

# Financial Section

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# Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the years ended December 31, 2013 and 2012 and should be read in conjunction with the audited Consolidated Financial Statements. Commentary in the MD&A as at and for the year ended December 31, 2013 is as of February 14, 2014.

## Basis of Presentation and Summary of Accounting Policies

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

## Principal Holders of Voting Shares

As at December 31, 2013, Power Financial Corporation (PFC) and Great-West Lifeco Inc. (Lifeco), a subsidiary of PFC, held directly or indirectly 58.6% and 3.7%, respectively, of the outstanding common shares of IGM Financial.

## FORWARD-LOOKING STATEMENTS

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

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including

the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. While the Company considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

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

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

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

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

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

Additional information about the risks and uncertainties of the Company's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this Management's Discussion and Analysis and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada, available at [www.sedar.com](http://www.sedar.com).

## NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

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

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

"Operating earnings available to common shareholders", "operating diluted earnings per share" (EPS) and "operating return on average common equity" (ROE) are non-IFRS financial measures which are used to provide management and investors with additional measures to assess earnings performance. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not

be directly comparable to similar measures used by other companies.

"Earnings before interest and taxes" (EBIT), "earnings before interest, taxes, depreciation and amortization" (EBITDA) and "adjusted earnings before interest, taxes, depreciation and amortization" (Adjusted EBITDA) are also non-IFRS financial measures. EBIT, EBITDA and Adjusted EBITDA are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. EBITDA is a common measure used in the asset management industry to assess profitability before the impact of different financing methods, income taxes, depreciation of capital assets and amortization of intangible assets. Other items of a non-recurring nature, or that could make the period-over-period comparison of results from operations less meaningful,

are further excluded to arrive at Adjusted EBITDA. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

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

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

# IGM Financial Inc.

## Summary of Consolidated Operating Results

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

Total assets under management were \$131.8 billion at December 31, 2013, the highest year end level in the history of the Company, and compared with \$120.7 billion at December 31, 2012. Average total assets under management for the year ended December 31, 2013 were \$126.1 billion compared to \$119.9 billion in 2012.

Operating earnings available to common shareholders, excluding other items outlined below, for the year ended December 31, 2013 were \$763.5 million or \$3.02 per share compared to operating earnings available to common shareholders of \$746.4 million or \$2.92 per share in 2012.

Net earnings available to common shareholders for the year ended December 31, 2013 were \$761.9 million or \$3.02 per share compared to net earnings available to common shareholders of \$758.8 million or \$2.97 per share in 2012.

Other items of \$1.6 million for the year ended December 31, 2013 consisted of a net charge of:

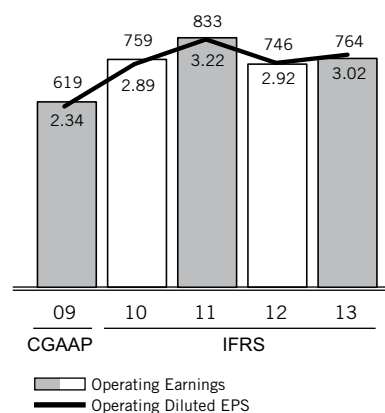
- An after-tax charge of \$10.6 million recorded in the fourth quarter related to restructuring and other charges.
- An after-tax benefit of \$9.0 million, recorded in the fourth quarter, representing the Company's proportionate share of net changes in Great-West Lifeco Inc.'s litigation provisions.

Other items of \$12.4 million for the year ended December 31, 2012 consisted of a net benefit of:

- A favourable change in income tax provision estimates of \$24.4 million, recorded in the fourth quarter, related to certain tax filings.
- An after-tax charge of \$5.6 million, recorded in the fourth quarter, representing the Company's proportionate share of net changes in Great-West Lifeco Inc.'s litigation provisions.
- A non-cash income tax charge of \$6.4 million, recorded in the second quarter, resulting from increases in Ontario corporate income tax rates and their effect on the deferred income tax liability related to indefinite life intangible assets arising from prior business acquisitions. There is no expectation that the deferred tax liability will become payable as the Company has no intention of disposing of these assets.

### Operating Earnings and Operating Earnings per Share

For the financial year (\$ millions, except per share amounts)



2009 excluded net earnings on discontinued operations, a non-cash charge on available for sale equity securities, a non-cash income tax benefit and a premium paid on the redemption of preferred shares.

2010 excluded net earnings on discontinued operations, non-recurring items related to transition to IFRS and the proportionate share of an affiliate's incremental litigation provision.

2011 excluded net earnings on discontinued operations and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

2012 excluded a reduction in income tax estimates related to certain tax filings, the proportionate share of the charge related to the changes in an affiliate's litigation provision, and a non-cash income tax charge.

2013 excluded an after-tax charge related to restructuring and other charges and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

Shareholders' equity was \$4.7 billion as at December 31, 2013, compared to \$4.4 billion as at December 31, 2012. Return on average common equity based on operating earnings for the year ended December 31, 2013 was 17.3%, unchanged from 2012. The quarterly dividend per common share was 53.75 cents in 2013, unchanged from the end of 2012.

### REPORTABLE SEGMENTS

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

- Investors Group
- Mackenzie
- Corporate and Other.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(\$ millions)	2013		2012	
	EARNINGS	EPS <sup>(1)</sup>	EARNINGS	EPS <sup>(1)</sup>
<b>Operating earnings available to common shareholders –</b>				
<b>Non-IFRS measure</b>	\$ 763.5	3.02	\$ 746.4	\$ 2.92
Restructuring and other charges, net of tax	(10.6)	(0.04)	-	-
Proportionate share of affiliate's provision	9.0	0.04	(5.6)	(0.02)
Reduction in income tax estimates related to certain tax filings	-	-	24.4	0.10
Non-cash income tax charge	-	-	(6.4)	(0.03)
<b>Net earnings available to common shareholders – IFRS</b>	<b>\$ 761.9</b>	<b>\$ 3.02</b>	<b>\$ 758.8</b>	<b>\$ 2.97</b>
<b>Adjusted EBITDA – Non-IFRS measure</b>	\$ 1,357.1		\$ 1,360.1	
Proportionate share of affiliate's provision	9.0		(5.6)	
Restructuring and other charges	(14.6)		-	
<b>EBITDA – Non-IFRS measure</b>	1,351.5		1,354.5	
Commission amortization	(245.1)		(266.2)	
Amortization of capital assets and intangible assets and other	(32.8)		(38.0)	
Interest expense on long-term debt	(92.2)		(92.2)	
<b>Earnings before income taxes</b>	981.4		958.1	
Income taxes	(210.7)		(190.5)	
Perpetual preferred share dividends	(8.8)		(8.8)	
<b>Net earnings available to common shareholders – IFRS</b>	<b>\$ 761.9</b>		<b>\$ 758.8</b>	

(1) Diluted earnings per share

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

Certain items reflected in Table 2 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt.
- *2013 restructuring and other charges* – includes:
  - Expenses related to Mackenzie's strategic review of its ongoing activities in the fourth quarter, consisting primarily of severance and other costs.
  - Transaction and other costs related to the acquisition of Independent Planning Group Inc. and its subsidiaries by Investment Planning Counsel.
- *Proportionate share of affiliate's provision* – represents changes in litigation provisions recorded by Lifeco. In the fourth quarter of 2013, Lifeco recorded net changes in litigation provisions and the Company's

after-tax proportionate share was a benefit of \$9.0 million. In the fourth quarter of 2012, Lifeco recorded net changes in litigation provisions and the Company's after-tax proportionate share was a charge of \$5.6 million.

- *Income taxes* – changes in the effective tax rates are shown in Table 3.

Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings, and regularly assesses the overall adequacy of its provision for income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. The effect of changes in management's best estimates reported in operating earnings are reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.

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

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT

(\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Revenues</b>								
Fee income	\$ 1,552.5	\$ 1,497.1	\$ 779.6	\$ 756.9	\$ 181.1	\$ 170.6	\$ 2,513.2	\$ 2,424.6
Net investment income and other	61.5	61.6	7.3	2.5	96.8	94.0	165.6	158.1
	1,614.0	1,558.7	786.9	759.4	277.9	264.6	2,678.8	2,582.7
<b>Expenses</b>								
Commission	494.6	488.5	271.7	259.6	119.8	110.2	886.1	858.3
Non-Commission	401.7	377.2	264.6	248.6	47.2	42.7	713.5	668.5
	896.3	865.7	536.3	508.2	167.0	152.9	1,599.6	1,526.8
<b>Earnings before interest and taxes</b>	\$ 717.7	\$ 693.0	\$ 250.6	\$ 251.2	\$ 110.9	\$ 111.7	1,079.2	1,055.9
Interest expense							(92.2)	(92.2)
Restructuring and other charges							(14.6)	-
Proportionate share of affiliate's provision							9.0	(5.6)
Earnings before income taxes							981.4	958.1
Income taxes							210.7	190.5
<b>Net earnings</b>							770.7	767.6
Perpetual preferred share dividends							8.8	8.8
<b>Net earnings available to common shareholders</b>							\$ 761.9	\$ 758.8
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 763.5	\$ 746.4

(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 3: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	2013	2013	2012	2013	2012
	DEC. 31	SEP. 30	DEC. 31	DEC. 31	DEC. 31
<b>Income taxes at Canadian federal and provincial statutory rates</b>	26.53 %	26.60 %	26.52 %	26.57 %	26.53 %
Effect of:					
Proportionate share of affiliate's earnings	(2.24)	(2.48)	(2.44)	(2.32)	(2.17)
Loss consolidation <sup>(1)</sup>	(2.01)	(2.02)	(2.18)	(2.06)	(2.09)
Other items	0.04	0.12	-	(0.48)	(0.67)
<b>Effective income tax rate – operating earnings</b>	22.32	22.22	21.90	21.71	21.60
Reduction in income tax estimates related to certain tax filings	-	-	(10.51)	-	(2.55)
Effect of tax rate increases on deferred income taxes related to indefinite life intangible assets	-	-	-	-	0.67
Proportionate share of affiliate's provision	(0.95)	-	0.64	(0.25)	0.16
<b>Effective income tax rate – net earnings</b>	21.37 %	22.22 %	12.03 %	21.46 %	19.88 %

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

## SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$131.8 billion at December 31, 2013 compared to \$120.7 billion at December 31, 2012. Changes in total assets under management are detailed in Tables 4 and 5.

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

TABLE 4: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q4 2013 VS. Q4 2012

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2013 DEC. 31	2012 DEC. 31	2013 DEC. 31	2012 DEC. 31	2013 DEC. 31	2012 DEC. 31	2013 DEC. 31	2012 DEC. 31
<b>Mutual funds</b>								
Gross sales – money market	\$ 205.0	\$ 153.4	\$ 87.9	\$ 94.1	\$ 15.4	\$ 13.9	\$ 308.3	\$ 261.4
Gross sales – long term	1,489.1	1,264.2	1,931.3	1,756.1	131.3	84.3	3,548.2	3,089.5
Total mutual fund gross sales	\$ 1,694.1	\$ 1,417.6	\$ 2,019.2	\$ 1,850.2	\$ 146.7	\$ 98.2	\$ 3,856.5	\$ 3,350.9
Net sales – money market	\$ 33.8	\$ (43.7)	\$ (3.7)	\$ (24.7)	\$ 8.3	\$ 10.4	\$ 38.4	\$ (58.0)
Net sales – long term	25.5	(217.2)	11.7	(518.7)	17.3	(26.3)	56.6	(776.6)
Total mutual fund net sales	\$ 59.3	\$ (260.9)	\$ 8.0	\$ (543.4)	\$ 25.6	\$ (15.9)	\$ 95.0	\$ (834.6)
<b>Sub-advisory, institutional and other accounts</b>								
Gross sales	\$ -	\$ -	\$ 1,124.2	\$ 991.8	\$ -	\$ -	\$ 662.8	\$ 712.4
Net sales	-	-	(920.4)	(461.1)	-	-	(1,050.3)	(479.7)
<b>Combined</b>								
Gross sales	\$ 1,694.1	\$ 1,417.6	\$ 3,143.4	\$ 2,842.0	\$ 146.7	\$ 98.2	\$ 4,519.3	\$ 4,063.3
Net sales	59.3	(260.9)	(912.4)	(1,004.5)	25.6	(15.9)	(955.3)	(1,314.3)
<b>Change in total assets under management</b>								
Net sales	\$ 59.3	\$ (260.9)	\$ (912.4)	\$ (1,004.5)	\$ 25.6	\$ (15.9)	\$ (955.3)	\$ (1,314.3)
Assets acquired <sup>(2)</sup>	-	-	-	-	44.8	-	44.8	-
Market and Income	3,761.9	1,263.3	2,956.4	1,474.2	173.6	56.7	6,679.5	2,729.0
Net change in assets	3,821.2	1,002.4	2,044.0	469.7	244.0	40.8	5,769.0	1,414.7
Beginning assets	64,433.5	59,592.1	63,271.2	61,007.7	3,162.0	2,908.8	126,007.5	119,278.8
<b>Ending assets</b>	<b>\$ 68,254.7</b>	<b>\$ 60,594.5</b>	<b>\$ 65,315.2</b>	<b>\$ 61,477.4</b>	<b>\$ 3,406.0</b>	<b>\$ 2,949.6</b>	<b>\$ 131,776.5</b>	<b>\$ 120,693.5</b>

(1) Total Gross sales and Net Sales excluded \$465 million and \$128 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$295 million and \$33 million in 2012).

Total assets under management excluded \$5.2 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$4.3 billion at December 31, 2012).

(2) Acquisition of Independent Planning Group Inc. on December 2, 2013.

