

## **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, 2014 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements (Interim Financial Statements) as well as the 2013 IGM Financial Inc. Annual Report and the 2014 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, 2014 is as of November 6, 2014.

## Basis of Presentation and Summary of Accounting Policies

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

### FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

### NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

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

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

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

standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

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

comparison of results from operations less meaningful, are further excluded to arrive at Adjusted EBITDA.

These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

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

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1 to 4.

# IGM Financial Inc.

## Summary of Consolidated Operating Results

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

Total assets under management were \$140.6 billion at September 30, 2014 compared with \$126.0 billion at September 30, 2013 and \$131.8 billion at December 31, 2013. Average total assets under management for the third quarter of 2014 were \$142.3 billion compared to \$125.1 billion in the third quarter of 2013. Average total assets under management for the nine months ended September 30, 2014 were \$138.4 billion

compared to \$125.0 billion for the nine months ended September 30, 2013.

Mutual fund assets under management were \$125.2 billion at September 30, 2014 compared with \$111.2 billion at September 30, 2013 and \$117.6 billion at December 31, 2013. Average mutual fund assets under management for the third quarter of 2014 were \$126.2 billion compared to \$110.2 billion in the third quarter of 2013. Average mutual fund assets under management for the nine months ended September 30, 2014 were \$123.2 billion compared to \$108.5 billion for the nine months ended September 30, 2013.

Operating earnings and net earnings available to common shareholders for the three months ended

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(\$ millions)	THREE MONTHS ENDED			NINE MONTHS ENDED	
	2014 SEP. 30	2014 JUN. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30
<b>Operating earnings available to common shareholders – Non-IFRS measure</b>	\$ 219.7	\$ 203.9	\$ 193.4	\$ 618.0	\$ 564.8
Restructuring and other charges, net of tax	–	(13.6)	–	(13.6)	–
<b>Net earnings available to common shareholders – IFRS</b>	\$ 219.7	\$ 190.3	\$ 193.4	\$ 604.4	\$ 564.8
<b>Operating earnings per share<sup>(1)</sup> available to common shareholders – Non-IFRS measure</b>	\$ 0.87	\$ 0.81	\$ 0.77	\$ 2.44	\$ 2.24
Restructuring and other charges, net of tax	–	(0.06)	–	(0.05)	–
<b>Net earnings per share<sup>(1)</sup> available to common shareholders – IFRS</b>	\$ 0.87	\$ 0.75	\$ 0.77	\$ 2.39	\$ 2.24
<b>Adjusted EBITDA – Non-IFRS measure</b>	\$ 375.8	\$ 349.5	\$ 342.9	\$1,070.2	\$1,007.1
Restructuring and other charges	–	(18.3)	–	(18.3)	–
<b>EBITDA – Non-IFRS measure</b>	375.8	331.2	342.9	1,051.9	1,007.1
Commission amortization	(57.2)	(58.2)	(60.0)	(176.0)	(185.4)
Amortization of capital assets and intangible assets and other	(9.0)	(9.7)	(8.2)	(27.1)	(24.9)
Interest expense on long-term debt	(23.2)	(22.9)	(23.2)	(68.9)	(68.9)
<b>Earnings before income taxes</b>	286.4	240.4	251.5	779.9	727.9
Income taxes	(64.5)	(47.9)	(55.9)	(168.9)	(156.5)
Perpetual preferred share dividends	(2.2)	(2.2)	(2.2)	(6.6)	(6.6)
<b>Net earnings available to common shareholders – IFRS</b>	\$ 219.7	\$ 190.3	\$ 193.4	\$ 604.4	\$ 564.8

(1) Diluted earnings per share

September 30, 2014 were \$219.7 million or 87 cents per share compared to operating earnings and net earnings available to common shareholders of \$193.4 million or 77 cents per share for the comparative period in 2013. The Company reported record high levels of operating earnings and operating earnings per share in the third quarter of 2014.

Operating earnings available to common shareholders, excluding other items outlined below, for the nine months ended September 30, 2014 were \$618.0 million or \$2.44 per share compared to operating earnings available to common shareholders of \$564.8 million or \$2.24 per share for the comparative period in 2013.

Net earnings available to common shareholders for the nine months ended September 30, 2014 were \$604.4 million or \$2.39 per share compared to

net earnings available to common shareholders of \$564.8 million or \$2.24 per share for the comparative period in 2013.

Other items for the nine months ended September 30, 2014 consisted of an after-tax charge of \$13.6 million recorded in the second quarter related to restructuring and other charges.

Shareholders' equity was \$4.9 billion as at September 30, 2014, compared to \$4.7 billion as at December 31, 2013. Return on average common equity based on operating earnings for the nine months ended September 30, 2014 was 17.7% compared with 17.2% for the comparative period in 2013. The quarterly dividend per common share declared in the third quarter of 2014 was 53.75 cents, unchanged from the second quarter of 2014.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q3 2014 VS. Q3 2013

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30
<b>Revenues</b>								
Fee income	\$ 434.6	\$ 388.1	\$ 210.7	\$ 196.7	\$ 58.7	\$ 44.0	\$ 704.0	\$ 628.8
Net investment income and other	16.5	12.5	1.4	0.8	28.3	25.4	46.2	38.7
	451.1	400.6	212.1	197.5	87.0	69.4	750.2	667.5
<b>Expenses</b>								
Commission	134.1	123.0	75.4	67.9	40.3	28.9	249.8	219.8
Non-Commission	109.9	96.0	67.5	65.2	13.4	11.8	190.8	173.0
	244.0	219.0	142.9	133.1	53.7	40.7	440.6	392.8
<b>Earnings before interest and taxes</b>	\$ 207.1	\$ 181.6	\$ 69.2	\$ 64.4	\$ 33.3	\$ 28.7	309.6	274.7
Interest expense							(23.2)	(23.2)
Earnings before income taxes							286.4	251.5
Income taxes							64.5	55.9
<b>Net earnings</b>							221.9	195.6
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							\$ 219.7	\$ 193.4
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 219.7	\$ 193.4

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

## 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.
- *2014 restructuring and other charges* – primarily reflects severance and other costs associated with Mackenzie cost rationalization activities as well as senior

management changes announced and implemented during the second quarter. These costs represent the continuation of efforts undertaken in the fourth quarter of 2013.

- *Income taxes* – changes in the effective tax rates are shown in Table 5.

