

## **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, 2012 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements (Interim Financial Statements) as well as the 2011 IGM Financial Inc. Annual Report and the 2012 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, 2012 is as of November 8, 2012.

## Basis of Presentation and Summary of Accounting Policies

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

### FORWARD-LOOKING STATEMENTS

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

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances.

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

A variety of material factors, many of which are beyond the Company's and its subsidiaries' control, affect the operations, performance and results of the Company, and its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's success in anticipating and managing the foregoing factors.

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

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

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

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

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

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1 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 within the advice segment of the financial services market.

Total assets under management were \$119.3 billion as at September 30, 2012 compared with \$116.7 billion as at September 30, 2011 and \$118.7 billion as at December 31, 2011. Average total assets under management for the third quarter of 2012 were \$118.2 billion compared to \$124.0 billion in the third quarter of 2011. Average total assets under management for the nine months ended September 30, 2012 were

\$119.8 billion compared to \$129.2 billion for the nine months ended September 30, 2011.

Operating earnings available to common shareholders for the three months ended September 30, 2012 were \$186.9 million or 73 cents per share compared to operating earnings available to common shareholders, excluding other items outlined below, of \$213.0 million or 82 cents per share in 2011. This represents a decrease of 11.0% on a per share basis.

Net earnings available to common shareholders for the three months ended September 30, 2012 were \$186.9 million or 73 cents per share compared to net earnings available to common shareholders of \$244.0 million or 94 cents per share for the comparative period in 2011.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(\$ millions)	THREE MONTHS ENDED			NINE MONTHS ENDED	
	2012 SEP. 30	2012 JUN. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30
<b>Operating earnings available to common shareholders – Non-IFRS measure</b>	\$ 186.9	\$ 179.0	\$ 213.0	\$ 565.6	\$ 637.0
Non-cash income tax charge	–	(6.4)	–	(6.4)	–
Net earnings – Discontinued operations	–	–	31.0	–	33.0
<b>Net earnings available to common shareholders – IFRS</b>	\$ 186.9	\$ 172.6	\$ 244.0	\$ 559.2	\$ 670.0
<b>Operating earnings per share<sup>(1)</sup> available to common shareholders – Non-IFRS measure</b>	\$ 0.73	\$ 0.70	\$ 0.82	\$ 2.21	\$ 2.46
Non-cash income tax charge	–	(0.03)	–	(0.03)	–
Net earnings – Discontinued operations	–	–	0.12	–	0.12
<b>Net earnings per share<sup>(1)</sup> available to common shareholders – IFRS</b>	\$ 0.73	\$ 0.67	\$ 0.94	\$ 2.18	\$ 2.58
<b>EBITDA – Non-IFRS measure</b>	\$ 336.0	\$ 332.7	\$ 377.3	\$1,029.2	\$1,160.7
Commission amortization	(65.0)	(66.7)	(69.4)	(201.7)	(212.6)
Amortization of capital assets and intangible assets and other	(8.2)	(12.2)	(8.7)	(29.3)	(28.3)
Interest expense on long-term debt	(23.2)	(22.9)	(23.2)	(69.0)	(79.6)
<b>Earnings before income taxes and discontinued operations</b>	239.6	230.9	276.0	729.2	840.2
Income taxes	(50.5)	(56.1)	(60.8)	(163.4)	(196.6)
Net earnings – Discontinued operations	–	–	31.0	–	33.0
Perpetual preferred share dividends	(2.2)	(2.2)	(2.2)	(6.6)	(6.6)
<b>Net earnings available to common shareholders – IFRS</b>	\$ 186.9	\$ 172.6	\$ 244.0	\$ 559.2	\$ 670.0

(1) Diluted earnings per share

Operating earnings available to common shareholders, excluding other items outlined below, for the nine months ended September 30, 2012 were \$565.6 million or \$2.21 per share compared to operating earnings available to common shareholders of \$637.0 million or \$2.46 per share in 2011. This represents a decrease of 10.2% on a per share basis.

Net earnings available to common shareholders for the nine months ended September 30, 2012 were \$559.2 million or \$2.18 per share compared to net earnings available to common shareholders of \$670.0 million or \$2.58 per share for the comparative period in 2011.

Other items for the nine months ended September 30, 2012 consisted of a non-cash income tax charge of \$6.4 million resulting from increases in Ontario corporate income tax rates and their effect on the deferred income tax liability related to indefinite life intangible assets

arising from prior business acquisitions. There is no expectation that the deferred tax liability will become payable as the Company has no intention of disposing of these assets.

Other items for the three and nine months ended September 30, 2011 consisted of net earnings from discontinued operations of \$31.0 million and \$33.0 million, respectively, related to the sale of M.R.S. Trust Company and M.R.S. Inc. (MRS).

Shareholders' equity was \$4.5 billion as at September 30, 2012, unchanged from December 31, 2011. Return on average common equity based on operating earnings for the nine months ended September 30, 2012 was 17.4% compared with 20.2% in 2011. The quarterly dividend per common share declared in the third quarter of 2012 was 53.75 cents, unchanged from the second quarter of 2012.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q3 2012 VS. Q3 2011

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30
<b>Revenues</b>								
Fee income	\$ 361.9	\$ 385.3	\$ 186.3	\$ 201.9	\$ 41.8	\$ 43.4	\$ 590.0	\$ 630.6
Net investment income and other	16.2	20.0	2.1	1.3	25.7	21.9	44.0	43.2
	378.1	405.3	188.4	203.2	67.5	65.3	634.0	673.8
<b>Expenses</b>								
Commission	119.6	121.0	63.4	69.5	26.8	28.1	209.8	218.6
Non-commission	90.4	86.2	60.4	58.6	10.6	11.2	161.4	156.0
	210.0	207.2	123.8	128.1	37.4	39.3	371.2	374.6
<b>Earnings before interest and taxes</b>	\$ 168.1	\$ 198.1	\$ 64.6	\$ 75.1	\$ 30.1	\$ 26.0	262.8	299.2
Interest expense							23.2	23.2
Earnings before income taxes and discontinued operations							239.6	276.0
Income taxes							50.5	60.8
<b>Net earnings from continuing operations</b>							189.1	215.2
Net earnings from discontinued operations							–	31.0
<b>Net earnings</b>							189.1	246.2
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							\$ 186.9	\$ 244.0
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 186.9	\$ 213.0

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

## DISCONTINUED OPERATIONS

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

Net earnings from discontinued operations for all periods under review in 2011 are reported as a separate line item on the following tables: Table 1 – *Reconciliation of Non-IFRS Financial Measures*; Tables 2, 3 and 4 – *Consolidated Operating Results by Segment*; and Table 8 – *Summary of Quarterly Results*.

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

## REPORTABLE SEGMENTS

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

- Investors Group
- Mackenzie
- Corporate and Other.

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

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

- *Interest expense* – represents interest expense on long-term debt. The change in interest expense for the

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

Nine months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30
<b>Revenues</b>								
Fee income	\$ 1,125.6	\$ 1,192.8	\$ 570.7	\$ 631.6	\$ 128.8	\$ 138.4	\$ 1,825.1	\$ 1,962.8
Net investment income and other	48.1	53.9	2.1	2.2	69.4	63.9	119.6	120.0
	1,173.7	1,246.7	572.8	633.8	198.2	202.3	1,944.7	2,082.8
<b>Expenses</b>								
Commission	365.3	369.5	196.4	219.5	83.2	91.9	644.9	680.9
Non-commission	279.6	264.1	187.6	182.6	34.4	35.4	501.6	482.1
	644.9	633.6	384.0	402.1	117.6	127.3	1,146.5	1,163.0
<b>Earnings before interest and taxes</b>	\$ 528.8	\$ 613.1	\$ 188.8	\$ 231.7	\$ 80.6	\$ 75.0	798.2	919.8
Interest expense							69.0	79.6
Earnings before income taxes and discontinued operations							729.2	840.2
Income taxes							163.4	196.6
<b>Net earnings from continuing operations</b>							565.8	643.6
Net earnings from discontinued operations							–	33.0
<b>Net earnings</b>							565.8	676.6
Perpetual preferred share dividends							6.6	6.6
<b>Net earnings available to common shareholders</b>							\$ 559.2	\$ 670.0
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 565.6	\$ 637.0

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

TABLE 4: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q3 2012 VS. Q2 2012

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2012 SEP. 30	2012 JUN. 30	2012 SEP. 30	2012 JUN. 30	2012 SEP. 30	2012 JUN. 30	2012 SEP. 30	2012 JUN. 30
<b>Revenues</b>								
Fee income	\$ 361.9	\$ 377.9	\$ 186.3	\$ 188.5	\$ 41.8	\$ 41.6	\$ 590.0	\$ 608.0
Net investment income and other	16.2	10.4	2.1	0.2	25.7	19.0	44.0	29.6
	378.1	388.3	188.4	188.7	67.5	60.6	634.0	637.6
<b>Expenses</b>								
Commission	119.6	122.1	63.4	64.8	26.8	26.8	209.8	213.7
Non-commission	90.4	97.1	60.4	61.5	10.6	11.5	161.4	170.1
	210.0	219.2	123.8	126.3	37.4	38.3	371.2	383.8
<b>Earnings before interest and taxes</b>	\$ 168.1	\$ 169.1	\$ 64.6	\$ 62.4	\$ 30.1	\$ 22.3	262.8	253.8
Interest expense							23.2	22.9
Earnings before income taxes							239.6	230.9
Income taxes							50.5	56.1
<b>Net earnings</b>							189.1	174.8
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							\$ 186.9	\$ 172.6
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 186.9	\$ 179.0

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

nine month period ended September 30, 2012 compared to 2011 reflects the repayment of the \$450 million 2001 Series 6.75% debentures on May 9, 2011.

- *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. Any changes in management's best estimates are reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.
- *2011 Net earnings from discontinued operations* – represents the operating results of MRS, previously reported in the Mackenzie segment.

Net earnings from discontinued operations for the three and nine months ended September 30, 2011 included a reduction in income taxes of \$28.7 million. Income taxes recorded in prior years were adjusted in the third quarter of 2011 to reflect changes in management's best estimates related to tax filing positions. Excluding the item noted above, net earnings for MRS totalled \$2.3 million for the third quarter of 2011 and \$4.3 million for the nine months ended September 30, 2011.

