









TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q1 2013 VS. Q4 2012

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2013 MAR. 31	2012 DEC. 31	2013 MAR. 31	2012 DEC. 31	2013 MAR. 31	2012 DEC. 31	2013 MAR. 31	2012 DEC. 31
<b>Revenues</b>								
Fee income	\$ 374.2	\$ 371.5	\$ 190.5	\$ 186.2	\$ 45.2	\$ 41.7	\$ 609.9	\$ 599.4
Net investment income and other	18.4	13.5	1.7	0.4	22.7	24.8	42.8	38.7
	392.6	385.0	192.2	186.6	67.9	66.5	652.7	638.1
<b>Expenses</b>								
Commission	121.1	123.2	66.6	63.2	30.3	27.0	218.0	213.4
Non-commission	99.3	94.5	66.6	61.1	12.0	8.2	177.9	163.8
	220.4	217.7	133.2	124.3	42.3	35.2	395.9	377.2
<b>Earnings before interest and taxes</b>	\$ 172.2	\$ 167.3	\$ 59.0	\$ 62.3	\$ 25.6	\$ 31.3	256.8	260.9
Interest expense							(22.8)	(23.2)
Proportionate share of affiliate's provision							–	(5.6)
Earnings before income taxes							234.0	232.1
Income taxes							51.3	27.9
<b>Net earnings</b>							182.7	204.2
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							\$ 180.5	\$ 202.0
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 180.5	\$ 183.2

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

TABLE 4: EFFECTIVE INCOME TAX RATE

Three months ended	2013 MAR. 31	2012 DEC. 31	2012 MAR. 31
<b>Income taxes at Canadian federal and provincial statutory rates</b>	26.56 %	26.52 %	26.48 %
Effect of:			
Proportionate share of affiliate's earnings	(2.21)	(2.44)	(2.04)
Loss consolidation <sup>(1)</sup>	(2.12)	(2.18)	(1.91)
Other items	(0.31)	–	(0.57)
<b>Effective income tax rate – operating earnings</b>	21.92	21.90	21.96
Reduction in income tax estimates related to certain tax filings	–	(10.51)	–
Proportionate share of affiliate's provision	–	0.64	–
<b>Effective income tax rate – net earnings</b>	21.92 %	12.03 %	21.96 %

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

TABLE 5: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q1 2013 VS. Q1 2012

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2013 MAR. 31	2012 MAR. 31	2013 MAR. 31	2012 MAR. 31	2013 MAR. 31	2012 MAR. 31	2013 MAR. 31	2012 MAR. 31
<b>Mutual funds</b>								
Gross sales – money market	\$ 175.2	\$ 185.2	\$ 129.8	\$ 113.6	\$ 12.2	\$ 19.3	\$ 317.2	\$ 318.1
Gross sales – long term	1,858.7	1,648.4	1,797.5	1,358.3	119.1	120.8	3,766.5	3,127.0
Total mutual fund gross sales	\$ 2,033.9	\$ 1,833.6	\$ 1,927.3	\$ 1,471.9	\$ 131.3	\$ 140.1	\$ 4,083.7	\$ 3,445.1
Net sales – money market	\$ 21.6	\$ 11.9	\$ 2.7	\$ (25.6)	\$ 4.4	\$ 13.9	\$ 28.7	\$ 0.2
Net sales – long term	354.0	163.3	96.0	(483.8)	7.2	16.8	449.5	(304.2)
Total mutual fund net sales	\$ 375.6	\$ 175.2	\$ 98.7	\$ (509.4)	\$ 11.6	\$ 30.7	\$ 478.2	\$ (304.0)
<b>Sub-advisory, institutional and other accounts</b>								
Gross sales	\$ –	\$ –	\$ 1,350.6	\$ 1,248.7	\$ –	\$ –	\$ 967.0	\$ 912.0
Net sales	–	–	155.3	(423.6)	–	–	76.3	(549.1)
<b>Combined</b>								
Gross sales	\$ 2,033.9	\$ 1,833.6	\$ 3,277.9	\$ 2,720.6	\$ 131.3	\$ 140.1	\$ 5,050.7	\$ 4,357.1
Net sales	375.6	175.2	254.0	(933.0)	11.6	30.7	554.5	(853.1)
<b>Change in total assets under management</b>								
Net sales	\$ 375.6	\$ 175.2	\$ 254.0	\$ (933.0)	\$ 11.6	\$ 30.7	\$ 554.5	\$ (853.1)
Market and income	2,028.4	2,717.2	2,533.5	3,647.4	118.5	114.8	4,547.5	6,286.4
Net change in assets	2,404.0	2,892.4	2,787.5	2,714.4	130.1	145.5	5,102.0	5,433.3
Beginning assets	60,594.5	57,735.3	61,477.4	61,652.0	2,949.6	2,811.5	120,693.5	118,712.8
<b>Ending assets</b>	<b>\$ 62,998.5</b>	<b>\$ 60,627.7</b>	<b>\$ 64,264.9</b>	<b>\$ 64,366.4</b>	<b>\$ 3,079.7</b>	<b>\$ 2,957.0</b>	<b>\$ 125,795.5</b>	<b>\$ 124,146.1</b>

(1) Total Gross Sales and Net Sales excluded \$392 billion and \$87 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$338 million and \$126 million in 2012).

Total assets under management excluded \$4.5 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$3.8 billion at March 31, 2012).

## 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 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, decreased in the second quarter of 2012 and increased in the fourth quarter of 2012 and the first quarter of 2013, consistent with overall market movements.

TABLE 6: SUMMARY OF QUARTERLY RESULTS

	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2
<b>Consolidated statements of earnings (\$ millions)</b>								
Revenues								
Management fees	\$ 442.9	\$ 434.7	\$ 431.5	\$ 443.5	\$ 456.6	\$ 444.2	\$ 464.6	\$ 491.8
Administration fees	85.6	84.5	83.3	84.0	85.3	84.3	85.2	87.9
Distribution fees	81.4	80.2	75.2	80.5	85.2	79.8	80.8	83.5
Net investment income and other	42.8	38.7	44.1	29.5	45.9	36.4	43.2	34.4
	652.7	638.1	634.1	637.5	673.0	644.7	673.8	697.6
Expenses								
Commission	218.0	213.4	209.8	213.7	221.4	214.0	218.6	228.7
Non-commission	177.9	163.8	162.4	171.2	171.1	157.7	158.3	165.2
Interest	22.8	23.2	23.2	22.9	22.9	23.2	23.2	26.1
	418.7	400.4	395.4	407.8	415.4	394.9	400.1	420.0
Earnings before undernoted	234.0	237.7	238.7	229.7	257.6	249.8	273.7	277.6
Proportionate share of affiliate's provision	–	(5.6)	–	–	–	5.0	–	–
Earnings before income taxes and discontinued operations	234.0	232.1	238.7	229.7	257.6	254.8	273.7	277.6
Income taxes	51.3	27.9	50.3	55.8	56.5	53.3	60.2	63.4
Net earnings from continuing operations	182.7	204.2	188.4	173.9	201.1	201.5	213.5	214.2
Net earnings from discontinued operations	–	–	–	–	–	29.6	31.0	1.1
Net earnings	182.7	204.2	188.4	173.9	201.1	231.1	244.5	215.3
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>\$ 180.5</b>	<b>\$ 202.0</b>	<b>\$ 186.2</b>	<b>\$ 171.7</b>	<b>\$ 198.9</b>	<b>\$ 228.9</b>	<b>\$ 242.3</b>	<b>\$ 213.1</b>
<b>Reconciliation of non-IFRS financial measures<sup>(1)</sup> (\$ millions)</b>								
Operating earnings available to common shareholders – non-IFRS measure	\$ 180.5	\$ 183.2	\$ 186.2	\$ 178.1	\$ 198.9	\$ 194.3	\$ 211.3	\$ 212.0
Other items:								
Reduction in income tax estimates related to certain tax filings	–	24.4	–	–	–	–	–	–
Proportionate share of affiliate's provision	–	(5.6)	–	–	–	5.0	–	–
Non-cash income tax charge	–	–	–	(6.4)	–	–	–	–
Net earnings from discontinued operations	–	–	–	–	–	29.6	31.0	1.1
<b>Net earnings available to common shareholders – IFRS</b>	<b>\$ 180.5</b>	<b>\$ 202.0</b>	<b>\$ 186.2</b>	<b>\$ 171.7</b>	<b>\$ 198.9</b>	<b>\$ 228.9</b>	<b>\$ 242.3</b>	<b>\$ 213.1</b>
<b>Earnings per share (€)</b>								
Operating earnings available to common shareholders <sup>(1)</sup>								
– Basic	72	73	73	70	78	76	82	83
– Diluted	72	72	73	69	77	75	82	82
Net earnings available to common shareholders								
– Basic	72	80	73	67	78	89	94	83
– Diluted	72	80	73	67	77	89	94	82
<b>Average daily mutual fund assets (\$ billions)</b>	<b>\$ 106.9</b>	<b>\$ 102.4</b>	<b>\$ 101.0</b>	<b>\$ 100.9</b>	<b>\$ 103.6</b>	<b>\$ 99.6</b>	<b>\$ 103.5</b>	<b>\$ 109.9</b>
<b>Total mutual fund assets under management (\$ billions)</b>	<b>\$ 108.5</b>	<b>\$ 103.9</b>	<b>\$ 102.2</b>	<b>\$ 100.2</b>	<b>\$ 105.1</b>	<b>\$ 99.7</b>	<b>\$ 97.7</b>	<b>\$ 108.6</b>
<b>Total assets under management (\$ billions)</b>	<b>\$ 125.8</b>	<b>\$ 120.7</b>	<b>\$ 119.3</b>	<b>\$ 118.0</b>	<b>\$ 124.1</b>	<b>\$ 118.7</b>	<b>\$ 116.7</b>	<b>\$ 130.2</b>

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in addition 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 Winnipeg was recently announced which will expand our network to 109 region offices.