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

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

TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – YTD 2014 VS. YTD 2013

Nine months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30
<b>Revenues</b>								
Fee income	\$ 1,275.4	\$ 1,144.2	\$ 618.8	\$ 581.4	\$ 172.5	\$ 132.7	\$ 2,066.7	\$ 1,858.3
Net investment income and other	35.6	50.5	3.1	3.5	81.4	74.9	120.1	128.9
	1,311.0	1,194.7	621.9	584.9	253.9	207.6	2,186.8	1,987.2
<b>Expenses</b>								
Commission	397.4	367.6	224.0	201.4	117.3	87.8	738.7	656.8
Non-Commission	333.4	298.2	205.1	199.7	42.5	35.7	581.0	533.6
	730.8	665.8	429.1	401.1	159.8	123.5	1,319.7	1,190.4
<b>Earnings before interest and taxes</b>	\$ 580.2	\$ 528.9	\$ 192.8	\$ 183.8	\$ 94.1	\$ 84.1	867.1	796.8
Interest expense							(68.9)	(68.9)
Restructuring and other charges							(18.3)	–
Earnings before income taxes							779.9	727.9
Income taxes							168.9	156.5
<b>Net earnings</b>							611.0	571.4
Perpetual preferred share dividends							6.6	6.6
<b>Net earnings available to common shareholders</b>							\$ 604.4	\$ 564.8
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 618.0	\$ 564.8

(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 2014 VS. Q2 2014

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2014 SEP. 30	2014 JUN. 30	2014 SEP. 30	2014 JUN. 30	2014 SEP. 30	2014 JUN. 30	2014 SEP. 30	2014 JUN. 30
<b>Revenues</b>								
Fee income	\$ 434.6	\$ 425.6	\$ 210.7	\$ 207.1	\$ 58.7	\$ 56.6	\$ 704.0	\$ 689.3
Net investment income and other	16.5	5.9	1.4	0.4	28.3	26.2	46.2	32.5
	451.1	431.5	212.1	207.5	87.0	82.8	750.2	721.8
<b>Expenses</b>								
Commission	134.1	132.8	75.4	74.8	40.3	38.1	249.8	245.7
Non-Commission	109.9	113.6	67.5	66.8	13.4	14.1	190.8	194.5
	244.0	246.4	142.9	141.6	53.7	52.2	440.6	440.2
<b>Earnings before interest and taxes</b>	\$ 207.1	\$ 185.1	\$ 69.2	\$ 65.9	\$ 33.3	\$ 30.6	309.6	281.6
Interest expense							(23.2)	(22.9)
Restructuring and other charges							–	(18.3)
Earnings before income taxes							286.4	240.4
Income taxes							64.5	47.9
<b>Net earnings</b>							221.9	192.5
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							\$ 219.7	\$ 190.3
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>							\$ 219.7	\$ 203.9

(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 5: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			NINE MONTHS ENDED	
	2014 SEP. 30	2014 JUN. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30
<b>Income taxes at Canadian federal and provincial statutory rates</b>	26.62 %	26.60 %	26.60 %	26.61 %	26.58 %
Effect of:					
Proportionate share of affiliate's earnings	(2.33)	(2.68)	(2.48)	(2.35)	(2.34)
Loss consolidation <sup>(1)</sup>	(1.78)	(2.10)	(2.02)	(1.89)	(2.07)
Other items	–	(1.88)	0.12	(0.71)	(0.68)
<b>Effective income tax rate – net earnings</b>	22.51 %	19.94 %	22.22 %	21.66 %	21.49 %

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

## SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$140.6 billion at September 30, 2014 compared to \$126.0 billion at September 30, 2013. Changes in total assets under management are detailed in Tables 6 and 7.

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

TABLE 6: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q3 2014 VS. Q3 2013

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30
<b>Mutual funds</b>								
Gross sales – money market	\$ 200.6	\$ 155.3	\$ 85.4	\$ 84.3	\$ 14.4	\$ 9.7	\$ 300.4	\$ 249.3
Gross sales – long term	1,522.4	1,289.3	1,331.6	1,217.2	147.8	83.9	2,997.4	2,585.4
Total mutual fund gross sales	\$ 1,723.0	\$ 1,444.6	\$ 1,417.0	\$ 1,301.5	\$ 162.2	\$ 93.6	\$ 3,297.8	\$ 2,834.7
Net sales – money market	\$ 54.0	\$ 4.4	\$ 17.3	\$ (23.1)	\$ 11.2	\$ 6.3	\$ 82.5	\$ (12.4)
Net sales – long term	31.6	(112.9)	(223.7)	(209.5)	41.3	9.5	(153.2)	(314.1)
Total mutual fund net sales	\$ 85.6	\$ (108.5)	\$ (206.4)	\$ (232.6)	\$ 52.5	\$ 15.8	\$ (70.7)	\$ (326.5)
<b>Sub-advisory, institutional and other accounts</b>								
Gross sales	\$ –	\$ –	\$ 1,010.8	\$ 1,222.9	\$ –	\$ –	\$ 563.4	\$ 863.1
Net sales <sup>(2)</sup>	–	–	(894.8)	(2,503.8)	–	–	(915.4)	(2,579.3)
<b>Combined</b>								
Gross sales	\$ 1,723.0	\$ 1,444.6	\$ 2,427.8	\$ 2,524.4	\$ 162.2	\$ 93.6	\$ 3,861.2	\$ 3,697.8
Net sales <sup>(2)</sup>	85.6	(108.5)	(1,101.2)	(2,736.4)	52.5	15.8	(986.1)	(2,905.8)
<b>Change in total assets under management</b>								
Net sales <sup>(2)</sup>	\$ 85.6	\$ (108.5)	\$ (1,101.2)	\$ (2,736.4)	\$ 52.5	\$ 15.8	\$ (986.1)	\$ (2,905.8)
Market and income	200.0	2,089.7	(25.6)	2,063.6	(13.5)	93.7	169.0	4,110.7
Net change in assets	285.6	1,981.2	(1,126.8)	(672.8)	39.0	109.5	(817.1)	1,204.9
Beginning assets	72,400.2	62,452.3	71,080.6	63,944.0	3,729.9	3,052.5	141,434.5	124,802.6
<b>Ending assets</b>	<b>\$ 72,685.8</b>	<b>\$ 64,433.5</b>	<b>\$ 69,953.8</b>	<b>\$ 63,271.2</b>	<b>\$ 3,768.9</b>	<b>\$ 3,162.0</b>	<b>\$ 140,617.4</b>	<b>\$ 126,007.5</b>

(1) Total Gross Sales and Net Sales excluded \$451 million and \$24 million, respectively, in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$365 million and \$77 million in 2013).

Total assets under management excluded \$5.8 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$4.9 billion at September 30, 2013).

(2) In the third quarter of 2014, there were tactical rebalances by an institutional client that resulted in net redemptions of \$905 million out of separately managed account investment mandates advised on by Mackenzie.