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

TWELVE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2013 DEC. 31	2012 DEC. 31	2013 DEC. 31	2012 DEC. 31	2013 DEC. 31	2012 DEC. 31	2013 DEC. 31	2012 DEC. 31
<b>Mutual funds</b>								
Gross sales – money market	\$ 706.0	\$ 657.7	\$ 382.6	\$ 382.6	\$ 49.0	\$ 62.2	\$ 1,137.6	\$ 1,102.5
Gross sales – long term	5,961.4	5,120.0	6,317.1	5,107.0	436.0	338.8	12,692.0	10,540.4
Total mutual fund gross sales	\$ 6,667.4	\$ 5,777.7	\$ 6,699.7	\$ 5,489.6	\$ 485.0	\$ 401.0	\$ 13,829.6	\$ 11,642.9
Net sales – money market	\$ 64.6	\$ (73.0)	\$ (43.6)	\$ (99.1)	\$ 25.8	\$ 44.4	\$ 46.8	\$ (127.7)
Net sales – long term	94.9	(650.7)	(443.6)	(1,874.7)	25.8	(68.8)	(333.9)	(2,614.8)
Total mutual fund net sales	\$ 159.5	\$ (723.7)	\$ (487.2)	\$ (1,973.8)	\$ 51.6	\$ (24.4)	\$ (287.1)	\$ (2,742.5)
<b>Sub-advisory, institutional and other accounts</b>								
Gross sales	\$ -	\$ -	\$ 5,663.0	\$ 4,479.3	\$ -	\$ -	\$ 4,109.4	\$ 3,049.8
Net sales <sup>(2)</sup>	-	-	(3,078.8)	(2,264.0)	-	-	(3,434.9)	(2,874.5)
<b>Combined</b>								
Gross sales	\$ 6,667.4	\$ 5,777.7	\$ 12,362.7	\$ 9,968.9	\$ 485.0	\$ 401.0	\$ 17,939.0	\$ 14,692.7
Net sales <sup>(2)</sup>	159.5	(723.7)	(3,566.0)	(4,237.8)	51.6	(24.4)	(3,722.0)	(5,617.0)
<b>Change in total assets under management</b>								
Net sales <sup>(2)</sup>	\$ 159.5	\$ (723.7)	\$ (3,566.0)	\$ (4,237.8)	\$ 51.6	\$ (24.4)	\$ (3,722.0)	\$ (5,617.0)
Assets acquired <sup>(3)</sup>	-	-	-	-	44.8	-	44.8	-
Market and Income	7,500.7	3,582.9	7,403.8	4,063.2	360.0	162.5	14,760.2	7,597.7
Net change in assets	7,660.2	2,859.2	3,837.8	(174.6)	456.4	138.1	11,083.0	1,980.7
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>\$ 68,254.7</b>	<b>\$ 60,594.5</b>	<b>\$ 65,315.2</b>	<b>\$ 61,477.4</b>	<b>\$ 3,406.0</b>	<b>\$ 2,949.6</b>	<b>\$ 131,776.5</b>	<b>\$ 120,693.5</b>

(1) Total Gross Sales and Net Sales excluded \$1.6 billion and \$367 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$1.5 billion and \$631 million in 2012).

Total assets under management excluded \$5.2 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$4.3 billion at December 31, 2012).

(2) In the third quarter of 2013, Waddell & Reed Financial, Inc. internalized a \$2.4 billion mandate previously sub-advised by Mackenzie.

(3) Acquisition of Independent Planning Group Inc. on December 2, 2013.

## SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 6.

*Net Earnings and Earnings per Share* – Except as noted in the reconciliation in Table 6, variations in net earnings and total revenues result primarily from changes in average daily mutual fund assets under management. In 2011, mutual fund assets under management increased in the first quarter, but declined in the second half of the year due to declining domestic

and international markets. Total mutual fund assets under management increased to \$103.9 billion at December 31, 2012 compared to \$99.7 billion at the end of 2011. The increase occurred primarily in the first quarter of 2012, partly offset by a decline in mutual fund asset levels in the second quarter of 2012. Mutual fund assets under management increased to \$117.6 billion in 2013 as a result of strong equity market conditions during the year. Average mutual fund assets under management for the year ended December 31, 2013

TABLE 6: SELECTED ANNUAL INFORMATION

	2013	2012	2011
<b>Consolidated Statements of Earnings</b> (\$ millions)			
Revenues			
Fee income	\$ 2,513.2	\$ 2,424.6	\$ 2,571.1
Net investment income and other	165.6	158.1	156.4
	2,678.8	2,582.7	2,727.5
Expenses			
	1,691.8	1,619.0	1,635.2
	987.0	963.7	1,092.3
Restructuring and other charges	(14.6)		
Proportionate share of affiliate's provision	9.0	(5.6)	5.0
Earnings before income taxes and discontinued operations	981.4	958.1	1,097.3
Income taxes	210.7	190.5	250.5
Net earnings from continuing operations	770.7	767.6	846.8
Net earnings from discontinued operations	-	-	62.6
Net earnings	770.7	767.6	909.4
Perpetual preferred share dividends	8.8	8.8	8.8
Net earnings available to common shareholders	\$ 761.9	\$ 758.8	\$ 900.6
<b>Reconciliation of Non-IFRS Financial Measures</b> <sup>(1)</sup> (\$ millions)			
Operating earnings available to			
common shareholders - non-IFRS measure	\$ 763.5	\$ 746.4	\$ 833.0
Other items:			
Restructuring and other charges, net of tax	(10.6)	-	-
Proportionate share of affiliate's provision	9.0	(5.6)	5.0
Reduction in income tax estimates related to certain tax filings	-	24.4	-
Non-cash income tax charge	-	(6.4)	-
Net earnings from discontinued operations	-	-	62.6
Net earnings available to common shareholders - IFRS	\$ 761.9	\$ 758.8	\$ 900.6
<b>Earnings per share</b> (\$)			
Operating earnings available to common shareholders <sup>(1)</sup>			
- Basic	\$ 3.03	\$ 2.93	\$ 3.23
- Diluted	3.02	2.92	3.22
Net earnings available to common shareholders			
- Basic	3.02	2.98	3.49
- Diluted	3.02	2.97	3.48
<b>Dividends per share</b> (\$)			
Common	\$ 2.15	\$ 2.15	\$ 2.10
Preferred, Series B	1.48	1.48	1.48
Average daily mutual fund assets (\$ millions)	\$ 110,045	\$ 101,972	\$ 105,692
Total mutual fund assets under management (\$ millions)	\$ 117,649	\$ 103,915	\$ 99,685
Total assets under management (\$ millions)	\$ 131,777	\$ 120,694	\$ 118,713
Total corporate assets (\$ millions)	\$ 12,880	\$ 11,962	\$ 11,144
Total long-term debt (\$ millions)	\$ 1,325	\$ 1,325	\$ 1,325
Outstanding common shares (thousands)	252,310	252,099	256,658

(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.



were \$110.0 billion compared to \$102.0 billion in 2012. The impact on earnings and revenues of changes in average daily mutual fund assets under management and other pertinent items are discussed in the Review of Segment Operating Results sections of the MD&A for both Investors Group and Mackenzie.

Total assets under management at December 31, 2013 were \$131.8 billion and included mutual fund assets under management totalling \$117.6 billion. Net earnings in future periods will largely be determined by the level of mutual fund assets which will continue to be influenced by global market conditions.

*Dividends per Common Share* – Annual dividends per common share were \$2.15 in 2013, unchanged from 2012. Annual dividends per common share increased by 2.4% in 2012 and in 2011.

## **SUMMARY OF QUARTERLY RESULTS**

The Summary of Quarterly Results in Table 7 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 7. Average daily mutual fund assets under management increased in each of the last six quarters, consistent with the increase in domestic and international markets.

TABLE 7: SUMMARY OF QUARTERLY RESULTS

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Consolidated statements of earnings</b> (\$ millions)								
Revenues								
Management fees	\$ 475.6	\$ 462.2	\$ 451.9	\$ 442.9	\$ 434.7	\$ 431.5	\$ 443.5	\$ 456.6
Administration fees	93.7	90.4	87.9	85.6	84.5	83.3	84.0	85.3
Distribution fees	85.6	76.2	79.8	81.4	80.2	75.2	80.6	85.1
Net investment income and other	36.7	38.7	47.4	42.8	38.7	44.1	29.4	46.0
	691.6	667.5	667.0	652.7	638.1	634.1	637.5	673.0
Expenses								
Commission	229.3	219.8	219.0	218.0	213.4	209.7	213.7	221.4
Non-commission	179.9	173.0	182.7	177.9	163.8	162.5	171.2	171.1
Interest	23.3	23.2	22.9	22.8	23.2	23.2	22.9	22.9
	432.5	416.0	424.6	418.7	400.4	395.4	407.8	415.4
Earnings before undernoted	259.1	251.5	242.4	234.0	237.7	238.7	229.7	257.6
Restructuring and other charges	(14.6)	-	-	-	-	-	-	-
Proportionate share of affiliate's provision	9.0	-	-	-	(5.6)	-	-	-
Earnings before income taxes	253.5	251.5	242.4	234.0	232.1	238.7	229.7	257.6
Income taxes	54.2	55.9	49.3	51.3	27.9	50.3	55.8	56.5
Net earnings	199.3	195.6	193.1	182.7	204.2	188.4	173.9	201.1
Perpetual preferred share dividends	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Net earnings available								
to common shareholders	\$ 197.1	\$ 193.4	\$ 190.9	\$ 180.5	\$ 202.0	\$ 186.2	\$ 171.7	\$ 198.9
<b>Reconciliation of Non-IFRS financial measures<sup>(1)</sup></b> (\$ millions)								
Operating earnings available to common								
shareholders - non-IFRS measure	\$ 198.7	\$ 193.4	\$ 190.9	\$ 180.5	\$ 183.2	\$ 186.2	\$ 178.1	\$ 198.9
Other items:								
Restructuring and other charges, net of tax	(10.6)	-	-	-	-	-	-	-
Proportionate share of affiliate's provision	9.0	-	-	-	(5.6)	-	-	-
Reduction in income tax estimates related to certain tax filings	-	-	-	-	24.4	-	-	-
Non-cash income tax charge	-	-	-	-	-	-	(6.4)	-
Net earnings available to common shareholders - IFRS								
	\$ 197.1	\$ 193.4	\$ 190.9	\$ 180.5	\$ 202.0	\$ 186.2	\$ 171.7	\$ 198.9
<b>Earnings per share</b> (€)								
Operating earnings available to common shareholders <sup>(1)</sup>								
- Basic	79	77	76	72	73	73	70	78
- Diluted	79	77	76	72	72	73	69	77
Net earnings available to common shareholders								
- Basic	78	77	76	72	80	73	67	78
- Diluted	78	77	76	72	80	73	67	77
<b>Average daily mutual fund assets</b> (\$ billions)								
	\$ 114.6	\$ 110.2	\$ 108.4	\$ 106.9	\$ 102.4	\$ 101.0	\$ 100.9	\$ 103.6
<b>Total mutual fund assets under management</b> (\$ billions)								
	\$ 117.6	\$ 111.2	\$ 107.6	\$ 108.5	\$ 103.9	\$ 102.2	\$ 100.2	\$ 105.1
<b>Total assets under management</b> (\$ billions)								
	\$ 131.8	\$ 126.0	\$ 124.8	\$ 125.8	\$ 120.7	\$ 119.3	\$ 118.0	\$ 124.1

(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 provides a broad range of financial and investment planning services to Canadians through its exclusive network of Consultants across the country.

Fee income is primarily generated from the management, administration and distribution of Investors Group mutual funds.

Fee income is also earned from the distribution of insurance, securities and other financial services.

Additional revenue is derived from net investment income and other income, based primarily from origination and management of our mortgage business.

Revenues depend largely on the level and composition of mutual fund assets under management. The comprehensive planning approach, provided by our Consultants through the broad range of financial products and services offered by Investors Group, has resulted in a mutual fund redemption rate lower than the industry average.

### 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:

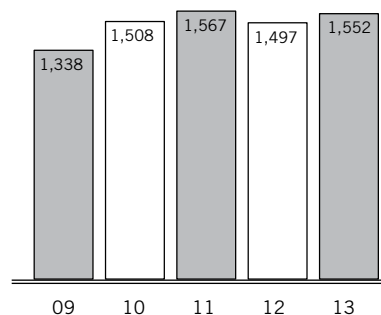
- Growing our distribution network by expanding the number of region offices, attracting new Consultants to our industry and supporting existing Consultants in their growth and development.
- Emphasizing the delivery of financial advice, products and services through our exclusive network of Consultants.
- 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 comprehensive 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

### Fee Income – Investors Group

For the financial year (\$ millions)



new region office was opened in Winnipeg, Manitoba in 2013 and another office has been announced for Guelph-Milton, Ontario in 2014. These new region offices will expand our network to 110 region offices.

At December 31, 2013, Investors Group had 4,673 Consultants, up from 4,518 at the end of 2012. This is the strongest increase in our Consultant network since 2007.

The number of Consultants with more than four years of Investors Group experience continued to increase to an all time high of 2,797 at December 31, 2013 compared to 2,748 at December 31, 2012.

In the fourth quarter of 2013, Investors Group announced to its field management a new program to provide Consultants with higher income potential in their first two years with Investors Group. This approach is expected to increase the number, productivity, and retention of new Consultants.

### Consultant Development

Investors Group combines a number of interview and testing techniques to identify individuals who demonstrate a blend of experience, education and aptitude that makes them well suited to becoming successful financial planners. This process is continually reviewed in our efforts to select the most appropriate candidates as new Consultants to improve their likelihood of success in the future.

Each year our training curriculum is reviewed and refreshed to offer new Consultants important building blocks to develop client relationships. As Consultants progress, they develop their skills as financial planners and business managers by attending a selection of focused educational programs including: financial planning skills, product knowledge, client service, business development

skills, compliance, technology, practice management and other related topics. This core training is supplemented by annual training conferences where education is tailored to both new and experienced Consultants.

In 2013 we continued to deliver additional phases of a multi-year initiative to enhance our Consultant technology platform, bringing greater efficiencies to our Consultants' contact management and portfolio information and financial planning systems to help them serve our clients more effectively. These efforts include ongoing upgrades to the financial planning software used by Consultants.

### Field Management Development

In the fourth quarter of 2013, as part of our continued emphasis on growth and development of our field management and Consultant network, Investors Group refined the development, recognition and compensation of its field leaders to improve recruiting and training effectiveness.