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

#### SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$119.3 billion at September 30, 2012 compared to \$116.7 billion at

TABLE 5: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			NINE MONTHS ENDED	
	2012 SEP. 30	2012 JUN. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30
<b>Income taxes at Canadian federal and provincial statutory rates</b>	26.52 %	26.61 %	28.15 %	26.53 %	28.15 %
Effect of:					
Proportionate share of affiliate's earnings	(2.25)	(1.94)	(2.14)	(2.08)	(1.88)
Loss consolidation <sup>(1)</sup>	(2.11)	(2.17)	(2.76)	(2.06)	(2.16)
Other items	(1.07)	(1.02)	(1.23)	(0.86)	(0.71)
<b>Effective income tax rate – operating earnings continuing operations</b>	21.09	21.48	22.02	21.53	23.40
Effect of tax rate increases on deferred income taxes related to indefinite life intangible assets	–	2.79	–	0.88	–
<b>Effective income tax rate – net earnings continuing operations</b>	21.09 %	24.27 %	22.02 %	22.41 %	23.40 %

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

TABLE 6: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q3 2012 VS. Q3 2011

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30
<b>Mutual funds</b>								
Gross sales – money market	\$ 132.6	\$ 172.5	\$ 89.8	\$ 93.1	\$ 16.2	\$ 15.5	\$ 238.6	\$ 281.1
Gross sales – long term	1,087.3	1,112.9	985.8	1,142.8	59.5	97.8	2,123.1	2,353.0
Total mutual fund gross sales	\$ 1,219.9	\$ 1,285.4	\$ 1,075.6	\$ 1,235.9	\$ 75.7	\$ 113.3	\$ 2,361.7	\$ 2,634.1
Net sales – money market	\$ (38.4)	\$ (13.4)	\$ (20.4)	\$ (37.7)	\$ 13.3	\$ 10.7	\$ (45.5)	\$ (40.4)
Net sales – long term	(275.5)	(148.5)	(443.2)	(538.7)	(27.0)	32.9	(751.2)	(654.6)
Total mutual fund net sales	\$ (313.9)	\$ (161.9)	\$ (463.6)	\$ (576.4)	\$ (13.7)	\$ 43.6	\$ (796.7)	\$ (695.0)
<b>Sub-advisory, institutional and other accounts</b>								
Gross sales	\$ –	\$ –	\$ 1,372.5	\$ 808.8	\$ –	\$ –	\$ 760.0	\$ 796.0
Net sales	–	–	(545.9)	(624.8)	–	–	(990.8)	(588.9)
<b>Combined</b>								
Gross sales	\$ 1,219.9	\$ 1,285.4	\$ 2,448.1	\$ 2,044.7	\$ 75.7	\$ 113.3	\$ 3,121.7	\$ 3,430.1
Net sales	(313.9)	(161.9)	(1,009.5)	(1,201.2)	(13.7)	43.6	(1,787.5)	(1,283.9)
<b>Change in total assets under management</b>								
Net sales	\$ (313.9)	\$ (161.9)	\$ (1,009.5)	\$ (1,201.2)	\$ (13.7)	\$ 43.6	\$ (1,787.5)	\$ (1,283.9)
Market and income	1,788.1	(5,493.6)	1,365.3	(6,690.1)	73.8	(214.6)	3,105.2	(12,132.0)
Net change in assets	1,474.2	(5,655.5)	355.8	(7,891.3)	60.1	(171.0)	1,317.7	(13,415.9)
Beginning assets	58,117.9	62,157.9	60,651.9	68,807.5	2,848.7	2,845.0	117,961.1	130,158.7
<b>Ending assets</b>	\$ 59,592.1	\$ 56,502.4	\$ 61,007.7	\$ 60,916.2	\$ 2,908.8	\$ 2,674.0	\$ 119,278.8	\$ 116,742.8

(1) Total Gross Sales and Net Sales excluded \$622 million and \$450 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$13 million and (\$35) million in 2011).

Total assets under management excluded \$4.2 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$3.3 billion at September 30, 2011).



September 30, 2011. 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.

## 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.

Quarterly operating earnings available to common shareholders are primarily dependent on the level of

mutual fund assets under management. Average daily mutual fund assets under management are shown in Table 8. Average daily mutual fund assets under management increased in the first quarter of 2011, consistent with improving market conditions. Average daily mutual fund assets under management remained relatively constant in the second quarter of 2011 and decreased in both the third and fourth quarters of 2011 as a result of declining domestic and international markets. Average daily mutual fund assets increased in the first quarter of 2012, decreased in the second quarter of 2012 and remained constant in the third quarter of 2012, consistent with overall market movements.

TABLE 7: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2012 VS. 2011

Nine months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30	2012 SEP. 30	2011 SEP. 30
<b>Mutual funds</b>								
Gross sales – money market	\$ 504.3	\$ 543.0	\$ 288.5	\$ 384.0	\$ 48.3	\$ 49.8	\$ 841.1	\$ 976.8
Gross sales – long term	3,855.8	4,192.9	3,350.9	4,172.2	254.5	365.9	7,450.9	8,729.8
Total mutual fund gross sales	\$ 4,360.1	\$ 4,735.9	\$ 3,639.4	\$ 4,556.2	\$ 302.8	\$ 415.7	\$ 8,292.0	\$ 9,706.6
Net sales – money market	\$ (29.3)	\$ (8.4)	\$ (74.4)	\$ (109.1)	\$ 34.0	\$ 35.4	\$ (69.7)	\$ (82.1)
Net sales – long term	(433.5)	205.1	(1,356.0)	(854.8)	(42.5)	133.4	(1,838.2)	(517.3)
Total mutual fund net sales	\$ (462.8)	\$ 196.7	\$ (1,430.4)	\$ (963.9)	\$ (8.5)	\$ 168.8	\$ (1,907.9)	\$ (599.4)
<b>Sub-advisory, institutional and other accounts</b>								
Gross sales	\$ –	\$ –	\$ 3,487.5	\$ 3,658.6	\$ –	\$ –	\$ 2,337.8	\$ 3,260.6
Net sales	–	–	(1,802.9)	(289.2)	–	–	(2,394.9)	(551.4)
<b>Combined</b>								
Gross sales	\$ 4,360.1	\$ 4,735.9	\$ 7,126.9	\$ 8,214.8	\$ 302.8	\$ 415.7	\$ 10,629.8	\$ 12,967.2
Net sales	(462.8)	196.7	(3,233.3)	(1,253.1)	(8.5)	168.8	(4,302.8)	(1,150.8)
<b>Change in total assets under management</b>								
Net sales	\$ (462.8)	\$ 196.7	\$ (3,233.3)	\$ (1,253.1)	\$ (8.5)	\$ 168.8	\$ (4,302.8)	\$ (1,150.8)
Market and income	2,319.6	(5,479.6)	2,589.0	(6,177.0)	105.8	(182.9)	4,868.8	(11,589.9)
Net change in assets	1,856.8	(5,282.9)	(644.3)	(7,430.1)	97.3	(14.1)	566.0	(12,740.7)
Beginning assets	57,735.3	61,785.3	61,652.0	68,346.3	2,811.5	2,688.1	118,712.8	129,483.5
<b>Ending assets</b>	<b>\$ 59,592.1</b>	<b>\$ 56,502.4</b>	<b>\$ 61,007.7</b>	<b>\$ 60,916.2</b>	<b>\$ 2,908.8</b>	<b>\$ 2,674.0</b>	<b>\$ 119,278.8</b>	<b>\$ 116,742.8</b>

(1) Total Gross Sales and Net Sales excluded \$1.2 billion and \$598 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$399 million and \$264 million in 2011).

Total assets under management excluded \$4.2 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$3.3 billion at September 30, 2011).



TABLE 8: SUMMARY OF QUARTERLY RESULTS

	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4
<b>Consolidated Statements of Earnings</b> (\$ millions)								
Revenues								
Management fees	\$ 431.5	\$ 443.5	\$ 456.6	\$ 444.2	\$ 464.6	\$ 491.8	\$ 492.1	\$ 479.1
Administration fees	83.3	84.0	85.3	84.3	85.2	87.9	87.5	85.4
Distribution fees	75.2	80.5	85.2	79.8	80.8	83.5	89.4	83.4
Net investment income and other	44.0	29.6	46.0	36.4	43.2	34.4	42.4	47.0
	634.0	637.6	673.1	644.7	673.8	697.6	711.4	694.9
Expenses								
Commission	209.8	213.7	221.4	214.0	218.6	228.7	233.6	221.6
Non-commission	161.4	170.1	170.1	155.4	156.0	164.1	162.0	153.5
Interest	23.2	22.9	22.9	23.2	23.2	26.1	30.3	28.7
	394.4	406.7	414.4	392.6	397.8	418.9	425.9	403.8
Earnings before undernoted Proportionate share of affiliate's provision	239.6	230.9	258.7	252.1	276.0	278.7	285.5	291.1
Non-recurring items related to transition to IFRS	–	–	–	5.0	–	–	–	–
Earnings before income taxes	239.6	230.9	258.7	257.1	276.0	278.7	285.5	261.8
Income taxes	50.5	56.1	56.8	53.9	60.8	63.7	72.1	71.2
Net earnings from continuing operations	189.1	174.8	201.9	203.2	215.2	215.0	213.4	190.6
Net earnings from discontinued operations	–	–	–	29.6	31.0	1.1	0.9	1.5
Net earnings	189.1	174.8	201.9	232.8	246.2	216.1	214.3	192.1
Perpetual preferred share dividends	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
<b>Net earnings available to common shareholders</b>	<b>\$ 186.9</b>	<b>\$ 172.6</b>	<b>\$ 199.7</b>	<b>\$ 230.6</b>	<b>\$ 244.0</b>	<b>\$ 213.9</b>	<b>\$ 212.1</b>	<b>\$ 189.9</b>
<b>Reconciliation of Non-IFRS Financial Measures</b> <sup>(1)</sup> (\$ millions)								
Operating earnings available to common shareholders – non-IFRS measure	\$ 186.9	\$ 179.0	\$ 199.7	\$ 196.0	\$ 213.0	\$ 212.8	\$ 211.2	\$ 210.2
Other items:								
Non-cash income tax charge	–	(6.4)	–	–	–	–	–	–
Net earnings from discontinued operations	–	–	–	29.6	31.0	1.1	0.9	1.5
Proportionate share of affiliate's provision	–	–	–	5.0	–	–	–	–
Non-recurring items related to transition to IFRS, net of tax	–	–	–	–	–	–	–	(21.8)
Net earnings available to common shareholders – IFRS	\$ 186.9	\$ 172.6	\$ 199.7	\$ 230.6	\$ 244.0	\$ 213.9	\$ 212.1	\$ 189.9
<b>Earnings per Share</b> (¢)								
Operating earnings available to common shareholders <sup>(1)</sup>								
– Basic	73	70	78	76	83	83	82	81
– Diluted	73	70	78	76	82	82	81	80
Net earnings available to common shareholders								
– Basic	73	67	78	90	95	83	82	73
– Diluted	73	67	78	89	94	82	81	73
<b>Average Daily Mutual Fund Assets</b> (\$ billions)								
	\$ 101.0	\$ 100.9	\$ 103.6	\$ 99.6	\$ 103.5	\$ 109.9	\$ 110.0	\$ 105.0
<b>Total Mutual Fund Assets Under Management</b> (\$ billions)								
	\$ 102.2	\$ 100.2	\$ 105.1	\$ 99.7	\$ 97.7	\$ 108.6	\$ 111.7	\$ 107.9
<b>Total Assets Under Management</b> (\$ billions)								
	\$ 119.3	\$ 118.0	\$ 124.1	\$ 118.7	\$ 116.7	\$ 130.2	\$ 134.1	\$ 129.5

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

# Investors Group

## Review of the Business

### INVESTORS GROUP STRATEGY

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

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

### CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering personal financial planning to its clients within the context of long-term relationships. At the centre of this relationship is a national distribution network of Consultants based in region offices across Canada. A new region office in Calgary, Alberta was opened in July 2012 and one new region office in Ancaster, Ontario was recently announced which will expand the network to 108 region offices.

At September 30, 2012, Investors Group had 4,543 Consultants, compared with 4,526 at June 30, 2012 and 4,595 one year ago. During the first quarter of 2012 there was a reduction in the number of Consultants primarily due to slower recruiting in the early part of the year, followed by increases in the second and third quarters.

The number of Consultants with more than four years of Investors Group experience continued to increase to 2,744 at September 30, 2012 compared to 2,727 at June 30, 2012 and 2,674 a year earlier.

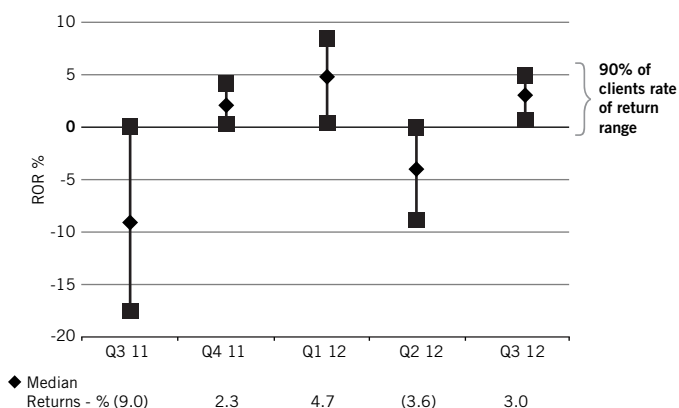
### ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

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

This administrative support is provided from both the Company's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from the Company's head office in Winnipeg, 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 both the approximately 800 Consultants throughout Quebec and the 19 Quebec region offices. Mutual fund assets under management in Quebec were approximately \$10 billion as at September 30, 2012.