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

TABLE 7: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2014 VS. 2013

Nine months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30	2014 SEP. 30	2013 SEP. 30
<b>Mutual funds</b>								
Gross sales – money market	\$ 583.9	\$ 501.0	\$ 298.9	\$ 294.7	\$ 50.1	\$ 33.6	\$ 932.9	\$ 829.3
Gross sales – long term	5,037.2	4,472.3	5,216.0	4,385.8	449.9	304.7	10,688.7	9,143.8
Total mutual fund gross sales	\$ 5,621.1	\$ 4,973.3	\$ 5,514.9	\$ 4,680.5	\$ 500.0	\$ 338.3	\$ 11,621.6	\$ 9,973.1
Net sales – money market	\$ 113.6	\$ 30.8	\$ 55.2	\$ (39.9)	\$ 38.1	\$ 17.5	\$ 206.9	\$ 8.4
Net sales – long term	343.3	69.4	206.8	(455.3)	118.5	8.5	658.7	(390.5)
Total mutual fund net sales	\$ 456.9	\$ 100.2	\$ 262.0	\$ (495.2)	\$ 156.6	\$ 26.0	\$ 865.6	\$ (382.1)
<b>Sub-advisory, institutional and other accounts</b>								
Gross sales	\$ –	\$ –	\$ 5,132.1	\$ 4,538.8	\$ –	\$ –	\$ 3,427.0	\$ 3,445.6
Net sales <sup>(2)</sup>	–	–	833.0	(2,158.3)	–	–	543.0	(2,384.5)
<b>Combined</b>								
Gross sales	\$ 5,621.1	\$ 4,973.3	\$ 10,647.0	\$ 9,219.3	\$ 500.0	\$ 338.3	\$ 15,048.6	\$ 13,418.7
Net sales <sup>(2)</sup>	456.9	100.2	1,095.0	(2,653.5)	156.6	26.0	1,408.6	(2,766.6)
<b>Change in total assets under management</b>								
Net sales <sup>(2)</sup>	\$ 456.9	\$ 100.2	\$ 1,095.0	\$ (2,653.5)	\$ 156.6	\$ 26.0	\$ 1,408.6	\$ (2,766.6)
Market and income	3,974.2	3,738.8	3,543.6	4,447.3	206.3	186.4	7,432.3	8,080.6
Net change in assets	4,431.1	3,839.0	4,638.6	1,793.8	362.9	212.4	8,840.9	5,314.0
Beginning assets	68,254.7	60,594.5	65,315.2	61,477.4	3,406.0	2,949.6	131,776.5	120,693.5
<b>Ending assets</b>	<b>\$ 72,685.8</b>	<b>\$ 64,433.5</b>	<b>\$ 69,953.8</b>	<b>\$ 63,271.2</b>	<b>\$ 3,768.9</b>	<b>\$ 3,162.0</b>	<b>\$140,617.4</b>	<b>\$126,007.5</b>

(1) Total Gross Sales and Net Sales excluded \$1.7 billion and \$300 million, respectively, in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$1.1 billion and \$239 million in 2013).

Total assets under management excluded \$5.8 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$4.9 billion at September 30, 2013).

(2) In the nine months ended September 30, 2014, there were tactical rebalances by an institutional client that resulted in gross sales of \$1.2 billion, redemptions of \$1.2 billion and net sales of \$35 million into separately managed account investment mandates advised on by Mackenzie.

In the nine months ended September 30, 2013, there was a similar rebalance transaction in addition to the internalization of the Waddell & Reed Financial, Inc. mandate previously sub-advised by Mackenzie resulting in gross sales of \$861 million, redemptions of \$3.0 billion and net redemptions of \$2.1 billion out of separately managed account investment mandates advised on by Mackenzie.

## SUMMARY OF QUARTERLY RESULTS

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

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, as shown in Table 8, have increased in each of the last seven quarters, consistent with the increase in domestic and international markets.



TABLE 8: SUMMARY OF QUARTERLY RESULTS

	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4
<b>Consolidated Statements of Earnings (\$ millions)</b>								
<b>Revenues</b>								
Management fees	\$ 517.0	\$ 503.9	\$ 485.8	\$ 475.6	\$ 462.2	\$ 451.9	\$ 442.9	\$ 434.7
Administration fees	102.0	99.3	95.2	93.7	90.4	87.9	85.6	84.5
Distribution fees	85.0	86.1	92.4	85.6	76.2	79.8	81.4	80.2
Net investment income and other	46.2	32.5	41.4	36.7	38.7	47.4	42.8	38.7
	750.2	721.8	714.8	691.6	667.5	667.0	652.7	638.1
<b>Expenses</b>								
Commission	249.8	245.7	243.2	229.3	219.8	219.0	218.0	213.4
Non-commission	190.8	194.5	195.7	179.9	173.0	182.7	177.9	163.8
Interest	23.2	22.9	22.8	23.3	23.2	22.9	22.8	23.2
	463.8	463.1	461.7	432.5	416.0	424.6	418.7	400.4
Earnings before undernoted Restructuring and other charges	286.4	258.7	253.1	259.1	251.5	242.4	234.0	237.7
Proportionate share of affiliate's provision	–	(18.3)	–	(14.6)	–	–	–	–
	–	–	–	9.0	–	–	–	(5.6)
Earnings before income taxes	286.4	240.4	253.1	253.5	251.5	242.4	234.0	232.1
Income taxes	64.5	47.9	56.5	54.2	55.9	49.3	51.3	27.9
Net earnings	221.9	192.5	196.6	199.3	195.6	193.1	182.7	204.2
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>\$ 219.7</b>	<b>\$ 190.3</b>	<b>\$ 194.4</b>	<b>\$ 197.1</b>	<b>\$ 193.4</b>	<b>\$ 190.9</b>	<b>\$ 180.5</b>	<b>\$ 202.0</b>
<b>Reconciliation of non-IFRS financial measures (\$ millions)<sup>(1)</sup></b>								
Operating earnings available to common shareholders – non-IFRS measure	\$ 219.7	\$ 203.9	\$ 194.4	\$ 198.7	\$ 193.4	\$ 190.9	\$ 180.5	\$ 183.2
<b>Other items:</b>								
Restructuring and other charges, net of tax	–	(13.6)	–	(10.6)	–	–	–	–
Proportionate share of affiliate's provision	–	–	–	9.0	–	–	–	(5.6)
Reduction in income tax estimates related to certain tax filings	–	–	–	–	–	–	–	24.4
<b>Net earnings available to common shareholders – IFRS</b>	<b>\$ 219.7</b>	<b>\$ 190.3</b>	<b>\$ 194.4</b>	<b>\$ 197.1</b>	<b>\$ 193.4</b>	<b>\$ 190.9</b>	<b>\$ 180.5</b>	<b>\$ 202.0</b>
<b>Earnings per share (€)</b>								
<b>Operating earnings available to common shareholders<sup>(1)</sup></b>								
– Basic	87	81	77	79	77	76	72	73
– Diluted	87	81	77	79	77	76	72	72
<b>Net earnings available to common shareholders</b>								
– Basic	87	75	77	78	77	76	72	80
– Diluted	87	75	77	78	77	76	72	80
<b>Average daily mutual fund assets (\$ billions)</b>	<b>\$ 126.2</b>	<b>\$ 123.6</b>	<b>\$ 119.7</b>	<b>\$ 114.6</b>	<b>\$ 110.2</b>	<b>\$ 108.4</b>	<b>\$ 106.9</b>	<b>\$ 102.4</b>
<b>Total mutual fund assets under management (\$ billions)</b>	<b>\$ 125.2</b>	<b>\$ 125.2</b>	<b>\$ 122.5</b>	<b>\$ 117.6</b>	<b>\$ 111.2</b>	<b>\$ 107.6</b>	<b>\$ 108.5</b>	<b>\$ 103.9</b>
<b>Total assets under management (\$ billions)</b>	<b>\$ 140.6</b>	<b>\$ 141.4</b>	<b>\$ 137.3</b>	<b>\$ 131.8</b>	<b>\$ 126.0</b>	<b>\$ 124.8</b>	<b>\$ 125.8</b>	<b>\$ 120.7</b>

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

# Investors Group

## Review of the Business

### INVESTORS GROUP STRATEGY

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

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

### CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships. At the centre of these relationships is a national distribution network of Consultants based in 110 region offices across Canada.