The number of Consultants with more than four years of Investors Group experience continued to increase to 2,766 at March 31, 2013 compared to 2,748 at the end of 2012 and 2,714 a year earlier.

At March 31, 2013, Investors Group had 4,465 Consultants, compared with 4,518 at December 31, 2012. Seasonal effects have created a slight decrease in the Consultant network in the first quarter of recent years. The reduction experienced in the first quarter of 2013 was smaller than either 2011 or 2012 for the same time period and reflected the refinements to selection and recruitment practices introduced during 2011 as well as the improved market environment.

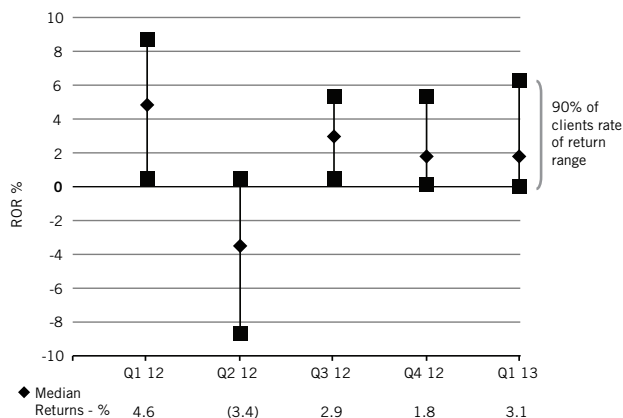
### ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

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, Manitoba for Consultants and clients in the rest of Canada. The Quebec General Office has over 250 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 approximately \$10.4 billion as at March 31, 2013.

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 ranges of rates of return around the median for 90% of Investors Group clients.

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





For the three months ended March 31, 2013, the client account median rate of return was approximately 3.1% and 97% of clients experienced positive returns. For the twelve months ended March 31, 2013, the client account median rate of return was 4.7%.

Consultants 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, 2013, 37% 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 13% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 65% for three stars or better and 28% for four and five star funds at March 31, 2013. 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.

### Pricing and Product Enhancements

In the second quarter of 2012, Investors Group announced a number of changes in the pricing of its mutual funds and product enhancements designed to expand its services to clients.

Investors Group reduced the fees of many of its mutual funds when their prospectuses renewed on June 30, 2012. The reductions in management fees range from .05% to .40% per annum of the asset value of the selected funds. In addition, reductions were made to certain administration and distribution fees. These changes impact approximately two-thirds of Investors Group's funds and over two-thirds of its managed assets. Lower fees will attract lower GST/HST, resulting in greater reductions to Management Expense Ratios (MERs).

In the third quarter of 2012, Investors Group began implementing additional investment solutions for clients with household account balances in excess of \$500,000. These additions will provide Investors Group Consultants with a greater number of solutions to enhance client value.

These changes build on Investors Group's strong client relationships with more competitive pricing and improved flexibility.

### Additions to Mutual Fund Product Offering

Investors Group continues to enhance the performance, scope and diversity of our investment offering with the introduction of new funds that are well-suited to the long-term diverse needs of Canadian investors.

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

Three months ended (\$ millions)	2013 MAR. 31	2012 DEC. 31	2012 MAR. 31	% CHANGE	
				2012 DEC. 31	2012 MAR. 31
Sales	\$ 2,033.9	\$ 1,417.6	\$ 1,833.6	43.5 %	10.9 %
Redemptions	1,658.3	1,678.5	1,658.4	(1.2)	–
<b>Net sales (redemptions)</b>	375.6	(260.9)	175.2	N/M	114.4
Market and income	2,028.4	1,263.3	2,717.2	60.6	(25.3)
Net change in assets	2,404.0	1,002.4	2,892.4	139.8	(16.9)
Beginning assets	60,594.5	59,592.1	57,735.3	1.7	5.0
<b>Ending assets</b>	\$ 62,998.5	\$ 60,594.5	\$ 60,627.7	4.0 %	3.9 %
<b>Average daily assets</b>	\$ 62,175.2	\$ 59,756.1	\$ 59,762.8	4.0 %	4.0 %

On January 14, 2013, Investors Group launched a new balanced fund to enhance its product offering. IG Mackenzie Sentinel Strategic Income Fund will seek income with the potential for long-term capital growth by investing primarily in fixed income investments and/or securities that pay equity income. The new mandate will pursue a flexible approach to investing in fixed income and/or equity asset classes with no geographic restriction.

Effective March 1, 2013, Investors Group enhanced the iProfile Managed Asset Program with the addition of new iProfile Classes that provide investors with exposure to the iProfile Program within the Corporate Class structure. In addition, new Series T options were added to the iProfile Program for clients who wish to receive a regular monthly cash flow via return of capital.

#### **Change in Mutual Fund Assets Under Management – Q1 2013 vs. Q1 2012**

Investors Group's mutual fund assets under management were \$63.0 billion at March 31, 2013, an increase of 3.9% from \$60.6 billion at March 31, 2012. Average daily mutual fund assets were \$62.2 billion in the first quarter of 2013, up 4.0% from \$59.8 billion in the first quarter of 2012.

For the first quarter ended March 31, 2013, sales of Investors Group mutual funds through its Consultant network were \$2.0 billion, an increase of 10.9% from the first quarter of 2012. Mutual fund redemptions totalled \$1.7 billion, unchanged from 2012. Investors Group's twelve month trailing redemption rate for long-term funds was 9.8% at March 31, 2013 compared to 9.1% at March 31, 2012, 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 16.0% at December 31, 2012.

Over the last several years, a growing component of the redemptions included in Investors Group's long-term redemption rate has related to the Cornerstone funds and transfers to Investors Group Series of Guaranteed Investment Funds (GIFs). The Cornerstone funds are income portfolio funds which invest between 30% and 50% of their assets in Investors Premium Money Market Fund. These funds are used by our clients as a substitute for money market funds which have higher redemption activity and, together with the transfers to GIFs, account for 0.4% of our long-term redemption rate at March 31, 2013. Excluding such items the long-term redemption rate would have been 9.4%.

Net sales of Investors Group mutual funds for the first quarter of 2013 were \$376 million compared with net sales of \$175 million in 2012. Sales of long-term funds were \$1.9 billion for the first quarter of 2013, compared with \$1.6 billion in 2012, an increase of 12.8%. Net sales of long-term funds for the first quarter of 2013 were \$354 million compared to net sales of \$163 million in 2012. During the first quarter, market and income resulted in an increase of \$2.0 billion in mutual fund assets compared to an increase of \$2.7 billion in the first quarter of 2012.

#### **Change in Mutual Fund Assets Under Management – Q1 2013 vs. Q4 2012**

Investors Group's mutual fund assets under management were \$63.0 billion at March 31, 2013, an increase of 4.0% from \$60.6 billion at December 31, 2012. Average daily mutual fund assets were \$62.2 billion in the first quarter of 2013 compared to \$59.8 billion in the fourth quarter of 2012, an increase of 4.0%.

For the first quarter of 2013, sales of Investors Group mutual funds through its Consultant network were \$2.0 billion, an increase of 43.5% from the fourth quarter of 2012. Mutual fund redemptions, which totalled \$1.7 billion for the first quarter, decreased 1.2% from the previous quarter. Net sales of Investors Group mutual funds for the current quarter were \$376 million compared with net redemptions of \$261 million in the previous quarter. Sales of long-term funds were \$1.9 billion for the current quarter, compared with \$1.3 billion in the previous quarter. Net sales of long-term funds for the current quarter were \$354 million compared to net redemptions of \$217 million in the previous quarter.

## **OTHER PRODUCTS AND SERVICES**

### **Segregated Funds**

Investors Group has offered segregated funds since 2001 and introduced the Investors Group Series of Guaranteed Investment Funds (GIFs) in November 2009. GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and 6 individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death benefit guarantee features, potential creditor protection and estate planning efficiencies. Select GIF policies allow for a Lifetime Income Benefit (LIB) option to

provide guaranteed retirement income for life. The investment components of these segregated funds are managed by Investors Group. At March 31, 2013, total segregated fund assets were \$1.3 billion compared to \$1.1 billion at March 31, 2012.

#### **Insurance**

Investors Group distributes insurance products through I.G. Insurance Services Inc. For the three months ended March 31, 2013, sales of insurance products as measured by new annualized premiums were \$18.1 million, an increase of 12.1% from \$16.1 million for the comparative period in 2012.

#### **Securities Operations**

Investors Group provides securities services to clients through Investors Group Securities Inc., an investment dealer registered in all Canadian provinces and territories.

#### **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 permitted by the regulations to develop mortgage strategies that meet the individual needs and goals of each client. At March 31, 2013, there were 95 individuals in the mortgage specialist network compared to 77 at March 31, 2012.