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

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



For the three months ending September 30, 2012, the client median rate of return was approximately 3.0% and 99.9% of clients experienced positive returns. For the nine months ending September 30, 2012, the client median rate of return was approximately 3.8%. For the twelve months ending September 30, 2012, the client median rate of return was approximately 6.2%.

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

## ASSETS UNDER MANAGEMENT

The level of mutual fund assets under management is influenced by three factors: sales, redemptions and net asset values of our funds. Changes in assets under management for the periods under review are reflected in Table 9.

### Fund Performance

At September 30, 2012, 45% of Investors Group mutual funds (Investors, partner and portfolio funds) had a rating of three stars or better from the Morningstar<sup>†</sup> fund ranking service and 13% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 65% for three stars or better and 27% for four and five star funds at September 30, 2012. Morningstar Ratings<sup>†</sup> are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

TABLE 9: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

Three months ended (\$ millions)	2012 SEP. 30	2012 JUN. 30	2011 SEP. 30	% CHANGE	
				2012 JUN. 30	2011 SEP. 30
Sales	\$ 1,219.9	\$ 1,306.6	\$ 1,285.4	(6.6)%	(5.1)%
Redemptions	1,533.8	1,630.7	1,447.3	(5.9)	6.0
<b>Net sales (redemptions)</b>	(313.9)	(324.1)	(161.9)	3.1	(93.9)
Market and income	1,788.1	(2,185.7)	(5,493.6)	181.8	132.5
Net change in assets	1,474.2	(2,509.8)	(5,655.5)	158.7	126.1
Beginning assets	58,117.9	60,627.7	62,157.9	(4.1)	(6.5)
<b>Ending assets</b>	\$ 59,592.1	\$ 58,117.9	\$ 56,502.4	2.5 %	5.5 %
<b>Average daily assets</b>	\$ 58,742.1	\$ 58,493.6	\$ 59,384.3	0.4 %	(1.1)%

Nine months ended (\$ millions)	2012 SEP. 30	2011 SEP. 30	% CHANGE
Redemptions	4,822.9	4,539.2	6.3
<b>Net sales (redemptions)</b>	(462.8)	196.7	(335.3)
Market and income	2,319.6	(5,479.6)	142.3
Net change in assets	1,856.8	(5,282.9)	135.1
Beginning assets	57,735.3	61,785.3	(6.6)
<b>Ending assets</b>	\$ 59,592.1	\$ 56,502.4	5.5 %
<b>Average daily assets</b>	\$ 58,998.6	\$ 61,733.0	(4.4)%

### **Pricing and Product Enhancements**

On May 18, 2012, Investors Group announced a number of changes in the pricing of its mutual funds and product enhancements designed to expand its services to clients.

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

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

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

Coincident with the introduction of these changes, certain refinements to Investors Group's Consultant compensation will occur over the next year.

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

Investors Group's mutual fund assets under management were \$59.6 billion at September 30, 2012, an increase of 5.5% from \$56.5 billion at September 30, 2011. Average daily mutual fund assets were \$58.7 billion in the third quarter of 2012, down 1.1% from \$59.4 billion in the third quarter of 2011. Average daily mutual fund assets were \$59.0 billion for the nine months ended September 30, 2012, down 4.4% from \$61.7 billion for the comparative period in 2011.

For the quarter ended September 30, 2012, sales of Investors Group mutual funds through its Consultant network were \$1.2 billion, a decrease of 5.1% from the comparative period in 2011. Mutual fund redemptions totalled \$1.5 billion, an increase of 6.0% from 2011. Investors Group's twelve month trailing redemption rate for long-term funds was 9.7% at September 30, 2012 compared to 8.7% at September 30, 2011, and remains well below the most recently available corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 15.9% at June 30, 2012. Net redemptions

of Investors Group mutual funds for the third quarter of 2012 were \$314 million compared with net redemptions of \$162 million in 2011. Sales of long-term funds were \$1.1 billion for the third quarter of 2012, unchanged from 2011. Net redemptions of long-term funds for the third quarter of 2012 were \$275 million compared to net redemptions of \$148 million in 2011. During the third quarter, market and income resulted in an increase of \$1.8 billion in mutual fund assets compared to a decrease of \$5.5 billion in the third quarter of 2011.

For the nine months ended September 30, 2012, sales of Investors Group mutual funds through its Consultant network were \$4.4 billion, a decrease of 7.9% from the comparative period in 2011. Mutual fund redemptions totalled \$4.8 billion, an increase of 6.3% from 2011. Net redemptions of Investors Group mutual funds were \$463 million compared with net sales of \$197 million in 2011. Sales of long-term funds for the nine month period in 2012 were \$3.9 billion, compared with \$4.2 billion in 2011, a decrease of 8.0%. Net redemptions of long-term funds were \$433 million compared to net sales of \$205 million in 2011. During the nine month period, market and income resulted in an increase of \$2.3 billion in mutual fund assets compared to a decrease of \$5.5 billion in 2011.

### **Change in Mutual Fund Assets Under Management – Q3 2012 vs. Q2 2012**

Investors Group's mutual fund assets under management were \$59.6 billion at September 30, 2012, an increase of 2.5% from \$58.1 billion at June 30, 2012. Average daily mutual fund assets were \$58.7 billion in the third quarter of 2012 compared to \$58.5 billion in the second quarter of 2012, an increase of 0.4%.

For the quarter ended September 30, 2012, sales of Investors Group mutual funds through its Consultant network were \$1.2 billion, a decrease of 6.6% from the second quarter of 2012. Mutual fund redemptions, which totalled \$1.5 billion for the same period, decreased 5.9% from the previous quarter. Net redemptions of Investors Group mutual funds for the current quarter were \$314 million compared with net redemptions of \$324 million in the previous quarter. Sales of long-term funds were \$1.1 billion for the current quarter, unchanged from the previous quarter. Net redemptions of long-term funds for the current quarter were \$275 million compared to net redemptions of \$321 million in the previous quarter.

## OTHER PRODUCTS AND SERVICES

### Segregated Funds

Investors Group has offered segregated funds since 2001 and introduced the Investors Group Series of Guaranteed Investment Funds (GIFs) in November 2009. GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and 6 individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death benefit guarantee features, potential creditor protection and estate planning efficiencies. Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by Investors Group. At September 30, 2012, total segregated fund assets were \$1.2 billion compared to \$961 million at September 30, 2011.

### Insurance

Investors Group distributes insurance products through I.G. Insurance Services Inc. For the three months ended September 30, 2012, sales of insurance products as measured by new annualized premiums were \$16.1 million, an increase of 2.5% from \$15.7 million for the comparative period in 2011. For the nine months ended September 30, 2012, sales of insurance products as measured by new annualized premiums were \$50.8 million, an increase of 8.9% from \$46.7 million for the comparative period in 2011.

### Securities Operations

Investors Group provides securities services to clients through Investors Group Securities Inc. At September 30, 2012, total assets under administration were \$6.6 billion, compared to \$5.9 billion at September 30, 2011.

### Mortgage Operations

Investors Group is a national mortgage lender that offers a full suite of competitively positioned residential mortgage options to new and existing Investors Group clients. Short and long term, variable and fixed rate mortgages with competitive pricing and features are offered to clients as part of a comprehensive financial plan. Investors Group mortgage planning specialists are located throughout each province in Canada, and work with our clients and their Consultants as permitted by the regulations to develop mortgage strategies that

meet the individual needs and goals of each client. At September 30, 2012, there were 88 individuals in the mortgage specialist network compared to 72 at September 30, 2011.

Mortgage originations were \$466 million in the third quarter of 2012 compared to \$347 million in the third quarter of 2011, an increase of 34.3%. For the nine months ended September 30, 2012, mortgage originations were \$1.6 billion compared to \$1.1 billion in 2011, an increase of 52.5%. At September 30, 2012, mortgages serviced by Investors Group related to its mortgage banking operations totalled \$7.1 billion compared to \$6.3 billion at December 31, 2011.

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

### Solutions Banking<sup>†</sup>

Investors Group's Solutions Banking<sup>†</sup> continues to experience high rates of utilization by Consultants and clients. The offering consists of a wide range of products and services provided by the National Bank of Canada under a long-term distribution agreement and includes: investment loans, lines of credit, personal loans, creditor insurance, deposit accounts and credit cards. Clients have access to a network of banking machines, as well as a private labeled client website and private labeled client service centre. The Solutions Banking<sup>†</sup> offering supports Investors Group's approach to delivering total financial solutions for our clients through a broad financial planning platform.

### Additional Products and Services

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

## Review of Segment Operating Results

Investors Group's earnings before interest and taxes are presented in Table 10.

### 2012 VS. 2011

#### Fee Income

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

Solutions Banking<sup>†</sup> products and the provision of securities services provide additional fee income.

Investors Group earns management fees for investment management services provided to its mutual funds, which depend largely on the level and composition of mutual fund assets under management. Management fees were \$263.7 million in the third quarter of 2012, a decrease of \$19.3 million or 6.8% from \$283.0 million in 2011. For the nine months

TABLE 10: OPERATING RESULTS – INVESTORS GROUP

Three months ended (\$ millions)	2012 SEP. 30	2012 JUN. 30	2011 SEP. 30	% CHANGE	
				2012 JUN. 30	2011 SEP. 30
<b>Revenues</b>					
Management fees	\$ 263.7	\$ 274.8	\$ 283.0	(4.0)%	(6.8)%
Administration fees	54.5	54.4	55.5	0.2	(1.8)
Distribution fees	43.7	48.7	46.8	(10.3)	(6.6)
	361.9	377.9	385.3	(4.2)	(6.1)
Net investment income and other	16.2	10.4	20.0	55.8	(19.0)
	378.1	388.3	405.3	(2.6)	(6.7)
<b>Expenses</b>					
Commission	67.1	69.1	67.1	(2.9)	–
Asset retention bonus and premium	52.5	53.0	53.9	(0.9)	(2.6)
Non-commission	90.4	97.1	86.2	(6.9)	4.9
	210.0	219.2	207.2	(4.2)	1.4
<b>Earnings before interest and taxes</b>	<b>\$ 168.1</b>	<b>\$ 169.1</b>	<b>\$ 198.1</b>	<b>(0.6)%</b>	<b>(15.1)%</b>
<b>Nine months ended (\$ millions)</b>					
			2012 SEP. 30	2011 SEP. 30	% CHANGE
<b>Revenues</b>					
Management fees			\$ 819.5	\$ 879.3	(6.8)%
Administration fees			164.4	171.7	(4.3)
Distribution fees			141.7	141.8	(0.1)
			1,125.6	1,192.8	(5.6)
Net investment income and other			48.1	53.9	(10.8)
			1,173.7	1,246.7	(5.9)
<b>Expenses</b>					
Commission			206.5	202.6	1.9
Asset retention bonus and premium			158.8	166.9	(4.9)
Non-commission			279.6	264.1	5.9
			644.9	633.6	1.8
<b>Earnings before interest and taxes</b>			<b>\$ 528.8</b>	<b>\$ 613.1</b>	<b>(13.7)%</b>



ended September 30, 2012, management fees were \$819.5 million, a decrease of \$59.8 million or 6.8% from \$879.3 million in 2011. The net decrease in management fees in both periods was primarily due to:

- The decrease in the management fee rate for the third quarter of 2012 to 178.6 basis points of average daily mutual fund assets from 189.0 basis points in 2011. The management fee rate changes relate to the pricing and product enhancements as discussed in the Investors Group Review of the Business section of this MD&A.
- The management fee rate for the nine months ended September 30, 2012 decreased to 185.5 basis points of average daily mutual fund assets from 190.4 basis points in 2011.
- The decrease in average daily mutual fund assets of 1.1% and 4.4%, respectively, as shown in Table 9.

The decreases in the three and nine month periods were offset in part by an increase of \$0.8 million and \$3.8 million, respectively, in fee income in the current period due to one more calendar day in 2012 compared to 2011.