At September 30, 2014, Investors Group had a Consultant network of 5,011, up from 4,673 at the end of 2013 and up from 4,599 a year earlier. This represents the highest level in the history of the company.

The number of Consultants with more than four years of Investors Group experience was 2,791 at September 30, 2014 compared to 2,792 a year earlier.

At September 30, 2014, 1,540 of our Consultants held the Certified Financial Planner (CFP) designation, or its Quebec equivalent, the Financial Planner (F.Pl.) designation. The CFP and F.Pl. designations are nationally accepted financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards.

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

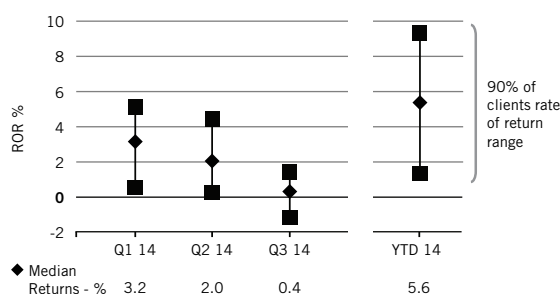
### ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

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

This administrative support is provided from both Investors Group's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from Investors Group's head office in Winnipeg, Manitoba for Consultants and clients in the rest of Canada. The Quebec General Office has approximately 200 employees and operating units for most functions supporting over 950 Consultants throughout Quebec and the 19 Quebec region offices. Mutual fund assets under management in Quebec were over \$12 billion as at September 30, 2014.

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

Client Account Rate of Return (ROR) Experience



For the three months ended September 30, 2014, the client account median rate of return was approximately 0.4% and 75% of clients experienced positive returns. For the nine months ended September 30, 2014, the client account median rate of return was approximately 5.6% and 99% of clients experienced positive returns.

#### ***New Client Rate of Return Reporting***

In March 2013, the Canadian Securities Administrators adopted a new set of rules as Phase 2 of the Client Relationship Model, often referred to as CRM2. One of the most significant aspects of these rules will require all dealers to provide their clients with account level rates of return for various historical periods. This is an industry-wide regulatory amendment focused on ensuring that clients are well informed regarding the performance of their investments.

Investors Group fully supports this initiative and we believe investment account level rates of return reporting will provide a meaningful benefit for our clients and demonstrate the value provided through advice over the history of our client relationships.

Investors Group has established multiple-period account rate of return reporting capabilities that will be added to most Investors Group's client statements for the June 30, 2015 client statement period and will continue reporting on this basis each quarter thereafter. Required data has been gathered for several years so that clients will have one year, three year and five year calculations appearing immediately upon Investors Group's introduction of this new feature.

This new client feature will be introduced a full two years earlier than the regulatory requirements and will

show at least a five year history immediately upon this introduction for our long-term clients. The regulations would have required us to provide this information by June 30, 2017 and only on a one year basis initially with longer time frames emerging over time.

#### ***Client Experience Survey***

Consultants maintain a high degree of contact with our clients, continuing to reinforce the importance of long-term planning and a diversified investment portfolio. Ongoing surveys of our clients indicate a strong appreciation of the value of advice and service provided by our Consultants through varying economic cycles.

In 2014, Investors Group introduced an ongoing program of surveys to measure client experience for new and existing clients:

- All new Investors Group clients in 2014 have received a survey at their three month anniversary date.
- Commencing July 2014, all existing clients are surveyed annually.

The results of the surveys up to September 30, 2014 are detailed in Table 9.

#### **ASSETS UNDER MANAGEMENT**

The level of mutual fund assets under management is influenced by three factors: sales, redemptions and net asset values of our funds. Changes in assets under management for the periods under review are reflected in Table 10. Assets under management reached \$72.7 billion at September 30, 2014, the highest quarter end level in the history of Investors Group.

TABLE 9: CLIENT EXPERIENCE SURVEY – INVESTORS GROUP

Surveys completed by September 30, 2014

<b>New client households surveyed 90 days after account opening</b>	
Satisfied with service	96 %
Offered a financial plan	91
Satisfied with discussion about goals and concerns	97
Willing to refer	95
<b>Client households with 12+ months tenure</b>	
Satisfied with service	92 %
Have a financial plan	86
Satisfied with level of contact	92
Willing to refer	88

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

Three months ended (\$ millions)	2014		2013	% CHANGE	
	SEP. 30	JUN. 30	SEP. 30	JUN. 30	SEP. 30
Sales	\$ 1,723.0	\$ 1,669.1	\$ 1,444.6	3.2 %	19.3 %
Redemptions	1,637.4	1,708.1	1,553.1	(4.1)	5.4
<b>Net sales (redemptions)</b>	85.6	(39.0)	(108.5)	N/M	N/M
Market and income	200.0	1,562.4	2,089.7	(87.2)	(90.4)
Net change in assets	285.6	1,523.4	1,981.2	(81.3)	(85.6)
Beginning assets	72,400.2	70,876.8	62,452.3	2.1	15.9
<b>Ending assets</b>	\$ 72,685.8	\$ 72,400.2	\$ 64,433.5	0.4 %	12.8 %
<b>Average daily assets</b>	\$ 73,149.8	\$ 71,523.7	\$ 63,914.2	2.3 %	14.4 %

Nine months ended (\$ millions)	2014	2013	% CHANGE
	SEP. 30	SEP. 30	
Sales	\$ 5,621.1	\$ 4,973.3	13.0 %
Redemptions	5,164.2	4,873.1	6.0
<b>Net sales (redemptions)</b>	456.9	100.2	N/M
Market and income	3,974.2	3,738.8	6.3
Net change in assets	4,431.1	3,839.0	15.4
Beginning assets	68,254.7	60,594.5	12.6
<b>Ending assets</b>	\$ 72,685.8	\$ 64,433.5	12.8 %
<b>Average daily assets</b>	\$ 71,336.1	\$ 63,008.8	13.2 %

### Fund Performance

At September 30, 2014, 35% of Investors Group mutual funds had a rating of three stars or better from the Morningstar<sup>†</sup> fund ranking service and 9% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 66% for three stars or better and 29% for four and five star funds at September 30, 2014. Morningstar Ratings<sup>†</sup> are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

### Pricing and Product Enhancements

Investors Group offers products that provide a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. These product offerings represent a total of \$2.1 billion at September 30, 2014, up 163% from \$815 million at September 30, 2013.

