards affecting the Company and the financial services industry are increasing. The Company and its subsidiaries are subject to regular regulatory reviews as part of the normal ongoing process of oversight by the various regulators.

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages regulatory risk through its efforts to promote a strong culture of compliance. It monitors regulatory developments and their impact on the Company. It also continues to develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

Particular regulatory initiatives may have the effect of making the products of the Company's subsidiaries appear to be less competitive than the products of other financial service providers, to third party distribution channels and to clients. Regulatory differences that may impact the competitiveness of the Company's products include regulatory costs, tax treatment, disclosure requirements, transaction processes or other differences that may be as a result of differing regulation or application of regulation. While the Company and its subsidiaries actively monitor such initiatives, and where feasible comment upon or discuss them with regulators, the ability of the Company and its subsidiaries to mitigate the imposition of differential regulatory treatment of financial products or services is limited.

**Contingencies**

The Company is subject to legal actions arising in the normal course of its business. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

**Acquisition Risk**

The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings

growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

**Model Risk**

The Company uses a variety of models to assist in: the valuation of financial instruments; operational scenario testing; management of cash flows; capital management; and assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models. However, changes in the internal assumptions or other factors affecting the models could have an adverse effect on the Company's consolidated financial position.

## Outlook

### THE FINANCIAL SERVICES ENVIRONMENT

According to Investor Economics, Canadians held \$2.9 trillion in discretionary financial assets with financial institutions at December 31, 2010. The nature of holdings was diverse, ranging from demand deposits held for short term cash management purposes to longer-term investments held for retirement purposes. Over 60% (\$1.8 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the \$1.1 trillion held outside of a financial advisory relationship, nearly 70% consisted of bank deposits.

Financial advisors represent the primary distribution channel for the Company's products and services, and the core emphasis of the Company's business model is to support these financial advisors as they work with clients to plan for and achieve their financial goals. Multiple sources of emerging research show significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. The Company actively promotes the value of financial advice and the importance of a relationship with an advisor to develop and remain focused on long-term financial plans and goals.

Over 35% of Canadian discretionary financial assets or \$1.0 trillion resided in investment funds at December 31, 2010, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 75% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With approximately \$100 billion in mutual fund assets under management, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Deregulation, competition and technology have fostered a trend towards financial service providers offering a comprehensive range of proprietary products

and services. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent sales forces have become obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf. Accordingly, the Canadian financial services industry is characterized by a number of large, diversified, vertically-integrated participants, similar to IGM, who offer both financial planning and investment management services.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiary. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 52% of total industry long-term mutual fund assets at December 31, 2011.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 84% of both industry long-term mutual fund assets and total mutual fund assets under management at December 31, 2011. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

Management believes that the financial services industry will continue to be influenced by the following trends:

- Shifting demographics as the number of Canadians in their prime savings years continue to increase.
- Changes in investor attitudes based on economic conditions.
- Continued importance of the role of the financial advisor.
- Public policy related to retirement savings.
- Changes in the regulatory environment.
- An evolving competitive landscape.
- Advancing and changing technology.

## THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. Investors Group and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. Investors Group, Mackenzie and Investment Planning Counsel compete directly with other investment managers for assets under management, and their products compete with stocks, bonds and other asset classes for a share of the investment assets of Canadians.

IGM Financial continues to focus on its commitment to provide quality investment advice and financial products, service innovations, effective management of the Company and long-term value for its clients and shareholders. Management believes that the Company is well-positioned to meet competitive challenges and capitalize on future opportunities.

The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on those channels emphasizing comprehensive financial planning through a relationship with a financial advisor.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Benefits of being part of the Power Financial group of companies.

### Broad and Diversified Distribution

IGM Financial's distribution strength is a competitive advantage. In addition to owning two of Canada's largest financial planning organizations, Investors Group and Investment Planning Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 independent financial advisors. Mackenzie also, in its growing strategic alliance business, partners with Canadian and U.S. manufacturing and distribution complexes to provide investment management to a number of retail investment fund mandates.

### Broad Product Capabilities

IGM Financial's subsidiaries continue to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

### Enduring Relationships

IGM Financial enjoys significant advantages as a result of the enduring relationships that advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

### Benefits of Being Part of Power Financial Group of Companies

As part of the Power Financial group of companies, IGM Financial benefits through expense savings from shared service arrangements, as well as through access to distribution, products, and capital.

## Critical Accounting Estimates and Policies

### SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

There were no changes to the Company's critical accounting estimates from those reported at December 31, 2011.

### CHANGES IN ACCOUNTING POLICIES

#### IFRS 7 Financial Instruments Disclosures

On January 1, 2012, the Company adopted *Disclosures – Transfers of Financial Assets* (Amendments to IFRS 7). The amendments require additional disclosures related to the Company's securitization transactions (Note 6 to the Interim Financial Statements).

### FUTURE ACCOUNTING CHANGES

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

#### IAS 19 Employee Benefits

The IASB issued IAS 19 that amends the measurement, presentation and disclosure requirements for defined benefit plans. The standard is applied retroactively and is effective for periods beginning on or after January 1, 2013. The Company intends to adopt the standard effective January 1, 2013. Amendments include:

- The elimination of the deferral and amortization approach (corridor approach) for recognizing actuarial gains and losses in net earnings. Actuarial gains and losses are to be recognized immediately in Other comprehensive income (OCI). Actuarial gains and losses recognized in OCI are not reclassified to net earnings in subsequent periods. This amendment will have no impact on the Company as actuarial gains and losses are currently recognized in OCI.

- Changes in the recognition of past service costs. Past service costs resulting from plan amendments or curtailments are recognized in net earnings in the period in which the plan amendments or curtailment occurs, without regard to vesting.
- The elimination of the concept of an expected return on assets (EROA). Amended IAS 19 requires the use of the discount rate in the place of EROA in the determination of the net interest component of the pension expense.

The adoption of this standard is not expected to have a significant impact on the Company's financial position or results of operations.

#### Other

The IASB is currently undertaking several projects which will result in changes to existing IFRS standards that may affect the Company:

<b>IFRS Standard</b>	<b>Expected date of issuance</b>
<b>IFRS 9: Financial Instruments</b>	
Classification and Measurement	Q3 2012 – Exposure Draft
Impairment	Q3 2012 – Exposure Draft
Hedge Accounting – General Hedge Accounting	Q3 2012 – Final Standard
Hedge Accounting – Macro Hedge Accounting	Q3 2012 – Exposure Draft
Leases	Q3 2012 – Exposure Draft
Revenue Recognition	Q4 2012 – Final Standard

Source: IASB website at [www.iasb.org](http://www.iasb.org)

## Internal Control Over Financial Reporting

During the first quarter of 2012, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Other Information

### TRANSACTIONS WITH RELATED PARTIES

The Company entered into tax loss consolidation transactions with its parent company, Power Financial Corporation, after obtaining advance tax rulings:

- On February 23, 2011, the Company acquired \$1.0 billion of 6.01% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$1.0 billion of 6.00% secured demand debentures to Power Financial Corporation.
- On January 10, 2012, the Company acquired \$250 million of 6.01% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$250 million of 6.00% secured demand debentures to Power Financial Corporation.

The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights. Accordingly, the preferred shares and debentures and related dividend income and interest expense are offset in the Consolidated Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.

For further information on transactions involving related parties, see Notes 9 and 26 to the Annual Financial Statements.

### OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at March 31, 2012 totalled 256,073,610. As at May 2, 2012, outstanding common shares totalled 256,074,610.

### SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).