

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 three and nine months ended September 30, 2016 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements (Interim

Financial Statements) as well as the 2015 IGM Financial Inc. Annual Report and the 2016 IGM Financial Inc. First and Second Quarter Reports to Shareholders filed on [www.sedar.com](http://www.sedar.com). Commentary in the MD&A as at and for the three and nine months ended September 30, 2016 is as of November 3, 2016.

## BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The Interim Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International

Accounting Standard 34, *Interim Financial Reporting* (IFRS) and are presented in Canadian dollars (Note 2 of the Interim Financial Statements).

### FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect IGM Financial's current expectations. Forward-looking statements are provided 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 "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 to 4.

## 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.

Mutual fund assets under management were \$133.6 billion at September 30, 2016 compared with \$124.9 billion at September 30, 2015. Average mutual fund assets under management for the third quarter of 2016 were \$132.2 billion compared to \$128.6 billion in the third quarter of 2015. Average mutual fund assets under management for the nine months ended September 30, 2016 were \$128.2 billion compared to \$130.0 billion for the nine months ended September 30, 2015.

Total assets under management were \$139.9 billion at September 30, 2016 compared with \$130.9 billion at September 30, 2015, as detailed in Tables 6 and 7. Average total assets under management for the third quarter of 2016 were \$138.3 billion compared to \$134.8 billion in the third quarter of 2015. Average total assets under management for the nine months ended September 30, 2016 were \$134.1 billion compared to \$142.4 billion for the nine months ended September 30, 2015.

Net earnings available to common shareholders for the three months ended September 30, 2016 were \$197.6 million or 82 cents per share compared to net earnings available to common shareholders of \$199.0 million or 81 cents per share for the comparative period in 2015.

Net earnings available to common shareholders for the nine months ended September 30, 2016 were \$537.5 million or \$2.22 per share compared to net earnings available to common shareholders of \$597.8 million or \$2.40 per share for the comparative period in 2015.

Shareholders' equity was \$4.7 billion as at September 30, 2016 compared to \$4.8 billion at December 31, 2015. Return on average common equity based on net earnings for the nine months ended September 30, 2016 was 15.6% compared with 17.0% for the comparative period in 2015. The quarterly dividend per common share declared in the third quarter of 2016 was 56.25 cents, unchanged from the second quarter of 2016.

#### REPORTABLE SEGMENTS

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

- Investors Group
- Mackenzie Investments (Mackenzie Investments or Mackenzie)
- Corporate and Other.

Management measures and evaluates the performance of these segments based on EBIT as shown in Tables 2, 3, and 4. Segment operations are discussed in each of their respective Review of Segment Operating Results sections of the MD&A.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(\$ millions)	THREE MONTHS ENDED			NINE MONTHS ENDED	
	2016 SEP. 30	2016 JUN. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30
<b>EBITDA – Non-IFRS measure</b>	\$ 348.6	\$ 316.0	\$ 347.9	\$ 968.8	\$ 1,046.2
Commission amortization	(58.6)	(59.0)	(57.7)	(177.4)	(174.3)
Amortization of capital assets and intangible assets and other	(11.6)	(11.5)	(10.1)	(34.1)	(31.8)
Interest expense on long-term debt	(23.2)	(22.9)	(23.2)	(69.0)	(68.9)
<b>Earnings before income taxes</b>	255.2	222.6	256.9	688.3	771.2
Income taxes	(55.4)	(47.5)	(55.7)	(144.2)	(166.8)
Perpetual preferred share dividends	(2.2)	(2.2)	(2.2)	(6.6)	(6.6)
<b>Net earnings available to common shareholders – IFRS</b>	\$ 197.6	\$ 172.9	\$ 199.0	\$ 537.5	\$ 597.8

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q3 2016 VS. Q3 2015

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30
<b>Revenues</b>								
Fee income	\$ 465.6	\$ 442.4	\$ 196.6	\$ 200.6	\$ 65.1	\$ 62.8	\$ 727.3	\$ 705.8
Net investment income and other	19.1	16.8	1.8	0.7	28.2	28.4	49.1	45.9
	484.7	459.2	198.4	201.3	93.3	91.2	776.4	751.7
<b>Expenses</b>								
Commission	155.4	144.9	73.6	75.3	44.1	43.0	273.1	263.2
Non-Commission	130.9	123.7	78.8	71.5	15.2	13.2	224.9	208.4
	286.3	268.6	152.4	146.8	59.3	56.2	498.0	471.6
<b>Earnings before interest and taxes</b>	\$ 198.4	\$ 190.6	\$ 46.0	\$ 54.5	\$ 34.0	\$ 35.0	278.4	280.1
Interest expense							(23.2)	(23.2)
Earnings before income taxes							255.2	256.9
Income taxes							55.4	55.7
<b>Net earnings</b>							199.8	201.2
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							\$ 197.6	\$ 199.0

TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – YTD 2016 VS. YTD 2015

NINE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30
<b>Revenues</b>								
Fee income	\$ 1,343.5	\$ 1,328.1	\$ 570.8	\$ 613.3	\$ 190.2	\$ 188.9	\$ 2,104.5	\$ 2,130.3
Net investment income and other	51.5	52.5	3.3	4.9	84.3	88.1	139.1	145.5
	1,395.0	1,380.6	574.1	618.2	274.5	277.0	2,243.6	2,275.8
<b>Expenses</b>								
Commission	455.0	437.3	217.5	230.6	129.3	129.9	801.8	797.8
Non-Commission	404.4	372.1	234.0	222.2	46.1	43.6	684.5	637.9
	859.4	809.4	451.5	452.8	175.4	173.5	1,486.3	1,435.7
<b>Earnings before interest and taxes</b>	\$ 535.6	\$ 571.2	\$ 122.6	\$ 165.4	\$ 99.1	\$ 103.5	757.3	840.1
Interest expense							(69.0)	(68.9)
Earnings before income taxes							688.3	771.2
Income taxes							144.2	166.8
<b>Net earnings</b>							544.1	604.4
Perpetual preferred share dividends							6.6	6.6
<b>Net earnings available to common shareholders</b>							\$ 537.5	\$ 597.8

TABLE 4: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q3 2016 VS. Q2 2016

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2016 SEP. 30	2016 JUN. 30	2016 SEP. 30	2016 JUN. 30	2016 SEP. 30	2016 JUN. 30	2016 SEP. 30	2016 JUN. 30
<b>Revenues</b>								
Fee income	\$ 465.6	\$ 446.2	\$ 196.6	\$ 188.8	\$ 65.1	\$ 63.1	\$ 727.3	\$ 698.1
Net investment income and other	19.1	18.6	1.8	1.2	28.2	26.5	49.1	46.3
	484.7	464.8	198.4	190.0	93.3	89.6	776.4	744.4
<b>Expenses</b>								
Commission	155.4	152.2	73.6	72.2	44.1	42.8	273.1	267.2
Non-Commission	130.9	138.5	78.8	77.6	15.2	15.6	224.9	231.7
	286.3	290.7	152.4	149.8	59.3	58.4	498.0	498.9
<b>Earnings before interest and taxes</b>	\$ 198.4	\$ 174.1	\$ 46.0	\$ 40.2	\$ 34.0	\$ 31.2	278.4	245.5
Interest expense							(23.2)	(22.9)
Earnings before income taxes							255.2	222.6
Income taxes							55.4	47.5
<b>Net earnings</b>							199.8	175.1
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							\$ 197.6	\$ 172.9

Certain items reflected in Tables 2, 3, and 4 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt.
- *Income taxes* – changes in the effective tax rates are shown in Table 5.

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 is 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 5: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			NINE MONTHS ENDED	
	2016 SEP. 30	2016 JUN. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30
<b>Income taxes at Canadian federal and provincial statutory rates</b>	26.84 %	26.85 %	26.72 %	26.84 %	26.72 %
Effect of:					
Proportionate share of affiliate's earnings	(2.75)	(2.89)	(2.76)	(3.04)	(2.85)
Loss consolidation <sup>(1)</sup>	(2.39)	(2.71)	(2.38)	(2.64)	(2.34)
Other items	–	0.07	0.09	(0.21)	0.09
<b>Effective income tax rate – net earnings</b>	21.70 %	21.32 %	21.67 %	20.95 %	21.62 %

(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 \$139.9 billion at September 30, 2016 compared to \$130.9 billion at September 30, 2015. Changes in total assets under management are detailed in Tables 6 and 7.

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 6: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q3 2016 VS. Q3 2015

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30
<b>Mutual funds</b>								
Gross sales – money market	\$ 257	\$ 274	\$ 107	\$ 84	\$ 7	\$ 15	\$ 373	\$ 373
Gross sales – long-term	1,369	1,536	1,544	1,401	170	170	3,081	3,099
Total mutual fund gross sales	\$ 1,626	\$ 1,810	\$ 1,651	\$ 1,485	\$ 177	\$ 185	\$ 3,454	\$ 3,472
Net sales – money market	\$ 67	\$ 113	\$ 10	\$ 15	\$ 5	\$ 11	\$ 81	\$ 139
Net sales – long-term	(261)	26	(80)	(195)	30	43	(311)	(130)
Total mutual fund net sales	\$ (194)	\$ 139	\$ (70)	\$ (180)	\$ 35	\$ 54	\$ (230)	\$ 9
<b>Sub-advisory, institutional and other accounts<sup>(2)</sup></b>								
Gross sales	\$ –	\$ –	\$ 786	\$ 1,138	\$ –	\$ –	\$ 401	\$ 319
Net sales	–	–	125	54	–	–	124	(101)
<b>Combined<sup>(2)</sup></b>								
Gross sales	\$ 1,626	\$ 1,810	\$ 2,437	\$ 2,623	\$ 177	\$ 185	\$ 3,855	\$ 3,791
Net sales	(194)	139	55	(126)	35	54	(106)	(92)
<b>Change in total assets under management</b>								
Net sales	\$ (194)	\$ 139	\$ 55	\$ (126)	\$ 35	\$ 54	\$ (106)	\$ (92)
Market and income	2,883	(2,451)	2,551	(2,608)	134	(102)	5,292	(4,956)
Net change in assets	2,689	(2,312)	2,606	(2,734)	169	(48)	5,186	(5,048)
Beginning assets	76,203	75,844	61,667	63,025	4,316	4,053	134,681	135,971
<b>Ending assets</b>	<b>\$ 78,892</b>	<b>\$ 73,532</b>	<b>\$ 64,273</b>	<b>\$ 60,291</b>	<b>\$ 4,485</b>	<b>\$ 4,005</b>	<b>\$139,867</b>	<b>\$130,923</b>

(1) Total Gross Sales and Net Sales excluded \$385 million and \$2 million, respectively, in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$827 million and \$159 million in 2015).

Total assets under management excluded \$7.8 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$6.9 billion at September 30, 2015).

(2) Mackenzie gross sales and net sales include Exchange Traded Funds (ETFs) net creations of \$25 million in the third quarter of 2016.

TABLE 7: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2016 VS. 2015

NINE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30
<b>Mutual funds<sup>(2)</sup></b>								
Gross sales – money market	\$ 835	\$ 808	308	297	35	49	\$ 1,179	\$ 1,154
Gross sales – long-term	4,836	5,261	4,678	5,016	617	489	10,130	10,747
Total mutual fund gross sales	\$ 5,671	\$ 6,069	\$ 4,986	\$ 5,313	\$ 652	\$ 538	\$ 11,309	\$ 11,901
Net sales – money market	\$ 253	\$ 281	45	66	24	38	322	\$ 385
Net sales – long-term	(148)	473	(688)	(897)	121	97	(715)	(336)
Total mutual fund net sales	\$ 105	\$ 754	\$ (643)	\$ (831)	\$ 145	\$ 135	\$ (393)	\$ 49
<b>Sub-advisory, institutional and other accounts<sup>(3)</sup></b>								
Gross sales	\$ –	\$ –	\$ 3,147	4,032	\$ –	\$ –	\$ 1,737	\$ 1,837
Net sales <sup>(4)</sup>	–	–	20	(9,398)	–	–	(148)	(9,979)
<b>Combined<sup>(2)(3)(4)</sup></b>								
Gross sales	\$ 5,671	\$ 6,069	\$ 8,133	\$ 9,345	\$ 652	\$ 538	\$ 13,046	\$ 13,738
Net sales	105	754	(623)	(10,229)	145	135	(541)	(9,930)
<b>Change in total assets under management</b>								
Net sales	\$ 105	\$ 754	\$ (623)	\$ (10,229)	\$ 145	\$ 135	\$ (541)	\$ (9,930)
Market and income	3,890	(681)	3,243	(356)	162	20	6,760	(1,066)
Net change in assets	3,995	73	2,620	(10,585)	307	155	6,219	(10,996)
Beginning assets	74,897	73,459	61,653	70,876	4,178	3,850	133,648	141,919
<b>Ending assets</b>	<b>\$ 78,892</b>	<b>\$ 73,532</b>	<b>\$ 64,273</b>	<b>\$ 60,291</b>	<b>\$ 4,485</b>	<b>\$ 4,005</b>	<b>\$ 139,867</b>	<b>\$ 130,923</b>

(1) Total Gross Sales and Net Sales excluded \$1.4 billion and \$168 million, respectively, in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$2.2 billion and \$590 million in 2015).

Total assets under management excluded \$7.8 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$6.9 billion at September 30, 2015).

(2) During the nine months ended September 30, 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$141 million, redemptions of \$597 million and net redemptions of \$456 million.

(3) Mackenzie gross sales and net sales include Exchange Traded Funds (ETFs) net creations of \$70 million in the nine months ended September 30, 2016.

(4) During the nine months ended September 30, 2015, MD Financial Management reassigned sub-advisory responsibilities on four fixed income mandates (totalling \$10.3 billion) advised by Mackenzie.

## SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 8 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Changes in average daily mutual fund assets under management over the eight most recent quarters, as shown in Table 8, largely reflect changes in domestic and foreign markets.