- In July 2013, Investors Group introduced a Series U of our funds for households with financial assets in excess of \$500,000. At September 30, 2014, Series U assets under management had increased to \$1.22 billion, compared to \$196 million at September 30, 2013.
- The introduction of Series U is in addition to the iProfile program, launched in 2001, available to households with financial assets in excess of \$250,000. Assets in this program grew significantly following product enhancements including Corporate Class features and Series T distribution features introduced in March 2013. At September 30, 2014, iProfile assets under management were \$920 million, an increase of 48.6% from \$619 million at September 30, 2013.

### ***Additions to Mutual Fund Product Offering***

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

On July 16, 2014, Investors Group added three new mandates to enhance its product offering:

- Investors Global Fixed Income Flex Portfolio which seeks to provide current income through exposure to fixed income securities from around the world by investing in units of other Investors Group mutual funds and/or directly in securities.
- IG Mackenzie Floating Rate Income Fund which seeks to provide current income by investing primarily in floating rate debt obligations and instruments of issuers located anywhere in the world.
- IG Putnam Emerging Markets Income Fund which aims to provide a high level of current income and the potential for capital growth by investing primarily in fixed income securities that are obligations of emerging market companies and governments.

In October 2014, Investors Group announced the pending addition of two new investment options. These options will become available for sale in January 2015, pending regulatory approval:

- Investors U.S. Dividend Registered Fund which will aim to provide long-term capital appreciation and income by investing primarily in a combination of U.S. dividend-paying equity securities and/or other types of income producing investments. Due to an exemption from U.S. withholding tax, no U.S. withholding tax will be charged on interest and dividends received by the Investors U.S. Dividend Registered Fund. This will result in a positive effect on performance.
- Allegro Income Balanced Portfolio Class which will be available as a Corporate Class offering only and aims to provide fixed-income diversification and long-term capital appreciation by investing primarily in underlying funds that provide equity and/or fixed income exposure.

### **Change in Mutual Fund Assets Under Management – 2014 vs. 2013**

Investors Group's mutual fund assets under management were \$72.7 billion at September 30, 2014, the highest quarter end level in the history of Investors Group, representing an increase of 12.8%

from \$64.4 billion at September 30, 2013. Average daily mutual fund assets were \$73.1 billion in the third quarter of 2014, up 14.4% from \$63.9 billion in the third quarter of 2013.

For the quarter ended September 30, 2014, sales of Investors Group mutual funds through its Consultant network were \$1.7 billion, an increase of 19.3% from the comparative period in 2013. Mutual fund redemptions totalled \$1.6 billion, an increase of 5.4% from 2013. Net sales of Investors Group mutual funds for the third quarter of 2014 were \$86 million compared with net redemptions of \$109 million in 2013, an improvement of \$195 million. During the third quarter, market and income resulted in an increase of \$200 million in mutual fund assets compared to an increase of \$2.1 billion in the third quarter of 2013.

Sales of long-term funds were \$1.5 billion for the third quarter of 2014, compared with \$1.3 billion in 2013, an increase of 18.1%. Net sales of long-term funds for the third quarter of 2014 were \$32 million compared to net redemptions of \$113 million in 2013.

Investors Group's annualized quarterly redemption rate for long-term funds of 8.3% in the third quarter of 2014 was lower than the rate of 8.9% in the third quarter of 2013. Investors Group's twelve month trailing redemption rate for long-term funds was 8.9% at September 30, 2014 which remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 15.5% at September 30, 2014.

Over the last several years, a growing component of the redemptions included in Investors Group's long-term redemption rate has related to the Cornerstone funds and transfers to Investors Group Series of Guaranteed Investment Funds (GIFs). The Cornerstone funds are income portfolio funds which invest between 30% and 50% of their assets in Investors Premium Money Market Fund. These funds are used by our clients as a substitute for money market funds which have higher redemption activity and, together with the transfers to GIFs, account for 0.3% of our long-term redemption rate at September 30, 2014. Excluding such items, the twelve month trailing redemption rate for long-term funds would have been 8.6%.

For the nine months ended September 30, 2014, sales of Investors Group mutual funds through its Consultant network were \$5.6 billion, an increase of

13.0% from 2013. Mutual fund redemptions totalled \$5.2 billion, an increase of 6.0% from 2013. Net sales of Investors Group mutual funds were \$457 million compared with net sales of \$100 million in 2013. Sales of long-term funds for the nine month period in 2014 were \$5.0 billion, compared with \$4.5 billion in 2013, an increase of 12.6%. Net sales of long-term funds were \$343 million compared to net sales of \$69 million in 2013. During 2014, market and income resulted in an increase of \$4.0 billion in mutual fund assets compared to an increase of \$3.7 billion in 2013.

#### **Change in Mutual Fund Assets Under Management – Q3 2014 vs. Q2 2014**

Investors Group's mutual fund assets under management were \$72.7 billion at September 30, 2014, an increase of 0.4% from \$72.4 billion at June 30, 2014. Average daily mutual fund assets were \$73.1 billion in the third quarter of 2014 compared to \$71.5 billion in the second quarter of 2014, an increase of 2.3%.

For the quarter ended September 30, 2014, sales of Investors Group mutual funds through its Consultant network were \$1.7 billion, an increase of 3.2% from the second quarter of 2014. Mutual fund redemptions, which totalled \$1.6 billion for the third quarter, decreased 4.1% from the previous quarter and the annualized quarterly redemption rate of 8.3% in the third quarter was lower than the rate of 8.8% in the second quarter of 2014. Net sales of Investors Group mutual funds for the current quarter were \$86 million compared with net redemptions of \$39 million in the previous quarter. Sales of long-term funds were \$1.5 billion for the current quarter, unchanged from the previous quarter. Net sales of long-term funds for the current quarter were \$32 million compared to net redemptions of \$51 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 six individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death

benefit guarantee features, potential creditor protection and estate planning efficiencies. Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by Investors Group. At September 30, 2014, total segregated fund assets were \$1.6 billion compared to \$1.4 billion at September 30, 2013.

##### **Insurance**

Investors Group distributes insurance products through I.G. Insurance Services Inc. For the quarter ended September 30, 2014, sales of insurance products as measured by new annualized premiums were \$15 million, a decrease of 10.3% from \$17 million in 2013. For the nine months ended September 30, 2014, sales of insurance products as measured by new annualized premiums were \$47 million, a decrease of 10.5% from \$53 million in 2013.

##### **Securities Operations**

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

##### **Mortgage Operations**

Investors Group is a national mortgage lender that offers residential mortgages to Investors Group clients as part of a comprehensive financial plan. Investors Group mortgage planning specialists are located throughout each province in Canada, and work with our clients and their Consultants as permitted by the regulations to develop mortgage strategies that meet the individual needs and goals of each client.