Management fee income and average management fee rates for all of the periods under review also reflected the effect of Investors Group having waived a portion of the investment management fees on its money market funds to ensure that these funds maintained a positive yield. For the three and nine month periods in 2012, these waivers totalled \$0.9 million and \$2.8 million, respectively, compared to \$1.1 million and \$3.1 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 \$54.5 million in the current quarter compared to \$55.5 million a year ago, a decrease of 1.8%. Administration fees were \$164.4 million for the nine month period ended September 30, 2012 compared to \$171.7 million in 2011, a decrease of 4.3%. The decrease in both periods resulted primarily from the change in average daily mutual fund assets under administration as well as pricing changes made during the third quarter of 2012.

Distribution fees are primarily earned from:

- Redemption fees on mutual funds sold with a deferred sales charge.

- Portfolio fund distribution fees.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking<sup>†</sup>.

Distribution fee income of \$43.7 million for the third quarter of 2012 decreased by \$3.1 million from \$46.8 million in 2011. This decrease was primarily due to pricing changes in portfolio fund distribution fees made during the third quarter of 2012, to decreases in distribution fee income from banking and insurance products, and to a decrease in redemption fees. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

Distribution fee income of \$141.7 million for the nine months ended September 30, 2012 decreased by \$0.1 million from \$141.8 million in 2011. The decrease due to pricing changes in portfolio fund distribution fees made during the third quarter and the decrease in distribution fee income from banking products were offset by an increase in income from insurance products.

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

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

Net investment income and other was \$16.2 million in the third quarter of 2012, a decrease of \$3.8 million from \$20.0 million in 2011. For the nine months ended September 30, 2012, net investment income and other totalled \$48.1 million, a decrease of \$5.8 million from \$53.9 million in 2011.

Net investment income related to Investors Group's mortgage banking operations totalled \$16.1 million for the third quarter of 2012 compared to \$19.8 million in 2011, a decrease of \$3.7 million. Net investment income related to Investors Group's mortgage banking operations totalled \$47.5 million for the nine months ended September 30, 2012 compared to \$53.0 million in 2011, a decrease of \$5.5 million. A summary of mortgage banking operations for the three and nine



month periods under review is presented in Table 11. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – which decreased by \$4.0 million and \$10.0 million for the three and nine month periods ended September 30, 2012 to \$11.7 million and \$37.5 million, respectively, compared to 2011. The decline resulted from lower net interest margins and the decline in the proportion of certain of the securitized loans in the ABCP

programs, which currently have a higher interest income margin than loans securitized in the CMB Program.

- Gains realized on the sale of residential mortgages – which decreased by \$1.7 million and increased by \$2.4 million for the three and nine month periods ended September 30, 2012 to \$5.1 million and \$14.7 million, respectively, compared to 2011. The decrease in gains during the three month period was

TABLE 11: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

(\$ millions)	2012 SEP. 30	2012 JUN. 30	2011 SEP. 30	% CHANGE	
				2012 JUN. 30	2011 SEP. 30
(As at)					
<b>Mortgages serviced</b>	\$ 7,082	\$ 6,810	\$ 6,135	4.0 %	15.4 %
<b>Mortgage warehouse<sup>(1)</sup></b>	\$ 356	\$ 317	\$ 372	12.3 %	(4.3) %
(Three months ended)					
<b>Average mortgages serviced</b>					
CMB/MBS Programs	\$ 2,845	\$ 2,678	\$ 2,420	6.2 %	17.6 %
Bank-sponsored ABCP programs	1,364	1,200	979	13.7	39.3
Securitized	4,209	3,878	3,399	8.5	23.8
Other	2,756	2,781	2,666	(0.9)	3.4
	\$ 6,965	\$ 6,659	\$ 6,065	4.6 %	14.8 %
<b>Mortgage originations<sup>(2)</sup></b>	\$ 466	\$ 593	\$ 347	(21.4) %	34.3 %
<b>Mortgage sales to:<sup>(3)</sup></b>					
Securitized	\$ 455	\$ 759	\$ 344	(40.1) %	32.3 %
Other <sup>(4)</sup>	281	277	223	1.4	26.0
	\$ 736	\$ 1,036	\$ 567	(29.0) %	29.8 %
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income	\$ 36.7	\$ 36.2	\$ 36.9	1.4 %	(0.5) %
Interest expense	25.0	23.3	21.2	7.3	17.9
Net interest income	11.7	12.9	15.7	(9.3)	(25.5)
Gains on sales <sup>(5)</sup>	5.1	5.9	6.8	(13.6)	(25.0)
Fair value adjustments and other income	(0.7)	(8.6)	(2.7)	91.9	74.1
	\$ 16.1	\$ 10.2	\$ 19.8	57.8 %	(18.7) %

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

(2) Excludes renewals and refinances.

(3) Represents principal amounts sold.

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

TABLE 11: MORTGAGE BANKING ACTIVITIES – INVESTORS GROUP (CONTINUED)

(\$ millions)	2012 SEP. 30	2011 SEP. 30	% CHANGE
(Nine months ended)			
<b>Average mortgages serviced</b>			
CMB/MBS Programs	\$ 2,726	\$ 2,259	20.7 %
Bank-sponsored ABCP programs	1,204	1,133	6.3
Securitizations	3,930	3,392	15.9
Other	2,727	2,514	8.5
	<b>\$ 6,657</b>	<b>\$ 5,906</b>	<b>12.7 %</b>
<b>Mortgage originations<sup>(2)</sup></b>	<b>\$ 1,648</b>	<b>\$ 1,081</b>	<b>52.5 %</b>
<b>Mortgage sales to:<sup>(3)</sup></b>			
Securitizations	\$ 1,725	\$ 871	98.0 %
Other <sup>(4)</sup>	723	610	18.5
	<b>\$ 2,448</b>	<b>\$ 1,481</b>	<b>65.3 %</b>
<b>Total mortgage banking income</b>			
Net interest income on securitized loans			
Interest income	\$ 108.5	\$ 109.7	(1.1)%
Interest expense	71.0	62.2	14.1
Net interest income	37.5	47.5	(21.1)
Gains on sales <sup>(5)</sup>	14.7	12.3	19.5
Fair value adjustments and other income	(4.7)	(6.8)	30.9
	<b>\$ 47.5</b>	<b>\$ 53.0</b>	<b>(10.4)%</b>

due to lower margins on sales and the increase for the nine month period was due to higher volumes on mortgage sales to institutional investors and certain Investors Group managed mutual funds.

- Fair value adjustments and other income – which increased by \$2.0 million and \$2.1 million for the three and nine month periods ended September 30, 2012 to negative \$0.7 million and negative \$4.7 million, respectively, compared to 2011. The increase in the three and nine month periods resulted from favourable fair value adjustments to financial instruments held, including interest rate swaps utilized for hedging purposes.

#### Expenses

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the

level of sales. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Commissions paid on the sale of mutual funds are deferred and amortized over a maximum period of seven years. Commission expense was \$67.1 million for the third quarter of 2012, unchanged from the third quarter in 2011. For the nine month period commission expense increased by \$3.9 million to \$206.5 million compared with \$202.6 million in 2011. The increase in the nine month period was due to increases in the distribution of other financial services and products as well as higher redemptions on mutual funds sold with a deferred sales charge.

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

- Asset retention bonus, which is based on the value of certain assets under management, decreased by

\$0.9 million and \$6.8 million for the three and nine month periods ended September 30, 2012 to \$44.6 million and \$134.9 million, respectively, compared to 2011. The decreases were primarily due to changes in average assets under management.

- Asset retention premium, which is a deferred component of compensation designed to promote Consultant retention, is based on assets under management at each year-end. Asset retention premium expense decreased by \$0.5 million and \$1.3 million in the three and nine month periods to \$7.9 million and \$23.9 million, respectively, compared to 2011.

Non-commission expenses incurred by Investors Group primarily related to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as sub-advisory fees related to mutual funds under management. Non-commission expenses were \$90.4 million for the third quarter of 2012 compared to \$86.2 million in 2011, an increase of \$4.2 million or 4.9%. For the nine month period, non-commission expenses were \$279.6 million compared to \$264.1 million in 2011, an increase of \$15.5 million or 5.9%.

### Q3 2012 VS. Q2 2012

#### Fee Income

Management fee income decreased by \$11.1 million or 4.0% to \$263.7 million in the third quarter of 2012 compared with the second quarter of 2012. The decrease in management fee income was primarily due to the decrease in the management fee rate to 178.6 basis points of average daily mutual fund assets from 189.0 basis points in the prior quarter. The management fee rate changes relate to the pricing and product enhancements as discussed in the Investors Group Review of the Business section of this MD&A. The decrease was offset in part by increases due to:

- The increase in average daily mutual fund assets of 0.4% as shown in Table 9.
- One additional calendar day in the third quarter of 2012 compared with the second quarter of 2012 which resulted in a \$3.0 million increase in fee income in the current quarter.

Money market fund waivers totalled \$0.9 million in the third quarter of 2012, unchanged from the second quarter of 2012.

Administration fees increased to \$54.5 million in the third quarter of 2012 from \$54.4 million in the second quarter of 2012. The net increase resulted primarily from the increase in average daily mutual fund assets and the impact of one additional calendar day in the third quarter of 2012 compared with the second quarter of 2012. The increase was offset by pricing changes made during the third quarter.

Distribution fee income of \$43.7 million in the third quarter of 2012 decreased by \$5.0 million from \$48.7 million in the second quarter due to a decrease in redemption fee income of \$1.4 million, a decrease in distribution fee income from insurance products of \$2.0 million, and a decrease primarily due to pricing changes in portfolio fund distribution fees made in the third quarter.

#### Net Investment Income and Other

Net investment income and other was \$16.2 million in the third quarter of 2012 compared to \$10.4 million in the previous quarter, an increase of \$5.8 million primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled \$16.1 million in the third quarter, an increase of \$5.9 million from \$10.2 million in the previous quarter as shown in Table 11. The changes in mortgage banking income related primarily to fair value adjustments and other income which increased by \$7.9 million relative to the previous quarter to negative \$0.7 million. The increase resulted from unfavourable fair value adjustments of \$6.6 million on hedges of loans pending sale or securitization during the previous quarter compared to \$0.2 million in the current quarter.

#### Expenses

Commission expense in the current quarter was \$67.1 million compared with \$69.1 million in the previous quarter. This decrease was primarily due to decreases in the distribution of other financial services and products as well as lower redemptions on mutual funds sold with a deferred sales charge. The asset retention bonus and premium expense decreased by \$0.5 million to \$52.5 million in the third quarter of 2012.

Non-commission expenses were \$90.4 million in the current quarter, a decrease of \$6.7 million or 6.9% from \$97.1 million in the second quarter of 2012.

# Mackenzie

## Review of the Business

### MACKENZIE STRATEGY

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

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

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

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

In the retail distribution channel, Mackenzie faces competition from other asset management companies, banks, insurance companies and other financial institutions which distribute their products and services to the same customers that Mackenzie is seeking to

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

### Sale of Mackenzie Subsidiaries

- On July 31, 2012, Mackenzie completed the sale of 100% of the common shares of Winfund Software Corp. (Winfund).
- On November 16, 2011, Mackenzie completed the sale of 100% of the common shares of M.R.S. Trust Company and M.R.S. Inc (MRS). The Mackenzie Review of Segment Operating Results in this MD&A excludes the results of operations of MRS, which have been classified as discontinued operations.

The strategic decision to sell Winfund and MRS allows Mackenzie to stay focused on its core competencies of investment management, distribution and client servicing. Mackenzie is working on a number of initiatives in this regard, including the recent opening of an office in the United States that will distribute investment services to institutions and the incorporation of an investment management company in Singapore. The Singapore company will commence operations once it has obtained registration with the Monetary Authority of Singapore.

### ASSETS UNDER MANAGEMENT

The changes in assets under management are summarized in Table 12.