TABLE 8: SUMMARY OF QUARTERLY RESULTS

	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4
<b>Consolidated statements of earnings (\$ millions)</b>								
Revenues								
Management fees	\$ 518.3	\$ 497.4	\$ 483.8	\$ 504.1	\$ 508.5	\$ 517.3	\$ 509.1	\$ 507.4
Administration fees	107.9	104.4	100.3	104.7	104.6	106.0	102.3	100.7
Distribution fees	101.1	96.3	95.0	97.0	92.7	95.3	94.5	87.7
Net investment income and other	49.1	46.3	43.7	49.7	45.9	44.6	55.0	46.2
	776.4	744.4	722.8	755.5	751.7	763.2	760.9	742.0
Expenses								
Commission	273.1	267.2	261.5	264.3	263.2	267.7	266.9	253.9
Non-commission	224.9	231.7	227.9	214.5	208.4	215.9	213.6	198.8
Interest	23.2	22.9	22.9	23.2	23.2	22.9	22.8	23.3
	521.2	521.8	512.3	502.0	494.8	506.5	503.3	476.0
Earnings before undernoted Restructuring and other charges	255.2	222.6	210.5	253.5	256.9	256.7	257.6	266.0
Client distributions and other costs	-	-	-	(33.9)	-	-	-	-
	-	-	-	-	-	-	-	(81.0)
Earnings before income taxes	255.2	222.6	210.5	219.6	256.9	256.7	257.6	185.0
Income taxes	55.4	47.5	41.3	43.5	55.7	56.0	55.1	33.9
Net earnings	199.8	175.1	169.2	176.1	201.2	200.7	202.5	151.1
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	\$ 197.6	\$ 172.9	\$ 167.0	\$ 173.9	\$ 199.0	\$ 198.5	\$ 200.3	\$ 148.9
<b>Reconciliation of Non-IFRS financial measures<sup>(1)</sup> (\$ millions)</b>								
Operating earnings available to common shareholders – non-IFRS measure								
	\$ 197.6	\$ 172.9	\$ 167.0	\$ 198.2	\$ 199.0	\$ 198.5	\$ 200.3	\$ 208.1
Other items:								
Restructuring and other charges, net of tax	-	-	-	(24.3)	-	-	-	-
Client distributions and other costs, net of tax	-	-	-	-	-	-	-	(59.2)
Net earnings available to common shareholders – IFRS	\$ 197.6	\$ 172.9	\$ 167.0	\$ 173.9	\$ 199.0	\$ 198.5	\$ 200.3	\$ 148.9
<b>Earnings per Share (c)</b>								
Operating earnings available to common shareholders <sup>(1)</sup>								
– Basic	82	72	69	81	81	80	80	83
– Diluted	82	72	69	81	81	80	80	83
Net earnings available to common shareholders								
– Basic	82	72	69	71	81	80	80	59
– Diluted	82	72	69	71	81	80	80	59
<b>Average daily mutual fund assets (\$ billions)</b>	\$ 132.2	\$ 127.9	\$ 124.4	\$ 127.8	\$ 128.6	\$ 131.4	\$ 129.9	\$ 124.6
<b>Total mutual fund assets under management (\$ billions)</b>	\$ 133.6	\$ 128.7	\$ 127.1	\$ 127.5	\$ 124.9	\$ 129.7	\$ 131.5	\$ 126.0
<b>Total assets under management (\$ billions)</b>	\$ 139.9	\$ 134.7	\$ 132.9	\$ 133.6	\$ 130.9	\$ 136.0	\$ 148.4	\$ 141.9

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



## INVESTORS GROUP

### REVIEW OF THE BUSINESS

#### INVESTORS GROUP STRATEGY

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

- Strengthening our distribution network by 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 directly benefit 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. This approach is consistent with studies in recent years which indicate that client households receiving advice from a financial advisor have higher assets than non-advised households, and that this advantage increases based on the length of the relationship with the financial advisor. At the centre of these relationships is a national distribution network of Consultants based in 114 region offices across Canada.

At September 30, 2016, Investors Group had a Consultant network of 5,380, up from 5,221 at September 30, 2015.

The individuals in the Consultant network with more than four years of Investors Group experience were 2,848 at September 30, 2016 compared to 2,828 a year earlier. As new Consultants gain more experience and tenure, there is typically an increase in sales productivity. For example, the average level of investment fund gross sales per Consultant with greater than four years experience is five times that of a Consultant with less than four years.

At September 30, 2016, 1,581 individuals in our Consultant network held the Certified Financial Planner (CFP) designation or its Quebec equivalent, the Financial Planner (F.PI.) designation. In addition, there are 1,111 individuals enrolled in these programs to gain these designations. The total of 2,692 of those studying to be or qualified as CFP or F.PI. is up 34% from 2,016 at September 30,

2015. The CFP and F.PI. designations are nationally accepted financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards.

#### 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 over 200 employees and operating units for most functions supporting approximately 1,100 Consultants throughout Quebec and the 21 Quebec region offices. Mutual fund assets under management in Quebec were approximately \$13 billion as at September 30, 2016.

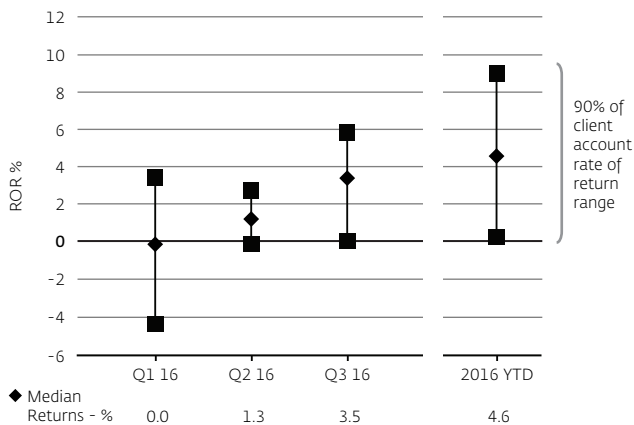
#### NEW DEALER PLATFORM

A new dealer platform is scheduled to be introduced in the fourth quarter of 2016 which will deliver an enhanced service experience to Consultants and clients. This new dealer platform will allow us to internalize carrying broker functionality and client statement preparation for Investment Industry Regulatory Organization of Canada (IIROC) and Mutual Fund Dealers Association of Canada (MFDA) nominee accounts which are currently performed by a third party service provider, as well as provide increased automation of transaction activity. This platform will also support the introduction of new IIROC based products designed to support the high net worth segment of our client base. The new platform is expected to result in efficiencies over the long term.

#### QUARTERLY STATEMENTS

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 having different composition of their portfolios in each quarter as illustrated on the accompanying charts. The first chart reflects in-quarter client account median rates of return for the current year. The second chart reflects the client account median rates

**CLIENT ACCOUNT RATE OF RETURN (ROR) EXPERIENCE  
QUARTERLY AND YEAR TO DATE RETURNS**



of return based on one, three and five year timeframes as at September 30, 2016. Both charts also illustrate upper and lower ranges of rates of return around the median for 90% of Investors Group client accounts.

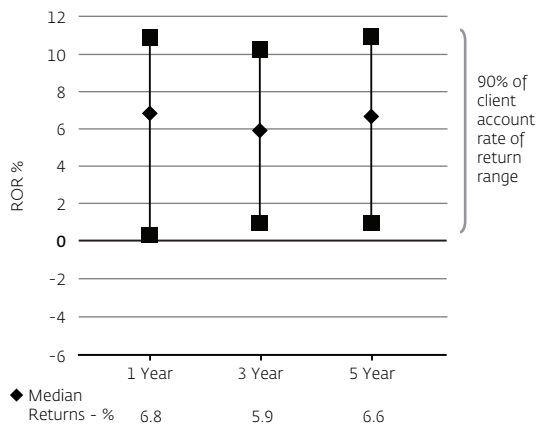
For the three months ended September 30, 2016, the client account median rate of return was approximately 3.5% and 98% of client accounts experienced positive returns. For the nine months ended September 30, 2016, the client account median rate of return was approximately 4.6% and 96% of client accounts experienced positive returns.

**CLIENT PERFORMANCE AND  
RATE OF RETURN REPORTING**

Investors Group has long believed that providing our clients with personal account level performance and rate of return information over multiple time periods is a meaningful benefit to our clients and further demonstrates the value provided through advice over the history of our client relationships. That is why in 2009 we took initial steps to develop this information for clients and we began capturing the necessary information to calculate account level money-weighted internal rates of return.

Beginning with the June 30, 2015 client statement period, we added quarterly multiple-period account rate of return reporting to most Investors Group's client statements. This important component of the rules adopted by the Canadian Securities Administrators as Phase 2 of the Client Relationship Model (CRM2) was implemented by Investors Group two years before the required deadline. Our clients now have a multiple-period view of their performance, including one year, three year and five year rates of return.

**CLIENT ACCOUNT RATE OF RETURN (ROR) EXPERIENCE  
AS AT SEPTEMBER 30, 2016**



**CLIENT EXPERIENCE SURVEY**

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 and service provided by our Consultants through varying economic cycles.

The results of the surveys for the four quarters ending September 30, 2016 are detailed in Table 9.

**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 10.

**FUND PERFORMANCE**

At September 30, 2016, 47.5% of Investors Group mutual funds had a rating of three stars or better from the Morningstar<sup>†</sup> fund ranking service and 15.1% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 63.3% for three stars or better and 27.3% for four and five star funds at September 30, 2016. 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.

**CHANGES 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 and other product changes that are well-suited to the long-term diverse needs of Canadian investors.

TABLE 9: CLIENT EXPERIENCE SURVEY – INVESTORS GROUP

Surveys completed for the four quarters ending September 30, 2016

<b>New client households surveyed 90 days after account opening</b>		
Satisfied with service		96 %
Offered a financial plan		92
Satisfied with discussion about goals and concerns		96
Willing to refer		93
<b>Client households with 12+ months tenure</b>		
Satisfied with service		92 %
Have a financial plan		85
Satisfied with level of contact		92
Willing to refer		87

TABLE 10: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 SEP. 30	2016 JUN. 30	2015 SEP. 30	2016 JUN. 30	2015 SEP. 30
Sales	\$ 1,626	\$ 1,778	\$ 1,810	(8.5) %	(10.2) %
Redemptions	1,820	1,946	1,671	(6.5)	8.9
<b>Net sales (redemptions)</b>	(194)	(168)	139	(15.5)	N/M
Market and income	2,883	1,148	(2,451)	151.1	N/M
Net change in assets	2,689	980	(2,312)	174.4	N/M
Beginning assets	76,203	75,223	75,844	1.3	0.5
<b>Ending assets</b>	\$ 78,892	\$ 76,203	\$ 73,532	3.5 %	7.3 %
<b>Average daily assets</b>	\$ 78,139	\$ 75,803	\$ 75,361	3.1 %	3.7 %
NINE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 SEP. 30	2015 SEP. 30			
Sales		\$ 5,671	\$ 6,069		(6.6) %
Redemptions		5,566	5,315		4.7
<b>Net sales (redemptions)</b>		105	754		(86.1)
Market and income		3,890	(681)		N/M
Net change in assets		3,995	73		N/M
Beginning assets		74,897	73,459		2.0
<b>Ending assets</b>		\$ 78,892	\$ 73,532		7.3 %
<b>Average daily assets</b>		\$ 75,839	\$ 75,866		– %

Effective January 1, 2017, Investors Group will be discontinuing the deferred sales charge purchase option for its mutual funds and, at the same time, fees on no-load series will be reduced.

Beginning in 2017, clients will be able to purchase no-load funds at an annualized fee reduction of between 4 and 10 basis points on the majority of Investors Group mutual funds. This will be an annualized weighted average annual fee reduction of approximately 8 basis points on the \$11.4 billion in assets under management currently residing within the affected no-load series.

### **HIGH NET WORTH OFFERINGS**

High net worth clients represent a growing segment of our client base. Investors Group has several offerings to address the needs of high net worth clients and continues to look at ways to provide further offerings to this segment.

#### ***Pricing for Households with Investment Assets in Excess of \$500,000***

Investors Group has investment solutions with differentiated pricing for households with investments in Investors Group funds in excess of \$500,000.

- Series J had assets of \$24.4 billion at September 30, 2016, an increase of 8.8% from \$22.4 billion at September 30, 2015.
- Series U provides a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At September 30, 2016, Series U assets under management had increased to \$4.3 billion, compared to \$3.3 billion at September 30, 2015, an increase of 32.1%.

In September 2015, Investors Group provided distributions to clients who had not transferred to these lower priced solutions when they were eligible, up to the earlier of when they transferred or to April 30, 2015.

#### ***iProfile™***

This is a unique portfolio management program, launched in 2001, that is available for households with assets held at Investors Group in excess of \$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 *iProfile* program has a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds.

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, Baring International Investment

Limited, Laketon Investment Management, Putnam Investments Canada ULC, PanAgora Asset Management, Inc., Aristotle Capital Boston, LLC, and Lazard Asset Management LLC.

At September 30, 2016, the *iProfile* program assets under management were \$1.9 billion, an increase of 38.1% from \$1.4 billion at September 30, 2015.

#### ***Unbundled Fee Structures***

A growing portion of Investors Group's client assets are in Series U and *iProfile*, which are products with unbundled fee structures where a separate advisory fee is charged to the client account by the dealer. At September 30, 2016, \$6.2 billion, or 8.0% of Investors Group's mutual fund assets under management, were in products with unbundled fee structures, up 33.9% from \$4.7 billion at September 30, 2015.

### **CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – 2016 VS. 2015**

Investors Group's mutual fund assets under management were \$78.9 billion at September 30, 2016, representing an increase of 7.3% from \$73.5 billion at September 30, 2015. Average daily mutual fund assets were \$78.1 billion in the third quarter of 2016, up 3.7% from \$75.4 billion in the third quarter of 2015.