Mortgage originations were \$503 million in the first quarter of 2013 compared to \$589 million in the first quarter of 2012, a decrease of 14.6%. At March 31, 2013, mortgages serviced by Investors Group related

to its mortgage banking operations totalled \$7.5 billion compared to \$6.5 billion at March 31, 2012.

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 Canada Mortgage and Housing Corporation (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 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 2013 VS. Q1 2012

#### 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 \$270.1 million in the first quarter of 2013, a decrease of \$10.9 million or 3.9% from \$281.0 million in 2012.

The net decrease in management fees in the first quarter was primarily due to:

- The decrease in the management fee rate to 176.2 basis points of average daily mutual fund assets in 2013 from 189.1 basis points in 2012. The management fee rate changes relate primarily to the pricing and product enhancements as discussed in the Investors Group Review of the Business section of this MD&A.

- A decrease of \$2.3 million due to one less calendar day in 2013 compared to 2012.

The decrease was offset in part by an increase in average daily mutual fund assets of 4.0% for the quarter, as shown in Table 7.

Management fee income and average management fee rates for both periods also reflected the effect of Investors Group 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 \$0.9 million in the first quarter of 2013, compared to \$1.0 million in 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 \$57.6 million in the current quarter compared to \$55.5 million a year ago, an increase of 3.8%. Fee income was impacted by the change in average daily mutual funds assets under management.

Distribution fees are primarily earned from:

- Redemption fees on mutual funds sold with a deferred sales charge.
- Portfolio fund distribution fees.
- Distribution of insurance products through I.G. Insurance Services Inc.

TABLE 8: OPERATING RESULTS – INVESTORS GROUP

Three months ended (\$ millions)	2013 MAR. 31	2012 DEC. 31	2012 MAR. 31	% CHANGE	
				2012 DEC. 31	2012 MAR. 31
<b>Revenues</b>					
Management fees	\$ 270.1	\$ 266.6	\$ 281.0	1.3 %	(3.9)%
Administration fees	57.6	55.8	55.5	3.2	3.8
Distribution fees	46.5	49.1	49.3	(5.3)	(5.7)
	374.2	371.5	385.8	0.7	(3.0)
Net investment income and other	18.4	13.5	21.5	36.3	(14.4)
	392.6	385.0	407.3	2.0	(3.6)
<b>Expenses</b>					
Commission	67.4	71.4	70.3	(5.6)	(4.1)
Asset retention bonus and premium	53.7	51.8	53.3	3.7	0.8
Non-commission	99.3	94.5	93.1	5.1	6.7
	220.4	217.7	216.7	1.2	1.7
<b>Earnings before interest and taxes</b>	<b>\$ 172.2</b>	<b>\$ 167.3</b>	<b>\$ 190.6</b>	<b>2.9 %</b>	<b>(9.7)%</b>

- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking<sup>†</sup>.

Distribution fee income of \$46.5 million for the first quarter of 2013 decreased by \$2.8 million from \$49.3 million in 2012. The decrease was due to the impact of pricing changes in portfolio fund distribution fees made during the third quarter of 2012, decreases in distribution fee income from banking products as well as a decline in redemption fees. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions. These decreases were offset in part by increases in distribution fee income from insurance products.

#### 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 \$18.4 million in the first quarter of 2013, a decrease of \$3.1 million from \$21.5 million in 2012.

Net investment income related to Investors Group's mortgage banking operations totalled \$17.9 million for the first quarter of 2013 compared to \$21.2 million in 2012, a decrease of \$3.3 million. A summary of mortgage banking operations for the three month period under review is presented in Table 9. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – which decreased by \$2.4 million for the three month period ended March 31, 2013 to \$10.5 million. The decrease resulted from a decline in the proportion of certain 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 \$1.9 million for the three month period ended March 31, 2013 to \$5.6 million. The increase in gains was due to higher volumes on mortgage sales to institutional investors and certain Investors Group managed mutual funds.

- Fair value adjustments and other income – which decreased by \$2.8 million for the three month period ended March 31, 2013 to \$1.8 million. The decrease in the three month period reflected favourable fair value adjustments made during 2012 to swaps used to hedge interest rate risk on loans temporarily held pending sale or securitization to third parties.

#### 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 was \$67.4 million for the first quarter of 2013, a decrease of \$2.9 million from \$70.3 million in 2012. The decrease was primarily due to decreases in mutual fund commission amortization and lower write-offs of the unamortized balance of deferred selling commissions.

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

- Asset retention bonus, which is based on the value of certain assets under management, decreased by \$0.1 million in the first quarter of 2013 to \$45.2 million compared to 2012.
- 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 increased by \$0.5 million in the first quarter of 2013 to \$8.5 million compared to 2012.

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 sub-advisory fees related to mutual funds under management. Non-commission expenses were \$99.3 million for the first quarter of 2013 compared to \$93.1 million in 2012, an increase of \$6.2 million or 6.7%. Changes to IFRS accounting guidance and

TABLE 9: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

(\$ millions)	2013 MAR. 31	2012 DEC. 31	2012 MAR. 31	% CHANGE	
				2012 DEC. 31	2012 MAR. 31
(As at)					
<b>Mortgages serviced</b>	\$ 7,513	\$ 7,330	\$ 6,503	2.5 %	15.5 %
<b>Mortgage warehouse<sup>(1)</sup></b>	\$ 227	\$ 238	\$ 435	(4.6) %	(47.8) %
(Three months ended)					
<b>Average mortgages serviced</b>					
CMB/MBS Programs	\$ 3,264	\$ 3,068	\$ 2,653	6.4 %	23.0 %
Bank-sponsored ABCP programs	1,305	1,264	1,046	3.2	24.8
Securitizations	4,569	4,332	3,699	5.5	23.5
Other	2,837	2,866	2,647	(1.0)	7.2
	\$ 7,406	\$ 7,198	\$ 6,346	2.9 %	16.7 %
<b>Mortgage originations<sup>(2)</sup></b>	\$ 503	\$ 396	\$ 589	27.0 %	(14.6) %
<b>Mortgage sales to:<sup>(3)</sup></b>					
Securitizations	\$ 351	\$ 572	\$ 512	(38.6) %	(31.4) %
Other <sup>(4)</sup>	274	263	165	4.2	66.1
	\$ 625	\$ 835	\$ 677	(25.1) %	(7.7) %
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income	\$ 36.8	\$ 36.9	\$ 35.6	(0.3) %	3.4 %
Interest expense	26.3	25.2	22.7	4.4	15.9
Net interest income	10.5	11.7	12.9	(10.3)	(18.6)
Gains on sales <sup>(5)</sup>	5.6	4.3	3.7	30.2	51.4
Fair value adjustments and other income	1.8	(3.1)	4.6	N/M	(60.9)
	\$ 17.9	\$ 12.9	\$ 21.2	38.8 %	(15.6) %

(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.

valuation assumptions related to the Company's defined benefit pension plan represented \$1.6 million of this increase. In addition, as a result of applying the IFRS accounting guidance changes retroactively, pension expenses in the first quarter of 2012 increased by \$1.0 million as compared to pension expenses recorded in the Consolidated Financial Statements in the 2012 IGM Financial Inc. Annual Report. Additional information related to the Company's defined benefit pension plan can be found in the Changes in

Accounting Policies section of this MD&A and in Notes 2 and 6 of the Interim Financial Statements.

#### Q1 2013 VS. Q4 2012

##### Fee Income

Management fee income increased by \$3.5 million or 1.3% to \$270.1 million in the first quarter of 2013 compared with the fourth quarter of 2012. The increase in management fee income was due to the increase in

average daily mutual fund assets of 4.0% as shown in Table 7. The increase was offset in part by a decrease of \$6.0 million due to two less calendar days in the first quarter compared to the fourth quarter of 2012.

Money market fund waivers totalled \$0.9 million in the first quarter of 2013 compared to \$1.0 million in the fourth quarter of 2012.

Administration fees increased to \$57.6 million in the first quarter of 2013 from \$55.8 million in the fourth quarter of 2012. The net increase resulted from the increase in average daily mutual fund assets compared with the fourth quarter of 2012.

Distribution fee income of \$46.5 million in the first quarter of 2013 decreased by \$2.6 million from \$49.1 million in the fourth quarter primarily due to a decrease in distribution fee income from insurance products of \$1.9 million and a decrease in redemption fee income of \$0.6 million.

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

Net investment income and other was \$18.4 million in the first quarter of 2013 compared to \$13.5 million in the previous quarter, an increase of \$4.9 million primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled \$17.9 million in the first quarter of 2013, an increase of \$5.0 million from \$12.9 million in the previous quarter as shown in Table 9. The changes in mortgage banking income related primarily to an increase in fair value adjustments and other income from negative \$3.1 million to \$1.8 million. The increase resulted from a \$0.9 million decrease in portfolio insurance costs during the quarter

as a result of the lower volume of loans insured, and from favourable fair value adjustments to derivatives relating to securitization activities as a result of interest rate changes and lower prepayment activity.

#### **Expenses**

Commission expense in the current quarter was \$67.4 million compared with \$71.4 million in the previous quarter. This decrease was primarily due to decreases in the distribution of other financial services and products, decreases in mutual fund commission amortization, as well as lower redemptions on mutual funds sold with a deferred sales charge resulting in lower write-offs of the unamortized balance of deferred selling commissions. The asset retention bonus and premium expense increased by \$1.9 million to \$53.7 million in the first quarter of 2013 consistent with the change in the level of assets under management.