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

### Fund Performance

Long-term investment performance is a key measure of Mackenzie's ongoing success. At September 30, 2012, 61% of Mackenzie mutual funds were rated in the top two performance quartiles for the one year time frame, 55% for the three year time frame and 57% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its

TABLE 12: CHANGE IN ASSETS UNDER MANAGEMENT – MACKENZIE

Three months ended (\$ millions)	2012 SEP. 30	2012 JUN. 30	2011 SEP. 30	% CHANGE	
				2012 JUN. 30	2011 SEP. 30
Sales	\$ 2,448.1	\$ 1,958.2	\$ 2,044.7	25.0 %	19.7 %
Redemptions	3,457.6	3,249.0	3,245.9	6.4	6.5
<b>Net sales (redemptions)</b>	<b>(1,009.5)</b>	<b>(1,290.8)</b>	<b>(1,201.2)</b>	<b>21.8</b>	<b>16.0</b>
Market and income	1,365.3	(2,423.7)	(6,690.1)	156.3	120.4
Net change in assets	355.8	(3,714.5)	(7,891.3)	109.6	104.5
Beginning assets	60,651.9	64,366.4	68,807.5	(5.8)	(11.9)
<b>Ending assets</b>	<b>\$ 61,007.7</b>	<b>\$ 60,651.9</b>	<b>\$ 60,916.2</b>	<b>0.6 %</b>	<b>0.2 %</b>
<b>Consists of:</b>					
Mutual funds	\$ 39,727.9	\$ 39,216.8	\$ 38,527.2	1.3 %	3.1 %
Sub-advisory, institutional and other accounts	21,279.8	21,435.1	22,389.0	(0.7)	(5.0)
	\$ 61,007.7	\$ 60,651.9	\$ 60,916.2	0.6 %	0.2 %
<b>Daily average mutual fund assets</b>	<b>\$ 39,424.5</b>	<b>\$ 39,522.5</b>	<b>\$ 41,326.4</b>	<b>(0.2)%</b>	<b>(4.6)%</b>
<b>Monthly average total assets<sup>(1)</sup></b>	<b>\$ 60,385.3</b>	<b>\$ 61,562.2</b>	<b>\$ 65,415.9</b>	<b>(1.9)%</b>	<b>(7.7)%</b>
<b>Nine months ended</b>					
(\$ millions)			2012 SEP. 30	2011 SEP. 30	% CHANGE
Sales			\$ 7,126.9	\$ 8,214.8	(13.2)%
Redemptions			10,360.2	9,467.9	9.4
<b>Net sales (redemptions)</b>			<b>(3,233.3)</b>	<b>(1,253.1)</b>	<b>(158.0)</b>
Market and income			2,589.0	(6,177.0)	141.9
Net change in assets			(644.3)	(7,430.1)	91.3
Beginning assets			61,652.0	68,346.3	(9.8)
<b>Ending assets</b>			<b>\$ 61,007.7</b>	<b>\$ 60,916.2</b>	<b>0.2 %</b>
<b>Daily average mutual fund assets</b>			<b>\$ 39,954.5</b>	<b>\$ 43,229.9</b>	<b>(7.6)%</b>
<b>Monthly average total assets<sup>(1)</sup></b>			<b>\$ 61,891.1</b>	<b>\$ 68,194.0</b>	<b>(9.2)%</b>

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

mutual funds from the Morningstar<sup>†</sup> fund ranking service. At September 30, 2012, 79% of Mackenzie mutual fund assets measured by Morningstar<sup>†</sup> had a rating of three stars or better and 28% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 79% for three stars or better and 41% for four and five star funds at September 30, 2012.

#### Changes to Mutual Fund Product Offering

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. Mackenzie continues to adjust its product shelf by providing enhanced investment solutions for financial advisors to offer their investment clients. Initiatives undertaken in the third quarter of 2012 included the following:

- Changed the investment objectives of Symmetry Equity Portfolio Class, Symmetry Fixed Income Portfolio Class and Symmetry Fixed Income Portfolio. These changes allow these funds to invest primarily in securities of other Mackenzie mutual funds, resulting in greater flexibility for the Symmetry portfolio managers to manage the risk–return profile of these funds.
- Launched the Mackenzie Global Large Cap Quality Pooled Fund, an institutional pool to be sold to pension funds and registered charities in Canada.
- Launched the Mackenzie Global Tactical Fund, a global investment solution with the ability to invest anywhere, in any class, at any time. The fund is subadvised by Waddell & Reed Investment Management Company.

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

Mackenzie's total assets under management at September 30, 2012 were \$61.0 billion, an increase of 0.2% from \$60.9 billion at September 30, 2011.

Mackenzie's mutual fund assets under management were \$39.7 billion at September 30, 2012, an increase of 3.1% from \$38.5 billion at September 30, 2011.

Mackenzie's sub-advisory, institutional and other accounts at September 30, 2012 were \$21.3 billion, a decrease of 5.0% from \$22.4 billion last year.

In the three months ended September 30, 2012, Mackenzie's gross sales were \$2.4 billion, an increase of 19.7% from \$2.0 billion in the comparative period last year. Redemptions in the current period were \$3.5 billion, an increase of 6.5% from \$3.2 billion last year. Net redemptions for the three months ended September 30, 2012 were \$1.0 billion, as compared to net redemptions of \$1.2 billion last year. During the current quarter, market and income resulted in assets increasing by \$1.4 billion as compared to a decrease of \$6.7 billion last year.

In the nine months ended September 30, 2012, Mackenzie's gross sales were \$7.1 billion, a decrease of 13.2% from \$8.2 billion in the comparative period last year. Redemptions in the current period were \$10.4 billion, an increase of 9.4% from \$9.5 billion last

year. Net redemptions for the nine months ended September 30, 2012 were \$3.2 billion, as compared to net redemptions of \$1.3 billion last year. During the period, market and income resulted in assets increasing by \$2.6 billion as compared to a decrease of \$6.2 billion last year.

Redemptions of long-term funds in the three and nine month periods ended September 30, 2012 were \$1.4 billion and \$4.7 billion respectively, as compared to \$1.7 billion and \$5.0 billion in the comparative periods last year. As at September 30, 2012, Mackenzie's twelve-month trailing redemption rate for long-term funds was 16.1%, as compared to 16.2% last year. The most recently available corresponding average twelve-month trailing redemption rate for long-term funds for all other members of IFIC was approximately 15.2% at June 30, 2012. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

#### **Change in Assets under Management – Q3 2012 vs. Q2 2012**

Mackenzie's total assets under management at September 30, 2012 were \$61.0 billion, an increase of 0.6% from \$60.7 billion at June 30, 2012 as summarized in Table 12. Mackenzie's mutual fund assets under management increased 1.3% to \$39.7 billion in the quarter and Mackenzie's sub-advisory, institutional and other accounts decreased 0.7% to \$21.3 billion at September 30, 2012.

Redemptions of long-term mutual fund assets in the current quarter were \$1.4 billion as compared to \$1.5 billion in the quarter ended June 30, 2012. Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended September 30, 2012 was 14.8% as compared to 14.7% in the second quarter of 2012.



## Review of Segment Operating Results

Mackenzie's earnings before interest and taxes are presented in Table 13.

### 2012 VS. 2011

#### Revenues

Mackenzie's management fee revenues are earned from services it provides as fund manager to its mutual funds and as investment advisor to sub-advisory and institutional accounts. The majority of Mackenzie's mutual fund assets

are purchased on a retail basis. Mackenzie also offers certain series of its mutual funds with management fees that are designed for fee-based programs, institutional investors and third party investment programs offered by banks, insurance companies and investment dealers. Mackenzie does not pay commissions on these non-retail series of its mutual funds. At September 30, 2012, there were \$10.4 billion or 26.2% of mutual fund assets in these series of funds, as compared to \$9.9 billion or 25.3% at June 30, 2012 and \$9.5 billion or 24.7% at September 30, 2011.

TABLE 13: OPERATING RESULTS – MACKENZIE<sup>(1)</sup>

Three months ended (\$ millions)	2012		2011	% CHANGE	
	SEP. 30	JUN. 30	SEP. 30	JUN. 30	SEP. 30
<b>Revenues</b>					
Management fees	\$ 156.3	\$ 157.4	\$ 170.4	(0.7)%	(8.3)%
Administration fees	25.9	26.9	26.9	(3.7)	(3.7)
Distribution fees	4.1	4.2	4.6	(2.4)	(10.9)
	186.3	188.5	201.9	(1.2)	(7.7)
Net investment income and other	2.1	0.2	1.3	N/M	61.5
	188.4	188.7	203.2	(0.2)	(7.3)
<b>Expenses</b>					
Commission	19.5	20.3	22.8	(3.9)	(14.5)
Trailing commission	43.9	44.5	46.7	(1.3)	(6.0)
Non-commission	60.4	61.5	58.6	(1.8)	3.1
	123.8	126.3	128.1	(2.0)	(3.4)
<b>Earnings before interest and taxes</b>	<b>\$ 64.6</b>	<b>\$ 62.4</b>	<b>\$ 75.1</b>	<b>3.5 %</b>	<b>(14.0)%</b>
<b>Nine months ended (\$ millions)</b>					
			2012	2011	% CHANGE
			SEP. 30	SEP. 30	
<b>Revenues</b>					
Management fees			\$ 477.7	\$ 535.4	(10.8)%
Administration fees			79.7	80.9	(1.5)
Distribution fees			13.3	15.3	(13.1)
			570.7	631.6	(9.6)
Net investment income and other			2.1	2.2	(4.5)
			572.8	633.8	(9.6)
<b>Expenses</b>					
Commission			62.0	72.1	(14.0)
Trailing commission			134.4	147.4	(8.8)
Non-commission			187.6	182.6	2.7
			384.0	402.1	(4.5)
<b>Earnings before interest and taxes</b>			<b>\$ 188.8</b>	<b>\$ 231.7</b>	<b>(18.5)%</b>

(1) Excludes the operating results of Discontinued Operations



Management fees were \$156.3 million for the three months ended September 30, 2012, a decrease of \$14.1 million or 8.3% from \$170.4 million last year. For the nine months ended September 30, 2012, management fees were \$477.7 million, a decrease of \$57.7 million or 10.8% from \$535.4 million in 2011. The change in management fees was consistent with the decrease in Mackenzie's average total assets under management combined with the change in mix of assets under management. In addition, there was one more calendar day in the nine months ended September 30, 2012 than in the comparative period in 2011 which partially offset the reduction.

Average total assets under management were \$60.4 billion in the three month period ended September 30, 2012 compared to \$65.4 billion in 2011, a decrease of 7.7%. Average total assets under management for the nine month period ended September 30, 2012 were \$61.9 billion compared to \$68.2 billion in 2011, a decrease of 9.2%.

Mackenzie's average management fee rate was 102.9 basis points in the three month period ended September 30, 2012 and 103.1 basis points in the nine month period ended September 30, 2012, compared to 103.4 basis points and 105.0 basis points, respectively, in 2011. Factors contributing to the decrease in the average management fee rate in the nine month period ended September 30, 2012 as compared to 2011 are as follows:

- Changes in the relative proportion of Mackenzie's institutional accounts and non-retail mutual funds, as these assets have lower management fees.
- Changes in the relative proportion of equity and fixed income assets under management, due to market and income as well as net cash flows, as accounts with fixed income mandates have lower management fees.

Mackenzie earns administration fees primarily from providing services to its mutual funds. Administration fees were \$25.9 million for the three months ended September 30, 2012, as compared to \$26.9 million in 2011. Administration fees were \$79.7 million for the nine months ended September 30, 2012, as compared to \$80.9 million in 2011.

Effective August 1, 2007, Mackenzie assumed responsibility for the operating expenses of the Mackenzie funds, other than GST/HST and certain specified fund

costs, in return for a fixed rate administration fee established for each fund based on the following criteria:

- The funds that existed as at August 1, 2007 may be required to pay a monthly operating expense adjustment to Mackenzie if the combined average monthly net assets for all Mackenzie funds and series that were subject to the administration fee proposal that was approved by investors on August 7, 2007 fall to a level that is 95% of the amount of their total net assets on August 1, 2007. If it becomes payable, Mackenzie will be entitled to receive an operating expense adjustment for that month from each of those funds and series in such amount that will result in all of those series, collectively, paying an administration fee for the month equal to the administration fee that would have been payable had the monthly net assets equaled 95% of the net assets on August 1, 2007 throughout the month.
- The monthly operating expense adjustment will continue until the first month where average asset levels exceed 95% of the net asset levels on August 1, 2007. If, in a subsequent month, the monthly net assets increase to an amount equal to or greater than 95% of the net assets on August 1, 2007, the operating expense adjustment will no longer be payable.