For the quarter ended September 30, 2016, sales of Investors Group mutual funds through its Consultant network were \$1.6 billion, a decrease of 10.2% from the comparative period in 2015. Mutual fund redemptions totalled \$1.8 billion, an increase of 8.9% from 2015. Investors Group mutual fund net redemptions for the third quarter of 2016 were \$194 million compared with net sales of \$139 million in 2015. During the third quarter, market and income resulted in an increase of \$2.9 billion in mutual fund assets compared to a decrease of \$2.5 billion in the third quarter of 2015.

Sales of long-term funds were \$1.4 billion for the third quarter of 2016, a decrease of 10.9% from the previous year. Net redemptions of long-term funds for the third quarter of 2016 were \$261 million compared to net sales of \$26 million in 2015.

Investors Group's annualized quarterly redemption rate for long-term funds was 8.5% in the third quarter of 2016 compared to 8.1% in the third quarter of 2015. Investors Group's twelve month trailing redemption rate for long-term funds was 8.9% at September 30, 2016 compared to 8.4% at September 30, 2015, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 15.5% at September 30, 2016.

For the nine months ended September 30, 2016, sales of Investors Group mutual funds through its Consultant network were \$5.7 billion, a decrease of 6.6% from 2015. Mutual fund

redemptions totalled \$5.6 billion, an increase of 4.7% from 2015. Net sales of Investors Group mutual funds were \$105 million compared with net sales of \$754 million in 2015. Sales of long-term funds for the nine month period in 2016 were \$4.8 billion compared with \$5.3 billion in 2015, a decrease of 8.1%. Net redemptions of long-term funds were \$148 million compared to net sales of \$473 million in 2015. During 2016, market and income resulted in an increase of \$3.9 billion in mutual fund assets compared to a decrease of \$681 million in 2015.

#### **CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – Q3 2016 VS. Q2 2016**

Investors Group's mutual fund assets under management were \$78.9 billion at September 30, 2016, an increase of 3.5% from \$76.2 billion at June 30, 2016. Average daily mutual fund assets were \$78.1 billion in the third quarter of 2016 compared to \$75.8 billion in the second quarter of 2016, an increase of 3.1%.

For the quarter ended September 30, 2016, sales of Investors Group mutual funds through its Consultant network were \$1.6 billion, a decrease of 8.5% from the second quarter of 2016. Mutual fund redemptions, which totalled \$1.8 billion for the third quarter, decreased 6.5% from the previous quarter and the annualized quarterly redemption rate was 8.5% in the third quarter compared to 9.4% in the second quarter of 2016. Investors Group mutual fund net redemptions were \$194 million for the current quarter and compared to net redemptions of \$168 million in the previous quarter. Sales of long-term funds were \$1.4 billion for the current quarter compared to \$1.5 billion in the previous quarter. Net redemptions of long-term funds for the current quarter were \$261 million compared to net redemptions of \$242 million in the previous quarter.

#### **OTHER PRODUCTS AND SERVICES**

##### **SEGREGATED FUNDS**

Investors Group offers segregated funds which include the Investors Group Series of Guaranteed Investment Funds (GIFs). GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and six 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 September 30, 2016, total segregated fund assets were \$1.8 billion compared to \$1.6 billion at September 30, 2015.

#### **INSURANCE**

Investors Group distributes insurance products through I.G. Insurance Services Inc. For the quarter ended September 30, 2016, sales of insurance products as measured by new annualized premiums were \$22 million, an increase of 33.7% from \$16 million in 2015. For the nine months ended September 30, 2016, sales of insurance products as measured by new annualized premiums were \$60 million, an increase of 15.2% from \$52 million in 2015.

#### **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 Planning Specialists available through Investors Group Securities Inc.

We have continued to enhance our services to accommodate individual securities owned by our clients within their financial plan. This has involved further development of our systems and additional Securities Planning Specialists who work alongside our Consultants and are licensed to advise on individual securities. Consultants who have their registration with the Investment Industry Regulatory Organization of Canada (IIROC) continued to operate in our established business model which has a managed asset focus delivered within a financial planning context.

The introduction of the new IIROC platform in the fourth quarter of 2016 and new products scheduled to be introduced, including separately managed accounts and fee-based accounts, will enable more Consultants to transition their registration to IIROC.

#### **MORTGAGE OPERATIONS**

Investors Group is a national mortgage lender that offers residential mortgages to Investors Group 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.

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 also include certain bank-sponsored asset-backed commercial paper (ABCP) programs. Residential mortgages are also held by Investors Group's intermediary operations.

Mortgage fundings for the three and nine months ended September 30, 2016, were \$565 million and \$1.7 billion, compared to \$547 million and \$1.5 billion in 2015, an increase of 3.3% and 10.6%, respectively. At September 30, 2016, mortgages serviced by Investors Group related to its mortgage banking operations totalled \$10.9 billion, compared to \$10.3 billion at September 30, 2015, an increase of 6.2%.

#### **SOLUTIONS BANKING†**

Investors Group's Solutions Banking† 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. In April 2015, a new All-in-One product was introduced. This product is a comprehensive cash management solution that

integrates the features of a mortgage, term loan, revolving line of credit and deposit account to meet the needs of our clients while minimizing overall interest costs. Clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking† offering supports Investors Group's approach to delivering total financial solutions for our clients through a broad financial planning platform. Total lending products of Investors Group clients in the Solutions Banking† offering totaled \$3.1 billion at September 30, 2016.

Available credit associated with Solutions Banking† All-in-One accounts originated for the quarter ended September 30, 2016 was \$182 million, compared to \$237 million in 2015. At September 30, 2016, the balance outstanding of Solutions Banking All-in-One products was \$1.7 billion, which represented approximately 45% of total available credit associated with these accounts.

#### **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 11.

### 2016 VS. 2015

#### 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 \$331.7 million in the third quarter of 2016, an increase of \$12.4 million or 3.9% from \$319.3 million in 2015. For the nine months ended September 30, 2016, management fees were \$958.2 million, a decrease of \$0.8 million or 0.1% from \$959.0 million in 2015.

The net increase in management fees in the three months ended September 30, 2016 was primarily due to the increase in average daily mutual fund assets of 3.7%, as shown in Table 10. The average management fee rate in the third quarter of 2016 was 168.4 basis points of daily mutual fund assets compared to 168.6 basis points in 2015.

TABLE 11: OPERATING RESULTS – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 SEP. 30	2016 JUN. 30	2015 SEP. 30	2016 JUN. 30	2015 SEP. 30
<b>Revenues</b>					
Management fees	\$ 331.7	\$ 318.3	\$ 319.3	4.2 %	3.9 %
Administration fees	79.2	76.5	76.1	3.5	4.1
Distribution fees	54.7	51.4	47.0	6.4	16.4
	465.6	446.2	442.4	4.3	5.2
Net investment income and other	19.1	18.6	16.8	2.7	13.7
	484.7	464.8	459.2	4.3	5.6
<b>Expenses</b>					
Commission	83.6	82.1	76.6	1.8	9.1
Asset retention bonus and premium	71.8	70.1	68.3	2.4	5.1
Non-commission	130.9	138.5	123.7	(5.5)	5.8
	286.3	290.7	268.6	(1.5)	6.6
<b>Earnings before interest and taxes</b>	<b>\$ 198.4</b>	<b>\$ 174.1</b>	<b>\$ 190.6</b>	<b>14.0 %</b>	<b>4.1 %</b>
<b>NINE MONTHS ENDED (\$ millions)</b>					
			2016 SEP. 30	2015 SEP. 30	% CHANGE
<b>Revenues</b>					
Management fees			\$ 958.2	\$ 959.0	(0.1) %
Administration fees			229.3	226.4	1.3
Distribution fees			156.0	142.7	9.3
			1,343.5	1,328.1	1.2
Net investment income and other			51.5	52.5	(1.9)
			1,395.0	1,380.6	1.0
<b>Expenses</b>					
Commission			244.7	230.8	6.0
Asset retention bonus and premium			210.3	206.5	1.8
Non-commission			404.4	372.1	8.7
			859.4	809.4	6.2
<b>Earnings before interest and taxes</b>			<b>\$ 535.6</b>	<b>\$ 571.2</b>	<b>(6.2) %</b>



The net decrease in management fees in the nine months ended September 30, 2016 was primarily due to the decline in the average management fee rate. The average management fee rate was 168.5 basis points of daily mutual fund assets for the nine month period ended September 30, 2016 compared to 169.3 basis points in 2015. The decline in basis points resulted primarily from transfers of eligible clients into lower fee investment solutions. Average daily mutual fund assets for the nine months ended September 30, 2016 were consistent with the comparable period in 2015, as shown in Table 10.

Management fees were also impacted by an increase of \$0.9 million and \$4.3 million in fee income in the three and nine month periods, respectively, due to one more calendar day in 2016 compared to 2015.

Management fee income and average management fee rates for both periods also reflected the effect of Investors Group having waived a portion of the investment management fees on its money market funds. For the three and nine month periods in 2016, these waivers totalled \$1.1 million and \$3.4 million, respectively, compared to \$1.1 million and \$2.7 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 \$79.2 million in the current quarter compared to \$76.1 million a year ago, an increase of 4.1%. Administration fees were \$229.3 million for the nine month period ended September 30, 2016 compared to \$226.4 million in 2015, an increase of 1.3%. The increase in both periods resulted primarily from changes in average mutual fund assets under management.

Distribution fees are 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 \$54.7 million for the third quarter of 2016 increased by \$7.7 million from \$47.0 million in 2015. For the nine month period, distribution fee income of \$156.0 million increased by \$13.3 million from \$142.7 million in 2015. The increase in both periods was due to increases in distribution fee income from insurance products and redemption fees.

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 and net interest income related to intermediary operations.

Net investment income and other was \$19.1 million in the third quarter of 2016, an increase of \$2.3 million from \$16.8 million in 2015. For the nine months ended September 30, 2016, net investment income and other totalled \$51.5 million, a decrease of \$1.0 million from \$52.5 million in 2015.

Net investment income related to Investors Group's mortgage banking operations totalled \$18.1 million for the third quarter of 2016 compared to \$17.9 million in 2015, an increase of \$0.2 million. For the nine months ended September 30, 2016, net investment income related to Investors Group's mortgage banking operations totalled \$50.0 million compared to \$53.6 million in 2015, a decrease of \$3.6 million. A summary of mortgage banking operations for the three and nine month periods under review is presented in Table 12. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – increased by \$2.1 million and \$8.4 million for the three and nine month periods ended September 30, 2016 to \$16.5 million and \$47.9 million, respectively, compared to 2015. The increase resulted from higher volumes and margins on securitized loans.
- Gains realized on the sale of residential mortgages – decreased by \$0.1 million and \$4.0 million for the three and nine month periods ended September 30, 2016 to \$4.6 million and \$12.9 million, respectively, compared to 2015. The decrease in gains in the nine month period resulted from lower sales activity and lower margins.
- Fair value adjustments – increased by \$1.2 million and decreased by \$5.4 million for the three and nine month periods ended September 30, 2016 to (\$0.1) million and (\$4.4) million, respectively, compared to 2015. The increase during the three month period was primarily due to unfavourable fair value adjustments in 2015 on interest rate swaps used to hedge interest rate risk on loans held temporarily pending sale or securitization to third parties. The decrease during the nine month period was primarily due to favorable fair value adjustments in 2015 on certain securitization related financial instruments.

#### **EXPENSES**

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services



TABLE 12: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2016 SEP. 30	2016 JUN. 30	2015 SEP. 30	% CHANGE	
				2016 JUN. 30	2015 SEP. 30
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income	\$ 49.3	\$ 48.1	\$ 46.8	2.5 %	5.3 %
Interest expense	32.8	31.6	32.4	3.8	1.2
Net interest income	16.5	16.5	14.4	–	14.6
Gains on sales <sup>(1)</sup>	4.6	5.6	4.7	(17.9)	(2.1)
Fair value adjustments	(0.1)	(2.5)	(1.3)	96.0	92.3
Other <sup>(2)</sup>	(2.9)	(1.8)	0.1	(61.1)	N/M
	\$ 18.1	\$ 17.8	\$ 17.9	1.7 %	1.1 %
<b>Average mortgages serviced</b>					
Securitized	\$ 7,375	\$ 7,130	\$ 6,573	3.4 %	12.2 %
Other	3,521	3,532	3,682	(0.3)	(4.4)
	\$ 10,896	\$ 10,662	\$ 10,255	2.2 %	6.3 %
<b>Mortgage sales to:<sup>(3)</sup></b>					
Securitized	\$ 560	\$ 995	\$ 800	(43.7) %	(30.0) %
Other <sup>(1)</sup>	284	317	282	(10.4)	0.7
	\$ 844	\$ 1,312	\$ 1,082	(35.7) %	(22.0) %
<b>NINE MONTHS ENDED</b>					
(\$ millions)			2016 SEP. 30	2015 SEP. 30	% CHANGE
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income			\$ 143.8	\$ 141.0	2.0 %
Interest expense			95.9	101.5	(5.5)
Net interest income			47.9	39.5	21.3
Gains on sales <sup>(1)</sup>			12.9	16.9	(23.7)
Fair value adjustments			(4.4)	1.0	N/M
Other <sup>(2)</sup>			(6.4)	(3.8)	(68.4)
			\$ 50.0	\$ 53.6	(6.7) %
<b>Average mortgages serviced</b>					
Securitized			\$ 7,126	\$ 6,552	8.8 %
Other			3,556	3,540	0.5
			\$ 10,682	\$ 10,092	5.8 %
<b>Mortgage sales to:<sup>(3)</sup></b>					
Securitized			\$ 2,165	\$ 1,785	21.3 %
Other <sup>(1)</sup>			818	924	(11.5)
			\$ 2,983	\$ 2,709	10.1 %

(1) 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.

(2) Represents mortgage issuance and insurance costs, interest earned on warehoused mortgages, and servicing and other.