Non-commission expenses were \$99.3 million in the current quarter, an increase of \$4.8 million or 5.1% from \$94.5 million in the fourth quarter of 2012. Changes to IFRS accounting guidance and valuation assumptions related to the Company's defined benefit pension plans represented \$1.8 million of this increase. In addition, as a result of applying the IFRS accounting guidance changes retroactively, pension expenses in the fourth quarter of 2012 increased by \$1.0 million as compared to pension expenses recorded in the Consolidated Financial Statements in the 2012 IGM Financial Inc. Annual Report. Additional information related to the Company's defined benefit pension plan can be found in the Changes in Accounting Policies section of this MD&A and in Notes 2 and 6 of the Interim Financial Statements.

# 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 and from responses to requests for proposals.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel given the relative

size and the nature of the distribution relationships of these accounts. These accounts are also subject to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

Mackenzie is 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. In this regard, in 2012 Mackenzie opened a subsidiary in the United States that markets its investment services to institutions and it incorporated and staffed an investment management subsidiary in Singapore. In April 2013 Mackenzie's Singapore-based subsidiary obtained registration with the Monetary Authority of Singapore and it was appointed as a sub-advisor on two Mackenzie fund mandates.

### 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) business acquisitions.

#### Fund Performance

Long-term investment performance is a key measure of Mackenzie's ongoing success. At March 31, 2013, 45% of Mackenzie mutual funds were rated in the top two performance quartiles for the one year time frame, 52% 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, 2013, 85% of Mackenzie mutual fund assets measured by Morningstar<sup>†</sup> had a rating of three stars or better and 38% 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, 2013.

#### Changes to Mutual Fund Product Offering

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors.



TABLE 10: CHANGE IN ASSETS UNDER MANAGEMENT – MACKENZIE

Three months ended (\$ millions)	2013 MAR. 31	2012 DEC. 31	2012 MAR. 31	% CHANGE	
				2012 DEC. 31	2012 MAR. 31
Sales	\$ 3,277.9	\$ 2,842.0	\$ 2,720.6	15.3 %	20.5 %
Redemptions	3,023.9	3,846.5	3,653.6	(21.4)	(17.2)
<b>Net sales (redemptions)</b>	254.0	(1,004.5)	(933.0)	N/M	N/M
Market and income	2,533.5	1,474.2	3,647.4	71.9	(30.5)
Net change in assets	2,787.5	469.7	2,714.4	N/M	2.7
Beginning assets	61,477.4	61,007.7	61,652.0	0.8	(0.3)
<b>Ending assets</b>	<b>\$ 64,264.9</b>	<b>\$ 61,477.4</b>	<b>\$ 64,366.4</b>	<b>4.5 %</b>	<b>(0.2)%</b>
<b>Consists of:</b>					
Mutual funds	\$ 42,410.2	\$ 40,394.4	\$ 41,534.9	5.0 %	2.1 %
Sub-advisory, institutional and other accounts	21,854.7	21,083.0	22,831.5	3.7	(4.3)
	\$ 64,264.9	\$ 61,477.4	\$ 64,366.4	4.5 %	(0.2)%
<b>Daily average mutual fund assets</b>	<b>\$ 41,725.1</b>	<b>\$ 39,746.0</b>	<b>\$ 40,922.3</b>	<b>5.0 %</b>	<b>2.0 %</b>
<b>Monthly average total assets<sup>(1)</sup></b>	<b>\$ 63,268.3</b>	<b>\$ 60,905.6</b>	<b>\$ 63,829.5</b>	<b>3.9 %</b>	<b>(0.9)%</b>

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

Mackenzie continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their investment clients.

On April 23, 2013, Mackenzie announced a number of product enhancements designed to simplify and strengthen its mutual fund product lineup. The product enhancements are categorized as follows:

- Proposed fund reorganizations and mergers – Mackenzie proposed to merge 29 funds with narrow investment mandates as well as those funds that are sub-scale or have overlapping investment objectives with others.
- Fund launches – the following two fixed-income funds are scheduled to be launched on or about May 7, 2013: Mackenzie Strategic Bond Fund and Mackenzie Floating Rate Income Fund. Both funds will be managed by the Mackenzie Fixed Income Team and they will help round out the fixed-income offerings at Mackenzie.
- Fund enhancements – effective May 1, 2013 the Mackenzie Fixed Income Team assumed management of the fixed-income portion of the following balanced funds: Mackenzie Ivy Global

Balanced Fund, Mackenzie Ivy Growth & Income Fund and Mackenzie Cundill Canadian Balanced Fund. With these changes, the fixed-income portion of each Mackenzie balanced fund will be managed by a dedicated fixed-income team.

- Renaming some investment teams – to help clarify investment choices for advisors, many of Mackenzie's investment teams will now be identified by their area of expertise as opposed to a sub-brand name.
- Proposed enhancements to investment objectives – the following funds will have their investment objectives enhanced: Mackenzie Ivy Enterprise Fund and Mackenzie Ivy Enterprise Class, Mackenzie Universal Global Infrastructure Income Fund, and Mackenzie Universal North American Growth Class.
- New fund-naming convention – effective July 15, 2013 (July 26 for funds with investment objective changes), Mackenzie will be changing the names of a number of its funds to ensure that the fund names adequately describe their investment mandate and objective.

On April 5, 2013, Mackenzie announced that it was suspending purchases into certain funds that use character conversion transactions to obtain tax efficient exposure for investors. This action was in response to proposed changes to Canadian tax laws announced in the 2013 Federal Budget. Mackenzie continues to assess the potential impact of the budget proposal and once all details are known it will determine the best long-term course of action for these funds.

#### **Change in Assets under Management – Q1 2013 vs. Q1 2012**

Mackenzie's total assets under management at March 31, 2013 were \$64.3 billion, a decrease of 0.2% from \$64.4 billion at March 31, 2012. Mackenzie's mutual fund assets under management were \$42.4 billion at March 31, 2013, an increase of 2.1% from \$41.5 billion at March 31, 2012. Mackenzie's sub-advisory, institutional and other accounts at March 31, 2013 were \$21.9 billion, a decrease of 4.3% from \$22.8 billion last year.

In the three months ended March 31, 2013, Mackenzie's gross sales were \$3.3 billion, an increase of 20.5% from \$2.7 billion in the comparative period last year. Redemptions in the current period were \$3.0 billion, a decrease of 17.2% from \$3.6 billion last year. Net sales for the three months ended March 31, 2013 were \$0.3 billion, as compared to net redemptions of \$0.9 billion last year. During the current quarter, market and income resulted in assets increasing by \$2.5 billion as compared to an increase of \$3.6 billion last year.

Redemptions of long-term mutual fund assets in the current quarter were \$1.7 billion, as compared to \$1.8 billion in the first quarter of 2012. As at March 31, 2013, Mackenzie's twelve-month trailing redemption rate for long-term funds was 17.3%, as compared to 16.2% 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 15.3% at December 31, 2012. 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 2013 vs. Q4 2012**

Mackenzie's total assets under management at March 31, 2013 were \$64.3 billion, an increase of 4.5% from \$61.5 billion at December 31, 2012 as summarized in Table 10. Mackenzie's mutual fund assets under management increased 5.0% to \$42.4 billion in the quarter and Mackenzie's sub-advisory, institutional and other accounts increased 3.7% to \$21.9 billion at March 31, 2013.

Redemptions of long-term mutual fund assets in the current quarter were \$1.7 billion as compared to \$2.3 billion in the quarter ended December 31, 2012. Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended March 31, 2013 was 16.9% as compared to 23.2% in the fourth quarter of 2012. Mackenzie's gross sales and redemption activity was impacted in the quarter ended December 31, 2012 by rebalance transactions in its strategic alliance channel. These transactions resulted in gross sales of \$556 million and redemptions of \$620 million. Excluding the rebalance transactions during this quarter, Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended December 31, 2012 was 16.9%.

## Review of Segment Operating Results

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

### Q1 2013 VS. Q1 2012

#### Revenues

Mackenzie's largest component of revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. Equity based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised 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, 2013, there were \$11.0 billion or 26.0% of mutual fund assets in these series of funds, as compared to \$10.4 billion or 24.9% at March 31, 2012.

Management fees were \$161.3 million for the three months ended March 31, 2013, a decrease of \$2.7 million or 1.6% from \$164.0 million last year. The change in management fees was consistent with the decrease in Mackenzie's average total assets under management combined with the change in mix of assets under management. Average total assets under management were \$63.3 billion in the three month period ended March 31, 2013 compared to \$63.8 billion in 2012, a decrease of 0.9%. Mackenzie's average management fee rate was 103.4 basis points in the three month period ended March 31, 2013 compared to 103.3 basis points in 2012. In addition, there was one less calendar day in the first quarter of 2013 than in the first quarter of 2012 which also contributed to the year over year decline in management fees.

Mackenzie earns administration fees primarily from providing services to its mutual funds. Administration fees were \$25.4 million for the three months ended March 31, 2013, as compared to \$26.9 million in 2012.