Due to the level of mutual fund assets, Mackenzie continued to receive an operating expense adjustment in the current period. The operating expense adjustments in the three months ended September 30, 2012 were \$4.9 million and in the nine months ended September 30, 2012 were \$13.5 million as compared to \$3.8 million and \$7.1 million, respectively, in 2011.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Distribution fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Distribution fees for low load assets range from 3.0% in the first year and decrease to zero after three years. Distribution fee income in the three months ended September 30, 2012 was \$4.1 million, a decrease of \$0.5 million from \$4.6 million last year. Distribution fee income in the nine months ended September 30, 2012 was \$13.3 million, a decrease of \$2.0 million from \$15.3 million last year.

## Expenses

Mackenzie's expenses were \$123.8 million for the three months ended September 30, 2012, a decrease of \$4.3 million or 3.4% from \$128.1 million last year. Expenses for the nine months ended September 30, 2012 were \$384.0 million, a decrease of \$18.1 million or 4.5% from \$402.1 million in 2011.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets. Commission expenses were \$19.5 million in the three months ended September 30, 2012, as compared to \$22.8 million last year. Commission expense in the nine months ended September 30, 2012 was \$62.0 million compared to \$72.1 million in 2011.

Trailing commissions paid to dealers are calculated as a percentage of mutual fund assets under management and vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$43.9 million in the three months ended September 30, 2012, a decrease of \$2.8 million or 6.0% from \$46.7 million last year. Trailing commissions in the nine months ended September 30, 2012 were \$134.4 million, a decrease of \$13.0 million or 8.8% from \$147.4 million in the comparative period last year. The change in trailing commissions was consistent with the period over period movement in average mutual fund assets under management and the change in asset mix within Mackenzie's mutual funds. Trailing commissions as a percentage of average mutual fund assets under management were 44.3 basis points in the three months ended September 30, 2012 and 44.9 basis points in the nine months ended September 30, 2012 as compared to 44.8 basis points and 45.6 basis points, respectively, last year.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$60.4 million in the three months ended September 30, 2012, an increase of \$1.8 million or 3.1%

from \$58.6 million last year. Non-commission expenses in the nine months ended September 30, 2012 were \$187.6 million, an increase of \$5.0 million or 2.7% from \$182.6 million in the comparative period last year. Mackenzie actively manages its non-commission expenses to enhance its future operating capabilities while at the same time investing in revenue generating initiatives to further grow its business.

## Q3 2012 VS. Q2 2012

### Revenues

Management fees were \$156.3 million for the current quarter, a decrease of \$1.1 million or 0.7% from \$157.4 million in the second quarter of 2012. Factors contributing to the net decrease in management fees are as follows:

- Average total assets under management were \$60.4 billion in the current quarter compared to \$61.6 billion in the quarter ended June 30, 2012, a decrease of 1.9%.
- Mackenzie's average management fee rate was 102.9 basis points in the current quarter as compared to 102.8 basis points in the second quarter of 2012.
- There was one more calendar day in the current quarter compared to the second quarter of 2012 resulting in higher management fees.

Administration fees were \$25.9 million in the current quarter, a decrease of \$1.0 million or 3.7% from \$26.9 million in the prior quarter. Included in administration fees for the current quarter were fund operating expense adjustments of \$4.9 million as compared to \$4.4 million in the second quarter of 2012.

### Expenses

Mackenzie's expenses were \$123.8 million for the current quarter, a decrease of \$2.5 million or 2.0% from \$126.3 million in the second quarter of 2012.

Commission expense, which represents the amortization of selling commissions, was \$19.5 million in the quarter ended September 30, 2012, as compared to \$20.3 million in the second quarter of 2012. Trailing commissions were \$43.9 million in the current quarter, a decrease of \$0.6 million or 1.3% from \$44.5 million in the second quarter of 2012.

Non-commission expenses were \$60.4 million in the current quarter, a decrease of \$1.1 million or 1.8% from \$61.5 million in the second quarter of 2012.

## 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 14.

### 2012 VS. 2011

Net investment income and other totalled \$25.7 million in the third quarter of 2012, an increase of \$3.8 million compared with 2011. Net investment income and other totalled \$69.4 million for the nine months ended September 30, 2012, an increase of \$5.5 million compared with 2011. The increases in both periods were primarily due to the reversal of a charge that was recorded in the fourth quarter of 2009 related to a non-retail mutual fund product.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.4 million higher in the third quarter of 2012 compared to the same period in 2011 and \$0.1 million lower in the nine months ended September 30, 2012 compared with 2011.

### Q3 2012 VS. Q2 2012

Net investment income and other totalled \$25.7 million in the third quarter of 2012, an increase of \$6.7 million from the previous quarter due in part to the increase of \$3.4 million in the Company's proportionate share of Lifeco's earnings as discussed in the Consolidated Financial Position section of this MD&A. The remainder of the increase primarily relates to the reversal of a charge that was recorded in the fourth quarter of 2009 related to a non-retail mutual fund product.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.3 million higher in the third quarter of 2012 compared with the previous quarter.

TABLE 14: OPERATING RESULTS – CORPORATE AND OTHER

Three months ended (\$ millions)	2012		2011 SEP. 30	% CHANGE	
	SEP. 30	JUN. 30		JUN. 30	SEP. 30
<b>Revenues</b>					
Fee income	\$ 41.8	\$ 41.6	\$ 43.4	0.5 %	(3.7)%
Net investment income and other	25.7	19.0	21.9	35.3	17.4
	67.5	60.6	65.3	11.4	3.4
<b>Expenses</b>					
Commission	26.8	26.8	28.1	–	(4.6)
Non-commission	10.6	11.5	11.2	(7.8)	(5.4)
	37.4	38.3	39.3	(2.3)	(4.8)
<b>Earnings before interest and taxes</b>	<b>\$ 30.1</b>	<b>\$ 22.3</b>	<b>\$ 26.0</b>	<b>35.0 %</b>	<b>15.8 %</b>
<hr/>					
Nine months ended (\$ millions)	2012		2011 SEP. 30	% CHANGE	
	SEP. 30	SEP. 30		SEP. 30	% CHANGE
<b>Revenues</b>					
Fee income			\$ 128.8	\$ 138.4	(6.9)%
Net investment income and other			69.4	63.9	8.6
			198.2	202.3	(2.0)
<b>Expenses</b>					
Commission			83.2	91.9	(9.5)
Non-commission			34.4	35.4	(2.8)
			117.6	127.3	(7.6)
<b>Earnings before interest and taxes</b>			<b>\$ 80.6</b>	<b>\$ 75.0</b>	<b>7.5 %</b>

# IGM Financial Inc.

## Consolidated Financial Position

IGM Financial's total assets were \$11.7 billion at September 30, 2012, compared to \$11.2 billion at December 31, 2011.

### SECURITIES

The composition of the Company's securities holdings is detailed in Table 15.

#### Fair Value Through Profit or Loss Securities

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

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

Canada Mortgage Bonds had a fair value of \$226.9 million at September 30, 2012. The obligation to repurchase the securities is recorded at amortized cost and had a carrying value of \$227.1 million. The interest expense related to these obligations is recorded

in Net investment income and other in the Consolidated Statements of Earnings.

### LOANS

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

Loans consisted of residential mortgages and represented 40.9% of total assets at September 30, 2012 compared to 36.6% at December 31, 2011. Loans are comprised of:

- Sold to securitization programs – these loans are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$4.4 billion at September 30, 2012, compared to \$3.8 billion at December 31, 2011.
- Intermediary operations – these loans are held by the Company to earn interest in the Company's deposit operations.
- Mortgage banking operations – these loans are held 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 CMHC or Canadian bank sponsored securitization programs. Investors Group services residential mortgages of \$9.0 billion, including \$1.9 billion originated by subsidiaries of Great-West Lifeco Inc.

TABLE 15: SECURITIES

(\$ millions)	SEPTEMBER 30, 2012		DECEMBER 31, 2011	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Available for sale</b>				
Common shares	\$ –	\$ –	\$ 4.9	\$ 4.9
Proprietary investment funds	30.4	30.9	30.7	31.1
	30.4	30.9	35.6	36.0
<b>Fair value through profit or loss</b>				
Common shares	5.7	5.8	–	–
Canada Mortgage Bonds	220.4	226.9	220.5	227.2
Fixed income securities	30.5	33.5	30.8	29.2
	256.6	266.2	251.3	256.4
	\$ 287.0	\$ 297.1	\$ 286.9	\$ 292.4

TABLE 16: LOANS

<i>(\$ millions)</i>	SEP. 30, 2012	DEC. 31, 2011
<b>Loans and receivables</b>		
Sold to securitization programs	\$ 4,362.8	\$ 3,763.3
Intermediary operations	36.7	31.3
	4,399.5	3,794.6
Less: Collective allowance	0.7	0.8
	4,398.8	3,793.8
<b>Held for trading</b>		
Mortgage banking operations	385.8	292.1
	\$ 4,784.6	\$ 4,085.9

## SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by Investors Group mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the CMB Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is mitigated through the use of insurance. Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they are accounted for as secured borrowings. The Company records the transactions under these programs as follows: (i) the mortgages and related obligations are carried at amortized cost; and (ii) interest income and interest expense, utilizing the effective interest rate method, are recorded over the term of the mortgages.

In the third quarter of 2012, the Company securitized loans through its mortgage banking operations with cash proceeds of \$451 million compared to \$343 million in 2011. The fair value of the Company's retained interest was \$56.8 million at September 30, 2012 compared to

\$24.3 million at December 31, 2011. The retained interest includes cash reserve accounts of \$21.5 million, which are reflected on the balance sheet, and rights to future excess spread of \$97.4 million, which are not reflected on the balance sheet. The retained interest also includes the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. This component of the swap is recorded on the balance sheet and had a negative fair value of \$62.1 million at September 30, 2012. Additional information related to the Company's securitization activities can be found in the Financial Instruments section of this MD&A and in Note 6 of the Interim Financial Statements.

## INVESTMENT IN AFFILIATE

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

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence over Lifeco. The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment. Changes in the carrying value for the three and nine month periods ended September 30, 2012 compared with the same periods in 2011 are shown in Table 17.

TABLE 17: INVESTMENT IN AFFILIATE

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	2012	2011
<b>Carrying value, beginning of period</b>	\$ 613.5	\$ 572.1	\$ 612.5	\$ 580.5
Proportionate share of earnings	20.2	20.8	56.6	55.9
Dividends received	(11.7)	(11.7)	(34.9)	(34.9)
Proportionate share of other comprehensive income (loss) and other adjustments	2.7	(2.2)	(9.5)	(22.5)
<b>Carrying value, end of period</b>	\$ 624.7	\$ 579.0	\$ 624.7	\$ 579.0
<b>Fair value, end of period</b>	\$ 842.7	\$ 778.4	\$ 842.7	\$ 778.4

## Consolidated Liquidity and Capital Resources

### LIQUIDITY

Cash and cash equivalents totalled \$880.6 million at September 30, 2012 compared with \$1.05 billion and \$715.7 million at December 31, 2011 and September 30, 2011, respectively. Cash and cash equivalents related to the Company's deposit operations were \$13.4 million at September 30, 2012 compared with \$14.0 million and \$11.1 million at December 31, 2011 and September 30, 2011, respectively, as shown in Table 18.

Working capital totalled \$1.06 billion at September 30, 2012 compared with \$979.7 million and

\$760.3 million at December 31, 2011 and September 30, 2011, respectively. Working capital excludes the Company's deposit operations.

Working capital is utilized to:

- Finance ongoing operations, including the funding of selling commissions.
- Temporarily finance mortgages in its mortgage banking operations.
- Pay interest and dividends related to long-term debt and preferred shares.
- Maintain liquidity requirements for regulated entities.