(3) Represents principal amounts sold.

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 \$83.6 million for the third quarter of 2016, an increase of \$7.0 million from \$76.6 million in 2015. For the nine month period, commission expense increased by \$13.9 million to \$244.7 million compared with \$230.8 million in 2015. The increase in both periods resulted primarily from higher mutual fund commission amortization, higher write-offs of the unamortized balance of deferred selling commissions associated with redemptions, and 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 assets under management, increased by \$3.1 million and \$2.5 million for the three and nine month periods ended September 30, 2016 to \$60.2 million and \$175.4 million, respectively, compared to 2015.
- 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 \$0.4 million and \$1.3 million for the three and nine month periods ended September 30, 2016 to \$11.6 million and \$34.9 million, respectively, compared to 2015. The increase in both periods was related to the increase in year-end assets under management.

Non-commission expenses incurred by Investors Group primarily relate 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 \$130.9 million for the third quarter of 2016 compared to \$123.7 million in 2015, an increase of \$7.2 million or 5.8%. For the nine month period, non-commission expenses were \$404.4 million compared to \$372.1 million in 2015, an increase of \$32.3 million or 8.7%. The increase in both periods resulted largely from Consultant network expansion and other business development efforts.

## Q3 2016 VS. Q2 2016

### FEE INCOME

Management fee income increased by \$13.4 million or 4.2% to \$331.7 million in the third quarter of 2016 compared with the second quarter of 2016. The net increase in management fees in the third quarter was primarily due to:

- The increase in average daily mutual fund assets of 3.1% for the quarter, as shown in Table 10.
- An increase of \$3.5 million due to one additional calendar day in the third quarter compared to the second quarter of 2016.

Money market fund waivers totalled \$1.1 million in the third quarter of 2016 unchanged from the second quarter of 2016.

Administration fees increased to \$79.2 million in the third quarter of 2016 from \$76.5 million in the second quarter of 2016. The increase was primarily due to the change in average mutual fund assets under management.

Distribution fee income of \$54.7 million in the third quarter of 2016 increased by \$3.3 million from \$51.4 million in the second quarter primarily due to an increase in distribution fee income from insurance product sales and an increase in redemption fees.

### NET INVESTMENT INCOME AND OTHER

Net investment income and other was \$19.1 million in the third quarter of 2016 compared to \$18.6 million in the previous quarter, an increase of \$0.5 million primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled \$18.1 million in the third quarter of 2016, an increase of \$0.3 million from \$17.8 million in the previous quarter as shown in Table 12.

### EXPENSES

Commission expense in the current quarter was \$83.6 million compared with \$82.1 million in the previous quarter. The increase primarily related to higher compensation related to the distribution of other financial services and products. The asset retention bonus and premium expense increased by \$1.7 million to \$71.8 million in the third quarter of 2016 due to the increase in assets under management.

Non-commission expenses were \$130.9 million in the current quarter, a decrease of \$7.6 million or 5.5% from \$138.5 million in the second quarter of 2016. Substantially all of the decrease related to the seasonal nature of certain expenses normally incurred in the second quarter.

# MACKENZIE INVESTMENTS

## REVIEW OF THE BUSINESS

### MACKENZIE STRATEGY

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

Mackenzie's vision: We are committed to the financial success of investors, through *their* eyes. This impacts the strategic priorities we select to fulfil that commitment and drive future business growth. Our strategic mandate is two-fold: win in the Canadian retail space, and build meaningful strategic relationships, both in support of our goal to be the company of choice for institutional investors, financial advisors and individual investors. We aim to achieve this mandate by gathering the best minds in the investment industry, responding to changing needs of financial advisors and investors with distinctive and innovative solutions, and continuing to deliver institutional quality in everything we do.

Supporting this vision and strategic mandate are six key foundational capabilities that our employees strive to achieve:

- Delivering competitive and consistent risk-adjusted performance
- Launching high quality and innovative products and services
- Strengthening distribution and servicing capabilities
- Building brand leadership
- Focusing on operational excellence and process discipline
- Fostering a winning and innovative culture

Mackenzie seeks to maximize returns on business investment by focusing resources in areas that directly impact the success of our strategic mandate: investment management, distribution and client experience.

Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our business 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 and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to Investors Group, Investment Planning Counsel and Great-West

Lifeco Inc. (Lifeco) subsidiaries, and also include a private label mutual fund arrangement with Lifeco subsidiary Quadrus. Within the strategic alliance channel, 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.

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, strength of its distribution network, broad product shelf, competitively priced products and its focus on client experience and investment excellence.

### ASSETS UNDER MANAGEMENT

The changes in mutual fund assets under management are summarized in Table 13 and the changes in total assets under management are summarized in Table 14. At September 30, 2016, Mackenzie's mutual fund and total assets under management were \$50.3 billion and \$64.3 billion, respectively.

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.

### FUND PERFORMANCE

Long-term investment performance is a key measure of Mackenzie's ongoing success. At September 30, 2016, 42.8% of Mackenzie mutual funds were rated in the top two performance quartiles for the one year time frame, 26.0% for the three year time frame and 30.6% 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 September 30, 2016, 55.0% of Mackenzie mutual funds measured by Morningstar<sup>†</sup> had a rating of three stars or better and 13.2% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 63.3% for three stars or better and 27.3% for four and five star funds at September 30, 2016. These ratings exclude the Quadrus Group of Funds<sup>†</sup>.

TABLE 13: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 SEP. 30	2016 JUN. 30	2015 SEP. 30	2016 JUN. 30	2015 SEP. 30
Sales	\$ 1,651	\$ 1,494	\$ 1,485	10.5 %	11.2 %
Redemptions	1,721	1,869	1,665	(7.9)	3.4
<b>Net sales (redemptions)</b>	(70)	(375)	(180)	81.3	61.1
Market and income	2,112	958	(2,253)	120.5	N/M
Net change in assets	2,042	583	(2,433)	250.3	N/M
Beginning assets	48,210	47,627	49,853	1.2	(3.3)
<b>Ending assets</b>	\$ 50,252	\$ 48,210	\$ 47,420	4.2 %	6.0 %
<b>Daily average mutual fund assets</b>	\$ 49,621	\$ 47,836	\$ 49,197	3.7 %	0.9 %

NINE MONTHS ENDED (\$ millions)			% CHANGE	
	2016 SEP. 30	2015 SEP. 30	2016 SEP. 30	2015 SEP. 30
Sales	\$ 4,986	\$ 5,313	(6.2) %	
Redemptions	5,629	6,144	(8.4)	
<b>Net sales (redemptions)<sup>(1)</sup></b>	(643)	(831)	22.6	
Market and income	2,450	(531)	N/M	
Net change in assets	1,807	(1,362)	N/M	
Beginning assets	48,445	48,782	(0.7)	
<b>Ending assets</b>	\$ 50,252	\$ 47,420	6.0 %	
<b>Daily average mutual fund assets</b>	\$ 48,072	\$ 50,084	(4.0) %	

(1) During the second quarter of 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$141 million, redemptions of \$597 million and net redemptions of \$456 million.

## CHANGES TO PRODUCT OFFERINGS

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.

### Exchange Traded Funds (ETFs)

On September 7, 2016, Mackenzie expanded its suite of Maximum Diversification Index ETFs with the launch of three new ETFs, which builds upon the two Maximum Diversification Index ETFs launched during the second quarter. Mackenzie has partnered with TOBAM, a global award-winning asset manager and index provider to some of the world's largest pension funds, to utilize their investment process in this suite of ETFs. TOBAM's methodology seeks to protect portfolios from structural bias and unmanaged risks often found in market capitalization weighted indices. The new ETFs provide investors with innovative options

to invest with broad geographic diversification, including the US, Europe and Asia:

- Mackenzie Maximum Diversification All World Developed Index ETF (TSX:MWD)
- Mackenzie Maximum Diversification All World Developed ex North America Index ETF (TSX:MXU)
- Mackenzie Maximum Diversification Developed Europe Index ETF (TSX: MEU)

Including the ETFs launched during the second quarter of 2016, Mackenzie has a suite of four fixed income actively managed ETFs and five Maximum Diversification Index smart beta ETFs. The addition of these ETFs complements Mackenzie's broad and innovative fund line-up and reflects its investor-focus vision to provide advisors and investors with new solutions to drive investor outcomes and achieve their personal goals.

TABLE 14: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 SEP. 30	2016 JUN. 30	2015 SEP. 30	2016 JUN. 30	2015 SEP. 30
Sales	\$ 2,437	\$ 3,013	\$ 2,623	(19.1) %	(7.1) %
Redemptions	2,382	3,304	2,749	(27.9)	(13.4)
<b>Net sales (redemptions)<sup>(1)</sup></b>	55	(291)	(126)	N/M	N/M
Market and income	2,551	1,268	(2,608)	101.2	N/M
Net change in assets	2,606	977	(2,734)	166.7	N/M
Beginning assets	61,667	60,690	63,025	1.6	(2.2)
<b>Ending assets</b>	<b>\$ 64,273</b>	<b>\$ 61,667</b>	<b>\$ 60,291</b>	<b>4.2 %</b>	<b>6.6 %</b>
<b>Consists of:</b>					
Mutual funds	\$ 50,252	\$ 48,210	\$ 47,420	4.2 %	6.0 %
Sub-advisory, institutional and other accounts	14,021	13,457	12,871	4.2	8.9
	\$ 64,273	\$ 61,667	\$ 60,291	4.2 %	6.6 %
<b>Average total assets<sup>(3)</sup></b>	<b>\$ 63,460</b>	<b>\$ 60,847</b>	<b>\$ 62,230</b>	<b>4.3 %</b>	<b>2.0 %</b>
NINE MONTHS ENDED (\$ millions)				% CHANGE	
			2016 SEP. 30	2015 SEP. 30	
Sales			\$ 8,133	\$ 9,345	(13.0) %
Redemptions			8,756	19,574	(55.3)
<b>Net sales (redemptions)<sup>(1)(2)</sup></b>			(623)	(10,229)	93.9
Market and income			3,243	(356)	N/M
Net change in assets			2,620	(10,585)	N/M
Beginning assets			61,653	70,876	(13.0)
<b>Ending assets</b>			<b>\$ 64,273</b>	<b>\$ 60,291</b>	<b>6.6 %</b>
<b>Average total assets<sup>(3)</sup></b>			<b>\$ 61,374</b>	<b>\$ 69,303</b>	<b>(11.4) %</b>

(1) Mackenzie gross sales and net sales include Exchange Traded Funds (ETFs) net creations of \$25 million in the third quarter of 2016 and \$70 million in the nine months ended September 30, 2016.

(2) During the second quarter of 2015, MD Financial Management re-assigned sub-advisory responsibilities on four fixed income mandates (totalling \$10.3 billion) advised by Mackenzie. In addition, in the second quarter of 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$141 million, redemptions of \$597 million and net redemptions of \$456 million.

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

### Mutual Funds

Mackenzie launched seven mutual funds as follows:

- On September 8, 2016, Mackenzie launched three mutual funds in partnership with TOBAM. These mutual funds are built with a core investment into the Mackenzie Maximum Diversification Index ETFs and may actively invest in other ETFs, or in securities directly, from time to time for active risk management purposes.
  - Mackenzie High Diversification Global Equity Fund
  - Mackenzie High Diversification International Equity Fund
  - Mackenzie High Diversification European Equity Fund

- On October 17, 2016, Mackenzie launched four new Corporate Class mutual funds to further strengthen its Corporate Class offerings:
  - Mackenzie Canadian Growth Class
  - Mackenzie Canadian Growth Balanced Class
  - Mackenzie Ivy Canadian Balanced Class
  - Mackenzie Ivy Global Balanced Class

On September 22, 2016, Mackenzie announced product changes designed to simplify and strengthen its mutual fund product lineup. Mackenzie proposed to merge ten funds that are sub-scale or have overlapping investment objectives with other

funds. These proposed mergers are expected to occur during the fourth quarter, subject to investor approval.

#### **CHANGE IN ASSETS UNDER MANAGEMENT – 2016 VS. 2015**

Mackenzie's mutual fund assets under management were \$50.3 billion at September 30, 2016, an increase of 6.0% from \$47.4 billion at September 30, 2015. Mackenzie's sub-advisory, institutional and other accounts at September 30, 2016 were \$14.0 billion, an increase of 8.9% from \$12.9 billion last year. Mackenzie's total assets under management at September 30, 2016 were \$64.3 billion, an increase of 6.6% from \$60.3 billion at September 30, 2015.

On June 5, 2015, MD Financial Management Inc. ("MD") reassigned sub-advisory responsibilities on four fixed income mandates advised by Mackenzie. The impact on Mackenzie's pre-tax earnings from these mandate changes is not meaningful. The mandates had \$10.3 billion in assets on June 5, 2015 and were included in Mackenzie's redemptions and average total assets for the nine months ended September 30, 2015 in Table 14. Following the change, Mackenzie continues to advise MD on a number of fixed income, balanced and equity mandates.

In the three months ended September 30, 2016, Mackenzie's mutual fund gross sales were \$1.7 billion, an increase of 11.2% from \$1.5 billion in the comparative period last year. Mutual fund redemptions in the current period were \$1.7 billion, an increase of 3.4% from last year. Mutual fund net redemptions for the three months ended September 30, 2016 were \$70 million, as compared to net redemptions of \$180 million last year. During the current quarter, market and income resulted in assets increasing by \$2.1 billion as compared to a decrease of \$2.3 billion last year.

In the three months ended September 30, 2016, Mackenzie's gross sales for total assets under management were \$2.4 billion, a decrease of 7.1% from the comparative period last year. Redemptions in the current period were \$2.4 billion, compared to \$2.7 billion last year. Net sales for the three months ended September 30, 2016 were \$55 million, as compared to net redemptions of \$126 million last year. Included in the 2016 results are net creations of \$25 million from ETFs, which were launched during 2016. During the current quarter, market and income resulted in assets increasing by \$2.6 billion as compared to a decrease of \$2.6 billion last year.