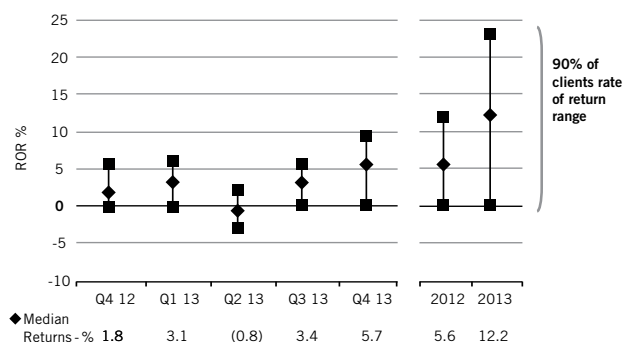
### ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

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 Investors Group's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from Investors Group's head office in Winnipeg, Manitoba for Consultants and clients in the rest of Canada. The Quebec General Office has 248 employees and operating units for most functions supporting both the more than 850 Consultants throughout Quebec and the 19 Quebec region offices. Mutual fund assets under management in Quebec were approximately \$11 billion as at December 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 account median rates of return for the five most recent quarters and annual median results for the last two years. The chart also illustrates upper and lower ranges of

### Client Account Rate of Return (ROR) Experience



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

For the three months ended December 31, 2013, the client account median rate of return was approximately 5.7% and 99% of clients experienced positive returns. For the twelve months ending December 31, 2013, the client account median rate of return was approximately 12.2% and 96% of clients experienced positive returns.

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 8. Assets under management reached \$68.3 billion at December 31, 2013, the highest year end record in the history of Investors Group.

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

Investors Group's mutual fund assets under management were \$68.3 billion at December 31, 2013, an increase of 12.6% from \$60.6 billion at December 31, 2012. Average daily mutual fund assets were \$66.6 billion in the fourth quarter of 2013, up 11.4% from \$59.8 billion in the fourth quarter of 2012. Average daily mutual fund assets were \$63.9 billion for the year ended December 31, 2013, up 8.0% from \$59.2 billion for the comparative period in 2012.

TABLE 8: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2013 DEC. 31	2013 SEP. 30	2012 DEC. 31	% CHANGE	
				2013 SEP. 30	2012 DEC. 31
Sales	\$ 1,694.1	\$ 1,444.6	\$ 1,417.6	17.3 %	19.5 %
Redemptions	1,634.8	1,553.1	1,678.5	5.3	(2.6)
<b>Net sales (redemptions)</b>	59.3	(108.5)	(260.9)	N/M	N/M
Market and Income	3,761.9	2,089.7	1,263.3	80.0	197.8
Net change in assets	3,821.2	1,981.2	1,002.4	92.9	281.2
Beginning assets	64,433.5	62,452.3	59,592.1	3.2	8.1
<b>Ending assets</b>	\$ 68,254.7	\$ 64,433.5	\$ 60,594.5	5.9 %	12.6 %
<b>Average daily assets</b>	\$ 66,551.1	\$ 63,914.2	\$ 59,756.1	4.1 %	11.4 %

TWELVE MONTHS ENDED (\$ millions)	2013 DEC. 31	2012 DEC. 31	% CHANGE
Redemptions	6,507.9	6,501.4	0.1
<b>Net sales (redemptions)</b>	159.5	(723.7)	N/M
Market and Income	7,500.7	3,582.9	109.3
Net change in assets	7,660.2	2,859.2	167.9
Beginning assets	60,594.5	57,735.3	5.0
<b>Ending assets</b>	\$ 68,254.7	\$ 60,594.5	12.6 %
<b>Average daily assets</b>	\$ 63,901.7	\$ 59,189.0	8.0 %

For the quarter ended December 31, 2013, sales of Investors Group mutual funds through its Consultant network were \$1.7 billion, an increase of 19.5% from the comparative period in 2012 and the strongest level of fourth quarter sales in the history of the company. Mutual fund redemptions totalled \$1.6 billion, a decrease of 2.6% from 2012. Investors Group's annualized quarterly redemption rate for long-term funds of 8.9% in the fourth quarter of 2013 was lower than the rate of 10.0% in the fourth quarter of 2012. Investors Group's twelve month trailing redemption rate for long-term funds was 9.4% at December 31, 2013 which 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 17.4% at September 30, 2013.

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 0.5% of our long-term redemption rate at December 31, 2013. Excluding such items, the twelve month trailing redemption rate for long-term funds would have been 8.9%.

Net sales of Investors Group mutual funds for the fourth quarter of 2013 were \$59 million compared with net redemptions of \$261 million in 2012. Sales of long-term funds were \$1.5 billion for the fourth quarter of 2013, compared with \$1.3 billion in 2012, an increase of 17.8%. Net sales of long-term funds for the fourth quarter of 2013 were \$25 million compared to net redemptions of \$217 million in 2012. During the fourth quarter, market and income resulted in an increase of \$3.8 billion in mutual fund assets compared to an increase of \$1.3 billion in the fourth quarter of 2012.

For the twelve months ended December 31, 2013, sales of Investors Group mutual funds through its Consultant network were \$6.7 billion, an increase of

15.4% from 2012. Mutual fund redemptions totalled \$6.5 billion, unchanged from 2012. Net sales of Investors Group mutual funds were \$159 million compared with net redemptions of \$724 million in 2012. Sales of long-term funds for the twelve month period in 2013 were \$6.0 billion, compared with \$5.1 billion in 2012, an increase of 16.4%. Net sales of long-term funds were \$95 million compared to net redemptions of \$651 million in 2012. During 2013, market and income resulted in an increase of \$7.5 billion in mutual fund assets compared to an increase of \$3.6 billion in 2012.

#### **Change in Mutual Fund Assets Under Management – Q4 2013 vs. Q3 2013**

Investors Group's mutual fund assets under management were \$68.3 billion at December 31, 2013, an increase of 5.9% from \$64.4 billion at September 30, 2013. Average daily mutual fund assets were \$66.6 billion in the fourth quarter of 2013 compared to \$63.9 billion in the third quarter of 2013, an increase of 4.1%.

For the quarter ended December 31, 2013, sales of Investors Group mutual funds through its Consultant network were \$1.7 billion, an increase of 17.3% from the third quarter of 2013. Mutual fund redemptions, which totalled \$1.6 billion for the fourth quarter, increased 5.3% from the previous quarter and the annualized quarterly redemption rate of 8.9% in the fourth quarter was unchanged from the previous quarter. Net sales of Investors Group mutual funds for the current quarter were \$59 million compared with net redemptions of \$109 million in the previous quarter. Sales of long-term funds were \$1.5 billion for the current quarter compared to \$1.3 billion in the previous quarter, an increase of 15.5%. Net sales of long-term funds for the current quarter were \$25 million compared to net redemptions of \$113 million in the previous quarter.

#### **PRODUCTS AND SERVICES**

Investors Group is regarded as a leader in personal financial services in Canada. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's goals, preferences and risk tolerance. They also look beyond investments to offer clients access to insurance, mortgages and other financial services.

#### **PFPP – Personal Financial Planner**

Investors Group's Personal Financial Planner (PFPP) software handles a wide range of potential financial planning needs – from projections and illustrations for basic financial planning concepts to the preparation of written financial plans which integrate all disciplines of financial planning, including investment, tax, retirement, education, risk management and estate planning.

#### **Symphony Strategic Investment Planning™ Program**

Symphony is Investors Group's approach to strategic investment planning. The Symphony program is designed to provide a scientifically constructed investment portfolio, consistent with the client's investment objectives and suited to their risk profile.

#### **Charitable Giving Program**

The Investors Group Charitable Giving Program is a donor-advised giving program which enables Canadians to make donations and build an enduring charitable giving legacy with considerably less expense and complexity than setting up and administering their own private foundation.

#### **Mutual Funds**

Investors Group had \$68.3 billion in mutual fund assets under management at December 31, 2013 in 154 mutual funds covering a broad range of investment mandates. This compared with \$60.6 billion in 2012, an increase of 12.6%.

Clients can diversify their holdings across investment managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

Investors Group funds are managed by I.G. Investment Management, our own multi-disciplinary team of investment professionals with offices and advisors in North America, Europe, and Asia. Our global connections, depth of research and use of information technology provide us with the investment management capabilities to offer our clients investment management expertise suitable for the widest range of investment objectives. Investors Group also offers a range of partner funds through advisory relationships with other investment management firms. Investors Group oversees these external investment advisors to ensure that their activities are consistent with Investors Group's investment philosophy and with the investment objectives and strategies of the funds that they advise. These advisory relationships include investment managers such as Mackenzie Financial Corporation, Putnam Investments Inc., AGF Investments Inc., Beutel, Goodman &

Company Ltd., Bissett Investment Management, Fidelity Investments Canada ULC, Templeton Investments Corp., LaSalle Investment Management (Securities), L.P., Allianz Global Investors U.S. LLC and Eagle Boston Investment Management, Inc.

### ***Fund Performance***

At December 31, 2013, 40% 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 12% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 66% for three stars or better and 28% for four and five star funds at December 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. These changes became fully annualized in the third quarter of 2013.

In July 2013, Investors Group introduced a new Series U of our funds for households with financial assets in excess of \$500,000. This new Series provides separate pricing for fund management and an advisory fee charged to client accounts.

### ***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.

- January – Investors Group launched a new balanced fund, IG Mackenzie Strategic Income Fund, which seeks 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 pursues a flexible approach to investing in fixed income and/or equity asset classes with no geographic restriction.
- March – 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.

- June – nine Investors Group fund mergers became effective. These mergers provide securityholders of these funds with more effective portfolio management and generally broader investment mandates with more diversification which, in turn, provides the potential for less volatility and improved long-term performance.
- December – Investors Group launched a new mandate, IG Putnam Low Volatility U.S. Equity Fund and Class, which seeks to provide long-term capital growth by investing primarily in U.S. equity securities, usually across all sectors, while seeking to provide lower volatility over a full market cycle.

### **Managed Asset and Multi-Manager Investment Programs**

Investors Group Corporate Class Inc.<sup>™</sup> is a broad tax advantaged fund structure which features the ability to switch on a fee-free basis among 59 funds within the group of funds with no immediate tax consequences. These funds include 30 funds advised by I.G. Investment Management, 20 funds sub-advised by external investment advisors, five Corporate Class portfolios and four funds that are part of the *iProfile* program. At the end of 2013, the Corporate Class funds totalled \$4.9 billion in assets compared with \$4.0 billion in 2012.

In December 2013, a new Investors Group Corporate Class offering, Investors Dividend Class, was introduced and will emulate Investors Dividend Fund. Investors Dividend Class will seek to obtain above-average income yield on its investments, protect the value of its investments, and achieve long-term capital appreciation.

Investors Group provides clients with access to a growing selection of asset allocation opportunities which include:

- **Allegro Portfolios<sup>™</sup>**: The seven Allegro Portfolios provide a single-step investment solution offering geographic, investment style, asset class, and investment advisor diversification based on Symphony asset allocation recommendations. Fund assets were \$3.6 billion as of December 31, 2013 compared with \$3.2 billion in the previous year.
- **Allegro Corporate Class Portfolios<sup>™</sup>**: The five portfolio classes offer clients a single-step, tax efficient approach for their investments. The series T option further benefits investors with monthly tax-deferred distributions in the form of return of capital. These diversified portfolios have something to offer for each category of the risk/return spectrum. Fund assets were \$680 million as of December 31, 2013 compared with \$462 million in the previous year.

- **Alto Portfolios™:** The Alto Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification based on Symphony asset allocation recommendations. The eleven portfolios include Investors Group funds and funds sub-advised by Mackenzie. Assets in the portfolios were \$4.2 billion as of December 31, 2013 compared with \$3.6 billion in the previous year.
- **Investors Group Portfolios:** These funds have assets of \$9.9 billion as at December 31, 2013, compared with \$9.1 billion in the previous year. The program is comprised of ten funds which invest in 16 underlying Investors Group funds to provide a high level of diversification.
- **iProfile™:** This is a unique portfolio management program that is available for households with assets over \$250,000. iProfile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The program is advised by a select group of global money management firms: I.G. Investment Management, Toron Capital Markets Inc., JPMorgan Asset Management (Canada) Inc., Jarislowsky, Fraser Limited, Allianz Global Investors U.S. LLC, Philadelphia International Investment Advisors LP, Baring International Investment Limited, and Ivy Investment Management Company (a subsidiary of Waddell & Reed Financial, Inc.). This program had \$721 million in assets as at December 31, 2013 compared with \$461 million in 2012.

#### 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 December 31, 2013, total segregated fund assets were \$1.5 billion compared to \$1.3 billion at December 31, 2012.

#### Insurance

Investors Group continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, Investors Group offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance. I.G. Insurance Services Inc. currently has distribution agreements with:

- The Canada Life Assurance Company
- The Great-West Life Assurance Company
- Sun Life Assurance Company of Canada
- The Manufacturers Life Insurance Company

Sales of insurance products as measured by new annualized premiums were \$73 million for the year ended December 31, 2013, an increase of 3.7% over \$71 million in 2012. The average number of policies sold by each insurance-licensed Consultant was 10.0 in 2013, compared to 10.1 in 2012. Distribution of insurance products is enhanced through Investors Group's insurance specialists, located throughout Canada, who assist Consultants with the selection of insurance solutions.

#### Securities Operations

Investors Group Securities Inc. is an investment dealer registered in all Canadian provinces and territories providing clients with securities services to complement their financial and investment planning. Investors Group Consultants can refer clients to one of our securities specialists available through Investors Group Securities Inc.

In 2013, we continued to enhance our services to accommodate individual stocks and bonds owned by our clients within their financial plan. This involved further development of our systems and the addition of a number of securities specialists who work alongside our Consultants and are licensed to advise on individual securities. In addition, more of our Consultants completed the transition of their registration to the Investment Industry Regulatory Organization of Canada (IIROC). These Consultants remain within our region offices and continue to operate in our established business model which has a managed asset focus delivered within a financial planning context.