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:

TABLE 11: OPERATING RESULTS – MACKENZIE

Three months ended (\$ millions)	2013 MAR. 31	2012 DEC. 31	2012 MAR. 31	% CHANGE	
				2012 DEC. 31	2012 MAR. 31
<b>Revenues</b>					
Management fees	\$ 161.3	\$ 156.5	\$ 164.0	3.1 %	(1.6) %
Administration fees	25.4	26.1	26.9	(2.7)	(5.6)
Distribution fees	3.8	3.6	5.0	5.6	(24.0)
	190.5	186.2	195.9	2.3	(2.8)
Net investment income and other	1.7	0.4	(0.2)	N/M	N/M
	192.2	186.6	195.7	3.0	(1.8)
<b>Expenses</b>					
Commission	18.9	18.6	22.2	1.6	(14.9)
Trailing commission	47.7	44.6	46.0	7.0	3.7
Non-commission	66.6	61.1	65.7	9.0	1.4
	133.2	124.3	133.9	7.2	(0.5)
<b>Earnings before interest and taxes</b>	<b>\$ 59.0</b>	<b>\$ 62.3</b>	<b>\$ 61.8</b>	<b>(5.3) %</b>	<b>(4.5) %</b>

- 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.
- The monthly operating expense adjustment will continue 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 adjustment in the three months ended March 31, 2013 was \$4.1 million, unchanged from the operating expense adjustment in the comparative period last year.

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, 2013 was \$3.8 million, a decrease of \$1.2 million from \$5.0 million last year.

#### **Expenses**

Mackenzie's expenses were \$133.2 million for the three months ended March 31, 2013, a decrease of \$0.7 million or 0.5% from \$133.9 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 \$18.9 million in the three months ended March 31, 2013, as compared to \$22.2 million last year. These declines are consistent with the lower amount of deferred sales commissions paid in recent years combined with the accelerated amortization of deferred sales commissions associated with redemptions.

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 \$47.7 million in the three months ended March 31, 2013, an increase of \$1.7 million or 3.7% from \$46.0 million last year. The change in trailing commissions was consistent with the 2.0% period over period increase in average mutual fund assets under management and the change in asset mix within Mackenzie's mutual funds which resulted in an increase in the effective trailing commission rate. Trailing commissions as a percentage of average mutual fund assets under management were 45.7 basis points in the three months ended March 31, 2013 as compared to 45.0 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 \$66.6 million in the three months ended March 31, 2013, an increase of \$0.9 million or 1.4% from \$65.7 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 2013 VS. Q4 2012**

##### **Revenues**

Management fees were \$161.3 million for the current quarter, an increase of \$4.8 million or 3.1% from

\$156.5 million in the fourth quarter of 2012. Factors contributing to the net increase in management fees are as follows:

- Average total assets under management were \$63.3 billion in the current quarter compared to \$60.9 billion in the quarter ended December 31, 2012, an increase of 3.9%.
- Mackenzie's average management fee rate was 103.4 basis points in the current quarter as compared to 102.2 basis points in the fourth quarter of 2012.
- There were two less calendar days in the first quarter of 2013 than in the fourth quarter of 2012. Administration fees were \$25.4 million in the current quarter, a decrease of \$0.7 million or 2.7% from \$26.1 million in the prior quarter. Included in administration fees for the current quarter was the fund operating expense adjustment of \$4.1 million as compared to \$5.0 million in the fourth quarter of 2012.

#### **Expenses**

Mackenzie's expenses were \$133.2 million for the current quarter, an increase of \$8.9 million or 7.2% from \$124.3 million in the fourth quarter of 2012.

Commission expense, which represents the amortization of selling commissions, was \$18.9 million in the quarter ended March 31, 2013, as compared to \$18.6 million in the fourth quarter of 2012.

Trailing commissions were \$47.7 million in the current quarter, an increase of \$3.1 million or 7.0% from \$44.6 million in the fourth quarter of 2012. The change in trailing commissions is consistent with the 5.0% period over period increase in average mutual fund assets under management combined with the change in asset mix within Mackenzie's mutual funds which contributed to an increase in the effective trailing commission rate to 45.7 basis points from 44.9 basis points in the fourth quarter of 2012.

Non-commission expenses were \$66.6 million in the current quarter, an increase of \$5.5 million or 9.0% from \$61.1 million in the fourth quarter of 2012. Due to the increase in sales activities and transactional volumes in the first quarter of the year, and the seasonality of certain expenses, Mackenzie's non-commission expenses are generally higher in the first quarter of the year as compared to the 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. (Lifeco), 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)	2013 MAR. 31	2012 DEC. 31	2012 MAR. 31	% CHANGE	
				2012 DEC. 31	2012 MAR. 31
<b>Revenues</b>					
Fee income	\$ 45.2	\$ 41.7	\$ 45.4	8.4 %	(0.4) %
Net investment income and other	22.7	24.8	24.6	(8.5)	(7.7)
	67.9	66.5	70.0	2.1	(3.0)
<b>Expenses</b>					
Commission	30.3	27.0	29.6	12.2	2.4
Non-commission	12.0	8.2	12.3	46.3	(2.4)
	42.3	35.2	41.9	20.2	1.0
<b>Earnings before interest and taxes</b>	<b>\$ 25.6</b>	<b>\$ 31.3</b>	<b>\$ 28.1</b>	<b>(18.2)%</b>	<b>(8.9)%</b>

### Q1 2013 VS. Q1 2012

Net investment income and other totalled \$22.7 million in the first quarter of 2013, a decrease of \$1.9 million compared with 2012. The decrease was primarily due to a favourable fair value adjustment recorded in the first quarter of 2012 related to the restructured notes of the master asset vehicle (MAV) conduits.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.1 million lower in the first quarter of 2013 compared to the same period in 2012.

### Q1 2013 VS. Q4 2012

Net investment income and other totalled \$22.7 million in the first quarter of 2013, a decrease of \$2.1 million from the previous quarter. This was primarily due to a decrease in the Company's proportionate share of Lifeco's earnings as discussed in the Consolidated Financial Position section of this MD&A.

Earnings before interest and taxes related to Investment Planning Counsel were \$3.2 million lower in the first quarter of 2013 compared with the previous quarter.

# IGM Financial Inc.

## Consolidated Financial Position

IGM Financial's total assets were \$12.1 billion at March 31, 2013, compared to \$12.0 billion at December 31, 2012.

### SECURITIES

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

#### Available for Sale (AFS) Securities

Securities classified as available for sale include investments in proprietary investment funds. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines that there is objective evidence of impairment, at which time they are recorded in the Consolidated Statements of Earnings and any subsequent losses are also recorded in net earnings.

#### Fair Value Through Profit or Loss Securities

Securities classified as fair value through profit or loss include equity securities and Canada Mortgage Bonds. 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 \$225.6 million at March 31, 2013. The obligation to

repurchase the securities is recorded at amortized cost and had a carrying value of \$226.9 million. The interest expense related to these obligations is recorded in Net investment income and other in the Consolidated Statements of Earnings.

### LOANS

The composition of the Company's loans is detailed in Table 14.

Loans consisted of residential mortgages and represented 41.3% of total assets at March 31, 2013 compared to 41.1% at December 31, 2012. Loans are comprised of:

- Sold to securitization programs – these loans are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$4.8 billion at March 31, 2013, compared to \$4.7 billion at December 31, 2012.
- Intermediary operations – these loans are held by the Company to earn interest in the Company's deposit operations.
- Mortgage banking operations – these loans are held temporarily by the Company pending sale or securitization.

Residential mortgages originated by Investors Group are funded primarily through sales to third parties on a fully serviced basis, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization programs. Investors Group services \$9.5 billion of residential mortgages, including \$2.0 billion originated by subsidiaries of Lifeco.

TABLE 13: SECURITIES

(\$ millions)	MARCH 31, 2013		DECEMBER 31, 2012	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Available for sale</b>				
Proprietary investment funds	\$ 36.9	\$ 38.4	\$ 35.4	\$ 36.7
<b>Fair value through profit or loss</b>				
Equity securities	6.3	6.7	6.0	6.1
Canada Mortgage Bonds	220.4	225.6	220.4	225.5
	226.7	232.3	226.4	231.6
	\$ 263.6	\$ 270.7	\$ 261.8	\$ 268.3

TABLE 14: LOANS

<i>(\$ millions)</i>	2013 MARCH 31	2012 DECEMBER 31
<b>Loans and receivables</b>		
Sold to securitization programs	\$ 4,692.9	\$ 4,639.0
Intermediary operations	30.7	35.1
	4,723.6	4,674.1
Less: Collective allowance	0.7	0.7
	4,722.9	4,673.4
<b>Held for trading</b>		
Mortgage banking operations	261.4	248.8
	\$ 4,984.3	\$ 4,922.2

## 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 CMHC sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the CMB Program and through Canadian bank-sponsored asset-backed commercial paper (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. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they 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 2013, the Company securitized loans through its mortgage banking operations with cash proceeds of \$349 million compared to \$505 million in 2012. The fair value of the Company's retained interest was \$61.6 million at March 31, 2013 compared to \$69.1 million at December 31, 2012. The retained interest includes cash reserve accounts of \$18.7 million, which are reflected on the balance sheet, and rights to future excess spread of \$95.6 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 \$52.7 million at March 31, 2013. Additional information related to the Company's securitization activities can be found in the Financial Instruments section of this MD&A and in Note 4 of the Interim Financial Statements.



## INVESTMENT IN AFFILIATE

Investment in affiliate which represents the Company's investment in Great-West Lifeco Inc. (Lifeco) consists of a 4% equity interest and an investment in Lifeco subscription receipts. 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. 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, 2013 compared with the same period in 2012 are shown in Table 15.