In the nine months ended September 30, 2016, Mackenzie's mutual fund gross sales were \$5.0 billion, a decrease of 6.2% from \$5.3 billion in the comparative period last year. Mutual fund redemptions in the current period were \$5.6 billion, a decrease of 8.4% from the previous year. Mutual fund net

redemptions for the nine months ended September 30, 2016 were \$643 million, as compared to net redemptions of \$831 million last year. During the second quarter of 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$141 million, redemptions of \$597 million and net redemptions of \$456 million. Excluding these transactions, gross sales declined 3.6% and redemptions increased 1.5% in the nine months ended September 30, 2016 compared to last year and net redemptions were \$643 million in the current year compared to net redemptions of \$375 million last year. During the period, market and income resulted in assets increasing by \$2.5 billion as compared to a decrease of \$531 million last year.

Redemptions of long-term mutual funds in the three and nine month periods ended September 30, 2016, were \$1.6 billion and \$5.4 billion, respectively, as compared to \$1.6 billion and \$5.9 billion last year. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 13.2% in the third quarter of 2016, compared to 13.0% in the third quarter of 2015. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 15.4% at September 30, 2016, as compared to 16.0% last year. Mackenzie's twelve-month trailing redemption rate for long-term funds, excluding rebalance transactions, was 14.8% at September 30, 2016 and 14.2% at September 30, 2015. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 15.0% at September 30, 2016. 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.

In the nine months ended September 30, 2016, Mackenzie's gross sales for total assets under management were \$8.1 billion, a decrease of 13.0% from \$9.3 billion in the comparative period last year. Redemptions in the current period were \$8.8 billion compared to \$19.6 billion last year. Net redemptions for the nine months ended September 30, 2016, were \$623 million, as compared to net redemptions of \$10.2 billion last year. Included in the 2016 results are net creations of \$70 million from ETFs, which were launched during 2016. Excluding the MD transactions in the second quarter of 2015 and the other mutual fund transactions in the second quarter of 2015 discussed previously, net redemptions were \$623 million in the nine months ended September 30, 2016, as compared to net sales of \$527 million last year. During the period, market and income

resulted in assets increasing by \$3.2 billion as compared to a decrease of \$356 million last year.

**CHANGE IN ASSETS UNDER MANAGEMENT –  
Q3 2016 VS. Q2 2016**

Mackenzie's mutual fund assets under management were \$50.3 billion at September 30, 2016, an increase of 4.2% from \$48.2 billion at June 30, 2016. Mackenzie's sub-advisory, institutional and other accounts increased by 4.2% from \$13.5 billion to \$14.0 billion at September 30, 2016. Mackenzie's total assets under management at September 30, 2016, were \$64.3 billion, an increase of 4.2% from \$61.7 billion at June 30, 2016, as summarized in Table 14.

For the quarter ended September 30, 2016, Mackenzie mutual fund gross sales were \$1.7 billion, an increase of 10.5% from

the second quarter of 2016. Mutual fund redemptions, which totalled \$1.7 billion for the third quarter, decreased by 7.9% from the previous quarter. Net redemptions of Mackenzie mutual funds for the current quarter were \$70 million compared with net redemptions of \$375 million in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$1.6 billion, compared to \$1.8 billion in the second quarter of 2016. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 13.2% compared to 15.1% for the second quarter. Net redemptions of long-term funds for the current quarter were \$80 million compared to net redemptions of \$380 million in the previous quarter.

## REVIEW OF SEGMENT OPERATING RESULTS

Mackenzie's earnings before interest and taxes are presented in Table 15.

### 2016 VS. 2015

#### REVENUES

The largest component of Mackenzie's 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. For example, 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.

Within Mackenzie's retail mutual fund offering, certain series are offered for fee-based programs of participating dealers whereby dealer compensation on such series is charged directly by the dealer to a client (primarily Series F). As Mackenzie does not pay the dealer compensation, these series have lower management fees. At September 30, 2016, these series had \$4.3 billion in assets, an increase of 30.2% from the prior year.

TABLE 15: OPERATING RESULTS – MACKENZIE

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 SEP. 30	2016 JUN. 30	2015 SEP. 30	2016 JUN. 30	2015 SEP. 30
<b>Revenues</b>					
Management fees	\$ 170.4	\$ 163.5	\$ 173.8	4.2 %	(2.0) %
Administration fees	24.0	22.8	24.3	5.3	(1.2)
Distribution fees	2.2	2.5	2.5	(12.0)	(12.0)
	196.6	188.8	200.6	4.1	(2.0)
Net investment income and other	1.8	1.2	0.7	50.0	157.1
	198.4	190.0	201.3	4.4	(1.4)
<b>Expenses</b>					
Commission	12.9	13.5	14.1	(4.4)	(8.5)
Trailing commission	60.7	58.7	61.2	3.4	(0.8)
Non-commission	78.8	77.6	71.5	1.5	10.2
	152.4	149.8	146.8	1.7	3.8
<b>Earnings before interest and taxes</b>	<b>\$ 46.0</b>	<b>\$ 40.2</b>	<b>\$ 54.5</b>	<b>14.4 %</b>	<b>(15.6) %</b>
<b>NINE MONTHS ENDED (\$ millions)</b>					
			2016 SEP. 30	2015 SEP. 30	% CHANGE
<b>Revenues</b>					
Management fees			\$ 494.4	\$ 530.4	(6.8) %
Administration fees			69.2	74.7	(7.4)
Distribution fees			7.2	8.2	(12.2)
			570.8	613.3	(6.9)
Net investment income and other			3.3	4.9	(32.7)
			574.1	618.2	(7.1)
<b>Expenses</b>					
Commission			40.7	44.3	(8.1)
Trailing commission			176.8	186.3	(5.1)
Non-commission			234.0	222.2	5.3
			451.5	452.8	(0.3)
<b>Earnings before interest and taxes</b>			<b>\$ 122.6</b>	<b>\$ 165.4</b>	<b>(25.9) %</b>



Management fees were \$170.4 million for the three months ended September 30, 2016, a decrease of \$3.4 million or 2.0% from \$173.8 million last year. The net decrease in management fees in the current quarter was due to a decline in average management fee rate, offset by a 2.0% increase in average assets under management. Mackenzie's average management fee rate in the third quarter of 2016 was 106.5 basis points compared to 111.1 basis points in 2015. The decrease in average management fee rate was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products.

Management fees were \$494.4 million for the nine months ended September 30, 2016, a decrease of \$36.0 million or 6.8% from \$530.4 million last year. The net decrease in management fees was due to the decline in average assets under management of 11.4% offset by an increase in average management fee rate. Mackenzie's average management fee rate in the nine months ended September 30, 2016 was 107.4 basis points compared to 102.5 basis points in 2015. The increase in average management fee rate 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 certain sub-advisory mandates from MD Financial Management Inc. In addition, there was one more calendar day in 2016 than 2015, which resulted in an increase in management fees in the current year.

Mackenzie earns administration fees primarily from providing services to its mutual funds. Administration fees were \$24.0 million for the three months ended September 30, 2016, as compared to \$24.3 million in 2015. Administration fees were \$69.2 million for the nine months ended September 30, 2016, compared to \$74.7 million in 2015.

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. Redemption fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Redemption fees for low load assets range from 2.0% to 3.0% in the first year and decrease to zero after two or three years, depending on the purchase option. Distribution fee income in the three months ended September 30, 2016 was \$2.2 million, compared to \$2.5 million last year. Distribution fee income in the nine months ended September 30, 2016 was \$7.2 million, a decrease of \$1.0 million from \$8.2 million last year.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe.

Net investment income and other was \$1.8 million for the three months ended September 30, 2016 compared to \$0.7 million last year and \$3.3 million for the nine months ended September 30, 2016, a decrease of \$1.6 million from \$4.9 million last year.

## EXPENSES

Mackenzie's expenses were \$152.4 million for the three months ended September 30, 2016, an increase of \$5.6 million or 3.8% from \$146.8 million in 2015. Expenses for the nine months ended September 30, 2016 were \$451.5 million, a decrease of \$1.3 million or 0.3% from \$452.8 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets. Commission expense was \$12.9 million in the three months ended September 30, 2016, as compared to \$14.1 million last year. Commission expense in the nine months ended September 30, 2016 was \$40.7 million compared to \$44.3 million in 2015. 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 paid on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees 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 \$60.7 million in the three months ended September 30, 2016, a decrease of \$0.5 million or 0.8% from \$61.2 million last year. Trailing commissions in the nine months ended September 30, 2016 were \$176.8 million, a decrease of \$9.5 million or 5.1% from \$186.3 million last year. The decline in trailing commissions in the nine months ended September 30, 2016 resulted both from the period over period decline in average mutual fund assets, as well as a change in the composition of mutual fund assets towards series of mutual funds that do not pay trailing commissions. Trailing commissions as a percentage of average mutual fund assets under management were 48.9 basis points and 49.0 basis points in the three and nine months ended September 30, 2016 as compared to 49.7 basis points and 49.6 basis points, respectively, in 2015.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$78.8 million in the three months ended September 30, 2016, an increase of \$7.3 million or 10.2% from \$71.5 million in 2015. Non-commission expenses in the nine months ended September 30, 2016 were \$234.0 million, an increase of \$11.8 million or 5.3% from \$222.2 million in 2015.

### **Q3 2016 VS. Q2 2016**

#### **REVENUES**

Mackenzie's revenues were \$198.4 million for the current quarter, an increase of \$8.4 million or 4.4% from \$190.0 million in the second quarter of 2016.

Management fees were \$170.4 million for the current quarter, an increase of \$6.9 million or 4.2% from \$163.5 million in the second quarter of 2016. Factors contributing to the net increase in management fees are as follows:

- Average total assets under management were \$63.5 billion in the current quarter compared to \$60.8 billion in the prior quarter, an increase of 4.3%.
- Mackenzie's average management fee rate was 106.5 basis points in the current quarter as compared to 107.8 basis points in the second quarter of 2016 due to a change in the composition of assets under management.
- There was one additional calendar day in the third quarter of 2016 than in the second quarter, which resulted in an increase of \$1.9 million.

Administration fees were \$24.0 million in the current quarter, an increase of \$1.2 million or 5.3% from \$22.8 million in the prior quarter. The increase in the quarter was due to a 4.3% increase in average assets under management and the impact of having one additional calendar day in the current quarter.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$1.8 million for the current quarter compared to \$1.2 million in the second quarter of 2016.

#### **EXPENSES**

Mackenzie's expenses were \$152.4 million for the current quarter, an increase of \$2.6 million or 1.7% from \$149.8 million in the second quarter of 2016.

Commission expense related to the amortization of selling commissions was \$12.9 million in the quarter ended September 30, 2016, a decrease of 4.4% from the second quarter of 2016.

Trailing commissions were \$60.7 million in the current quarter, an increase of \$2.0 million or 3.4% from \$58.7 million in the second quarter of 2016. The change in trailing commissions reflects the 3.7% period over period increase in average mutual fund assets under management, offset by a decline in effective trailing commission rate. The effective trailing commission rate for the third quarter was 48.9 basis points compared to 49.1 basis points in the second quarter.

Non-commission expenses were \$78.8 million in the current quarter, compared to \$77.6 million in the second quarter of 2016.

## 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 16.

#### 2016 VS. 2015

Net investment income and other was \$28.2 million in the third quarter of 2016 compared to \$28.4 million in 2015. Net investment income and other decreased to \$84.3 million in the nine months ended September 30, 2016 compared to \$88.1 million in 2015. The decrease in the nine month period was largely due to a decrease in the Company's proportionate share of Lifeco's earnings, as discussed in the Consolidated Financial Position section of this MD&A.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.2 million lower in the third quarter of 2016 compared to the same period in 2015 and \$0.1 million lower in the nine months ended September 30, 2016 compared with 2015.

#### Q3 2016 VS. Q2 2016

Net investment income and other totalled \$28.2 million in the third quarter of 2016 compared to \$26.5 million in the second quarter of 2016 primarily due to an increase 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 \$1.5 million higher in the third quarter of 2016 compared with the previous quarter.

TABLE 16: OPERATING RESULTS – CORPORATE AND OTHER

THREE MONTHS ENDED (\$ millions)	2016 SEP. 30	2016 JUN. 30	2015 SEP. 30	% CHANGE	
				2016 JUN. 30	2015 SEP. 30
<b>Revenues</b>					
Fee income	\$ 65.1	\$ 63.1	\$ 62.8	3.2 %	3.7 %
Net investment income and other	28.2	26.5	28.4	6.4	(0.7)
	93.3	89.6	91.2	4.1	2.3
<b>Expenses</b>					
Commission	44.1	42.8	43.0	3.0	2.6
Non-commission	15.2	15.6	13.2	(2.6)	15.2
	59.3	58.4	56.2	1.5	5.5
<b>Earnings before interest and taxes</b>	\$ 34.0	\$ 31.2	\$ 35.0	9.0 %	(2.9) %
<b>NINE MONTHS ENDED</b>					
(\$ millions)			2016 SEP. 30	2015 SEP. 30	% CHANGE
<b>Revenues</b>					
Fee income			\$ 190.2	\$ 188.9	0.7 %
Net investment income and other			84.3	88.1	(4.3)
			274.5	277.0	(0.9)
<b>Expenses</b>					
Commission			129.3	129.9	(0.5)
Non-commission			46.1	43.6	5.7
			175.4	173.5	1.1
<b>Earnings before interest and taxes</b>			\$ 99.1	\$ 103.5	(4.3) %

## IGM FINANCIAL INC.

### CONSOLIDATED FINANCIAL POSITION

IGM Financial's total assets were \$15.2 billion at September 30, 2016, compared to \$14.8 billion at December 31, 2015.

#### SECURITIES

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

#### AVAILABLE FOR SALE 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 reclassified to the Consolidated Statements of Earnings and any subsequent losses are also recorded in net earnings.