### **Mortgage Operations**

Investors Group is a national mortgage lender that offers a full suite of 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 December 31, 2013, there were 96 individuals in the mortgage specialist network compared to 92 at December 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 approved 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.

Mortgage originations for the twelve months ended December 31, 2013 were \$2.2 billion, compared to \$2.0 billion in 2012, an increase of 6.6%. At December 31, 2013, mortgages serviced by Investors Group related to its mortgage banking operations totalled \$8.5 billion compared to \$7.3 billion at December 31, 2012.

### **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 9.

### 2013 VS. 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 \$294.3 million in the fourth

quarter of 2013, an increase of \$27.7 million or 10.4% from \$266.6 million in 2012. For the twelve months ended December 31, 2013, management fees were \$1,123.0 million, an increase of \$36.9 million or 3.4% from \$1,086.1 million in 2012.

The net increase in management fees in the fourth quarter was primarily due to the increase in average daily mutual fund assets of 11.4% for the quarter, as shown in Table 8. This was offset in part by the decrease in the management fee rate to 175.4 basis points of average daily mutual fund assets in 2013 from 177.5 basis points in 2012 as a result of the pricing and product enhancements as discussed in the Investors Group Review of the Business section of this MD&A.

TABLE 9: OPERATING RESULTS – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2013		2012	% CHANGE	
	DEC. 31	SEP. 30	DEC. 31	2013 SEP. 30	2012 DEC. 31
<b>Revenues</b>					
Management fees	\$ 294.3	\$ 283.2	\$ 266.6	3.9 %	10.4 %
Administration fees	64.4	61.2	55.8	5.2	15.4
Distribution fees	49.6	43.7	49.1	13.5	1.0
	408.3	388.1	371.5	5.2	9.9
Net investment income and other	11.0	12.5	13.5	(12.0)	(18.5)
	419.3	400.6	385.0	4.7	8.9
<b>Expenses</b>					
Commission	71.0	68.0	71.4	4.4	(0.6)
Asset retention bonus and premium	56.0	55.0	51.8	1.8	8.1
Non-commission	103.5	96.0	94.5	7.8	9.5
	230.5	219.0	217.7	5.3	5.9
<b>Earnings before interest and taxes</b>	<b>\$ 188.8</b>	<b>\$ 181.6</b>	<b>\$ 167.3</b>	<b>4.0 %</b>	<b>12.9 %</b>
<b>TWELVE MONTHS ENDED (\$ millions)</b>					
			2013 DEC. 31	2012 DEC. 31	% CHANGE
<b>Revenues</b>					
Management fees			\$ 1,123.0	\$ 1,086.1	3.4 %
Administration fees			242.3	220.2	10.0
Distribution fees			187.2	190.8	(1.9)
			1,552.5	1,497.1	3.7
Net investment income and other			61.5	61.6	(0.2)
			1,614.0	1,558.7	3.5
<b>Expenses</b>					
Commission			275.1	277.9	(1.0)
Asset retention bonus and premium			219.5	210.6	4.2
Non-commission			401.7	377.2	6.5
			896.3	865.7	3.5
<b>Earnings before interest and taxes</b>			<b>\$ 717.7</b>	<b>\$ 693.0</b>	<b>3.6 %</b>

The net increase in management fees in the twelve month period was primarily due to the increase in average daily mutual fund assets of 8.0%, as shown in Table 8. The increase was offset in part by:

- The decrease in the management fee rate to 175.6 basis points of average daily mutual fund assets in 2013 from 183.5 basis points in 2012 related 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 \$2.8 million due to one less calendar day in 2013 compared to 2012.

Management fee income and average management fee rates for all of the periods under review 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. For the three and twelve month periods in 2013, these waivers totalled \$0.8 million and \$3.3 million, respectively, compared to \$1.0 million and \$3.8 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 \$64.4 million in the current quarter compared to \$55.8 million a year ago, an increase of 15.4%. Administration fees were \$242.3 million for the twelve month period ended December 31, 2013 compared to \$220.2 million in 2012, an increase of 10.0%. The increase in both periods resulted primarily from the change in average daily mutual fund 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.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking<sup>†</sup>.

Distribution fee income of \$49.6 million for the fourth quarter of 2013 increased by \$0.5 million from \$49.1 million in 2012. For the twelve month period, distribution fee income of \$187.2 million decreased by \$3.6 million from \$190.8 million in 2012. The net

increase in the three month period was due to increases in distribution fee income from insurance products offset in part by a decline in redemption fees and decreases in distribution fee income from banking products.

The decrease in the twelve month period was due to a decline in redemption fees, the impact of pricing changes in portfolio fund distribution fees made during the third quarter of 2012, and decreases in distribution fee income from banking products. The decreases in the twelve month period were offset in part by increases in distribution fee income from insurance products. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

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

Net investment income and other includes income related to mortgage banking operations, interest earned on cash and cash equivalents, securities and mortgage loans related to intermediary operations, as well as interest expense on deposit liabilities and interest on bank indebtedness, if any.

Net investment income and other was \$11.0 million in the fourth quarter of 2013, a decrease of \$2.5 million from \$13.5 million in 2012. For the twelve months ended December 31, 2013, net investment income and other totalled \$61.5 million, a decrease of \$0.1 million from \$61.6 million in 2012.

Net investment income related to Investors Group's mortgage banking operations totalled \$10.8 million for the fourth quarter of 2013 compared to \$12.9 million in 2012, a decrease of \$2.1 million. Net investment income related to Investors Group's mortgage banking operations totalled \$59.6 million for the twelve months ended December 31, 2013 compared to \$60.4 million in 2012, a decrease of \$0.8 million. A summary of mortgage banking operations for the three and twelve month periods under review is presented in Table 10. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – which decreased by \$0.8 million and \$6.6 million for the three and twelve month periods ended December 31, 2013 to \$10.9 million and \$42.6 million, respectively, compared to 2012. The decrease resulted from lower prepayment penalties due to lower prepayment activity as well as 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.

TABLE 10 : MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

(\$ millions)	2013		2012		% CHANGE	
	DEC. 31	SEP. 30	DEC. 31	SEP. 30	SEP. 30	DEC. 31
AS AT						
<b>Mortgages serviced</b>	\$ 8,478	\$ 8,242	\$ 7,330		2.9 %	15.7 %
<b>Mortgage warehouse<sup>(1)</sup></b>	\$ 317	\$ 609	\$ 238		(47.9) %	33.2 %
THREE MONTHS ENDED						
<b>Average mortgages serviced</b>						
CMB/MBS Programs	\$ 3,585	\$ 3,365	\$ 3,068		6.5 %	16.9 %
Bank-sponsored ABCP programs	1,541	1,429	1,264		7.8	21.9
Securitized	5,126	4,794	4,332		6.9	18.3
Other	3,249	3,275	2,866		(0.8)	13.4
	\$ 8,375	\$ 8,069	\$ 7,198		3.8 %	16.4 %
<b>Mortgage originations<sup>(2)</sup></b>	\$ 431	\$ 578	\$ 396		(25.4) %	8.8 %
<b>Mortgage sales to:<sup>(3)</sup></b>						
Securitized	\$ 888	\$ 545	\$ 572		62.9 %	55.2 %
Other <sup>(4)</sup>	250	191	263		30.9	(4.9)
	\$ 1,138	\$ 736	\$ 835		54.6 %	36.3 %
<b>Total mortgage banking income</b>						
Net interest income on securitized loans						
Interest income	\$ 40.4	\$ 38.4	\$ 36.9		5.2 %	9.5 %
Interest expense	29.5	27.7	25.2		6.5	17.1
Net interest income	10.9	10.7	11.7		1.9	(6.8)
Gains on sales <sup>(5)</sup>	3.0	1.8	4.3		66.7	(30.2)
Fair value adjustments and other income	(3.1)	(0.2)	(3.1)		N/M	-
	\$ 10.8	\$ 12.3	\$ 12.9		(12.2) %	(16.3) %

(\$ millions)	2013		2012		% CHANGE
	DEC. 31	DEC. 31	DEC. 31	DEC. 31	
TWELVE MONTHS ENDED					
<b>Average mortgages serviced</b>					
CMB/MBS Programs			\$ 3,374	\$ 2,815	19.9 %
Bank-sponsored ABCP programs			1,403	1,219	15.1
Securitized			4,777	4,034	18.4
Other			3,108	2,758	12.7
			\$ 7,885	\$ 6,792	16.1 %
<b>Mortgage originations<sup>(2)</sup></b>			\$ 2,179	\$ 2,044	6.6 %
<b>Mortgage sales to:<sup>(3)</sup></b>					
Securitized			\$ 2,334	\$ 2,297	1.6 %
Other <sup>(4)</sup>			972	986	(1.4)
			\$ 3,306	\$ 3,283	0.7 %
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income			\$ 152.6	\$ 145.4	5.0 %
Interest expense			110.0	96.2	14.3
Net interest income			42.6	49.2	(13.4)
Gains on sales <sup>(5)</sup>			16.9	19.0	(11.1)
Fair value adjustments and other income			0.1	(7.8)	101.3
			\$ 59.6	\$ 60.4	(1.3) %

(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.

- Gains realized on the sale of residential mortgages – which decreased by \$1.3 million and \$2.1 million for the three and twelve month periods ended December 31, 2013 to \$3.0 million and \$16.9 million, respectively, compared to 2012. The decrease in gains resulted from lower volumes of sales to institutional investors.
- Fair value adjustments and other income – which increased by \$7.9 million for the twelve month period ended December 31, 2013 to \$0.1 million, compared to 2012. The twelve month increase related primarily to improvements in fair value adjustments on certain securitization related financial instruments.
- 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 \$0.2 million and \$1.7 million in the three and twelve month periods to \$8.3 million and \$33.7 million, respectively, 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 \$103.5 million for the fourth quarter of 2013 compared to \$94.5 million in 2012, an increase of \$9.0 million or 9.5%. These increases included additional expenses related to increasing the productivity and retention of new Consultants. For the twelve month period, non-commission expenses were \$401.7 million compared to \$377.2 million in 2012, an increase of \$24.5 million or 6.5%.

### 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 \$71.0 million for the fourth quarter of 2013, a decrease of \$0.4 million from \$71.4 million in 2012. For the twelve month period, commission expense decreased by \$2.8 million to \$275.1 million compared with \$277.9 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, related to lower redemptions in the period. This was offset in part by increases in compensation related to the distribution of other financial services and products.

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, increased by \$4.0 million and \$7.2 million for the three and twelve month periods ended December 31, 2013 to \$47.7 million and \$185.8 million, respectively, compared to 2012. The change in both periods was due to an increase in average assets under management, offset by the impact of Investors Group Consultant compensation changes related to the pricing and product enhancements introduced in the second quarter of 2012.

Changes to IFRS accounting guidance and valuation assumptions related to the Company's defined benefit pension plan represented \$1.8 million of the increase in the fourth quarter and \$6.6 million of the increase in the twelve month period. In addition, as a result of applying the IFRS accounting guidance changes retroactively, pension expenses increased by \$1.0 million in the fourth quarter of 2012 and \$4.1 million in the twelve month period 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 13 of the Consolidated Financial Statements.

### Q4 2013 VS. Q3 2013

#### Fee Income

Management fee income increased by \$11.1 million or 3.9% to \$294.3 million in the fourth quarter of 2013 compared with the third quarter of 2013. The increase in management fee income was due to the increase in average daily mutual fund assets of 4.1% as shown in Table 8.

Money market fund waivers totalled \$0.8 million in the fourth quarter of 2013, compared to \$0.7 million in the third quarter.

Administration fees increased to \$64.4 million in the fourth quarter of 2013 from \$61.2 million in the third quarter of 2013. The net increase resulted from the increase in average daily mutual fund assets compared with the third quarter of 2013.

Distribution fee income of \$49.6 million in the fourth quarter of 2013 increased by \$5.9 million from \$43.7 million in the third quarter primarily due to an increase in distribution fee income from insurance products.

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

Net investment income and other was \$11.0 million in the fourth quarter of 2013 compared to \$12.5 million in the previous quarter, a decrease of \$1.5 million primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled \$10.8 million in the fourth quarter of 2013, a decrease of \$1.5 million from \$12.3 million in the previous quarter as shown in Table 10. The changes in mortgage banking income related primarily to:

- Unfavourable fair value adjustments on interest rate swaps used to hedge interest rate risk on loans temporarily held pending sale or securitization to third parties.
- An increase in gains on sales resulting from higher volumes of sales.

#### **Expenses**

Commission expense in the current quarter was \$71.0 million compared with \$68.0 million in the previous quarter. This increase was primarily due to increases in compensation related to the distribution of other financial services and products. The asset retention bonus and premium expense increased by \$1.0 million to \$56.0 million in the fourth quarter of 2013 due to increases in average assets under management.

Non-commission expenses were \$103.5 million in the current quarter, an increase of \$7.5 million or 7.8% from \$96.0 million in the third quarter of 2013. The majority of this increase related to the seasonal nature of certain expenses normally incurred in the fourth quarter. In addition, the increase also included additional expenses related to increasing the productivity and retention of new Consultants.

# Mackenzie

## Review of the Business

Mackenzie's core business is the provision of investment management and related services offered through diversified investment solutions, distributed through multiple distribution channels. We are committed to delivering strong investment performance for our clients by drawing on the experience and perspective gained through 45 years in the investment management business.

Mackenzie earns revenue primarily from:

- Management fees charged to its mutual funds, sub-advised accounts and institutional clients.
- Fees charged to its mutual funds for administrative services.
- Redemption fees on deferred sales charge and low load units.

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.

### MACKENZIE STRATEGY

Mackenzie strives to ensure that the interests of shareholders, dealers, advisors, investment clients and employees are closely aligned.

During the period, Mackenzie affirmed its vision and established a number of strategic priorities to drive future business success.

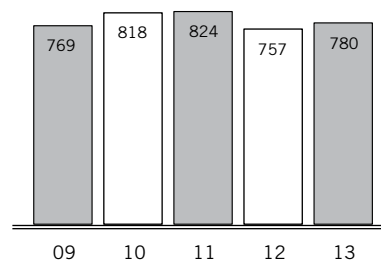
Our vision: We are committed to the financial success of investors, through *their eyes*.