On March 12, 2013, the Company purchased 1.95 million subscription receipts of Lifeco at a price of \$25.70 per subscription receipt. The subscription receipts are recorded at cost and are exchangeable into common shares of Lifeco upon the completion of its acquisition of Irish Life Group Limited. As a result of this transaction, the Company will maintain its current ownership position of Lifeco of approximately 4%.

TABLE 15: INVESTMENT IN AFFILIATE

<i>(\$ millions)</i>	2013 MAR. 31	2012 DEC. 31
<b>Investment in affiliate:</b>		
Investment in affiliate – equity method	\$ 612.1	\$ 600.4
Subscription receipts	50.1	–
	<b>\$ 662.2</b>	<b>\$ 600.4</b>
<hr/>		
Three months ended <i>(\$ millions)</i>	2013 MAR. 31	2012 MAR. 31
<b>Investment in affiliate – equity method</b>		
Balance, beginning of period		
As previously reported	\$ 621.1	\$ 612.5
Change in accounting policy	(20.7)	(14.0)
As restated	600.4	598.5
Proportionate share of earnings	19.3	19.6
Dividends received	(11.6)	(11.6)
Proportionate share of other comprehensive income (loss) and other adjustments	4.0	(10.1)
Balance, end of period	<b>\$ 612.1</b>	<b>\$ 596.4</b>
<b>Fair value, end of period</b>	<b>\$ 1,029.0</b>	<b>\$ 925.8</b>

## Consolidated Liquidity and Capital Resources

### LIQUIDITY

Cash and cash equivalents totalled \$977.0 million at March 31, 2013 compared with \$1.06 billion at December 31, 2012 and \$889.9 million at March 31, 2012. Cash and cash equivalents related to the Company's deposit operations were \$14.3 million at March 31, 2013 compared with \$11.9 million and \$14.2 million at December 31, 2012 and March 31, 2012, respectively, as shown in Table 16.

Working capital totalled \$1,008.6 million at March 31, 2013 compared with \$1,036.2 million and \$1,009.6 million at December 31, 2012 and March 31, 2012, respectively. Working capital excludes the Company's deposit operations.

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 \$329.0 million in the first quarter of 2013 compared to \$359.5 million in the first quarter of 2012 and \$334.1 million in the fourth quarter of 2012. EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled \$63.9 million in the first quarter of 2013 compared to \$70.0 million in the first quarter of 2012 and \$64.5 million in the fourth quarter of 2012. 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 17 – 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, 2013. Cash and cash equivalents decreased by \$82.1 million in 2013 compared to a decrease of \$162.5 million in 2012.

Operating activities, before payment of commissions, generated \$195.6 million during the quarter ended March 31, 2013, as compared to \$183.7 million in 2012. Cash commissions paid were \$78.0 million in 2013 compared to \$72.2 million in 2012. Cash flows from operating activities, net of commissions paid, were

TABLE 16: DEPOSIT OPERATIONS – FINANCIAL POSITION

<i>(\$ millions)</i>	2013 MAR. 31	2012 DEC. 31	2012 MAR. 31
<b>Assets</b>			
Cash and cash equivalents	\$ 14.3	\$ 11.9	\$ 14.2
Accounts and other receivables	145.0	136.6	119.0
Loans	24.1	27.5	27.8
<b>Total assets</b>	<b>\$ 183.4</b>	<b>\$ 176.0</b>	<b>\$ 161.0</b>
<b>Liabilities and shareholders' equity</b>			
Deposit liabilities	\$ 170.3	\$ 163.2	\$ 147.1
Other liabilities	1.0	1.0	1.0
Shareholders' equity	12.1	11.8	12.9
<b>Total liabilities and shareholders' equity</b>	<b>\$ 183.4</b>	<b>\$ 176.0</b>	<b>\$ 161.0</b>

TABLE 17: CASH FLOWS

Three months ended (\$ millions)	2013 MAR. 31	2012 MAR. 31	% CHANGE
Operating activities			
Before payment of commissions	\$ 195.6	\$ 183.7	6.5 %
Commissions paid	(78.0)	(72.2)	(8.0)
Net of commissions paid	117.6	111.5	5.5
Financing activities	(85.8)	13.2	N/M
Investing activities	(113.9)	(287.2)	60.3
<b>Decrease in cash and cash equivalents</b>	<b>(82.1)</b>	<b>(162.5)</b>	<b>49.5</b>
Cash and cash equivalents, beginning of period	1,059.1	1,052.4	0.6
<b>Cash and cash equivalents, end of period</b>	<b>\$ 977.0</b>	<b>\$ 889.9</b>	<b>9.8 %</b>

\$117.6 million in 2013 as compared to \$111.5 million in 2012.

Financing activities during the first quarter of 2013 compared to 2012 related to:

- A net increase of \$7.1 million in deposits and certificates in 2013 compared to a net decrease of \$3.6 million in 2012.
- Net proceeds of \$1.5 million in 2013 arising from obligations related to assets sold under repurchase agreements compared to a net payment of \$2.3 million in 2012.
- A net increase of \$54.7 million in 2013 arising from obligations to securitization entities compared to a net increase of \$190.5 million in 2012.
- Proceeds received on the issuance of common shares of \$7.1 million in 2013 compared with \$7.8 million in 2012.
- The purchase of 424,000 common shares in 2013 under IGM Financial's normal course issuer bid at a cost of \$18.5 million compared with the purchase of 845,000 common shares at a cost of \$39.0 million in 2012.
- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2013, unchanged from 2012.
- The payment of regular common share dividends which totalled \$135.5 million in 2013 compared to \$138.0 million in 2012.

Investing activities during the first quarter of 2013 compared to 2012 primarily related to:

- The purchases of securities totalling \$31.4 million and sales of securities with proceeds of \$31.1 million

in 2013 compared to \$6.0 million and \$7.4 million, respectively, in 2012.

- A net increase in loans of \$58.1 million in 2013 compared to a net increase of \$282.2 million in 2012 primarily related to residential mortgages in the Company's mortgage banking operations.
- The investment in affiliate of \$50.1 million. The Company purchased 1.95 million subscription receipts of Lifeco at a price of \$25.70 per subscription receipt.

## 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, 2013, unchanged from December 31, 2012. 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 million at March 31, 2013, unchanged from December 31, 2012. 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 at March 31, 2013 remain unchanged from December 31, 2012.

The Company purchased 424,000 common shares in the first quarter of 2013 at a cost of \$18.5 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, 2013 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Company's stock option plan and for other capital management purposes. Other activities in the first quarter of 2013 included the declaration of perpetual preferred share dividends of \$2.2 million or \$0.36875 per share and common share dividends of \$135.4 million or \$0.5375 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

In connection with its normal course issuer bid, the Company established an automatic securities purchase plan for its common shares. The automatic securities purchase plan was established to provide standard instructions regarding how IGM Financial's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods, subject to pre-established parameters. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

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 or 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.

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 long-term rating scale, 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 may be vulnerable to future events, but qualifying negative factors are considered manageable. 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 18 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 similar terms 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 13 of the Interim Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

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, 2013.

TABLE 18: FINANCIAL INSTRUMENTS

(\$ millions)	MARCH 31, 2013		DECEMBER 31, 2012	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Assets</b>				
Cash and cash equivalents	\$ 977.0	\$ 977.0	\$ 1,059.1	\$ 1,059.1
Securities	270.7	270.7	268.3	268.3
Accounts and other receivables	335.2	335.2	307.9	307.9
Loans	4,984.3	5,033.7	4,922.2	4,969.2
Derivative financial instruments	62.3	62.3	63.3	63.3
Other financial assets	18.3	18.3	12.1	12.1
<b>Total financial assets</b>	<b>\$ 6,647.8</b>	<b>\$ 6,697.2</b>	<b>\$ 6,632.9</b>	<b>\$ 6,679.9</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 265.1	\$ 265.1	\$ 293.2	\$ 293.2
Repurchase agreements	226.9	226.9	225.4	225.4
Derivative financial instruments	64.4	64.4	70.8	70.8
Deposits and certificates	170.3	172.0	163.2	164.8
Other financial liabilities	210.4	210.4	199.0	199.0
Obligations to securitization entities	4,755.7	4,851.0	4,700.9	4,786.7
Long-term debt	1,325.0	1,661.9	1,325.0	1,628.9
<b>Total financial liabilities</b>	<b>\$ 7,017.8</b>	<b>\$ 7,451.7</b>	<b>\$ 6,977.5</b>	<b>\$ 7,368.8</b>

## Risk Management

The Company is exposed to a variety of risks that are inherent in its business activities. The Company's ability to manage these risks is key to its ongoing success and includes emphasizing a strong risk management culture and effective risk management approach. The Company's risk management approach coordinates risk management across the organization and its business units and seeks to ensure prudent and measured risk-taking in order to achieve an appropriate balance between risk and return.

The Company's risk governance structure emphasizes a comprehensive and consistent framework throughout the company and its subsidiaries, with clearly identified ownership of risk management in each business unit and oversight by an executive Risk Management Committee accountable to the Executive Committee of the Board. Additional oversight is provided by a Risk Management Department, corporate and sales compliance groups, and the Company's Internal Audit Department.