#### FAIR VALUE THROUGH PROFIT OR LOSS SECURITIES

Securities classified as fair value through profit or loss include equity securities and proprietary investment funds. 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 included in the 2015 IGM Financial Inc. Annual Report (Annual Financial Statements). The underlying securities of these funds are classified as held for trading and recognized at fair value through profit or loss.

#### LOANS

The composition of the Company's loans is detailed in Table 18.

Loans consisted of residential mortgages and represented 52.0% of total assets at September 30, 2016, compared to 49.8% at December 31, 2015.

Loans classified as loans and receivables are primarily comprised of residential mortgages sold to securitization programs sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$7.5 billion at September 30, 2016, compared to \$7.1 billion at December 31, 2015.

Loans classified as held for trading are residential mortgages 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 \$13.3 billion of residential mortgages, including \$2.4 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 Canada Mortgage Bond Program (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

TABLE 17: SECURITIES

(\$ millions)	SEPTEMBER 30, 2016		DECEMBER 31, 2015	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Available for sale</b>				
Proprietary investment funds	\$ 8.9	\$ 9.6	\$ 6.0	\$ 6.1
<b>Fair value through profit or loss</b>				
Equity securities	13.7	14.6	12.2	10.5
Proprietary investment funds	73.8	75.7	33.7	34.2
	87.5	90.3	45.9	44.7
	\$ 96.4	\$ 99.9	\$ 51.9	\$ 50.8

TABLE 18: LOANS

(\$ millions)	2016 SEPTEMBER 30	2015 DECEMBER 31
<b>Loans and receivables</b>	\$ 7,429.5	\$ 7,008.9
Less: Collective allowance	0.6	0.7
	7,428.9	7,008.2
<b>Held for trading</b>	466.2	384.2
	\$ 7,895.1	\$ 7,392.4

programs as follows: (i) the mortgages and related obligations are carried at amortized cost, with interest income and interest expense, utilizing the effective interest rate method, recorded over the term of the mortgages, (ii) the component of swaps 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, are recorded at fair value, and (iii) cash reserves held under the ABCP program are carried at amortized cost.

In the third quarter of 2016, the Company securitized loans through its mortgage banking operations with cash proceeds of \$549.9 million compared to \$783.2 million in 2015. Additional information related to the Company's securitization activities, including the Company's hedges of related reinvestment and interest rate risk, can be found in the Financial Risk section of this MD&A and in Note 4 of the Interim 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 nine months ended September 30, 2016 compared with 2015 are shown in Table 19.

### OTHER INVESTMENTS

On May 17, 2016, the Company invested \$50 million (U.S.) in Personal Capital Corporation, a market-leading digital wealth advisor based in the U.S., with an agreement that could result in an additional \$25 million (U.S.) investment within the next year for a total of \$75 million (U.S.). This results in an initial 10% ownership interest which could increase to 15% in the next year.

The Company currently does not exercise significant influence over Personal Capital Corporation. The investment is therefore classified as Available for Sale and is measured at fair value, with changes in fair value recognized in Other Comprehensive Income. The investment is included in Other assets on the Company's Consolidated Balance Sheets.

The Company made investments of \$35 million in Portag3 Ventures (Portag3) and Wealthsimple. Portag3 is a fund focused on the financial technology sector that makes early stage investments in companies that have the potential for innovative change and global impact.

Portag3 is a corporate partnership between Power Financial Corporation, IGM Financial Inc. and Great-West Lifeco Inc.

TABLE 19: INVESTMENT IN AFFILIATE

NINE MONTHS ENDED (\$ millions)	2016 SEP. 30	2015 SEP. 30
<b>Carrying value, beginning of period</b>	\$ 904.3	\$ 794.4
Proportionate share of earnings	77.7	81.8
Dividends received	(41.2)	(38.9)
Proportionate share of other comprehensive income (loss) and other adjustments	(54.9)	23.9
<b>Carrying value, end of period</b>	\$ 885.9	\$ 861.2
<b>Fair value, end of period</b>	\$ 1,283.1	\$ 1,270.4

## CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

### LIQUIDITY

Cash and cash equivalents totalled \$657.5 million at September 30, 2016 compared with \$983.0 million at December 31, 2015 and \$933.7 million at September 30, 2015. Cash and cash equivalents related to the Company's deposit operations were \$4.3 million at September 30, 2016, compared to \$2.8 million at December 31, 2015 and \$4.1 million at September 30, 2015, as shown in Table 20.

Working capital totalled \$799.6 million at September 30, 2016 compared with \$980.3 million at December 31, 2015 and \$978.6 million at September 30, 2015. 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 \$348.6 million in the third quarter of 2016 compared to \$347.9 million in the third quarter of 2015 and \$316.0 million in the second quarter of 2016. Adjusted EBITDA totalled \$968.8 million for the nine months ended September 30, 2016

compared to \$1,046.2 million in 2015. Adjusted EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled \$58.6 million in the third quarter of 2016 compared to \$57.7 million in the third quarter of 2015 and \$59.0 million in the second quarter of 2016. 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.

### CASH FLOWS

Table 21 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Interim Financial Statements for the three and nine month periods ended September 30, 2016. Cash and cash equivalents decreased by \$0.7 million in the quarter compared to an increase of \$29.9 million in 2015. For the nine month period, cash and cash equivalents decreased by \$325.5 million in 2016 compared to a decrease of \$282.3 million in 2015.

Operating activities, before payment of commissions, generated \$277.1 million and \$693.9 million during the three and nine month periods ended September 30, 2016, as compared to \$221.7 million and \$653.6 million in 2015. Cash commissions paid were \$46.1 million and \$171.5 million for the three and nine month periods in 2016 compared to \$52.8 million and \$197.3 million in 2015. Cash flows from operating activities, net of commissions paid, were \$231.0 million and \$522.4 million

TABLE 20: DEPOSIT OPERATIONS – FINANCIAL POSITION

(\$ millions)	2016 SEP. 30	2015 DEC. 31	2015 SEP. 30
<b>Assets</b>			
Cash and cash equivalents	\$ 4.3	\$ 2.8	\$ 4.1
Accounts and other receivables	276.3	292.3	252.0
Loans	26.0	25.4	24.6
<b>Total assets</b>	<b>\$ 306.6</b>	<b>\$ 320.5</b>	<b>\$ 280.7</b>
<b>Liabilities and shareholders' equity</b>			
Deposit liabilities	\$ 295.1	\$ 310.1	\$ 269.1
Other liabilities	0.5	0.5	0.6
Shareholders' equity	11.0	9.9	11.0
<b>Total liabilities and shareholders' equity</b>	<b>\$ 306.6</b>	<b>\$ 320.5</b>	<b>\$ 280.7</b>

TABLE 21: CASH FLOWS

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2016	2015	% CHANGE	2016	2015	% CHANGE
Operating activities						
Before payment of commissions	\$ 277.1	\$ 221.7	25.0 %	\$ 693.9	\$ 653.6	6.2 %
Commissions paid	(46.1)	(52.8)	12.7	(171.5)	(197.3)	13.1
Net of commissions paid	231.0	168.9	36.8	522.4	456.3	14.5
Financing activities	(131.9)	(50.6)	(160.7)	(167.9)	(428.0)	60.8
Investing activities	(99.8)	(88.4)	(12.9)	(680.0)	(310.6)	(118.9)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(0.7)</b>	<b>29.9</b>	<b>(102.3)</b>	<b>(325.5)</b>	<b>(282.3)</b>	<b>(15.3)</b>
Cash and cash equivalents, beginning of period	658.2	903.8	(27.2)	983.0	1,216.0	(19.2)
<b>Cash and cash equivalents, end of period</b>	<b>\$ 657.5</b>	<b>\$ 933.7</b>	<b>(29.6) %</b>	<b>\$ 657.5</b>	<b>\$ 933.7</b>	<b>(29.6) %</b>

for the three and nine month periods in 2016 as compared to \$168.9 million and \$456.3 million in 2015.

Financing activities during the third quarter of 2016 compared to 2015 related to:

- A net increase of \$1.1 million in deposits and certificates in 2016 compared to a net increase of \$2.8 million in 2015.
- A net increase of \$8.3 million in 2016 arising from obligations to securitization entities compared to a net increase of \$139.2 million in 2015.
- Proceeds received on the issuance of common shares of \$0.9 million in 2016 compared with \$1.2 million in 2015.
- The purchase of 127,000 common shares in 2016 under IGM Financial's normal course issuer bid at a cost of \$4.6 million compared with the purchase of 1,423,800 common shares at a cost of \$52.3 million in 2015.
- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2016, unchanged from 2015.
- The payment of regular common share dividends which totalled \$135.4 million in 2016 compared to \$139.2 million in 2015.

Financing activities during the nine months ended September 30, 2016 compared to 2015 related to:

- A net decrease of \$15.0 million in deposits and certificates in 2016 compared to a net increase of \$45.8 million in 2015.
- A net increase of \$416.3 million in 2016 arising from obligations to securitization entities compared to a net increase of \$183.1 million in 2015.
- Proceeds received on the issuance of common shares of \$2.3 million in 2016 compared with \$13.5 million in 2015.

- The purchase of 4,346,600 common shares in 2016 under IGM Financial's normal course issuer bid at a cost of \$155.7 million compared with the purchase of 5,744,300 common shares at a cost of \$242.2 million in 2015.
- The payment of perpetual preferred share dividends which totalled \$6.6 million in 2016, unchanged from 2015.
- The payment of regular common share dividends which totalled \$409.2 million in 2016 compared to \$421.6 million in 2015.

Investing activities during the third quarter of 2016 compared to 2015 primarily related to:

- The purchases of securities totalling \$22.1 million and sales of securities with proceeds of \$20.7 million in 2016 compared to \$27.7 million and \$47.0 million, respectively, in 2015.
- A net increase in loans of \$78.1 million in 2016 compared to a net increase of \$83.1 million in 2015 primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions was \$14.6 million in 2016 compared to \$18.7 million in 2015.

Investing activities during the nine months ended September 30, 2016 compared to 2015 primarily related to:

- The purchases of securities totalling \$79.5 million and sales of securities with proceeds of \$44.1 million in 2016 compared to \$97.9 million and \$110.6 million, respectively, in 2015.
- A net increase in loans of \$493.6 million in 2016 compared to a net increase of \$252.3 million in 2015 primarily related to residential mortgages in the Company's mortgage banking operations.



- The purchase of other assets of \$67.4 million in 2016 which represents the Company's investment in Personal Capital Corporation.
- Net cash used in additions to intangible assets and acquisitions was \$49.1 million in 2016 compared to \$55.0 million in 2015.

## 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 September 30, 2016, compared to \$6.2 billion at December 31, 2015. The Company regularly assesses its capital management practices in response to changing economic conditions.

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

The total outstanding long-term debt was \$1,325.0 million at September 30, 2016, unchanged from December 31, 2015. 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 September 30, 2016 remain unchanged from December 31, 2015.

The Company purchased 4,346,600 common shares during the nine months ended September 30, 2016 at a cost of \$155.7 million under its normal course issuer bid (refer to Note 6 to the Interim Financial Statements). The Company commenced a normal course issuer bid on March 20, 2016 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Company's stock option plan and for other capital management purposes. Other activities in the first nine months of 2016 included the declaration of perpetual preferred share dividends of \$6.6 million or \$1.10625 per share

and common share dividends of \$406.7 million or \$1.6875 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 has 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 unsecured debentures 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 IGM Financial's senior unsecured debentures by S&P is the sixth highest of the 22 ratings used for long-term debt. This rating indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations 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 22 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, and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

- Securities and other financial assets and liabilities 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 11 of the Interim Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the nine months ended September 30, 2016.

TABLE 22: FINANCIAL INSTRUMENTS

(\$ millions)	SEPTEMBER 30, 2016		DECEMBER 31, 2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Financial assets recorded at fair value</b>				
Securities				
– Available for sale	\$ 9.6	\$ 9.6	\$ 6.1	\$ 6.1
– Held for trading	90.3	90.3	44.7	44.7
Loans				
– Held for trading	466.2	466.2	384.2	384.2
Derivative financial instruments	54.0	54.0	58.4	58.4
Other financial assets	74.9	74.9	9.3	9.3
<b>Financial assets recorded at amortized cost</b>				
Loans				
– Loans and receivables	7,428.9	7,683.6	7,008.2	7,265.9
<b>Financial liabilities recorded at fair value</b>				
Derivative financial instruments	53.9	53.9	57.8	57.8
Other financial liabilities	8.1	8.1	4.1	4.1
<b>Financial liabilities recorded at amortized cost</b>				
Deposits and certificates	295.1	296.5	310.1	311.8
Obligations to securitization entities	7,513.6	7,669.9	7,092.4	7,272.4
Long-term debt	1,325.0	1,673.8	1,325.0	1,661.2

## RISK MANAGEMENT

The Company is exposed to a variety of risks that are inherent in its business activities. Its ability to manage these risks is key to its ongoing success. The Company emphasizes a strong risk management culture and the implementation of an effective risk management approach. The 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. Fundamental to our enterprise risk management program is protecting and enhancing our reputation.

### RISK MANAGEMENT FRAMEWORK

The Company's risk management approach is undertaken through its Enterprise Risk Management (ERM) Framework which includes five core elements: risk governance, risk appetite, risk principles, a defined risk management process, and risk management culture. The ERM Framework is established under the Company's ERM Policy, which is approved by the Risk Management Committee.

### RISK GOVERNANCE

The Company's risk governance structure emphasizes a comprehensive and consistent framework throughout the Company and its subsidiaries, with 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 the Enterprise Risk Management (ERM) Department, corporate and distribution 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 in relation to 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 as well as the administration of the Code of Business Conduct and Ethics for Directors, Officers and Employees (Code of Conduct).