- Getting the basics right; every time, everywhere
- Delivering competitive and consistent risk-adjusted performance
- Transforming distribution to drive sales and market share
- Delivering high quality products to investors and advisors and actively anticipating their future needs
- Advocating for strong, advice-driven financial solutions for investors
- Building a winning culture.

Mackenzie seeks to maximize returns on business investment by focusing resources on initiatives that have direct benefits to investment management, distribution and client experience.

### Fee Income – Mackenzie<sup>(1)</sup>

For the financial year (\$ millions)



(1) Excludes discontinued operations

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.

#### Sale of Mackenzie Subsidiaries

On July 31, 2012, Mackenzie completed the sale of 100% of the common shares of Winfund Software Corp. (Winfund).

#### ASSETS UNDER MANAGEMENT

The changes in assets under management are summarized in Table 11 and the changes in mutual funds are summarized in Table 12.

The change in Mackenzie's assets under management is determined by the increase or decrease in the market value of the securities held in the portfolios of investments and by the level of sales as compared to the level of redemptions.

TABLE 11: CHANGE IN ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2013		2012	% CHANGE	
	DEC. 31	SEP. 30	DEC. 31	SEP. 30	DEC. 31
Sales	\$ 3,143.4	\$ 2,524.4	\$ 2,842.0	24.5 %	10.6 %
Redemptions	4,055.9	5,260.8	3,846.5	(22.9)	5.4
<b>Net redemptions</b>	(912.5)	(2,736.4)	(1,004.5)	66.7	9.2
Market and Income	2,956.5	2,063.6	1,474.2	43.3	100.5
Net change in assets	2,044.0	(672.8)	469.7	N/M	335.2
Beginning assets	63,271.2	63,944.0	61,007.7	(1.1)	3.7
<b>Ending assets</b>	\$ 65,315.2	\$ 63,271.2	\$ 61,477.4	3.2 %	6.2 %
<b>Consists of:</b>					
Mutual funds	\$ 46,024.4	\$ 43,593.9	\$ 40,394.4	5.6 %	13.9 %
Sub-advisory, institutional and other accounts	19,290.8	19,677.3	21,083.0	(2.0)	(8.5)
	\$ 65,315.2	\$ 63,271.2	\$ 61,477.4	3.2 %	6.2 %
<b>Monthly average total assets<sup>(1)</sup></b>	\$ 64,516.8	\$ 62,803.5	\$ 60,905.6	2.7 %	5.9 %
<hr/>					
TWELVE MONTHS ENDED (\$ millions)	2013		2012	% CHANGE	
	DEC. 31	DEC. 31	DEC. 31		
Sales			\$ 12,362.7	\$ 9,968.9	24.0 %
Redemptions <sup>(2)</sup>			15,928.7	14,206.7	12.1
<b>Net redemptions</b>			(3,566.0)	(4,237.8)	15.9
Market and Income			7,403.8	4,063.2	82.2
Net change in assets			3,837.8	(174.6)	N/M
Beginning assets			61,477.4	61,652.0	(0.3)
<b>Ending assets</b>			\$ 65,315.2	\$ 61,477.4	6.2 %
<b>Monthly average total assets<sup>(1)</sup></b>			\$ 63,813.8	\$ 61,650.1	3.5 %

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

(2) In the third quarter of 2013, Waddell & Reed Financial, Inc. internalized a \$2.4 billion mandate previously sub-advised by Mackenzie.



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

Mackenzie's total assets under management at December 31, 2013 were \$65.3 billion, an increase of 6.2% from \$61.5 billion at December 31, 2012. Mackenzie's mutual fund assets under management were \$46.0 billion at December 31, 2013, an increase of 13.9% from \$40.4 billion at December 31, 2012. Mackenzie's sub-advisory, institutional and other accounts at December 31, 2013 were \$19.3 billion, a decrease of 8.5% from \$21.1 billion last year.

In the three months ended December 31, 2013, Mackenzie's gross sales for total assets under management were \$3.1 billion, an increase of 10.6% from \$2.8 billion in the comparative period last year. Redemptions in the current period were \$4.1 billion, an increase of 5.4% from \$3.8 billion last year. Net redemptions for the three months ended December 31, 2013 were \$0.9 billion, as compared to net redemptions of \$1.0 billion last year. During the current quarter, market and income resulted in assets increasing by \$3.0 billion as compared to an increase of \$1.5 billion last year. During the quarter ended December 31, 2013, an institutional client internalized management of \$730 million in money market mandates.

On July 2, 2013, Waddell & Reed Financial, Inc. (Waddell & Reed) internalized the management of its Ivy Global Natural Resources Fund, a fund previously sub-advised by Mackenzie. This coincided with the planned retirement of the Mackenzie portfolio manager responsible for sub-advising this mandate. The fund had approximately \$2.4 billion in assets at July 2, 2013 and is included in Mackenzie's redemptions in the twelve months ended December 31, 2013 in Table 11.

In the twelve months ended December 31, 2013, Mackenzie's gross sales for total assets under management were \$12.4 billion, an increase of 24.0% from \$10.0 billion in the comparative period last year. Redemptions in the current period were \$15.9 billion, an increase of 12.1% from \$14.2 billion last year. Net redemptions for the twelve months ended December 31, 2013 were \$3.6 billion, as compared to net redemptions of \$4.2 billion last year. Net redemptions for the twelve months ended December 31, 2013, excluding the impact of the Waddell & Reed redemption, were \$1.1 billion. During the period, market and income resulted in assets increasing by \$7.4 billion as compared to an increase of \$4.1 billion last year.

TABLE 12: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2013 DEC. 31	2013 SEP. 30	2012 DEC. 31	% CHANGE	
				2013 SEP. 30	2012 DEC. 31
Sales	\$ 2,019.2	\$ 1,301.4	\$ 1,850.2	55.2 %	9.1 %
Redemptions	2,011.2	1,534.0	2,393.6	31.1	(16.0)
<b>Net sales (redemptions)</b>	8.0	(232.6)	(543.4)	N/M	N/M
Market and Income	2,422.5	1,729.0	1,209.9	40.1	100.2
Net change in assets	2,430.5	1,496.4	666.5	62.4	264.7
Beginning assets	43,593.9	42,097.5	39,727.9	3.6	9.7
<b>Ending assets</b>	\$ 46,024.4	\$ 43,593.9	\$ 40,394.4	5.6 %	13.9 %
<b>Daily average mutual fund assets</b>	\$ 44,839.9	\$ 43,193.1	\$ 39,746.0	3.8 %	12.8 %

TWELVE MONTHS ENDED (\$ millions)	2013 DEC. 31	2012 DEC. 31	% CHANGE
Redemptions	7,186.9	7,463.4	(3.7)
<b>Net sales (redemptions)</b>	(487.2)	(1,973.8)	75.3
Market and Income	6,117.2	3,227.5	89.5
Net change in assets	5,630.0	1,253.7	349.1
Beginning assets	40,394.4	39,140.7	3.2
<b>Ending assets</b>	\$ 46,024.4	\$ 40,394.4	13.9 %
<b>Daily average mutual fund assets</b>	\$ 43,048.0	\$ 39,902.1	7.9 %

In the three months ended December 31, 2013, Mackenzie's mutual fund gross sales were \$2.0 billion, an increase of 9.1% from \$1.9 billion in the comparative period last year. Mutual fund redemptions in the current period were \$2.0 billion, a decrease of 16.0% from last year. Mutual fund net sales for the three months ended December 31, 2013 were \$8 million, as compared to net redemptions of \$543 million last year. During the current quarter, market and income resulted in assets increasing by \$2.4 billion as compared to an increase of \$1.2 billion last year.

Mackenzie's mutual fund gross sales and redemption activity was impacted in the current quarter by rebalance transactions with an institutional client. These transactions resulted in gross sales of \$405 million and redemptions of \$247 million. There were similar rebalance transactions during the quarter ended December 31, 2012 which resulted in mutual fund gross sales of \$556 million and redemptions of \$620 million.

In the twelve months ended December 31, 2013, Mackenzie's mutual fund gross sales were \$6.7 billion, an increase of 22.0% from \$5.5 billion in the comparative period last year. Mutual fund redemptions in the current period were \$7.2 billion, a decrease of 3.7% from \$7.5 billion last year. Mutual fund net redemptions for the twelve months ended December 31, 2013, were \$487 million, as compared to net redemptions of \$2.0 billion last year. During the period, market and income resulted in assets increasing by \$6.1 billion as compared to an increase of \$3.2 billion last year.

Redemptions of long-term mutual funds in the three and twelve month periods ended December 31, 2013, were \$1.9 billion and \$6.8 billion respectively, as compared to \$2.3 billion and \$7.0 billion last year. Mackenzie's annualized quarterly redemption rate for long-term mutual funds of 17.2% in the fourth quarter of 2013 was lower than the 23.2% in the fourth quarter of 2012. Mackenzie's annualized quarterly redemption rate for long-term mutual funds, excluding rebalance transactions, was 15.0% in the fourth quarter of 2013 compared to 16.9% in the fourth quarter of 2012. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 16.0% at December 31, 2013, as compared to 17.9% last year. Mackenzie's twelve month trailing redemption rate for long-term mutual funds, excluding rebalance transactions during the fourth quarters of 2013 and

2012, respectively, was 15.4% at December 31, 2013 compared to 16.3% last year. The most recently available corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 16.7% at September 30, 2013. 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 – Q4 2013 vs. Q3 2013**

Mackenzie's total assets under management at December 31, 2013, were \$65.3 billion, an increase of 3.2% from \$63.3 billion at September 30, 2013, as summarized in Table 11. Mackenzie's mutual fund assets under management increased 5.6% to \$46.0 billion in the quarter and Mackenzie's sub-advisory, institutional and other accounts decreased \$0.4 billion from \$19.7 billion to \$19.3 billion at December 31, 2013.

For the quarter ended December 31, 2013, Mackenzie mutual fund gross sales were \$2.0 billion, an increase of 55.2% from the third quarter of 2013. Mutual fund redemptions, which totalled \$2.0 billion for the fourth quarter, increased 31.1% from the previous quarter. Net sales of Mackenzie mutual funds for the current quarter were \$8 million compared with net redemptions of \$233 million in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$1.9 billion, as compared to \$1.4 billion in the quarter ended September 30, 2013. Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended December 31, 2013 was 17.2% as compared to 13.4% in the third quarter of 2013. Net sales of long-term funds for the current quarter were \$12 million compared to net redemptions of \$210 million in the previous quarter. Excluding rebalance transactions during the current quarter, Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended December 31, 2013 was 15.0% compared to 13.4% in the third quarter.

TABLE 13: ASSETS UNDER MANAGEMENT BY INVESTMENT OBJECTIVE – MACKENZIE

<i>(\$ millions)</i>	2013		2012	
<b>Equity</b>				
Domestic	\$ 16,138.2	24.7 %	\$ 14,220.0	23.1 %
Foreign	18,567.9	28.4	18,037.7	29.4
	34,706.1	53.1	32,257.7	52.5
<b>Balanced</b>				
Domestic	11,741.7	18.0	9,497.2	15.5
Foreign	2,080.0	3.2	2,365.4	3.8
	13,821.7	21.2	11,862.6	19.3
<b>Fixed Income</b>				
Domestic	14,574.5	22.3	14,905.9	24.2
Foreign	117.4	0.2	104.6	0.2
	14,691.9	22.5	15,010.5	24.4
<b>Money Market</b>				
Domestic	2,084.4	3.2	2,327.1	3.8
Foreign	11.1	-	19.5	-
	2,095.5	3.2	2,346.6	3.8
<b>Total</b>	\$ 65,315.2	100.0 %	\$ 61,477.4	100.0 %
<b>Consists of:</b>				
Mutual funds	\$ 46,024.4	70.5 %	\$ 40,394.4	65.7 %
Sub-advisory, institutional and other accounts	19,290.8	29.5	21,083.0	34.3
	\$ 65,315.2	100.0 %	\$ 61,477.4	100.0 %

## INVESTMENT MANAGEMENT

Mackenzie's assets under management are diversified by investment objective as set out in Table 13. The development of a broad range of investment capabilities and products has proven to be, and continues to be, a key strength of the organization in satisfying the evolving financial needs of our clients.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At December 31, 2013, 48% of Mackenzie mutual funds were rated in the top two performance quartiles for the one year time frame, 53% for the three year time frame and 53% 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 December 31, 2013, 78% of Mackenzie mutual fund assets measured by Morningstar<sup>†</sup> had a rating of three stars or better and 43% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 78% for three stars or better and 39% for four and five star funds at December 31, 2013. These ratings exclude the Quadrus Group of Funds<sup>†</sup>.

## PRODUCTS

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. Mackenzie continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their investment clients. Initiatives undertaken during 2013 included the following:

- April 5 – Mackenzie announced that it had suspended 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. Upon further assessment of the budget proposal, Mackenzie announced on May 28, 2013 that it was reopening six of the funds that had been temporarily capped.
- April 16 – Mackenzie's Singapore-based subsidiary obtained registration with the Monetary Authority of Singapore and it was appointed as a sub-advisor on the Symmetry Global Bond Fund.

- April 23 – 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 27 funds with narrow investment mandates as well as those funds that are sub-scale or have overlapping investment objectives with other funds. These mergers were completed during the third quarter.
  - Fund launches – the following two fixed-income funds were launched on May 6, 2013: Mackenzie Strategic Bond Fund and Mackenzie Floating Rate Income Fund. Both funds are managed by the Mackenzie Fixed Income Team and they 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 is now managed by a dedicated fixed-income team.
  - Renaming some investment teams – to help clarify investment choices for advisors, many of Mackenzie’s investment teams are now identified by their area of expertise as opposed to a sub-brand name.
- New fund-naming convention and investment objective enhancements – effective July 15, 2013, Mackenzie changed the names of a number of its funds to ensure that the fund names more appropriately describe their investment mandate and objective. On July 26, 2013, the following funds had both their investment objectives enhanced and names changed: Mackenzie Global Small Cap Growth Fund and Mackenzie Global Small Cap Growth Class, Mackenzie Global Dividend Fund, and Mackenzie US Growth Class.
- October 7 – Mackenzie launched the Mackenzie All Cap Dividend Class, a well-diversified balanced portfolio of high-yielding North American equity instruments and fixed income securities.
- October 15 – Mackenzie launched the Mackenzie Private Wealth Program, designed for investors with more than \$100,000 to invest. This program features pricing that is tiered to provide greater discounts as investment levels increase, plus a broad suite of investment choices and flexible series options to accommodate specific financial objectives and account structures. Investors in the program also benefit from enhanced reporting, customizable rebalancing, and tax and estate guidance.