TABLE 18: DEPOSIT OPERATIONS – FINANCIAL POSITION

(\$ millions)	2012 SEP. 30	2011 DEC. 31	2011 SEP. 30
<b>Assets</b>			
Cash and cash equivalents	\$ 13.4	\$ 14.0	\$ 11.1
Accounts & other receivables	127.9	122.3	119.7
Loans	28.5	28.0	31.1
<b>Total assets</b>	\$ 169.8	\$ 164.3	\$ 161.9
<b>Liabilities and shareholder's equity</b>			
Deposit liabilities	\$ 155.1	\$ 150.7	\$ 148.6
Other liabilities	1.0	1.0	1.1
Shareholder's equity	13.7	12.6	12.2
<b>Total liabilities and shareholder's equity</b>	\$ 169.8	\$ 164.3	\$ 161.9



- Pay quarterly dividends on its outstanding common shares.
- Finance common share purchases related to the Company's normal course issuer bid.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization (EBITDA) totalled \$336.0 million in the third quarter of 2012 compared to \$377.3 million in the third quarter of 2011 and \$332.7 million in the second quarter of 2012. EBITDA totalled \$1.03 billion for the nine months ended September 30, 2012 compared to \$1.16 billion in 2011. EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled \$65.0 million in the third quarter of 2012 compared to \$69.4 million in the third quarter of 2011 and \$66.7 million in the second quarter of 2012. As well as being an important alternative measure of

performance, EBITDA is a common measure utilized by investment analysts and credit rating agencies in reviewing asset management companies.

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

#### Cash Flows

Table 19 – 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 months ended September 30, 2012. Cash and cash equivalents from continuing operations decreased by \$57.0 million in the quarter compared to an increase of \$87.5 million in the third quarter of 2011. For the nine month period, cash and cash equivalents from continuing operations decreased by \$171.8 million compared to a decrease of \$570.0 million in 2011.

TABLE 19: CASH FLOWS

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2012	2011	% CHANGE	2012	2011	% CHANGE
Operating activities – continuing operations						
Before payment of commissions	\$ 241.4	\$ 290.7	(17.0)%	\$ 646.0	\$ 754.6	(14.4)%
Commissions paid	(43.3)	(47.7)	9.2	(161.7)	(191.5)	15.6
Net of commissions paid	198.1	243.0	(18.5)	484.3	563.1	(14.0)
Financing activities – continuing operations	(121.3)	(100.2)	(21.1)	48.2	(1,340.3)	103.6
Investing activities – continuing operations	(133.8)	(55.3)	(142.0)	(704.3)	207.2	N/M
<b>(Decrease) increase in cash and cash equivalents from continuing operations</b>	<b>(57.0)</b>	<b>87.5</b>	<b>(165.1)</b>	<b>(171.8)</b>	<b>(570.0)</b>	<b>69.9</b>
Increase in cash and cash equivalents from discontinued operations	–	26.5	(100.0)	–	7.2	(100.0)
Cash and cash equivalents from continuing and discontinued operations, beginning of period	937.6	896.8	4.5	1,052.4	1,573.6	(33.1)
Cash and cash equivalents, end of period	880.6	1,010.8	(12.9)	880.6	1,010.8	(12.9)
Less: Cash and cash equivalents from discontinued operations, end of period	–	(295.1)	100.0	–	(295.1)	100.0
<b>Cash and cash equivalents, end of period – continuing operations</b>	<b>\$ 880.6</b>	<b>\$ 715.7</b>	<b>23.0 %</b>	<b>\$ 880.6</b>	<b>\$ 715.7</b>	<b>23.0 %</b>



Operating activities from continuing operations, before payment of commissions, generated \$241.4 million and \$646.0 million during the three and nine month periods ended September 30, 2012, as compared to \$290.7 million and \$754.6 million, respectively, in 2011. Cash commissions paid were \$43.3 million and \$161.7 million for the three and nine month periods in 2012 compared to \$47.7 million and \$191.5 million, respectively, in 2011. Net cash flows from operating activities, net of commissions paid, were \$198.1 million and \$484.3 million for the three and nine month periods in 2012 as compared to \$243.0 million and \$563.1 million, respectively, in 2011.

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

- A net increase of \$1.5 million in deposits and certificates in 2012 compared to a net decrease of \$0.6 million in 2011.
- Net payment of \$0.6 million in 2012 arising from obligations related to assets sold under repurchase agreements compared to net proceeds of \$10.7 million in 2011.
- A net increase of \$86.8 million in 2012 arising from obligations to securitization entities compared to a net increase of \$46.1 million in 2011.
- Proceeds received on the issuance of common shares of \$2.3 million in 2012 compared with \$3.5 million in 2011.
- The purchase of 1,872,900 common shares in 2012 under IGM Financial's normal course issuer bid at a cost of \$72.0 million compared with the purchase of 585,000 common shares at a cost of \$25.4 million in 2011.
- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2012, unchanged from 2011.
- The payment of regular common share dividends which totalled \$137.1 million in 2012 compared to \$132.2 million in 2011.

Financing activities from continuing operations during the nine months ended September 30, 2012 compared to 2011 primarily related to:

- A net increase of \$4.4 million in deposits and certificates in 2012 compared to a net decrease of \$5.7 million in 2011.
- Net payment of \$0.2 million in 2012 arising from obligations related to assets sold under repurchase agreements compared to a net payment of

\$410.3 million in 2011. The net payment in 2011 included the settlement of \$427.6 million in obligations related to the sale of \$425.6 million in Canada Mortgage Bonds which are reported in Investing activities.

- A net increase of \$604.1 million in 2012 arising from obligations to securitization entities compared to a net increase of \$46.0 million in 2011.
- Proceeds received on the issuance of common shares of \$12.7 million in 2012 compared with \$31.1 million in 2011.
- The purchase of 3,785,200 common shares in 2012 under IGM Financial's normal course issuer bid at a cost of \$153.4 million compared with the purchase of 3,296,300 common shares at a cost of \$146.9 million in 2011.
- The payment of perpetual preferred share dividends which totalled \$6.6 million in 2012, unchanged from 2011.
- The payment of regular common share dividends which totalled \$412.7 million in 2012 compared to \$397.8 million in 2011.

Financing activities during the nine month period in 2011 also included the repayment on maturity of the \$450.0 million 2001 Series 6.75% debentures.

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

- The purchases of securities totalling \$15.2 million and sales of securities with proceeds of \$15.4 million in 2012 compared to \$0.2 million and \$7.2 million, respectively, in 2011.
- A net increase in loans of \$133.9 million in 2012 compared to a net increase of \$57.0 million in 2011 primarily related to residential mortgages in the Company's mortgage banking operations.

Investing activities from continuing operations during the nine months ended September 30, 2012 compared to 2011 primarily related to:

- The purchases of securities totalling \$23.7 million and sales of securities with proceeds of \$25.6 million in 2012 compared to \$5.7 million and \$446.6 million, respectively, in 2011. Proceeds in 2011 included sales of \$425.6 million of Canada Mortgage Bonds.
- A net increase in loans of \$690.8 million in 2012 compared to a net increase of \$217.1 million in 2011 primarily related to residential mortgages in the Company's mortgage banking operations.

## CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity which totalled \$5.8 billion at September 30, 2012, unchanged from December 31, 2011. The Company regularly assesses its capital management practices in response to changing economic conditions.

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

The total outstanding long-term debt was \$1,325.0 million at September 30, 2012, unchanged from December 31, 2011. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Perpetual preferred shares of \$150 million remain unchanged.

The Company purchased 3,785,200 common shares in the nine months ended September 30, 2012 at a cost of \$153.4 million under its normal course issuer bid (refer to Note 7 to the Interim Financial Statements). The Company commenced a normal course issuer bid on April 12, 2012 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Corporation's stock option plan and for other capital management purposes. Other activities in 2012 included the declaration of perpetual preferred share dividends of \$6.6 million or \$1.10625

per share and common share dividends of \$411.0 million or \$1.6125 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

On October 3, 2012, the Company received regulatory approval to establish an automatic securities purchase plan for its common shares. This plan was established to provide standard instructions regarding how the Company's common shares are to be purchased under its Normal Course Issuer Bid during certain pre-determined trading blackout periods, subject to pre-established parameters. The automatic securities purchase plan commenced on October 4, 2012 and will terminate together with the Normal Course Issuer Bid on April 11, 2013.

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

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

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

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

According to S&P, the "Stable" rating outlook means that S&P considers that the rating is unlikely to

change over the intermediate term. A stable outlook is not necessarily a precursor to an upgrade.

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

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

## FINANCIAL INSTRUMENTS

Table 20 presents the carrying value and the fair value of financial instruments.

Fair value is determined using the following methods and assumptions:

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

TABLE 20: FINANCIAL INSTRUMENTS

(\$ millions)	SEPTEMBER 30, 2012		DECEMBER 31, 2011	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Assets</b>				
Cash and cash equivalents	\$ 880.6	\$ 880.6	\$ 1,052.4	\$ 1,052.4
Securities	297.1	297.1	292.5	292.5
Accounts and other receivables	322.4	322.4	282.0	282.0
Loans	4,784.6	4,821.5	4,085.9	4,144.3
Derivative instruments	68.7	68.7	88.1	88.1
Other financial assets	1.4	1.4	6.3	6.3
Total financial assets	\$ 6,354.8	\$ 6,391.7	\$ 5,807.2	\$ 5,865.6
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 275.4	\$ 275.4	\$ 300.1	\$ 300.1
Repurchase agreements	227.1	227.1	227.3	227.3
Derivative instruments	82.2	82.2	111.4	111.4
Deposits and certificates	155.2	156.5	150.7	152.0
Other financial liabilities	213.9	213.9	221.3	221.3
Obligations to securitization entities	4,433.3	4,530.6	3,827.4	3,930.4
Long-term debt	1,325.0	1,630.5	1,325.0	1,586.7
Total financial liabilities	\$ 6,712.1	\$ 7,116.2	\$ 6,163.2	\$ 6,529.2

- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

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

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, 2012. The Company actively manages risks that arise as a result of holding financial instruments which include liquidity, credit and market risk.

#### Liquidity Risk

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

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

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

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

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

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

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

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

The Company's contractual obligations are reflected in Table 21.

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's operating lines of credit. The Company's operating lines of credit with various Schedule I Canadian chartered banks totalled \$325 million as at September 30, 2012, unchanged from

TABLE 21: CONTRACTUAL OBLIGATIONS

As at September 30, 2012 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 – 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	\$ 127.2	\$ 9.6	\$ 14.0	\$ 4.3	\$ 155.1
Derivative instruments	–	25.6	51.8	4.8	82.2
Obligations to securitization entities	–	632.2	3,797.0	4.1	4,433.3
Long-term debt	–	–	–	1,325.0	1,325.0
Operating leases <sup>(1)</sup>	–	51.2	148.8	76.8	276.8
<b>Total contractual obligations</b>	<b>\$ 127.2</b>	<b>\$ 718.6</b>	<b>\$ 4,011.6</b>	<b>\$ 1,415.0</b>	<b>\$ 6,272.4</b>

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

December 31, 2011. The operating lines of credit as at September 30, 2012 consisted of committed lines of \$150 million and uncommitted lines of \$175 million. The Company has accessed its uncommitted operating lines of credit in the past, however, any advances made by a bank under the uncommitted operating lines are at the bank's sole discretion. As at September 30, 2012 and December 31, 2011, the Company was not utilizing its committed lines of credit or its uncommitted operating lines of credit. On October 26, 2012, the Company entered into an additional \$200 million committed line of credit with a Schedule I Canadian chartered bank to provide financing to the Company's mortgage operations.

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

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 risk have not changed materially since December 31, 2011.

### **Credit Risk**

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

At September 30, 2012, cash and cash equivalents of \$880.6 million consisted of cash balances of \$47.5 million on deposit with Canadian chartered banks and cash equivalents of \$833.1 million. Cash equivalents are primarily comprised of Government of Canada treasury bills totalling \$231.0 million, provincial government

and government guaranteed commercial paper of \$258.8 million and bankers' acceptances issued by Canadian chartered banks of \$343.3 million. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

Fair value through profit or loss securities include Canada Mortgage Bonds with a fair value of \$226.9 million and fixed income securities which are comprised of the restructured notes of the MAV conduits with a fair value of \$33.5 million. These fair values represent the maximum exposure to credit risk at September 30, 2012. Refer to Note 5 to the Annual Financial Statements for information related to the valuation of the MAV conduits.