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

Mortgage originations for the quarter ended September 30, 2014 were \$634 million, compared to \$578 million in 2013, an increase of 9.7%. For the nine months ended September 30, 2014, mortgage originations were \$2.2 billion, compared to \$1.7 billion in 2013, an increase of 25.9%. At September 30, 2014, mortgages serviced by Investors Group related to its mortgage banking operations totalled \$9.7 billion, compared to \$8.2 billion at September 30, 2013, an increase of 17.3%.

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

Investors Group's Solutions Banking<sup>†</sup> continues to experience high rates of utilization by Consultants and clients. The offering consists of a wide range of products and services provided by the National Bank

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

#### **Additional Products and Services**

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

## Review of Segment Operating Results

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

### **2014 VS. 2013**

#### **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 \$321.2 million in the third quarter of 2014, an increase of \$38.0 million or 13.4% from \$283.2 million in 2013. For the nine months ended September 30, 2014, management fees were \$933.9 million, an increase of \$105.2 million or 12.7% from \$828.7 million in 2013.

The net increase in management fees in the three and nine months ended September 30, 2014 was due to the increase in average daily mutual fund assets of 14.4% and 13.2%, respectively, as shown in Table 10. The average management fee rate in the third quarter

of 2014 was 174.2 basis points of daily mutual fund assets compared to 175.7 basis points in 2013. The management fee rate for the nine month period ended September 30, 2014 was 175.0 basis points compared to 175.8 basis points in 2013.

Management fee income and average management fee rates for both periods also reflected the effect of Investors Group having waived a portion of the investment management fees on its money market funds. For the three and nine month periods in 2014, these waivers totalled \$0.8 million and \$2.3 million, respectively, compared to \$0.7 million and \$2.5 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 \$71.9 million in the current quarter compared to \$61.2 million a year ago, an increase of 17.5%. Administration fees were \$207.3 million for the nine month period ended September 30, 2014 compared to \$177.9 million in 2013, an increase of 16.5%. The increase in both periods resulted primarily from the change in average mutual fund assets under management.

TABLE 11: OPERATING RESULTS – INVESTORS GROUP

Three months ended (\$ millions)	2014		2013	% CHANGE	
	SEP. 30	JUN. 30	SEP. 30	JUN. 30	SEP. 30
<b>Revenues</b>					
Management fees	\$ 321.2	\$ 312.0	\$ 283.2	2.9 %	13.4 %
Administration fees	71.9	69.4	61.2	3.6	17.5
Distribution fees	41.5	44.2	43.7	(6.1)	(5.0)
	434.6	425.6	388.1	2.1	12.0
Net investment income and other	16.5	5.9	12.5	179.7	32.0
	451.1	431.5	400.6	4.5	12.6
<b>Expenses</b>					
Commission	71.1	71.2	68.0	(0.1)	4.6
Asset retention bonus and premium	63.0	61.6	55.0	2.3	14.5
Non-commission	109.9	113.6	96.0	(3.3)	14.5
	244.0	246.4	219.0	(1.0)	11.4
<b>Earnings before interest and taxes</b>	<b>\$ 207.1</b>	<b>\$ 185.1</b>	<b>\$ 181.6</b>	<b>11.9 %</b>	<b>14.0 %</b>
<b>Nine months ended</b>					
(\$ millions)			2014	2013	% CHANGE
			SEP. 30	SEP. 30	
<b>Revenues</b>					
Management fees			\$ 933.9	\$ 828.7	12.7 %
Administration fees			207.3	177.9	16.5
Distribution fees			134.2	137.6	(2.5)
			1,275.4	1,144.2	11.5
Net investment income and other			35.6	50.5	(29.5)
			1,311.0	1,194.7	9.7
<b>Expenses</b>					
Commission			212.1	204.1	3.9
Asset retention bonus and premium			185.3	163.5	13.3
Non-commission			333.4	298.2	11.8
			730.8	665.8	9.8
<b>Earnings before interest and taxes</b>			<b>\$ 580.2</b>	<b>\$ 528.9</b>	<b>9.7 %</b>

Distribution fees are earned from:

- Redemption fees on mutual funds sold with a deferred sales charge.
- Portfolio fund distribution fees.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking<sup>†</sup>.

Distribution fee income of \$41.5 million for the third quarter of 2014 decreased by \$2.2 million from \$43.7 million in 2013, due primarily to decreases in distribution fee income from insurance products and redemption fees. For the nine month period, distribution fee income of \$134.2 million decreased by \$3.4 million from \$137.6 million in 2013. The net decrease in the nine month period was due to decreases in distribution fee income from insurance



TABLE 12: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

(\$ millions)	2014 SEP. 30	2014 JUN. 30	2013 SEP. 30	% CHANGE	
				2014 JUN. 30	2013 SEP. 30
As at					
<b>Mortgages serviced</b>	\$ 9,671	\$ 8,992	\$ 8,242	7.6 %	17.3 %
<b>Mortgage warehouse<sup>(1)</sup></b>	\$ 500	\$ 417	\$ 609	19.9 %	(17.9) %
Three months ended					
<b>Average mortgages serviced</b>					
CMB/MBS Programs	\$ 4,048	\$ 3,864	\$ 3,365	4.8 %	20.3 %
Bank-sponsored ABCP programs	1,902	1,730	1,429	9.9	33.1
Securitizations	5,950	5,594	4,794	6.4	24.1
Other	3,463	3,134	3,275	10.5	5.7
	\$ 9,413	\$ 8,728	\$ 8,069	7.8 %	16.7 %
<b>Mortgage originations<sup>(2)</sup></b>	\$ 634	\$ 1,150	\$ 578	(44.9) %	9.7 %
<b>Mortgage sales to:<sup>(3)</sup></b>					
Securitizations	\$ 999	\$ 543	\$ 545	84.0 %	83.3 %
Other <sup>(4)</sup>	290	234	191	23.9	51.8
	\$ 1,289	\$ 777	\$ 736	65.9 %	75.1 %
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income	\$ 45.7	\$ 42.9	\$ 38.4	6.5 %	19.0 %
Interest expense	32.7	31.9	27.7	2.5	18.1
Net interest income	13.0	11.0	10.7	18.2	21.5
Gains on sales <sup>(5)</sup>	3.8	2.3	1.8	65.2	111.1
Fair value adjustments	4.5	(3.2)	1.8	N/M	150.0
Other <sup>(6)</sup>	(5.2)	(4.6)	(2.0)	(13.0)	(160.0)
	\$ 16.1	\$ 5.5	\$ 12.3	192.7 %	30.9 %

(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.

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

products and banking products, as well as redemption fees. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

#### Net Investment Income and Other

Net investment income and other includes income related to mortgage banking operations and net interest income related to intermediary operations.

Net investment income and other was \$16.5 million in the third quarter of 2014, an increase of \$4.0 million from \$12.5 million in 2013. For the nine months ended September 30, 2014, net investment income and other totalled \$35.6 million, a decrease of \$14.9 million from \$50.5 million in 2013.