## Review of Segment Operating Results

Mackenzie's earnings before interest and taxes are presented in Table 14.

### 2013 VS. 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 series of its mutual funds.

TABLE 14: OPERATING RESULTS – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2013 DEC. 31	2013 SEP. 30	2012 DEC. 31	% CHANGE	
				2013 SEP. 30	2012 DEC. 31
<b>Revenues</b>					
Management fees	\$ 168.6	\$ 167.2	\$ 156.5	0.8 %	7.7 %
Administration fees	26.3	26.4	26.1	(0.4)	0.8
Distribution fees	3.3	3.1	3.6	6.5	(8.3)
	198.2	196.7	186.2	0.8	6.4
Net investment income and other	3.8	0.8	0.4	N/M	N/M
	202.0	197.5	186.6	2.3	8.3
<b>Expenses</b>					
Commission	16.6	16.7	18.6	(0.6)	(10.8)
Trailing commission	53.7	51.2	44.6	4.9	20.4
Non-commission	64.9	65.2	61.1	(0.5)	6.2
	135.2	133.1	124.3	1.6	8.8
<b>Earnings before interest and taxes</b>	<b>\$ 66.8</b>	<b>\$ 64.4</b>	<b>\$ 62.3</b>	<b>3.7 %</b>	<b>7.2 %</b>
<b>TWELVE MONTHS ENDED (\$ millions)</b>					
			2013 DEC. 31	2012 DEC. 31	% CHANGE
<b>Revenues</b>					
Management fees			\$ 662.0	\$ 634.2	4.4 %
Administration fees			104.0	105.8	(1.7)
Distribution fees			13.6	16.9	(19.5)
			779.6	756.9	3.0
Net investment income and other			7.3	2.5	192.0
			786.9	759.4	3.6
<b>Expenses</b>					
Commission			69.7	80.6	(13.5)
Trailing commission			202.0	179.0	12.8
Non-commission			264.6	248.6	6.4
			536.3	508.2	5.5
<b>Earnings before interest and taxes</b>			<b>\$ 250.6</b>	<b>\$ 251.2</b>	<b>(0.2)%</b>

Management fees were \$168.6 million for the three months ended December 31, 2013, an increase of \$12.1 million or 7.7% from \$156.5 million last year. For the twelve months ended December 31, 2013, management fees were \$662.0 million, an increase of \$27.8 million or 4.4% from \$634.2 million last year. The increase in management fees was consistent with the increase in Mackenzie's average total assets under management combined with the change in mix of assets under management. This was offset by \$4.6 million related to the effect of renegotiated sub-advisory fees with CMA Holdings Inc. which became effective October 1, 2013.

Average total assets under management were \$64.5 billion in the three month period ended December 31, 2013, compared to \$60.9 billion in 2012, an increase of 5.9%. Average total assets under management for the twelve month period ended December 31, 2013 were \$63.8 billion compared to \$61.7 billion in 2012, an increase of 3.5%.

Mackenzie's average management fee rate was 103.7 basis points in the three month period ended December 31, 2013 compared to 102.2 basis points in 2012. Mackenzie's average management fee was 103.7 basis points in the twelve month period ended December 31, 2013 compared to 102.9 basis points in 2012. The increase in the average management fee rate in both the three and twelve month periods ending December 31, 2013 was due to a change in the composition of assets under management, including the impact of having a greater share in retail-priced products following the loss of the sub-advisory mandate to Waddell & Reed as previously discussed.

Mackenzie earns administration fees primarily from providing services to its mutual funds. Administration fees were \$26.3 million for the three months ended December 31, 2013, as compared to \$26.1 million in 2012. Administration fees were \$104.0 million for the twelve months ended December 31, 2013, compared to \$105.8 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. 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.

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 December 31, 2013 was \$2.7 million and in the twelve months ended December 31, 2013 was \$13.7 million as compared to \$5.0 million and \$18.5 million, respectively, in 2012.

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 December 31, 2013 was \$3.3 million, a decrease of \$0.3 million from \$3.6 million last year. Distribution fee income in the twelve months ended December 31, 2013 was \$13.6 million, a decrease of \$3.3 million from \$16.9 million last year.

#### **Expenses**

Mackenzie's expenses were \$135.2 million for the three months ended December 31, 2013, an increase of \$10.9 million or 8.8% from \$124.3 million last year. Expenses for the twelve months ended December 31, 2013 were \$536.3 million, an increase of \$28.1 million or 5.5% from \$508.2 million in 2012.

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 \$16.6 million in the three months ended December 31, 2013, as compared to \$18.6 million last year. Commission expense in the twelve months ended December 31, 2013 was \$69.7 million compared to \$80.6 million in 2012. These declines are consistent with the lower amount of deferred sales commissions paid in recent years combined with lower write-offs of the unamortized balance 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 \$53.7 million in the three months ended December 31, 2013, an increase of \$9.1 million or 20.4% from \$44.6 million last year. Trailing commissions in the twelve months ended December 31, 2013 were \$202.0 million, an increase of \$23.0 million or 12.8% from \$179.0 million in the comparative period last year. The change in trailing commissions resulted both from the period over period increase in average mutual fund assets as well as a change in the composition of mutual fund assets towards series of mutual funds that pay higher trailer rates. During the period, this included both the impact of having a higher weighting of equity funds as well as a having a higher weighting of no load series of funds, both of which are subject to higher trailers. Trailing commissions as a percentage of average mutual fund assets under management were 47.9 basis points in the three months ended December 31, 2013 and 46.9 basis points in the twelve months ended December 31, 2013 as compared to 44.9 basis points in both of the comparative periods in 2012.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$64.9 million in the three months ended December 31, 2013, an increase of \$3.8 million or 6.2% from \$61.1 million in 2012. Non-commission expenses in the twelve months ended December 31, 2013 were \$264.6 million, an increase of \$16.0 million or 6.4% from \$248.6 million in the comparative period in 2012. Mackenzie continues to attract, retain and develop employees and invest strategically in systems and technology to enhance its future operating capabilities while at the same time investing in revenue generating initiatives to further grow its business.

#### **Q4 2013 VS. Q3 2013**

##### **Revenues**

Mackenzie's revenues were \$202.0 million for the current quarter, an increase of \$4.5 million or 2.3% from \$197.5 million in the third quarter of 2013.

Management fees were \$168.6 million for the current quarter, an increase of \$1.4 million or 0.8% from \$167.2 million in the third quarter of 2013. Factors contributing to the net increase in management fees are as follows:

- Average total assets under management were \$64.5 billion in the current quarter compared to \$62.8 billion in the quarter ended September 30, 2013, an increase of 2.7%.
- Mackenzie's average management fee rate was 103.7 basis points in the current quarter as compared to 105.6 basis points in the third quarter of 2013 due to a change in the composition of assets under management, including the impact of renegotiated fee rates related to the CMA Holding Inc. sub-advisory relationship.

Administration fees were \$26.3 million in the current quarter, a decrease of \$0.1 million or 0.4% from \$26.4 million in the prior quarter. Included in administration fees for the current quarter was the fund operating expense adjustment of \$2.7 million as compared to \$3.4 million in the third quarter of 2013.

##### **Expenses**

Mackenzie's expenses were \$135.2 million for the current quarter, an increase of \$2.1 million or 1.6% from \$133.1 million in the third quarter of 2013.

Commission expense, which represents the amortization of selling commissions, was \$16.6 million in the quarter ended December 31, 2013, as compared to \$16.7 million in the third quarter of 2013.

Trailing commissions were \$53.7 million in the current quarter, an increase of \$2.5 million or 4.9% from \$51.2 million in the third quarter of 2013. The change in trailing commissions is consistent with the 3.8% 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 47.9 basis points from 47.4 basis points in the third quarter of 2013.

Non-commission expenses were \$64.9 million in the current quarter, a decrease of \$0.3 million or 0.5% from \$65.2 million in the third quarter of 2013.

## 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 15.

### 2013 VS. 2012

Net investment income and other totalled \$21.9 million in the fourth quarter of 2013 compared to \$24.7 million in 2012. Net investment income and other totalled \$96.8 million for the twelve months ended December 31, 2013, an increase of \$2.8 million compared with 2012. The increase in the twelve month period was due to the increase of \$7.3 million in the Company's proportionate share of Lifeco's earnings. The increase was offset in part by the 2012 reversal of a charge related to a non-retail mutual fund product.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.6 million lower in the fourth quarter of 2013 compared to the same period in 2012 and \$1.2 million lower in the twelve months ended December 31, 2013 compared with 2012.

### Q4 2013 VS. Q3 2013

Net investment income and other totalled \$21.9 million in the fourth quarter of 2013, a decrease of \$3.5 million from the previous quarter which was largely due to decreases 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 \$1.7 million higher in the fourth quarter of 2013 compared with the previous quarter.

During the fourth quarter of 2013, Investment Planning Counsel acquired the shares of Independent Planning Group Inc. and its related entities.

TABLE 15: OPERATING RESULTS – CORPORATE AND OTHER

THREE MONTHS ENDED (\$ millions)	2013 DEC. 31	2013 SEP. 30	2012 DEC. 31	% CHANGE	
				2013 SEP. 30	2012 DEC. 31
<b>Revenues</b>					
Fee income	\$ 48.4	\$ 44.0	\$ 41.8	10.0 %	15.8 %
Net investment income and other	21.9	25.4	24.7	(13.8)	(11.3)
	70.3	69.4	66.5	1.3	5.7
<b>Expenses</b>					
Commission	32.0	28.9	27.0	10.7	18.5
Non-commission	11.5	11.8	8.2	(2.5)	40.2
	43.5	40.7	35.2	6.9	23.6
<b>Earnings before interest and taxes</b>	<b>\$ 26.8</b>	<b>\$ 28.7</b>	<b>\$ 31.3</b>	<b>(6.6)%</b>	<b>(14.4) %</b>
<b>TWELVE MONTHS ENDED (\$ millions)</b>					
			2013 DEC. 31	2012 DEC. 31	% CHANGE
<b>Revenues</b>					
Fee income			\$ 181.1	\$ 170.6	6.2 %
Net investment income and other			96.8	94.0	3.0
			277.9	264.6	5.0
<b>Expenses</b>					
Commission			119.8	110.2	8.7
Non-commission			47.2	42.7	10.5
			167.0	152.9	9.2
<b>Earnings before interest and taxes</b>			<b>\$ 110.9</b>	<b>\$ 111.7</b>	<b>(0.7) %</b>



# IGM Financial Inc.

## Consolidated Financial Position

IGM Financial's total assets were \$12.9 billion at December 31, 2013 compared to \$12.0 billion at December 31, 2012.

### SECURITIES

The composition of the Company's securities holdings is detailed in Table 16.

#### 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, proprietary investment funds and Canada Mortgage Bonds. Unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Certain proprietary investment funds are consolidated where the Company has made the assessment that it controls the investment fund as discussed in Note 2 of the Consolidated Financial Statements. As at December 31, 2013, the underlying investments related to these consolidated investment funds primarily consisted of cash and short-term investments (\$17.7 million), equity securities (\$29.1 million) and fixed income securities (\$9.8 million). The underlying securities of these funds are classified as held for trading and recognized at fair value through profit or loss.

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 were 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. The interest expense related to these obligations is recorded in Net investment income and other in the Consolidated Statements of Earnings.

During the third quarter of 2013 the Company sold the Canada Mortgage Bonds for \$217.8 million and settled the related obligation to repurchase the securities of \$218.6 million as the Company achieved its investment and risk management objectives related to these bonds.

### LOANS

The composition of the Company's loans is detailed in Table 17.

Loans consisted of residential mortgages and represented 45.4% of total assets at December 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 \$5.6 billion at December 31, 2013, compared to \$4.7 billion at December 31, 2012.

TABLE 16: SECURITIES

(\$ millions)	DECEMBER 31, 2013		DECEMBER 31, 2012	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Available for sale</b>				
Proprietary investment funds	\$ 3.4	\$ 4.1	\$ 23.4	\$ 24.1
<b>Fair value through profit or loss</b>				
Equity securities	6.7	8.0	6.1	6.2
Proprietary investment funds	54.2	56.6	24.1	24.7
Canada Mortgage Bonds	-	-	220.4	225.5
	60.9	64.6	250.6	256.4
	\$ 64.3	\$ 68.7	\$ 274.0	\$ 280.5

- 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 \$10.6 billion of residential mortgages, including \$2.1 billion originated by subsidiaries of Lifeco.

### 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 fourth quarter of 2013, the Company securitized loans through its mortgage banking operations with cash proceeds of \$874.1 million compared to \$566.8 million in 2012. The fair value of the Company's retained interest was \$112.5 million at December 31, 2013 compared to \$69.1 million at December 31, 2012. The retained interest includes cash reserve accounts of \$29.0 million, which are reflected on the balance sheet, and rights to future excess spread of \$99.7 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

TABLE 17: LOANS

<i>(\$ millions)</i>	DECEMBER 31, 2013	DECEMBER 31, 2012
<b>Loans and receivables</b>		
Sold to securitization programs	\$ 5,491.5	\$ 4,639.0
Intermediary operations	36.4	35.1
	5,527.9	4,674.1
Less: Collective allowance	0.7	0.7
	5,527.2	4,673.4
<b>Held for trading</b>		
Mortgage banking operations	324.3	248.8
	\$ 5,851.5	\$ 4,922.2

TABLE 18: INVESTMENT IN AFFILIATE

TWELVE MONTHS ENDED (\$ millions)	2013 DEC. 31	2012 DEC. 31
<b>Investment in affiliate - equity method</b>		
Balance, beginning of year		
As previously reported	\$ 621.1	\$ 612.5
Change in accounting policy	(20.7)	(14.0)
As restated	600.4	598.5
Additional shares acquired	49.7	-
Proportionate share of earnings	84.8	77.5
Proportionate share of changes in affiliate's litigation provision <sup>(1)</sup>	9.0	(5.6)
Dividends received	(47.7)	(46.5)
Proportionate share of other comprehensive income (loss) and other adjustments	21.6	(23.5)
Balance, end of year	\$ 717.8	\$ 600.4
<b>Fair value, end of year</b>	<b>\$ 1,301.4</b>	<b>\$ 918.6</b>

(1) Refer to the Summary of Consolidated Operating Results in this MD&A.

value of \$16.2 million at December 31, 2013. Additional information related to the Company's securitization activities can be found in the Financial Instruments Risk section of this MD&A and in Note 6 of the Consolidated Financial Statements.