The Company regularly reviews the credit quality of the mortgage portfolios related to the Company's mortgage banking operations and its intermediary operations, as well as the adequacy of the collective allowance. As at September 30, 2012, mortgages totalled \$4.8 billion and consisted of residential mortgages:

- Sold to securitization programs which are classified as loans and receivables and totalled \$4.4 billion compared to \$3.8 billion at December 31, 2011. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$4.4 billion at September 30, 2012, compared to \$3.8 billion at December 31, 2011.
- Related to the Company's mortgage banking operations which are classified as held for trading and totalled \$385.8 million compared to \$292.1 million at December 31, 2011. These loans are held by the Company pending sale or securitization.
- Related to the Company's intermediary operations which are classified as loans and receivables and totalled \$36.7 million at September 30, 2012, compared to \$31.3 million at December 31, 2011.

As at September 30, 2012, the mortgage portfolios related to the Company's intermediary operations were geographically diverse, 100% residential (December 31, 2011 – 100%) and 85.8% insured (December 31, 2011 – 99.4%). As at September 30, 2012, impaired mortgages were nil, unchanged from December 31, 2011. Uninsured non-performing mortgages over 90



days were nil, unchanged from December 31, 2011. The characteristics of the mortgage portfolio have not changed significantly during 2012.

The NHA MBS and CMB Program requires that all securitized mortgages be insured against default by an approved insurer. At September 30, 2012, 65.3% of mortgages securitized through ABCP programs were also insured compared to 86.5% at December 31, 2011. At September 30, 2012, 85.6% of the securitized portfolio and the residential mortgages classified as held for trading were insured compared to 93.0% at December 31, 2011. As at September 30, 2012, impaired mortgages on these portfolios were \$1.7 million, compared to \$1.1 million at December 31, 2011. Uninsured non-performing mortgages over 90 days on these portfolios were \$1.0 million at September 30, 2012, compared to nil at December 31, 2011.

The Company retains certain elements of credit risk on securitized loans. At September 30, 2012, 89.7% of securitized loans were insured against credit losses. The Company's credit risk on its securitization activities is limited to its retained interest. The fair value of the Company's retained interests in securitized mortgages was \$56.8 million at September 30, 2012 compared to \$24.3 million at December 31, 2011. Retained interests include:

- *Cash reserve accounts and rights to future net interest income* – which were \$21.5 million and \$97.4 million, respectively, at September 30, 2012. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages.

The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of \$55.3 million is subordinated to the interests of the trust and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Credit risk on these mortgages is mitigated by any insurance on these mortgages, as previously discussed, and the Company's credit risk on insured loans is to the insurer.

Rights to future net interest income under the NHA MBS and CMB Program totalled \$63.6 million. Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages

securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. Outstanding mortgages securitized under these programs are \$3.1 billion.

- *Fair value of principal reinvestment account swaps* – which had a negative fair value of \$62.1 million at September 30, 2012 and is reflected on the Company's balance sheet. These swaps represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. The notional amount of these swaps was \$851.4 million at September 30, 2012.

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

The Company's collective allowance for credit losses was \$0.7 million at September 30, 2012, compared to \$0.8 million at December 31, 2011, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based upon the following considerations:

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

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios has not changed materially since December 31, 2011.

The Company utilizes over-the-counter derivatives to hedge interest rate risk and reinvestment risk associated with its mortgage banking and securitization activities, as well as market risk related to certain stock-based compensation arrangements. These activities expose the Company to credit risk that its counterparties fail to fulfill their obligations under these arrangements.

The Company participates in the CMB Program by entering into back-to-back swaps whereby Canadian Schedule I chartered banks designated by the Company intermediate between the Company and the Canadian Housing Trust. The Company receives coupons on NHA MBS and eligible principal reinvestments and pays coupons on the Canada Mortgage Bonds. The Company also enters into offsetting interest rate swaps with the same bank counterparties to hedge interest rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled \$25.4 million at September 30, 2012 and the outstanding notional amount was \$5.3 billion. Certain of these swaps relate to securitized mortgages that have been recorded in the Company's balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of \$3.1 billion and having a negative fair value of \$29.8 million, are not reflected on the balance sheet. Principal reinvestment account swaps and hedges of reinvestment and interest rate risk, with an outstanding notional amount of \$2.2 billion and having a fair value of \$4.4 million, are reflected on the balance sheet. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$70.2 million at September 30, 2012 compared to \$87.1 million at December 31, 2011.

The Company utilizes interest rate swaps to hedge interest rate risk associated with mortgages securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled \$6.7 million on an outstanding notional amount of \$450.0 million at September 30, 2012. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$0.2 million at September 30, 2012 compared to \$0.6 million at December 31, 2011.

The Company also utilizes interest rate swaps to hedge interest rate risk associated with its investments in Canada Mortgage Bonds. The negative fair value of these interest rate swaps totalled \$7.5 million on an

outstanding notional amount of \$200.0 million at September 30, 2012. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which are in a gain position, was nil at September 30, 2012, unchanged from December 31, 2011.

The Company enters into other derivative contracts which primarily consist of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by the Company as well as total return swaps and forward agreements on IGM Financial common shares utilized to hedge deferred compensation arrangements. The negative fair value of interest rate swaps, total return swaps and forward agreements was \$3.7 million on an outstanding notional amount of \$163.7 million at September 30, 2012 compared to a fair value of nil on an outstanding notional amount of \$76.4 million at December 31, 2011. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was nil at September 30, 2012, compared to \$0.8 million at December 31, 2011.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$70.4 million does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements, was nil at September 30, 2012. Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at September 30, 2012. Management of credit risk related to derivatives has not changed materially since December 31, 2011.

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

#### **Market Risk**

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



### ***Interest Rate Risk***

The Company is exposed to interest rate risk on its loan portfolio, fixed income securities, Canada Mortgage Bonds and on certain of the derivative financial instruments used in the Company's mortgage banking and intermediary operations.

The objective of the Company's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at September 30, 2012, the total gap between deposit assets and liabilities was within the Company's trust subsidiary's stated guidelines.

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

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

- The Company is also exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by the Company. The Company may enter into interest rate swaps to hedge this risk.

As at September 30, 2012, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$6.7 million. The Company's exposure to and management of interest rate risk has not changed materially since December 31, 2011.

### ***Equity Price Risk***

The Company is exposed to equity price risk on its proprietary investment funds which are classified as available for sale securities and on its common shares which are classified as fair value through profit or loss, as shown in Table 15. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines there is objective evidence of impairment in value, at which time they are recorded in the Consolidated Statements of Earnings.

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

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

At September 30, 2012, IGM Financial's total assets under management were \$119.3 billion compared to \$118.7 billion at December 31, 2011.

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

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

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

Redemption rates for long-term funds are summarized in Table 22 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

IGM Financial provides Consultants, independent financial advisors, and strategic alliance and institutional clients with a high level of service and support and a broad range of investment products based on asset classes, countries or regions, and investment management styles which, in turn, should result in maintaining strong client relationships and lower rates of redemptions. The Company's subsidiaries also continually review product pricing to ensure competitiveness in the marketplace in relation to the nature and quality of services provided. During the third quarter of 2012, Investors Group implemented pricing and product enhancements related to its mutual fund offering as previously discussed in the Investors Group Review of the Business section in this MD&A.

The mutual fund industry and financial advisors continue to take steps to educate Canadian investors on the merits of financial planning, diversification and

long-term investing. In periods of volatility Consultants and independent financial advisors play a key role in assisting investors to maintain perspective and focus on their long-term objectives.

## OTHER RISK FACTORS

### Distribution Risk

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

*Mackenzie* – Mackenzie derives the majority of its mutual fund sales through an independent retail financial advisor network. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a

TABLE 22: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

As at September 30	2012	2011
<b>IGM Financial Inc.</b>		
Investors Group	9.7 %	8.7 %
Mackenzie	16.1 %	16.2 %
Counsel	12.9 %	11.3 %

material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

### **The Regulatory Environment**

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

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

Particular regulatory initiatives may have the effect of making the products of the Company's subsidiaries

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

### **Contingencies**

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

### **Acquisition Risk**

The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

### **Model Risk**

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

## Outlook

### THE FINANCIAL SERVICES ENVIRONMENT

According to Investor Economics, Canadians held \$3.0 trillion in discretionary financial assets with financial institutions at December 31, 2011. The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Over 60% (\$1.8 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the \$1.2 trillion held outside of a financial advisory relationship, over 70% consisted of bank deposits.

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

Approximately 35% of Canadian discretionary financial assets or \$1.0 trillion resided in investment funds at December 31, 2011, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 75% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With \$102 billion in mutual fund assets under management, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Deregulation, competition and technology have fostered a trend towards financial service providers offering a comprehensive range of proprietary products and services. Traditional distinctions between bank branches, full service brokerages, financial planning firms

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

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 53% of total industry long-term mutual fund assets at June 30, 2012.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 84% of industry long-term mutual fund assets and 84% of total mutual fund assets under management at June 30, 2012. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

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

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

### THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. Investors Group and Investment Planning Counsel compete directly with

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

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, 2011.

### **CHANGES IN ACCOUNTING POLICIES**

#### **IFRS 7 Financial Instruments Disclosures**

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

### **FUTURE ACCOUNTING CHANGES**

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

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

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

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

The IASB issued IFRS 12 which integrates all of the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities into a single standard. The required disclosures provide information to evaluate the nature of, and risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial statements. The standard is expected to result in additional disclosures and is effective for periods beginning on or after January 1, 2013.

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

The IASB issued IFRS 13 to consolidate all the fair value measurement and disclosure guidance into one

standard. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. The standard requires more extensive financial statement disclosure but is not expected to have a significant impact on the Company's financial position or results of operations. The standard is effective on a prospective basis for periods beginning on or after January 1, 2013.

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

The IASB amended IAS 1 with respect to the presentation of other comprehensive income (OCI). The most significant change resulting from the amendments was a requirement for entities to group items presented in OCI on the basis of whether or not they will be reclassified subsequently to net earnings. The amended standard relates only to presentation and will not have an impact on the Company's financial position or results of operations. The amendments are applied retroactively and are effective for periods beginning on or after January 1, 2013.

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

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

- The elimination of the deferral and amortization approach (corridor approach) for recognizing actuarial gains and losses in net earnings. Actuarial gains and losses are to be recognized immediately in Other comprehensive income (OCI). Actuarial gains and losses recognized in OCI are not reclassified to net earnings in subsequent periods. This amendment will have no impact on the Company as actuarial gains and losses are currently recognized in OCI.
- Changes in the recognition of past service costs. Past service costs resulting from plan amendments or curtailments are recognized in net earnings in the period in which the plan amendments or curtailment occurs, without regard to vesting.
- The elimination of the concept of an expected return on assets (EROA). Amended IAS 19 requires the use of the discount rate in the place of EROA in the determination of the net interest component of the pension expense.



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

**Other**

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

<b>IFRS Standard</b>	<b>Expected date of issuance</b>
IFRS 9: Financial Instruments	
Classification and Measurement	Q4 2012 – Exposure Draft
Impairment	Q4 2012 – Exposure Draft
Hedge Accounting – General Hedge Accounting	Q4 2012 – Final Standard
Hedge Accounting – Macro Hedge Accounting	Q1 2013 – Discussion Paper
Leases	Q1 2013 – Exposure Draft
Revenue Recognition	Q1 2013 – Final Standard

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

## Internal Control Over Financial Reporting

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

likely to materially affect, the Company's internal control over financial reporting.

## Other Information

### TRANSACTIONS WITH RELATED PARTIES

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

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

The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights. Accordingly, the preferred shares and debentures and related dividend income and

interest expense are offset in the Consolidated Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.

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

### OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at September 30, 2012 totalled 253,275,228. As at November 7, 2012, outstanding common shares totalled 252,552,858.

### 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).