Net investment income related to Investors Group's mortgage banking operations totalled \$16.1 million for the third quarter of 2014 compared to \$12.3 million

TABLE 12: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP (CONTINUED)

(\$ millions)	2014 SEP. 30	2013 SEP. 30	% CHANGE
Nine months ended			
<b>Average mortgages serviced</b>			
CMB/MBS Programs	\$ 3,904	\$ 3,304	18.2 %
Bank-sponsored ABCP programs	1,766	1,357	30.1
Securitizations	5,670	4,661	21.6
Other	3,218	3,061	5.1
	<b>\$ 8,888</b>	<b>\$ 7,722</b>	<b>15.1 %</b>
<b>Mortgage originations<sup>(2)</sup></b>	<b>\$ 2,200</b>	<b>\$ 1,748</b>	<b>25.9 %</b>
<b>Mortgage sales to:<sup>(3)</sup></b>			
Securitizations	\$ 1,995	\$ 1,446	38.0 %
Other <sup>(4)</sup>	739	723	2.2
	<b>\$ 2,734</b>	<b>\$ 2,169</b>	<b>26.0 %</b>
<b>Total mortgage banking income</b>			
Net interest income on securitized loans			
Interest income	\$ 130.2	\$ 112.2	16.0 %
Interest expense	95.4	80.5	18.5
Net interest income	34.8	31.7	9.8
Gains on sales <sup>(5)</sup>	9.0	13.9	(35.3)
Fair value adjustments	1.7	12.5	(86.4)
Other <sup>(6)</sup>	(11.1)	(9.3)	(19.4)
	<b>\$ 34.4</b>	<b>\$ 48.8</b>	<b>(29.5) %</b>

in 2013, an increase of \$3.8 million. Net investment income related to Investors Group's mortgage banking operations totalled \$34.4 million for the nine months ended September 30, 2014 compared to \$48.8 million in 2013, a decrease of \$14.4 million. A summary of mortgage banking operations for the three and nine month periods under review is presented in Table 12.

The changes in mortgage banking income were due to:

- Net interest income on securitized loans – which increased by \$2.3 million and \$3.1 million for the three and nine month periods ended September 30, 2014 to \$13.0 million and \$34.8 million, respectively, compared to 2013. The increase resulted from higher average securitized loans offset in part by lower interest income margins.
- Gains realized on the sale of residential mortgages – which increased by \$2.0 million and decreased by \$4.9 million for the three and nine month periods ended September 30, 2014 to \$3.8 million and \$9.0 million, respectively, compared to 2013. The increase in gains in the three month period resulted from higher volumes of sales and proportionately higher volumes of sales to institutional investors as compared to sales to mutual funds. The decrease in gains in the nine month period resulted from proportionately lower sales to institutional investors as compared to sales to mutual funds.
- Fair value adjustments – which increased by \$2.7 million and decreased by \$10.8 million for the three and nine month periods ended September 30, 2014 to \$4.5 million and \$1.7 million, respectively, compared to 2013. The increase in the three month period was related primarily to fair value adjustments on loans temporarily held pending sale or securitization to third parties. The decrease during the nine month period was primarily due to changes

in fair value adjustments to interest rate swaps used to hedge interest rate risk on loans held temporarily pending sale or securitization to third parties.

- Other – which decreased by \$3.2 million and \$1.8 million for the three and nine month periods ended September 30, 2014 to (\$5.2) million and (\$11.1) million, respectively, compared to 2013. The decrease was primarily due to higher issuance costs as a result of higher mortgage lending volumes.

### Expenses

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Commissions paid on the sale of mutual funds are deferred and amortized over a maximum period of seven years. Commission expense was \$71.1 million for the third quarter of 2014, an increase of \$3.1 million from \$68.0 million in 2013. For the nine month period, commission expense increased by \$8.0 million to \$212.1 million compared with \$204.1 million in 2013. The increase in both periods was primarily related to a new program that provides Consultants with higher income potential in their first two years with Investors Group. This was offset in part by decreases in mutual fund commission amortization as well as lower write-offs of the unamortized balance of deferred selling commissions related to the lower redemption rate in the period.

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

- Asset retention bonus, which is based on the value of assets under management, increased by \$6.5 million and \$17.2 million for the three and nine month periods ended September 30, 2014 to \$53.0 million and \$155.3 million, respectively, compared to 2013. The increase in both periods was primarily due to the increase in 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 increased by \$1.5 million and \$4.6 million for the three and nine month periods

to \$10.0 million and \$30.0 million, respectively, compared to 2013. The increase in both periods was related to the increase in assets under management.

Non-commission expenses incurred by Investors Group primarily relate to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as sub-advisory fees related to mutual funds under management. Non-commission expenses were \$109.9 million for the third quarter of 2014 compared to \$96.0 million in 2013, an increase of \$13.9 million or 14.5%. For the nine month period, non-commission expenses were \$333.4 million compared to \$298.2 million in 2013, an increase of \$35.2 million or 11.8%. These increases included additional expenses related to Consultant network expansion, investment management capabilities, advertising and other business development efforts.

### Q3 2014 VS. Q2 2014

#### Fee Income

Management fee income increased by \$9.2 million or 2.9% to \$321.2 million in the third quarter of 2014 compared with the second quarter of 2014. The increase in management fee income was due to:

- The increase in average daily mutual fund assets of 2.3% as shown in Table 10.
- One additional calendar day in the third quarter compared to the second quarter of 2014 which resulted in a \$3.3 million increase in fee income in the current quarter.

This increase was somewhat offset by a decrease in the average management fee rate in the third quarter of 2014 to 174.2 basis points of daily mutual fund assets from 175.0 basis points in the prior quarter.

Money market fund waivers totalled \$0.8 million in the third quarter of 2014, compared to \$0.6 million in the second quarter of 2014.

Administration fees increased to \$71.9 million in the third quarter of 2014 from \$69.4 million in the second quarter of 2014. The net increase resulted from the increase in average daily mutual fund assets compared with the second quarter of 2014.

Distribution fee income of \$41.5 million in the third quarter of 2014 decreased by \$2.7 million from \$44.2 million in the second quarter primarily due to a decrease in distribution fee income from insurance products and a decrease in redemption fees.

### Net Investment Income and Other

Net investment income and other was \$16.5 million in the third quarter of 2014 compared to \$5.9 million in the previous quarter, an increase of \$10.6 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 of 2014, an increase of \$10.6 million from \$5.5 million in the previous quarter as shown in Table 12. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – which increased by \$2.0 million in the third quarter of 2014 to \$13.0 million, compared to \$11.0 million in the previous quarter. The increase resulted from higher average securitized loans.
- Gains realized on the sale of residential mortgages – which increased by \$1.5 million in the third quarter of 2014 to \$3.8 million, compared to \$2.3 million in the previous quarter. The increase in gains resulted from proportionately higher volumes of sales to institutional investors as compared to sales to mutual funds.
- Fair value adjustments – which increased by \$7.7 million in the third quarter of 2014 to \$4.5 million, compared to (\$3.2) million in the previous quarter. The increase was primarily due to unfavourable fair value adjustments recorded in the second quarter on loans temporarily held pending

sale or securitization to third parties and favourable adjustments on certain securitization related financial instruments.