#### INVESTMENT IN AFFILIATE

Investment in affiliate represents the Company's 4% equity interest in Great-West Lifeco Inc. (Lifeco). 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 year ended December 31, 2013 compared with 2012 are shown in Table 18.

On March 12, 2013, the Company purchased 1,950,000 subscription receipts of Lifeco which were recorded at cost. On July 18, 2013, the acquisition of Irish Life Group Limited was completed and the subscription receipts of Lifeco were exchanged for 1,950,000 Lifeco common shares at a cost of \$49.7 million. As a result of this transaction, the Company maintains its current ownership position in Lifeco of 4%.

# Consolidated Liquidity and Capital Resources

## LIQUIDITY

Cash and cash equivalents totalled \$1.08 billion at December 31, 2013 compared with \$1.06 billion at December 31, 2012. Cash and cash equivalents related to the Company's deposit operations were \$6.2 million at December 31, 2013 compared with \$11.9 million at December 31, 2012 as shown in Table 19.

Working capital totalled \$1,161.1 million at December 31, 2013 compared with \$1,031.8 million at December 31, 2012. Working capital excludes the Company's deposit operations.

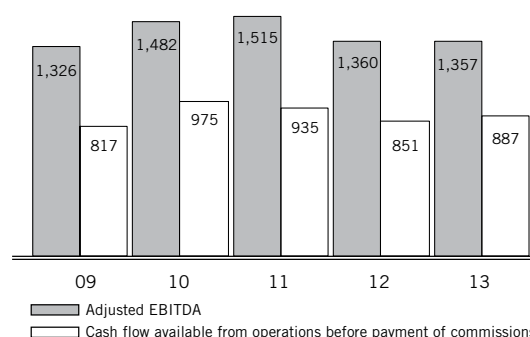
Working capital is utilized to:

- 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 repurchases related to the Company's normal course issuer bid.

IGM Financial continues to generate significant cash flows from its operations. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) totalled \$1,357.1 million for the twelve months ended December 31, 2013 compared to \$1,360.1 million in 2012. Adjusted EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled

## Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

For the financial year (\$ millions)



Adjusted EBITDA

2009 excluded a non-cash charge on available for sale equity securities, a premium paid on the redemption of preferred shares and earnings on discontinued operations. 2010 excluded non-recurring items related to transition to IFRS, the proportionate share of an affiliate's incremental litigation provision and earnings on discontinued operations.

2011 excluded earnings on discontinued operations and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

2012 excluded the proportionate share of the charge related to the changes in an affiliate's litigation provisions.

2013 excluded a charge related to restructuring and other charges and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

\$245.1 million in 2013 compared to \$266.2 million in 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 Risk section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity and funding risk.

TABLE 19: DEPOSIT OPERATIONS – FINANCIAL POSITION

(\$ millions)	DECEMBER 31, 2013	DECEMBER 31, 2012
<b>Assets</b>		
Cash and cash equivalents	\$ 6.2	\$ 11.9
Accounts and other receivables	161.7	136.6
Loans	30.8	27.5
<b>Total assets</b>	<b>\$ 198.7</b>	<b>\$ 176.0</b>
<b>Liabilities and shareholder's equity</b>		
Deposit liabilities	\$ 186.4	\$ 163.2
Other liabilities	0.9	1.0
Shareholder's equity	11.4	11.8
<b>Total liabilities and shareholder's equity</b>	<b>\$ 198.7</b>	<b>\$ 176.0</b>

## Cash Flows

Table 20 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Consolidated Financial Statements for the year ended December 31, 2013. Cash and cash equivalents increased by \$23.3 million in 2013 compared to an increase of \$6.7 million in 2012.

Operating activities, before payment of commissions, generated \$952.4 million during the year ended December 31, 2013, as compared to \$921.2 million in 2012. Cash commissions paid were \$237.1 million in 2013 compared to \$211.6 million in 2012. Cash flows from operating activities, net of commissions paid, were \$715.3 million in 2013 as compared to \$709.6 million in 2012.

Financing activities during the year ended December 31, 2013 compared to 2012 related to:

- A net increase of \$23.2 million in deposits and certificates in 2013 compared to a net increase of \$12.5 million in 2012.
- Net payment of \$225.4 million in 2013 arising from obligations related to assets sold under repurchase agreements compared to a net payment of \$1.8 million in 2012. The net payment in 2013 included the settlement of \$218.6 million in obligations related to the sale of \$217.8 million in Canada Mortgage Bonds which are reported in investing activities.
- A net increase of \$872.5 million in 2013 arising from obligations to securitization entities compared to a net increase of \$873.5 million in 2012.

- Proceeds received on the issuance of common shares of \$59.8 million in 2013 compared with \$24.5 million in 2012.
- The purchase of 1,336,400 common shares in 2013 under IGM Financial's normal course issuer bid at a cost of \$62.8 million compared with the purchase of 5,347,900 common shares at a cost of \$214.9 million in 2012.
- The payment of perpetual preferred share dividends which totalled \$8.8 million in 2013, unchanged from 2012.
- The payment of regular common share dividends which totalled \$541.9 million in 2013 compared to \$549.0 million in 2012.

Investing activities during the year ended December 31, 2013 compared to 2012 primarily related to:

- The purchases of securities totalling \$77.9 million and sales of securities with proceeds of \$296.1 million in 2013 compared to \$57.9 million and \$90.2 million, respectively, in 2012. Proceeds in 2013 included the sale of Canada Mortgage Bonds for \$217.8 million.
- A net increase in loans of \$923.9 million in 2013 compared to a net increase of \$825.4 million in 2012 primarily related to residential mortgages in the Company's mortgage banking operations.
- The investment in affiliate of \$49.7 million in the first quarter of 2013. The Company purchased 1,950,000 subscription receipts of Lifeco which were exchanged in the third quarter for 1,950,000 Lifeco common shares.

TABLE 20: CASH FLOWS

TWELVE MONTHS ENDED (\$ millions)	2013 DEC. 31	2012 DEC. 31	% CHANGE
Operating activities			
Before payment of commissions	\$ 952.4	\$ 921.2	3.4 %
Commissions paid	(237.1)	(211.6)	(12.1)
Net of commissions paid	715.3	709.6	0.8
Financing activities	116.5	135.8	(14.2)
Investing activities	(808.5)	(838.7)	3.6
<b>Increase in cash and cash equivalents</b>	<b>23.3</b>	<b>6.7</b>	<b>N/M</b>
Cash and cash equivalents, beginning of year	1,059.1	1,052.4	0.6
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,082.4</b>	<b>\$ 1,059.1</b>	<b>2.2 %</b>

## CAPITAL RESOURCES

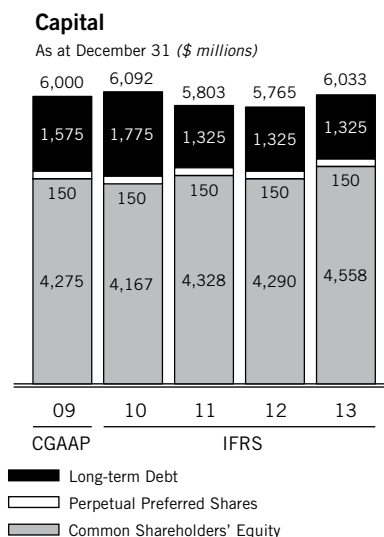
The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving 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 \$6.0 billion at December 31, 2013, compared to \$5.8 billion at 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 December 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 December 31, 2013 remain unchanged from December 31, 2012.

The Company purchased 1,336,400 common shares during the year ended December 31, 2013 at a cost of \$62.8 million under its normal course issuer bid (refer to Note 16 to the Consolidated 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 2013 included the declaration of perpetual preferred share dividends of \$8.8 million or \$1.475 per share and common share dividends of \$542.0 million or \$2.15 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 provides 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. 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 rating trend.

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 fifth highest of the 22 ratings used for long-term debt. A debenture rated A+ 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.

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 fifth highest of the 26 ratings used for long-term debt. Under the DBRS long-term rating scale, debt securities rated A (High) are of good credit quality and the capacity for the payment of financial obligations is 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.

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 21 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items 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.

Fair value is determined using the following methods and assumptions:

- 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 classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity.
- Loans classified as loans and receivables are valued by discounting the expected future cash flows at prevailing market yields.

- Obligations to securitization entities are valued by discounting the expected future cash flows at 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 22 of the Consolidated 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 twelve months ended December 31, 2013.

TABLE 21: FINANCIAL INSTRUMENTS

(\$ millions)	DECEMBER 31, 2013		DECEMBER 31, 2012	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Financial assets recorded at fair value</b>				
Securities				
– Available for sale	\$ 4.1	\$ 4.1	\$ 24.1	\$ 24.1
– Held for trading	64.6	64.6	256.4	256.4
Loans				
– Held for trading	324.3	324.3	248.8	248.8
Derivative financial instruments	57.4	57.4	63.3	63.3
<b>Financial assets recorded at amortized cost</b>				
Loans				
– Loans and receivables	5,527.2	5,695.0	4,673.4	4,792.0
<b>Financial liabilities recorded at fair value</b>				
Derivative financial instruments	35.5	35.5	70.8	70.8
<b>Financial liabilities recorded at amortized cost</b>				
Deposits and certificates	186.4	187.9	163.2	164.8
Obligations to securitization entities	5,572.1	5,671.4	4,700.9	4,786.7
Long-term debt	1,325.0	1,577.8	1,325.0	1,628.9



# 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 a \$200 million committed line of credit to provide financing to the Company's mortgage operations.
- Added an additional Canadian bank sponsored committed ABCP facility.
- Expanded our funding channels by issuing the Company's inaugural syndicated National Housing Act Mortgage Backed Securities for \$224 million.

- 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 22.

TABLE 22: CONTRACTUAL OBLIGATIONS

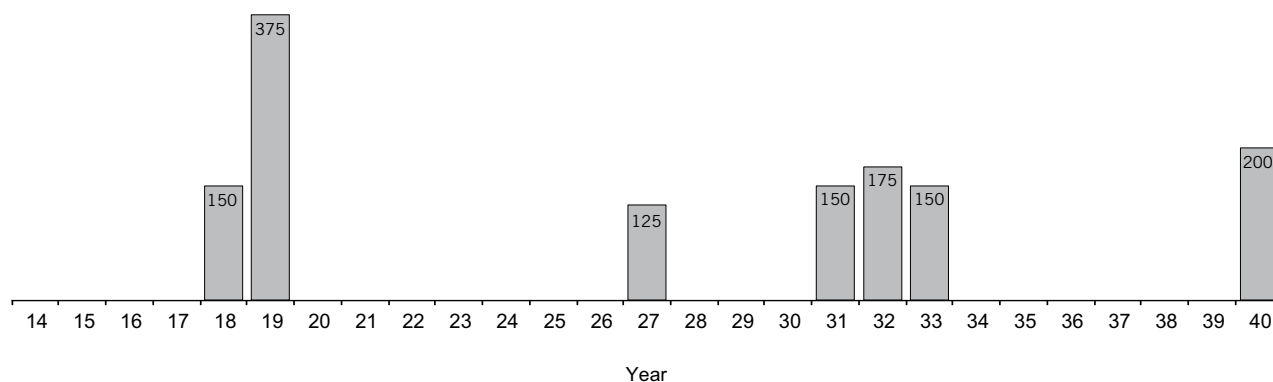
As at December 31, 2013 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ -	\$ 11.0	\$ 24.5	\$ -	\$ 35.5
Deposits and certificates	160.9	9.8	11.1	4.6	186.4
Obligations to securitization entities	-	890.5	4,648.7	32.9	5,572.1
Long-term debt	-	-	150.0	1,175.0	1,325.0
Operating leases <sup>(1)</sup>	-	53.5	147.3	65.4	266.2
Pension funding <sup>(2)</sup>	-	20.0	-	-	20.0
<b>Total contractual obligations</b>	<b>\$ 160.9</b>	<b>\$ 984.8</b>	<b>\$ 4,981.6</b>	<b>\$ 1,277.9</b>	<b>\$ 7,405.2</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.

(2) Pension funding requirements beyond 2014 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

## Long-Term Debt Maturity Schedule

(\$ millions)



The maturity schedule for long-term debt of \$1,325 million, with no debt repayment due until 2018, is reflected in the accompanying chart (Long-Term Debt Maturity Schedule).

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 December 31, 2013, unchanged from December 31, 2012. The lines of credit as at December 31, 2013 consisted of committed lines of \$350 million (2012 – \$350 million) and uncommitted lines of \$175 million (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 of credit are at the bank's sole discretion. As at December 31, 2013 and December 31, 2012, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2012, was completed. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$106.3 million compared to a solvency surplus in the previous actuarial valuation, which was based on a measurement date of December 31, 2009. The solvency deficit results primarily from lower interest rates and is required to be funded over 5 years. During 2013, the Company made contributions of \$36.1 million (2012 – nil). The Company expects to make contributions of approximately \$20.0 million in 2014. Pension contribution decisions are subject to change, as contributions are affected by many factors

including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy. Funding requirements beyond 2014 are subject to significant variability and will be determined based on future actuarial valuations.