The Board of Directors provides oversight and carries out its risk management mandate primarily through the following committees:

- The Executive Committee is responsible for the oversight of enterprise risk management by:
  - i) ensuring that appropriate procedures are in place to identify and manage risks and establish risk tolerances, ii) ensuring that appropriate policies, procedures and controls are implemented to manage risks, and iii) reviewing the risk management process on a regular basis to ensure that it is functioning effectively.
- The Investment Committee oversees management of the Company's financial risks, being market risk, credit risk, and liquidity and funding risk by:
  - i) ensuring that appropriate procedures are in place to identify and manage financial risks in accordance with tolerances, ii) monitoring the implementation and maintenance of appropriate policies, procedures and controls to manage financial risks, and iii) reviewing the financial risk management process on a regular basis to ensure that it is functioning effectively.
- The Audit Committee has specific risk oversight responsibilities as it oversees financial disclosure, internal controls and the control environment as well as the Company's compliance activities.
- Other committees having specific risk oversight responsibilities include: i) the Compensation Committee which oversees compensation policies

and practices, ii) the Governance and Nominating Committee which oversees corporate governance practices, and iii) the Related Party and Conduct Review Committee which oversees conflicts of interest and recommends to the Board a code of business conduct and ethics.

The executive Risk Management Committee is comprised of the Co-Presidents and Chief Executive Officers, the Chief Financial Officer, and the General Counsel and Chief Compliance Officer. The committee is responsible for providing oversight of the Company's risk management process by: i) establishing and maintaining the risk framework and policy, ii) defining the Company's risk appetite, iii) ensuring the Company's risk profile and processes are aligned with corporate strategy and risk appetite, and iv) establishing "tone at the top" and reinforcing a strong culture of risk management.

The Chief Executive Officers of the respective operating companies, being Investors Group, Mackenzie and Investment Planning Counsel, have overall responsibility for overseeing risk management of their respective companies.

The leaders of the various business units and support functions have primary ownership and accountability for the ongoing risk management associated with their respective activities. Responsibilities of business unit and support function leaders include: i) establishing and maintaining procedures for the identification, assessment, documentation and escalation of risks, ii) implementing control activities to mitigate risks, iii) identifying opportunities for risk reduction or transfer, and iv) aligning business and operational strategies with the risk culture and risk appetite of the organization as established by the Risk Management Committee.

The Risk Management Department provides oversight, analysis and reporting on the level of risks relative to the established risk appetite to the Risk Management Committee. Other responsibilities include: i) developing and maintaining the enterprise risk management program and framework, ii) managing the enterprise risk management process, and iii) providing guidance and training to business unit and support function leaders. A Technical Review Committee of senior business leaders supports the Risk Management Department by performing critical reviews of risk assessments developed by business units and support functions. Other oversight accountabilities reside with

the Company's: a) corporate and sales compliance groups – which are responsible for ensuring compliance with policies, laws and regulations, and b) financial risk management function – which is independent from the Treasury Department and is responsible for assessing financial risk management processes and exposures and monitoring compliance with the Investment Policy and other relevant policies.

The Internal Audit Department provides independent assurance to senior management and the Board of Directors on the effectiveness of risk management policies, processes and practices.

### FINANCIAL INSTRUMENTS RISK

The Company actively manages risks that arise as a result of holding financial instruments which include liquidity and funding risk, credit risk and market risk.

#### Liquidity and Funding Risk

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise. 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 2013 and 2012, the Company:

- Entered into \$200 million committed line of credit to provide financing to the Company's mortgage operations.
- 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 the Company are approved issuers of NHA MBS and are approved sellers into the CMB Program. This issuer and seller status provides the Company 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 Program is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions that are subject to change.

The Company's contractual obligations are reflected in Table 19.

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled \$525 million as at March 31, 2013, unchanged from December 31, 2012. The lines of credit as at March 31, 2013 consisted of committed lines of

TABLE 19: CONTRACTUAL OBLIGATIONS

As at March 31, 2013 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 – 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	\$ 144.6	\$ 9.1	\$ 12.4	\$ 4.2	\$ 170.3
Derivative instruments	–	21.4	40.0	3.0	64.4
Obligations to securitization entities	–	830.9	3,912.9	11.9	4,755.7
Long-term debt	–	–	150.0	1,175.0	1,325.0
Operating leases <sup>(1)</sup>	–	52.3	151.4	76.3	280.0
<b>Total contractual obligations</b>	<b>\$ 144.6</b>	<b>\$ 913.7</b>	<b>\$ 4,266.7</b>	<b>\$ 1,270.4</b>	<b>\$ 6,595.4</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.

\$350 million (December 31, 2012 – \$350 million) and uncommitted lines of \$175 million (December 31, 2012 – \$175 million). The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines are at the bank's sole discretion. As at March 31, 2013 and December 31, 2012, the Company was not utilizing its committed lines of credit or its uncommitted 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 the future is dependent on market conditions.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are 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 impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2012.

#### **Credit Risk**

Credit risk is the potential for financial loss to the Company if a counterparty to 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, 2013, cash and cash equivalents of \$977.0 million (December 31, 2012 – \$1,059.1 million) consisted of cash balances of \$72.7 million (December 31, 2012 – \$100.8 million) on deposit with Canadian chartered banks and cash equivalents of \$904.3 million (December 31, 2012 – \$958.3 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$183.7 million (December 31, 2012 – \$233.1 million), provincial government and government guaranteed commercial paper of \$393.2 million

(December 31, 2012 – \$472.6 million) and bankers' acceptances issued by Canadian chartered banks of \$327.4 million (December 31, 2012 – \$252.6 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 \$225.6 million (December 31, 2012 – \$225.5 million). The fair value represents the maximum exposure to credit risk at March 31, 2013.

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, 2013, mortgages totalled \$5.0 billion (December 31, 2012 – \$4.9 billion) and consisted of residential mortgages:

- Sold to securitization programs which are classified as loans and receivables and totalled \$4.7 billion compared to \$4.6 billion at December 31, 2012. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$4.8 billion at March 31, 2013, compared to \$4.7 billion at December 31, 2012.
- Related to the Company's mortgage banking operations which are classified as held for trading and totalled \$261.4 million compared to \$248.8 million at December 31, 2012. 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 \$30.7 million at March 31, 2013, compared to \$35.1 million at December 31, 2012.

As at March 31, 2013, the mortgage portfolios related to the Company's intermediary operations were geographically diverse, 100% residential (December 31, 2012 – 100%) and 86.5% insured (December 31, 2012 – 86.2%). As at March 31, 2013, impaired mortgages were nil, unchanged from December 31, 2012. Uninsured non-performing mortgages over 90 days were nil, unchanged from December 31, 2012. The characteristics of the mortgage portfolio have not changed significantly during 2013.



The NHA MBS and CMB Program require that all securitized mortgages be insured against default by an approved insurer. The ABCP programs do not require mortgages to be insured; however, at March 31, 2013, 64.2% of these mortgages were insured compared to 66.6% at December 31, 2012. At March 31, 2013, 86.7% of the securitized portfolio and the residential mortgages classified as held for trading were insured compared to 88.3% at December 31, 2012. As at March 31, 2013, impaired mortgages on these portfolios were \$1.0 million, unchanged from December 31, 2012. Uninsured non-performing mortgages over 90 days on these portfolios were \$0.9 million at March 31, 2013, compared to \$0.6 million at December 31, 2012.

The Company retains certain elements of credit risk on securitized loans. At March 31, 2013, 89.7% of securitized loans were insured against credit losses compared to 90.2% at December 31, 2012. 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 \$61.6 million at March 31, 2013 compared to \$69.1 million at December 31, 2012. Retained interests include:

- *Cash reserve accounts and rights to future net interest income* – which were \$18.7 million (December 31, 2012 – \$23.7 million) and \$95.6 million (December 31, 2012 – \$101.6 million), respectively, at March 31, 2013. 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 \$50.1 million (December 31 2012 – \$55.1 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 \$64.2 million (December 31, 2012 – \$70.2 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 \$3.3 billion, unchanged from December 31, 2012.

- *Fair value of principal reinvestment account swaps* – which had a negative fair value of \$52.7 million at March 31, 2013 (December 31, 2012 – \$56.2 million) and 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 \$974.6 million at March 31, 2013 (December 31, 2012 – \$931.5 million).

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

The Company's collective allowance for credit losses was \$0.7 million at March 31, 2013, unchanged from December 31, 2012, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based upon the following considerations:

- The Company's lending policy, underwriting standards and loan servicing capabilities.
- The Company's practice of originating its mortgages exclusively through its own network of Consultants and mortgage planning specialists as part of a client's comprehensive financial plan.
- The quality of the Company's mortgage portfolio based on: i) historical credit performance experience and recent trends; ii) current portfolio credit metrics and other relevant characteristics; and, iii) regular stress testing of losses under adverse real estate market conditions.
- The existence of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2012.

The Company utilizes over-the-counter 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. To the extent that the fair value of the derivatives are in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfill their obligations under these 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 intermediate 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 offsetting interest rate swaps with the same bank counterparties to hedge interest rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled \$25.1 million at March 31, 2013 (December 31, 2012 – \$26.5 million) and the outstanding notional amount was \$6.0 billion (December 31, 2012 – \$5.7 billion). Certain of these swaps relate to securitized mortgages that have been recorded on the Company's balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of \$3.4 billion (December 31, 2012 – \$3.3 billion) and having a negative fair value of \$30.8 million (December 31, 2012 – \$29.2 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 \$2.6 billion (December 31, 2012 – \$2.4 billion) and having a fair value of \$5.7 million (December 31, 2012 – \$2.7 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 \$61.4 million at March 31, 2013 compared to \$63.1 million at December 31, 2012.