Management oversight for risk management resides with the executive Risk Management Committee which is comprised of the President and Chief Executive Officer, the Chief Financial Officer, and the General Counsel and Chief Compliance Officer. The committee is responsible for management 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 operating companies have overall responsibility for overseeing risk management of their respective companies.

The Company has assigned responsibility for risk management using the Three Lines of Defence model, with the First Line reflecting the business units having primary responsibility for risk management, supported by Second Line risk management functions and a Third Line Internal Audit function providing assurance and validation of the design and effectiveness of the ERM Framework.

### *First Line of Defence*

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.

### **Second Line of Defence**

The Enterprise Risk Management (ERM) Department provides oversight, analysis and reporting to the Risk Management Committee on the level of risks relative to the established risk appetite for all activities of the Company. 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.

The Company has a number of committees of senior business leaders which provide oversight of specific business risks, including the Financial Risk Management and Information Services Risk Oversight committees. These committees perform critical reviews of risk assessments, risk management practices and risk response plans developed by business units and support functions.

Other oversight accountabilities reside with the Company's corporate and sales compliance groups which are responsible for ensuring compliance with policies, laws and regulations.

### **Third Line of Defence**

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

### **RISK APPETITE AND RISK PRINCIPLES**

The Risk Management Committee establishes the Company's appetite for different types of risk through the Risk Appetite Framework. Under the Risk Appetite Framework, one of four appetite levels is established for each risk type and business activity of the Company. These appetite levels range from those where the Company has no appetite for risk and seeks to minimize any losses, to those where the Company readily accepts exposure while seeking to ensure that risks are well understood and managed. These appetite levels guide our business units as they engage in business activities, and inform them in establishing policies, limits, controls and risk transfer activities.

A Risk Appetite Statement and Risk Principles provide further guidance to business leaders and employees as they conduct risk management activities. The Risk Appetite Statement's emphasis is to maintain the Company's reputation and brand, ensure financial flexibility, and focus on mitigating operational risk.

### **RISK MANAGEMENT PROCESS**

The Company's risk management process is designed to foster:

- Ongoing assessment of risks and tolerance in a changing operating environment.

- Appropriate identification and understanding of existing and emerging risks and risk response.
- Timely monitoring and escalation of risks based upon changing circumstances.

Significant risks that may adversely affect the Company's ability to achieve its strategic and business objectives are identified through the Company's ongoing risk management process.

We use a consistent methodology across our organizations and business units for identification and assessment of risks. Risks are assessed by evaluating the impact and likelihood of the potential risk event after consideration of controls and any risk transfer activities. The results of these assessments are considered relative to risk appetite and tolerances and may result in action plans to adjust the risk profile.

Risk assessments are monitored and reviewed on an ongoing basis by business units and by oversight areas including the ERM Department. The ERM Department promotes and coordinates communication and consultation to support effective risk management and escalation. The ERM Department regularly reports on the results of risk assessments and on the assessment process to the Risk Management Committee and to the Executive Committee of the Board.

### **RISK MANAGEMENT CULTURE**

Risk management is intended to be everyone's responsibility within the organization. The ERM Department engages all business units in workshops to foster awareness and incorporation of our risk framework into our business activities.

We have an established business planning process which reinforces our risk management culture. Our compensation programs are typically objectives-based, and do not encourage or reward excessive or inappropriate risk taking, and often are aligned specifically with risk management objectives.

Our risk management program emphasizes integrity, ethical practices, responsible management and measured risk-taking with a long-term view. Our standards of integrity and ethics are reflected within our Code of Conduct which applies to directors, officers and employees.

### **KEY RISKS OF THE BUSINESS**

The Company identifies risks to which its businesses and operations could be exposed considering factors both internal and external to the organization. These risks are broadly grouped into six categories.

## 1) FINANCIAL 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:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity management by the Financial Risk Management Committee, a committee of finance business leaders, and by the Investment Committee of the Board of Directors.

A key funding 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 pending sale or securitization to long-term funding sources. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization

trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the CMB Program. The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions and government regulations 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 and is subject to change.

As part of ongoing liquidity management during 2016 and 2015, the Company:

- Continued to expand our funding channels by issuing NHA MBS to multiple purchasers.
- Continued to assess additional funding sources for the Company's mortgage banking operations.

The Company's contractual obligations are reflected in Table 23.

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 September 30, 2016, unchanged from December 31, 2015. The lines of credit as at September 30, 2016 consisted of committed lines of \$350 million (December 31, 2015 – \$350 million) and

TABLE 23: CONTRACTUAL OBLIGATIONS

AS AT SEPTEMBER 30, 2016 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ –	\$ 18.7	\$ 32.4	\$ 2.8	\$ 53.9
Deposits and certificates	275.9	9.0	7.7	2.5	295.1
Obligations to securitization entities	–	1,273.8	6,239.4	0.4	7,513.6
Long-term debt	–	–	525.0	800.0	1,325.0
Operating leases <sup>(1)</sup>	–	27.9	81.7	41.3	150.9
Pension funding <sup>(2)</sup>	–	6.0	–	–	6.0
<b>Total contractual obligations</b>	<b>\$ 275.9</b>	<b>\$ 1,335.4</b>	<b>\$ 6,886.2</b>	<b>\$ 847.0</b>	<b>\$ 9,344.5</b>

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

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2016. Pension funding requirements beyond 2016 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.

uncommitted lines of \$175 million (December 31, 2015 – \$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 September 30, 2016 and December 31, 2015, 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, 2013, was completed in May 2014. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$23.4 million compared to \$106.3 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2012. The reduction in the solvency deficit resulted primarily from higher interest rates and market returns on the plan assets, and is required to be funded over five years. The Company has made contributions of \$13.3 million in 2016 (2015 – \$13.1 million). The Company expects to make contributions of approximately \$19.3 million in 2016. 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. The next required actuarial valuation will be based on a measurement date of December 31, 2016.

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, 2015.

#### **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.

#### **Cash and Cash Equivalents**

At September 30, 2016, cash and cash equivalents of \$657.5 million (December 31, 2015 – \$983.0 million) consisted of cash balances of \$73.6 million (December 31, 2015 – \$105.4 million) on deposit with Canadian chartered banks and cash equivalents of \$583.9 million (December 31, 2015 – \$877.6 million). Cash equivalents are comprised primarily of Government of Canada treasury bills totalling \$79.0 million (December 31, 2015 – \$132.2 million), provincial government and government guaranteed commercial paper of \$269.1 million (December 31, 2015 – \$446.6 million) and bankers' acceptances issued by Canadian chartered banks of \$196.8 million (December 31, 2015 – \$298.8 million).

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. 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's exposure to and management of credit risk related to cash and cash equivalents and fixed income securities have not changed materially since December 31, 2015.

#### **Mortgage Portfolio**

As at September 30, 2016, residential mortgages, recorded on the Company's balance sheet, of \$7.9 billion (December 31, 2015 – \$7.4 billion) consisted of \$7.4 billion sold to securitization programs (December 31, 2015 – \$7.0 billion), \$466.2 million held pending sale or securitization (December 31, 2015 – \$384.2 million) and \$30.2 million related to the Company's intermediary operations (December 31, 2015 – \$27.7 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and Investors Group Consultants as part of a client's comprehensive financial plan.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling \$4.8 billion (December 31, 2015 – \$4.6 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage

borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.

- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$2.6 billion (December 31, 2015 – \$2.4 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$55.2 million (December 31, 2015 – \$47.7 million) and \$45.8 million (December 31, 2015 – \$38.9 million), respectively, at September 30, 2016. 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. This risk is further mitigated by insurance with 32.2% of mortgages held in ABCP Trusts insured at September 30, 2016 (December 31, 2015 – 36.6%).

At September 30, 2016, residential mortgages recorded on balance sheet were 73.2% insured (December 31, 2015 – 76.8%). As at September 30, 2016, impaired mortgages on these portfolios were \$1.7 million, compared to \$2.9 million at December 31, 2015. Uninsured non-performing mortgages over 90 days on these portfolios were \$0.5 million at September 30, 2016, compared to \$1.4 million at December 31, 2015.

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 regularly reviews the credit quality of the mortgages and the adequacy of the collective allowance for credit losses.

The Company's collective allowance for credit losses was \$0.6 million at September 30, 2016, compared to \$0.7 million at December 31, 2015, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios 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 Company's exposure to and management of credit risk related to mortgage portfolios have not changed materially since December 31, 2015.

### **Derivatives**

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate

securitization transactions, and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section of this MD&A.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfil their obligations under these arrangements.

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$54.1 million (December 31, 2015 – \$58.4 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 \$2.2 million at September 30, 2016 (December 31, 2015 – \$1.0 million). 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 September 30, 2016. Management of credit risk related to derivatives has not changed materially since December 31, 2015.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Note 4 of the Interim Financial Statements and Notes 2, 6 and 21 to the Annual Financial Statements.

### **MARKET RISK**

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

#### **Interest Rate Risk**

The Company is exposed to interest rate risk on its mortgage portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking operations.

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- 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. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive



investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of \$48.0 million (December 31, 2015 – negative \$47.4 million) and an outstanding notional amount of \$1.1 billion at September 30, 2016 (December 31, 2015 – \$740 million). 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 and reinvestment returns decline. The fair value of these swaps totalled \$50.8 million (December 31, 2015 – \$54.5 million), on an outstanding notional amount of \$2.1 billion at September 30, 2016 (December 31, 2015 – \$1.8 billion). The net fair value of these swaps of \$2.8 million at September 30, 2016 (December 31, 2015 – \$7.1 million) are recorded on balance sheet and have an outstanding notional amount of \$3.2 billion (December 31, 2015 – \$2.6 billion).

- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. The negative fair value of these swaps was nominal (December 31, 2015 – negative \$0.1 million) on an outstanding notional amount of \$106 million at September 30, 2016 (December 31, 2015 – \$88 million).

As at September 30, 2016, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$0.9 million (December 31, 2015 – a decrease of \$0.7 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2015.

### 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. The fair value of the proprietary investment funds and equity security investments was \$99.9 million at September 30, 2016 (December 31, 2015 – \$50.8 million), as shown in Table 17.

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

### RISKS RELATED TO ASSETS UNDER MANAGEMENT

At September 30, 2016, IGM Financial's total assets under management were \$139.9 billion compared to \$133.6 billion at December 31, 2015.

The Company's primary sources of revenues are management, administration and other fees which are applied as an annual percentage of the level of assets under management. As a result, the level of the Company's revenues and earnings are indirectly exposed to a number of financial risks that affect the value of assets under management on an ongoing basis. These include market risks, such as changes in equity prices, interest rates and foreign exchange rates, as well as credit risk on debt securities, loans and credit exposures from other counterparties within our client portfolios.

Changing financial market conditions may also lead to a change in the composition of the Company's assets under management

TABLE 24: IGM FINANCIAL ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

AS AT SEPTEMBER 30, 2016	MUTUAL FUNDS	TOTAL
Cash	1.1 %	1.5 %
Short-term fixed income and mortgages	8.1	8.0
Other fixed income	22.6	23.4
Domestic equity	29.7	29.4
Foreign equity	35.3	34.7
Real Property	3.2	3.0
	100.0 %	100.0 %
CAD	64.3 %	64.9 %
USD	23.6	23.2
Other	12.1	11.9
	100.0 %	100.0 %

between equity and fixed income instruments, which could result in lower revenues depending upon the management fee rates associated with different asset classes and mandates.

The Company's exposure to the value of assets under management aligns it with the experience of its clients. Assets under management are broadly diversified by asset class, geographic region, industry sector, investment team and style. The Company regularly reviews the sensitivity of its assets under management, revenues, earnings and cash flow to changes in financial markets. The Company believes that over the long term, exposure to investment returns on its client portfolios is beneficial to the Company's results and consistent with stakeholder expectations, and generally it does not engage in risk transfer activities such as hedging in relation to these exposures.

## **2) OPERATIONAL RISK**

### **OPERATIONAL RISK**

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human interaction or external events, but excludes business risk.

Operational risk affects all business activities, including the processes in place to manage other risks. As a result, operational risk can be difficult to measure, given that it forms part of other risks of the Company and may not always be separately identified. Our Company is exposed to a broad range of operational risks, including information technology security and system failures, errors relating to transaction processing, financial models and valuations, fraud and misappropriation of assets, and inadequate application of internal control processes. The impact can result in significant financial loss, reputational harm or regulatory actions.

The Company's risk management framework emphasizes operational risk management and internal control. The Company has a very low appetite for risk in this area.

The business unit leaders are responsible for management of the day to day operational risks of their respective business units. Specific programs, policies, training, standards and governance processes have been developed to support the management of operational risk.

Operational risks relating to people and processes are mitigated through policies and process controls. Oversight of risks and ongoing evaluation of the effectiveness of controls is provided by the Company's compliance departments, ERM Department and Internal Audit Department.

Operational risks driven by systems are managed through controls over technology development and change management. Information security is a significant risk to our

industry and our Company's operations. The Company uses systems and technology to support its business operations and the client and financial advisor experience. As a result, we are exposed to risks relating to cyber security and the increasing sophistication of cyber attacks in the marketplace. Such an attack could compromise confidential information of the Company and that of clients or other stakeholders, and could result in negative consequences including lost revenue, litigation, regulatory scrutiny or reputational damage. The Company continues to monitor and enhance its defences and procedures to prevent, detect, respond to and manage cyber security threats.

The Company has a business continuity management program to support the sustainment, management and recovery of critical operations and processes in the event of a business disruption.

The Company has an insurance review process where it assesses and determines the nature and extent of insurance that is appropriate to provide adequate protection against unexpected losses, and where it is required by law, regulators or contractual agreements.

### **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.

### **LEGAL AND REGULATORY COMPLIANCE**

Legal and Regulatory Compliance Risk is the risk of not complying with laws, contractual agreements or regulatory requirements. This includes distribution compliance, investment management compliance, accounting and internal controls, and reporting and communications.