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 December 31, 2013, cash and cash equivalents of \$1,082.4 million (2012 – \$1,059.1 million) consisted of cash balances of \$88.8 million (2012 – \$100.8 million) on deposit with Canadian chartered banks and cash

equivalents of \$993.6 million (2012 – \$958.3 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$41.8 million (2012 – \$233.1 million), provincial government and government guaranteed commercial paper of \$564.1 million (2012 – \$472.6 million) and bankers' acceptances issued by Canadian chartered banks of \$387.7 million (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.

At December 31, 2012, fair value through profit or loss securities included Canada Mortgage Bonds with a fair value of \$225.5 million. The investment in these bonds was disposed of during the third quarter of 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 December 31, 2013, mortgages totalled \$5.9 billion (2012 – \$4.9 billion) and consisted of residential mortgages:

- Sold to securitization programs which are classified as loans and receivables and totalled \$5.5 billion compared to \$4.6 billion at December 31, 2012. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$5.6 billion at December 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 \$324.3 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 \$36.4 million at December 31, 2013, compared to \$35.1 million at December 31, 2012.

As at December 31, 2013, the mortgage portfolios related to the Company's intermediary operations were geographically diverse, 100% residential (2012 – 100%) and 88.6% insured (2012 – 86.2%). As at December 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 December 31, 2013, 58.9% of these mortgages were insured compared to 66.6% at December 31, 2012. At December 31, 2013, 86.1% 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 December 31, 2013, impaired mortgages on these portfolios were \$1.8 million, compared to \$1.0 million at December 31, 2012. Uninsured non-performing mortgages over 90 days on these portfolios were \$0.9 million at December 31, 2013, compared to \$0.6 million at December 31, 2012.

The Company retains certain elements of credit risk on securitized loans. At December 31, 2013, 87.4% 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 \$112.5 million at December 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 \$29.0 million (2012 – \$23.7 million) and \$99.7 million (2012 – \$101.6 million), respectively, at December 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 \$59.0 million (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 \$69.7 million (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 \$3.8 billion, compared to \$3.3 billion at December 31, 2012.

- *Fair value of principal reinvestment account swaps* – which had a negative fair value of \$16.2 million at December 31, 2013 (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 \$1,023.4 million at December 31, 2013 (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 December 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 Canada 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 \$16.8 million at December 31, 2013 (2012 – \$26.5 million) and the outstanding notional amount was \$6.8 billion (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 \$3.6 billion (2012 – \$3.3 billion) and having a negative fair value of \$28.1 million (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 \$3.2 billion (2012 – \$2.4 billion) and having a fair value of \$11.2 million (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 \$46.9 million at December 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 \$0.9 million (2012 – \$4.9 million) on an outstanding notional amount of \$66.0 million at December 31, 2013 (2012 – \$435.0 million). The exposure to credit risk, which is limited to the fair value of swaps in a gain position, was nil at December 31, 2013 compared to \$0.2 million at December 31, 2012.

Interest rate swaps utilized to hedge the Company's interest rate risk associated with its investments in Canada Mortgage Bonds were settled during the third quarter of 2013.

The Company enters into other derivative contracts which consist primarily 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 \$11.5 million on an outstanding notional amount of \$154.0 million at December 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 \$11.5 million at December 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 \$58.4 million (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 \$3.9 million at December 31, 2013 (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 December 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 Notes 2, 6 and 21 to the Consolidated 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 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 December 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' acceptances rates that it receives on its hedges.
- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages 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 value of mortgages held, or committed to, by the Company. The Company enters into interest rate swaps to hedge the interest rate risk related to mortgages held by the Company.

As at December 31, 2013, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$1.6 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 and proprietary investment funds which are classified as fair value through profit or loss, as shown in Table 16. 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 Inc. The Company hedges this risk through the use of forward agreements and total return swaps.

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

At December 31, 2013, IGM Financial's total assets under management were \$131.8 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 23 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.

TABLE 23: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

As at December 31	2013	2012
<b>IGM Financial Inc.</b>		
Investors Group	9.4 %	10.0 %
Mackenzie	16.0 %	17.9 %
Counsel	13.2 %	14.3 %

## 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 third party financial advisors. 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 \$3.1 trillion in discretionary financial assets with financial institutions at December 31, 2012 (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% (\$1.9 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, approximately 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 \$1.1 trillion resided in investment funds at December 31, 2012, 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 \$118 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 September 30, 2013.

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 total mutual fund assets under management at September 30, 2013. 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 and retirement 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

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements and accompanying notes. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the financial services industry; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 2 of the Consolidated Financial Statements.

Critical accounting estimates relate to the fair value of financial instruments, goodwill and intangibles, income taxes, deferred selling commissions, provisions and employee benefits.

The major critical accounting estimates are summarized below:

- *Fair value of financial instruments* – The Company's financial instruments are carried at fair value, except for loans, deposits and certificates, obligations to securitization entities, and long-term debt which are all carried at amortized cost. The fair value of publicly traded financial instruments is determined using published market prices. The fair value of financial instruments where published market prices are not available, including derivatives related to the Company's securitized loans, are determined using various valuation models which maximize the use of observable market inputs where available. Valuation methodologies and assumptions used in valuation models are reviewed on an ongoing basis. Changes in these assumptions or valuation methodologies could result in significant changes in net earnings.

Investments in proprietary mutual funds are classified as available for sale. Unrealized gains and losses on securities are recorded in Other comprehensive income until realized or until there is objective evidence of impairment, at which time they are recorded in the Consolidated Statements of Earnings. Management regularly reviews securities classified as available for sale to assess whether there is objective evidence of impairment. The Company considers such factors as the nature of the investment and the length of time and the extent to which the fair value has been below cost. A significant change

in this assessment may result in unrealized losses being recognized in net earnings. During 2013, the Company assessed the measurement of the available for sale securities and determined there was no impairment in the value of these securities.

- *Goodwill and intangible assets* – Goodwill, indefinite life intangible assets, and definite life intangible assets are reflected in Note 10 of the Consolidated Financial Statements. The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing the recoverable amounts, valuation approaches are used that include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes, discount rates, and capitalization multiples.

The Company completed its annual impairment tests of goodwill and indefinite life intangible assets based on March 31, 2013 financial information and determined there was no impairment in the value of those assets.

- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Earnings. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and income taxes recorded in prior years may be adjusted in the current year to reflect

management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of deferred tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the deferred tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results in this MD&A and in Note 14 to the Consolidated Financial Statements.

- *Deferred selling commissions* – Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2013, there were no indications of impairment to deferred selling commissions.
- *Provisions* – A provision is recognized when there is a present obligation as a result of a past transaction or event, it is “probable” that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. In determining the best estimate for a provision, a single estimate, a weighted average of all possible outcomes, or the midpoint where there is a range of equally possible outcomes are all considered. A significant change in assessment of the likelihood or the best estimate may result in additional adjustments to net earnings.
- *Employee benefits* – The Company maintains a number of employee benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans for certain executive officers (SERPs) and an unfunded post-employment health care and life insurance plan for eligible retirees. The funded registered defined benefit

pension plan provides pensions based on length of service and final average earnings. The measurement date for the Company's defined benefit pension plan assets and for the accrued benefit obligations on all defined benefit plans is December 31.

Due to the long-term nature of these plans, the calculation of the accrued benefit liability depends on various assumptions including discount rates, rates of return on assets, the level and types of benefits provided, healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. All other assumptions are determined by management and reviewed by independent actuaries who calculate the pension and other future benefits expenses and accrued benefit obligations. Actual experience that differs from the actuarial assumptions will result in actuarial gains or losses as well as changes in benefits expense. The Company records actuarial gains and losses on all of its defined benefit plans in Other comprehensive income.

During 2013, the performance of the defined benefit pension plan assets was positively impacted by market conditions. Corporate bond yields increased in 2013 thereby impacting the discount rate used to measure the Company's accrued benefit liability. The discount rate utilized to value the defined benefit pension plan accrued benefit liability at December 31, 2013 was 5.05% compared to 4.45% at December 31, 2012. Pension plan assets increased to \$276.0 million at December 31, 2013 from \$213.9 million at December 31, 2012. The increase in plan assets was due to market performance of \$32.0 million comprised of interest income of \$9.8 million calculated based on the discount rate, which was recorded as a reduction to the pension expense and actuarial gains of \$22.2 million which were recorded in Other comprehensive income. In addition, the assets increased due to the completion of the actuarial valuation for funding purposes related to the Company's registered defined pension plan which resulted in the Company contributing \$36.1 million to the pension plan. The increase in the discount rate utilized to value the defined benefit pension plan obligation resulted in actuarial gains of \$39.1 million which were recorded in Other comprehensive income. Demographic assumptions and experience adjustments were revised based on the actuarial valuation for funding purposes

which resulted in actuarial losses of \$13.4 million and \$15.8 million, respectively. The total defined benefit pension plan obligation was \$319.7 million at December 31, 2013 compared to \$306.5 million at December 31, 2012. As a result of these changes, the defined benefit pension plan had an accrued benefit liability of \$43.7 million at December 31, 2013 compared to \$92.5 million at the end of 2012. The unfunded SERPs and other post-retirement benefits plans had an accrued benefit liability of \$47.1 million and \$44.3 million, respectively, at December 31, 2013 compared to \$46.9 million and \$42.0 million in 2012.

A decrease of 0.25% in the discount rate utilized in 2013 would result in a change of \$14.8 million in the accrued pension obligation, \$13.6 million in other comprehensive income, and \$1.2 million in pension expense. Additional information regarding the Company's accounting and sensitivities related to pensions and other post-retirement benefits is included in Notes 2 and 13 of the Consolidated Financial Statements.

## 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. Additional disclosures have been incorporated into the Company's Consolidated Financial Statements (Notes 2, 4 and 8).

### 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 22 to the Company's Consolidated 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 (loss) from January 1, 2010.

The impact of the change in accounting policy on Comprehensive Income and the Consolidated Balance Sheets are detailed in Table 24. Additional information can be found in Notes 2 and 13 of the Consolidated 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 year ended December 31, 2012.

TABLE 24: IMPACT OF IAS 19 ON FINANCIAL STATEMENTS

### Impact on Comprehensive Income

TWELVE MONTHS ENDED (\$ thousands)	2013 DEC. 31	2012 DEC. 31
<b>Non-commission expenses</b>		
Expected return on plan assets	\$ 5,600	\$ 3,482
Past service costs	588	588
	6,188	4,070
<b>Income taxes</b>	(1,673)	(1,100)
<b>Net earnings</b>	(4,515)	(2,970)
<b>Other comprehensive income</b>		
Employee benefits, net of tax	4,087	2,542
<b>Comprehensive income</b>	\$ (428)	\$ (428)

### Impact on Consolidated Balance Sheets

(\$ thousands)	2013 DEC. 31	2012 DEC. 31	2012 JAN. 1
<b>Assets</b>			
Deferred income taxes	\$ (1,288)	\$ (1,504)	\$ (1,719)
<b>Liabilities and Shareholders' Equity</b>			
Other liabilities	\$ (3,665)	\$ (4,253)	\$ (4,841)
Deferred income taxes	(292)	(348)	(403)
Retained earnings	71,261	95,572	55,761
Accumulated other comprehensive income (loss)	(68,592)	(92,475)	(52,236)
	\$ (1,288)	\$ (1,504)	\$ (1,719)

## 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:

- **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 replaces 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 IASB is expected to establish an effective date once the standard is closer to completion.

### Other

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

<b>IFRS Standard</b>	<b>Expected date of issuance</b>
<b>IFRS 9: Financial Instruments</b>	
Classification and Measurement	Q1/Q2 2014 – Final Standard
Impairment	Q1/Q2 2014 – Exposure Draft
Hedge Accounting – Macro Hedge Accounting	Q1 2014 – Discussion Paper
Leases	Q1 2014 – Redeliberations
Revenue Recognition	Q1 2014 – Final Standard

*Source: IFRS website at [www.ifrs.org](http://www.ifrs.org)*



## Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that (a) material information relating to the Company is made known to the Co-Presidents and Chief Executive Officers and the Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared, and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized

and reported within the time periods specified in securities legislation.

The Company's management, under the supervision of the Co-Presidents and Chief Executive Officers and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluations as of December 31, 2013, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

## Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting.

All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the Co-Presidents and Chief Executive Officers and the Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the Internal Control –

Integrated Framework (COSO 1992 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. Based on their evaluations as of December 31, 2013, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During the fourth 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

IGM Financial enters into transactions with Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), which are all subsidiaries of its affiliate, Lifeco. These transactions are in the normal course of operations and have been recorded at fair value as described below:

- During 2013 and 2012, the Company provided to and received from Great-West certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise.
- The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received \$76.7 million in distribution fees (2012 – \$70.4 million). The Company received \$16.2 million (2012 – \$15.3 million) and paid \$15.5 million (2012 – \$12.6 million) to Great-West and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid \$56.7 million (2012 – \$52.9 million) to London Life related to the distribution of certain mutual funds of the Company.
- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2013, the Company sold residential mortgage loans to Great-West and London Life for \$203.4 million compared to \$231.7 million in 2012.

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

- The Company acquired \$1.25 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 \$1.25 billion of 6.00% secured demand debentures to Power Financial Corporation. Effective December 31, 2013, the Company exercised its legally enforceable right to settle the preferred shares and the debenture on a net basis.

- On January 7, 2014, the Company acquired \$1.67 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$1.67 billion of 4.50% 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.

The preferred shares and debentures and related dividend income and interest expense are offset in the Consolidated Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.

For further information on transactions involving related parties, see Notes 8 and 25 to the Company's Consolidated Financial Statements.

### OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2013 totalled 252,309,767. Outstanding stock options as at December 31, 2013 totalled 7,442,999, of which 2,943,693 were exercisable. As at February 12, 2014, outstanding common shares totalled 252,351,582 and outstanding stock options totalled 7,103,778, of which 2,800,978 were exercisable.

Perpetual preferred shares of \$150 million were outstanding as at December 31, 2013, unchanged at February 12, 2014.

### 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).