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 \$3.2 million (December 31, 2012

– \$4.9 million) on an outstanding notional amount of \$303.0 million at March 31, 2013 (December 31, 2012 – \$435.0 million). The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$0.1 million at March 31, 2013 compared to \$0.2 million at December 31, 2012.

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 \$6.7 million (December 31, 2012 – \$5.4 million) on an outstanding notional amount of \$200.0 million at March 31, 2013 (December 31, 2012 – \$200.0 million). 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, 2013, unchanged from December 31, 2012.

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 \$2.0 million on an outstanding notional amount of \$148.3 million at March 31, 2013 compared to a fair value of \$0.1 million on an outstanding notional amount of \$124.5 million at December 31, 2012. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was \$2.2 million at March 31, 2013, compared to \$1.6 million at December 31, 2012.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$63.7 million (December 31, 2012 – \$64.9 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was \$0.5 million at March 31, 2013 (December 31, 2012 – nil). 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, 2013. Management of credit risk related to derivatives has not changed materially since December 31, 2012.

Additional information related to the Company's securitization activities and utilization of derivative

contracts can be found in Note 4 of the Interim Financial Statements and Notes 2, 7 and 22 to the Annual Consolidated Financial Statements included in the 2012 IGM Financial Inc. Annual Report (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, 2013, 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 floating rate ABCP as part of certain 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' acceptance 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 decline. As previously discussed, as part of the CMB Program, the Company is also 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 fair 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, 2013, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$4.8 million. The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2012.

#### **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 equity securities 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, 2013, IGM Financial's total assets under management were \$125.8 billion compared to \$120.7 billion at December 31, 2012.

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 continuously reviews its practices in this regard in response to changing market conditions.

Redemption rates for long-term funds are summarized in Table 20 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. During the third quarter of 2012, Investors Group implemented pricing and product enhancements related to its mutual fund offering as previously discussed in the Investors Group Review of the Business section in this MD&A.

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.

## 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

TABLE 20: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2013 MAR. 31	2012 MAR. 31
<b>IGM Financial Inc.</b>		
Investors Group	9.8 %	9.1 %
Mackenzie	17.3 %	16.2 %
Counsel	14.3 %	11.2 %

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 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. Regulatory developments may also impact product structures, pricing, dealer and advisor compensation. 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**

Canadians held \$3.0 trillion in discretionary financial assets with financial institutions at December 31, 2011 (source: Investor Economics). 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 \$1.2 trillion held outside of a financial advisory relationship, over 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.

Approximately 35% of Canadian discretionary financial assets or \$1.0 trillion resided in investment funds at December 31, 2011, 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 \$108 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.

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 subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 53% of total industry long-term mutual fund assets at December 31, 2012.

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 industry long-term mutual fund assets and 84% of total mutual fund assets under management at December 31, 2012. 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.

Competition from other financial service providers, alternative product types or delivery channels, and changes in regulations or public preferences could impact the characteristics of product and service offerings of the Company, including pricing, product structures, dealer and advisor compensation and disclosure. The Company monitors developments on an ongoing basis, and engages in policy discussions and develops product and service responses as appropriate.

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 the 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 assumptions related to critical accounting estimates from those reported at December 31, 2012.

### **CHANGES IN ACCOUNTING POLICIES**

#### **IFRS 10 Consolidated Financial Statements**

On January 1, 2013, the Company adopted IFRS 10 which introduces a single consolidation model for all entities which focuses on control, including the rights an investor has to variable returns resulting from its involvement with the investee and the investor's ability to affect those returns through its power over the investee. The standard does not have a significant impact on the Company's financial position or results of operations.

#### **IFRS 12 Disclosures of Interests in Other Entities**

On January 1, 2013, the Company adopted IFRS 12 which integrates all of the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities into a single standard. The required disclosures provide information to evaluate the nature of, and risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial statements. The standard is expected to result in additional disclosures in the Company's annual Consolidated Financial Statements.

#### **IFRS 13 Fair Value Measurement**

On January 1, 2013, the Company adopted IFRS 13 which consolidates the fair value measurement and disclosure guidance into one standard. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. The standard does not have a significant impact on the Company's financial position or results of operations but does require additional disclosure related to fair value measurements (Note 13 to the Interim Financial Statements). The standard has been applied on a prospective basis.

#### **IAS 1 Presentation of Financial Statements**

On January 1, 2013, the Company adopted the amendments to IAS 1 with respect to the presentation

of other comprehensive income (OCI). The most significant change resulting from the amendments is a requirement for entities to group items presented in OCI on the basis of whether or not they may be reclassified subsequently to net earnings. The amended standard relates only to presentation and does not have an impact on the Company's financial position or results of operations. The amendments have been applied retroactively.

#### **IAS 19 Employee Benefits**

On January 1, 2013, the Company adopted the revisions to IAS 19 that amend the measurement, presentation and disclosure requirements for defined benefit plans. The standard has been applied retroactively and the comparative periods in the Consolidated Balance Sheets, Statements of Earnings and Statements of Other Comprehensive Income have been restated. The transitional provisions included in IAS 19 do not have an impact on future periods. These amendments include:

- Changes in the recognition of past service costs. Past service costs resulting from plan amendments or curtailments are recognized 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 elimination of the EROA reduces net earnings, which is offset by a decrease in actuarial losses recorded in OCI.
- 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 OCI. Actuarial gains and losses recognized in OCI are not reclassified to net earnings in subsequent periods. The Company previously recorded actuarial losses in OCI and retained earnings. Actuarial gains and losses are no longer charged directly to retained earnings but recorded in Accumulated other comprehensive income. The Company has reclassified actuarial losses previously recorded in retained earnings to Accumulated other comprehensive income from January 1, 2010.

The impact of the change in accounting policy on Comprehensive Income and the Consolidated Balance



Sheets are detailed in Table 21. Additional information can be found in Notes 2 and 6 of the Interim Financial Statements.

On January 1, 2013, Great-West Lifeco Inc. (Lifeco) also adopted the revisions to IAS 19. The effect of applying this standard retroactively decreased the investment in affiliate by \$20.7 million as at December 31, 2012 (January 1, 2012 – \$14.0 million), decreased Accumulated other comprehensive income by \$22.5 million (January 1, 2012 – \$16.2 million), and increased retained earnings by \$1.8 million (January 1, 2012 – \$2.2 million). The effect on the Company's proportionate share of affiliate's earnings was not significant for the three months ended March 31, 2012.

## 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.

### IFRS 9 Financial Instruments

The IASB is currently developing IFRS 9 which will replace IAS 39, the current standard for accounting for financial instruments. The standard is being completed in three separate phases:

TABLE 21: IMPACT OF IAS 19 ON FINANCIAL STATEMENTS

#### Impact on Comprehensive Income

Three months ended (\$ thousands)	2013 MAR. 31	2012 MAR. 31
Non-commission expenses		
Expected return on plan assets	\$ 1,400	\$ 871
Past service costs	147	147
	1,547	1,018
Income taxes	(418)	(275)
<b>Net earnings</b>	<b>(1,129)</b>	<b>(743)</b>
Other comprehensive income		
Employee benefits, net of tax	1,022	636
<b>Comprehensive income</b>	<b>\$ (107)</b>	<b>\$ (107)</b>

#### Impact on Consolidated Balance Sheets

(\$ thousands)	2013 MAR. 31	2012 DEC. 31	2012 JAN. 1
<b>Assets</b>			
Deferred income taxes	\$ (1,449)	\$ (1,504)	\$ (1,719)
<b>Liabilities and Shareholders' Equity</b>			
Other liabilities	(4,106)	(4,253)	(4,841)
Deferred income taxes	(334)	(348)	(403)
Retained earnings	92,581	95,572	55,761
Accumulated other comprehensive income (loss)	(89,590)	(92,475)	(52,236)
	\$ (1,449)	\$ (1,504)	\$ (1,719)

- **Classification and measurement:** This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- **Impairment methodology:** This phase is expected to replace the current incurred loss model for impairment of financial assets with an expected loss model.
- **Hedge accounting:** This phase is expected to replace the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

The impact of this new standard will be assessed as the phases of the project are completed. The standard is currently effective for annual periods beginning on or after January 1, 2015.

#### 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>
IFRS 9: Financial Instruments	
Classification and Measurement	Q3 2013 – Final Standard
Impairment	Q3 2013 – Final Standard
Hedge Accounting –	
General Hedge Accounting	Q2 2013 – Final Standard
Hedge Accounting –	
Macro Hedge Accounting	Q2 2013 – Discussion Paper
Leases	Q2 2013 – Exposure Draft
Revenue Recognition	Q2 2013 – Final Standard

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

## Internal Control Over Financial Reporting

During the first quarter of 2013, 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 an additional \$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 Note 5 to the Interim Financial Statements and Note 26 to the Annual Financial Statements.

### OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at March 31, 2013 totalled 251,902,278. Outstanding stock options as at March 31, 2013 totalled 8,797,310, of which 4,021,092 were exercisable. As at May 1, 2013, outstanding common shares totalled 251,790,828 and outstanding stock options totalled 8,561,941, of which 4,017,161 were exercisable.

Perpetual preferred shares of \$150 million were outstanding as at March 31, 2013, unchanged at May 1, 2013.

### 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).