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 significant and are being continually changed. The Company and its subsidiaries are subject to 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 legal and regulatory compliance risk through its efforts to promote a strong culture of compliance. The monitoring of regulatory developments and their impact on the Company is overseen by the Regulatory Initiatives Committee chaired by the Vice-President, Regulatory Affairs. 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.

IGM Financial promotes a strong culture of ethics and integrity through its Code of Conduct approved by the Board of Directors, which outlines standards of conduct that apply to all IGM Financial directors, officers and employees. The Code of Conduct incorporates many policies relating to the conduct of directors, officers and employees, and covers a variety of relevant topics, such as anti-money laundering and privacy. Individuals subject to the Code of Conduct attest annually that they understand the requirements and have complied with its provisions.

Business units are responsible for management of legal and regulatory compliance risk, and implementing appropriate policies, procedures and controls. The Company has a number of different compliance departments responsible for providing oversight of investment management and distribution-related compliance activities. The Internal Audit Department also provides oversight and investigations concerning regulatory compliance matters.

#### **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.

#### **3) GOVERNANCE, OVERSIGHT AND STRATEGIC RISK**

Governance, oversight and strategic risk is the risk of potential adverse impacts resulting from inadequate or inappropriate governance, oversight, management of incentives and conflicts, and strategic planning.

IGM Financial believes in the importance of good corporate governance and the central role played by directors in the governance process. We believe that sound corporate governance is essential to the well being of the Company and its shareholders.

Oversight of IGM Financial is performed by the Board of Directors directly and through its seven committees. The Company previously had two Co-Presidents and Chief Executive Officers responsible for the management of the Company. Effective May 6, 2016, a sole President and Chief Executive Officer of IGM Financial was named. The Company's activities are carried out principally by three operating companies – Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. – each of which are managed by a President and Chief Executive Officer.

The Company has a business planning process that supports development of an annual business plan, approved by the Board of Directors, which incorporates objectives and targets for the Company. Components of management compensation are associated with the achievement of earnings targets and other objectives associated with the plan. Strategic plans and direction are part of this planning process and are integrated into the Company's risk management program.

#### **ACQUISITION RISK**

The Company is also exposed to risks related to its acquisitions. 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.

#### **4) REGULATORY DEVELOPMENTS**

Regulatory development risk is the potential for changes to regulatory, legal, or tax requirements that may have an adverse impact upon the Company's business activities or financial results.

The Company is exposed to the risk of changes in laws, taxation and regulation that could have an adverse impact on the

Company. 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, and 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.

#### **CLIENT RELATIONSHIP MODEL AND POINT OF SALE**

Effective May 30, 2016, the Fund Facts disclosure document for mutual funds is now required to be delivered by dealers to clients before accepting an instruction for the purchase of a mutual fund. This concludes the CSA's staged approach to implementation of the point of sale (POS) project for mutual funds.

Effective for annual periods commencing no later than July 15, 2016, Phase 2 of the Client Relationship Model (CRM2) adopted by the Canadian Securities Administrators (CSA) in March, 2013, requires dealers, among other things, to provide their clients with enhanced information on the performance of their investments and the costs associated with them, including the compensation paid to the dealer (the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada have adopted rules that are to the same effect). The performance and rate of return reporting mandates use of a dollar-weighted methodology which takes into consideration all cashflows into and out of the account and all underlying funds and investments. This prescribed calculation methodology is one that the Company supports, with Investors Group being an early adopter by providing rate of return reporting starting with the June 2015 quarterly client statements to most clients. The cost and compensation disclosure will provide clients with an annual report on all charges associated with their accounts, including direct and indirect compensation that the dealer receives related to a client's account. These new requirements will provide important information to our clients and will build on already required existing disclosure including information provided through Fund Facts and the Management Report of Fund Performance (MRFP) related to distribution and fund management costs.

#### **MUTUAL FUND FEES AND BEST INTEREST STANDARDS**

On April 28, 2016, the CSA published Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Toward Their Clients (the Consultation Paper), with the comment period closing on September 30, 2016. The Consultation Paper proposes a set of targeted reforms which all CSA jurisdictions are consulting on relating to the client-registrant relationship, including the regulation of conflicts of interest, the know-your-client and know-your-product requirements, the suitability obligation, the use by registrants of business titles and proficiency. All of the CSA jurisdictions except the British Columbia Securities Commission are also consulting on a regulatory best interest standard, accompanied by guidance, that would form both an over-arching standard and the governing principle against which all other client-related obligations would be interpreted. The Company's subsidiaries submitted comment letters on the Consultation Paper. On September 22, 2016 the CSA announced that certain jurisdictions will host roundtables in December, 2016 to further explore the proposals in the Consultation Paper. The Company will continue its active dialogue and engagement with regulators on this subject.

On June 29, 2016, the CSA published CSA Staff Notice 81-327 Next Steps in the CSA's Examination of Mutual Fund Fees. The Staff Notice communicated that while the CSA continues to evaluate and monitor such initiatives as the disclosure enhancements under CRM2 and POS and the proposals outlined in CSA Consultation Paper 33-404, the CSA has decided to consult in the fall of 2016 on the further option of discontinuing embedded commissions and transitioning to direct pay arrangements. This notice follows the publication of the CSA's initial consultation paper on mutual fund fee structures in December 2012. The Staff Notice indicates that before taking any action the CSA wants to consider the potential consequences of such regulatory action on Canadian market participants and investors. The Company will continue its active dialogue and engagement with regulators on this subject.

#### **COOPERATIVE CAPITAL MARKETS REGULATORY SYSTEM**

In 2013, the Government of Canada, as part of its Economic Action Plan, indicated an intention to establish a common securities regulator for Canada's capital markets working cooperatively with the provinces and territories. In September 2014, the Government of Canada and participating provincial jurisdictions published two proposed pieces of legislation to implement the cooperative capital markets regulatory system, namely the Provincial Capital Markets Act (CMA) and the Capital Markets Stability Act (CMSA).

On August 25, 2015, a revised consultation draft of the CMA along with accompanying commentary was published, along with certain proposed initial draft regulations (Regulations). The CMA and Regulations would together constitute the single set of provincial/territorial laws replacing provincial and territorial securities legislation under the proposed cooperative capital markets regulatory system in the six jurisdictions (Ontario, British Columbia, Saskatchewan, New Brunswick, Prince Edward Island and Yukon) which have currently agreed to participate. On May 5, 2016, a revised consultation draft of the CMSA was published for comment. This proposed capital markets legislation addresses national data collection, systemic risk related to capital markets and criminal enforcement.

Of note, opposition from Quebec, Alberta and Manitoba remains strong and the Quebec government has now challenged the validity of the cooperative capital markets regulatory system directing a reference to the Quebec Court of Appeal. The remaining provinces and territories have also not chosen to join the cooperative system to date. Also noteworthy, on July 22, 2016, the Government of Canada and participating provincial jurisdictions announced the Capital Markets Regulatory Authority's initial board of directors and set new times for implementation of the CMA and CMSA, from the previously publicized date of June 30, 2016, to now June 30, 2018, by which the Capital Markets Regulatory Authority will become operational. The Company is continuing to monitor this initiative and any impact it may have on its activities and those of its subsidiaries, particularly in the area of the regulation of mutual funds.

## 5) BUSINESS RISK

### GENERAL BUSINESS CONDITIONS

General Business Conditions Risk refers to the potential for an unfavourable impact on IGM Financial resulting from competitive or other external factors relating to the marketplace.

Global economic conditions, changes in equity markets, demographics and other factors including political and government instability, can affect investor confidence, income levels and savings decisions. This could result in reduced sales of

IGM Financial's products and services and/or result in investors redeeming their investments. These factors may also affect the level of financial markets and the value of the Company's assets under management, as described more fully under the Risks Related to Assets Under Management section of this MD&A.

The Company, across its operating subsidiaries, is focused on communicating with clients and emphasizing the importance of financial planning across economic cycles. The Company and the industry 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 in maintaining perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 25 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

### PRODUCT / SERVICE OFFERING

There is potential for unfavourable impacts on IGM Financial resulting from inadequate product or service performance, quality or breadth.

IGM Financial and its subsidiaries operate in a highly competitive environment, competing with other financial service providers, investment managers and product and service types. Client development and retention can be influenced by a number of factors, including products and services offered by competitors, relative service levels, relative pricing, product attributes, reputation and actions taken by competitors. This competition could have an adverse impact upon the Company's financial position and operating results. Please refer to The Competitive Landscape section of this MD&A for a further discussion.

The Company provides Consultants, independent financial advisors, as well as retail and institutional clients with a high level of service and support and a broad range of investment products, with a focus on building enduring relationships. The Company's subsidiaries also continually review their respective product and service offering, and pricing, to ensure competitiveness in the marketplace.

TABLE 25: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2016 SEP. 30	2015 SEP. 30
<b>IGM Financial Inc.</b>		
Investors Group	8.9 %	8.4 %
Mackenzie	15.4 %	16.0 %
Counsel	15.5 %	13.1 %

The Company strives to deliver strong investment performance on its products relative to benchmarks and peers. Poor investment performance relative to benchmarks or peers could reduce the level of assets under management and sales and asset retention, as well as adversely impact our brands. Meaningful and/or sustained underperformance could affect the Company's results. The Company's objective is to cultivate investment processes and disciplines that provide it with a competitive advantage, and does so by diversifying its assets under management and product shelf by investment team, brand, asset class, mandate, style and geographic region.

#### **BUSINESS / CLIENT RELATIONSHIPS**

Business/Client relationships risk refers to the risk potential for unfavourable impacts on IGM Financial resulting from changes to other key relationships. These relationships primarily include Investors Group clients and consultants, Mackenzie retail distribution, strategic and significant business partners, clients of Mackenzie funds, and sub-advisors and other product suppliers.

*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 strengthening 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.

#### **PEOPLE RISK**

People risk refers to the potential inability to attract or retain key employees or Consultants, develop to an appropriate level of proficiency, or manage personnel succession or transition.

Management, investment and distribution personnel play an important role in developing, implementing, managing and distributing products and services offered by IGM Financial. The loss of these individuals or an inability to attract, retain and motivate sufficient numbers of qualified personnel could affect IGM Financial's business and financial performance.

#### **6) ENVIRONMENTAL RISK**

Environmental risk is the risk of loss resulting from environmental issues involving our business activities and our operations.

Environmental risk covers a broad spectrum of issues, such as climate change, biodiversity and ecosystem health, pollution, waste and the unsustainable use of water and other resources. Key environmental risks to IGM Financial include:

- Direct risks associated with the ownership and operation of our businesses, which includes management and operation of company-owned or managed assets and business operations;
- Indirect risks as a result of the products and services we offer and our procurement practices;
- Identification and management of emerging environmental regulatory issues; and
- Failure to understand and appropriately leverage environment related trends to meet client demands for products and services.

IGM Financial has a long-standing commitment to responsible management, as articulated in the Company's Corporate Responsibility Statement as approved by the Board of Directors which commits us to responsibly manage our environmental footprint.

Failure to adequately manage environmental risks could adversely impact our results or our reputation.

IGM Financial manages environmental risks across the Company, with business unit management having responsibility for identifying, assessing, controlling and monitoring environmental risks pertaining to their operations. IGM

Financial's Executive Management Corporate Responsibility Committee oversees its commitment to environmental responsibility and risk management.

Investors Group and Mackenzie are signatories to the Principles for Responsible Investment (PRI). Under the PRI, investors formally commit to incorporate environmental, social and governance (ESG) issues into their investment processes. In addition, Investors Group, Mackenzie and Investment Planning

Counsel have implemented investing policies which provide information on how these ESG issues are implemented at each company.

IGM Financial reports on its environmental management and performance in its Corporate Responsibility Report. In addition, the Company participates in the Carbon Disclosure Project (CDP) survey, which promotes corporate disclosures on greenhouse gas emissions and climate change management.

## OUTLOOK

### THE FINANCIAL SERVICES ENVIRONMENT

Canadians held \$3.8 trillion in discretionary financial assets with financial institutions at December 31, 2015 based on the most recent report from 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. Approximately 66% (\$2.5 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 \$1.3 trillion held outside of a financial advisory relationship, approximately 62% 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 42% of Canadian discretionary financial assets or \$1.6 trillion resided in investment funds at December 31, 2015, 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 77% 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 \$134 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 Financial, 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 43% of total industry long-term mutual fund assets at September 30, 2016.

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 69% of industry long-term mutual fund assets and 71% of total mutual fund assets under management at September 30, 2016. 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

There were no changes to the Company's assumptions related to critical accounting estimates from those reported at December 31, 2015.

### CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company's accounting policies from those reported at December 31, 2015.

### 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 issued IFRS 9 which replaces IAS 39, the current standard for accounting for financial instruments. The standard was 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 replaces 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.

This standard is effective for annual reporting periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

### IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. This standard is effective for annual reporting periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

### IFRS 16 LEASES

The IASB issued IFRS 16 which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. The standard is effective for annual reporting periods beginning on or after January 1, 2019. The impact of this standard is currently being assessed.

### OTHER

The IASB is currently undertaking a number of projects which will result in changes to existing IFRS standards that may affect the Company. Updates will be provided as the projects develop.



## INTERNAL CONTROL OVER FINANCIAL REPORTING

During the third quarter of 2016, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## OTHER INFORMATION

### TRANSACTIONS WITH RELATED PARTIES

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

- On 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.
- On January 6, 2015, the Company acquired \$0.33 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 \$0.33 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 Annual Financial Statements.

### OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at September 30, 2016 totalled 240,496,388. Outstanding stock options as at September 30, 2016 totalled 8,600,015, of which 3,957,678 were exercisable. As at October 31, 2016, outstanding common shares totalled 240,509,918 and outstanding stock options totalled 8,562,300, of which 3,926,737 were exercisable.

Perpetual preferred shares of \$150 million were outstanding as at September 30, 2016, unchanged at October 31, 2016.

### 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).