- Other – which decreased by \$0.6 million in the third quarter of 2014 to (\$5.2) million, compared to (\$4.6) million in the previous quarter. The decrease was primarily due to higher mortgage issuance and insurance costs due to the seasonality of mortgage originations.

### Expenses

Commission expense in the current quarter was \$71.1 million compared with \$71.2 million in the previous quarter. This decrease was primarily related to lower insurance commissions as well as lower write-offs of the unamortized balance of deferred selling commissions, related to the lower redemption rate in the period. The decrease was offset by increases related to a new program that provides Consultants with higher income potential in their first two years with Investors Group. The asset retention bonus and premium expense increased by \$1.4 million to \$63.0 million in the third quarter of 2014 largely due to increases in average assets under management.

Non-commission expenses were \$109.9 million in the current quarter, a decrease of \$3.7 million or 3.3% from \$113.6 million in the second quarter of 2014. The majority of this decrease related to the seasonal nature of certain expenses normally incurred in the second quarter.

# Mackenzie

## Review of the Business

### MACKENZIE STRATEGY

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

In the fourth quarter of 2013, Mackenzie affirmed its vision and established a number of strategic priorities to drive future business success.

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

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

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

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 and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to Investors Group, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries, and also include a private label mutual fund arrangement with Lifeco subsidiary Quadrus. Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company. In

the institutional channel Mackenzie provides investment management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel given the relative size and the nature of the distribution relationships of these accounts. These accounts are also subject to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

Mackenzie is positioned to continue to build and enhance its distribution relationships given its team of experienced investment professionals, broad product shelf, competitively priced products and its focus on client experience and investment excellence.

### Pricing

During the quarter, Mackenzie completed a comprehensive retail pricing review and announced, on October 8, 2014, changes designed to simplify and enhance its approach to the retail pricing of its mutual funds. Mackenzie is focused on delivering clear, consistent and competitive pricing on its retail mutual fund product line-up. As part of these pricing changes, which became effective on September 29, 2014, Mackenzie has aligned management fees within the income and balanced asset class categories resulting in fee reductions to 13 mutual funds. The decreases range from 0.15% to 0.25% per annum of the asset value of the fund. Mackenzie also lowered fixed rate annual administration fees on Series A, C, SC and T of many funds to align the rates applied within each asset class. In addition, administration fees have been lowered on Mackenzie's entire Series F offering. Series F is available to retail investors who are enrolled in a dealer-sponsored fee-for-service or wrap program.

### Sponsorship Initiative

During the quarter, Mackenzie announced a new, four-year sponsorship with Snow Sports Canada, touching seven premier national snow sports organizations as well as a five-year partnership with Alpine Ontario. This sponsorship will allow the organizations to develop high performance teams by providing elite coaches, high caliber training facilities, technology and innovation. The commitment will also allow more emphasis on building

youth participation and providing financial support for less established athletes. The sponsorships continue a long legacy of Mackenzie supporting Canada's national ski team and numerous amateur race programs and events.

## ASSETS UNDER MANAGEMENT

The changes in mutual fund assets under management are summarized in Table 13 and the changes in total assets under management are summarized in Table 14.

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

### Fund Performance

Long-term investment performance is a key measure of Mackenzie's ongoing success. At September 30, 2014, 22% of Mackenzie mutual funds were rated in

the top two performance quartiles for the one year time frame, 49% for the three year time frame and 48% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar<sup>†</sup> fund ranking service. At September 30, 2014, 80% of Mackenzie mutual funds measured by Morningstar<sup>†</sup> had a rating of three stars or better and 29% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 66% for three stars or better and 29% for four and five star funds at September 30, 2014. These ratings exclude the Quadrus Group of Funds<sup>†</sup>.

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

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

Three months ended (\$ millions)				% CHANGE	
	2014 SEP. 30	2014 JUN. 30	2013 SEP. 30	2014 JUN. 30	2013 SEP. 30
Sales	\$ 1,417.0	\$ 1,724.1	\$ 1,301.5	(17.8) %	8.9 %
Redemptions	1,623.4	1,609.4	1,534.1	0.9	5.8
<b>Net sales (redemptions)</b>	(206.4)	114.7	(232.6)	N/M	11.3
Market and income	(125.8)	932.3	1,729.0	N/M	N/M
Net change in assets	(332.2)	1,047.0	1,496.4	N/M	N/M
Beginning assets	49,106.2	48,059.2	42,097.5	2.2	16.6
<b>Ending assets</b>	<b>\$ 48,774.0</b>	<b>\$ 49,106.2</b>	<b>\$ 43,593.9</b>	<b>(0.7) %</b>	<b>11.9 %</b>
<b>Daily average mutual fund assets</b>	<b>\$ 49,303.3</b>	<b>\$ 48,483.1</b>	<b>\$ 43,193.1</b>	<b>1.7 %</b>	<b>14.1 %</b>
<hr/>					
Nine months ended (\$ millions)				% CHANGE	
	2014 SEP. 30	2014 JUN. 30	2013 SEP. 30	2014 JUN. 30	2013 SEP. 30
Sales			\$ 5,514.9	\$ 4,680.5	17.8 %
Redemptions			5,252.9	5,175.7	1.5
<b>Net sales (redemptions)</b>			262.0	(495.2)	N/M
Market and income			2,487.6	3,694.7	(32.7)
Net change in assets			2,749.6	3,199.5	(14.1)
Beginning assets			46,024.4	40,394.4	13.9
<b>Ending assets</b>			<b>\$ 48,774.0</b>	<b>\$ 43,593.9</b>	<b>11.9 %</b>
<b>Daily average mutual fund assets</b>			<b>\$ 48,254.2</b>	<b>\$ 42,444.1</b>	<b>13.7 %</b>

undertaken in the third quarter of 2014 included the following:

- On August 13, 2014, Mackenzie announced that investors in the Mackenzie Ivy Global Balanced Fund and Mackenzie Ivy Canadian Balanced Fund approved resolutions to change the Funds' investment objectives to allow for increased

flexibility regarding the Funds' asset allocation among equity securities and fixed income securities.

- On September 29, 2014, Mackenzie announced the formation of the Mackenzie Global Emerging Markets Team, based in Singapore. In conjunction with this announcement, Mackenzie is proposing to change the investment objectives of the Mackenzie

TABLE 14: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE

Three months ended (\$ millions)				% CHANGE	
	2014 SEP. 30	2014 JUN. 30	2013 SEP. 30	2014 JUN. 30	2013 SEP. 30
Sales	\$ 2,427.8	\$ 4,353.0	\$ 2,524.4	(44.2) %	(3.8) %
Redemptions	3,529.0	2,938.5	5,260.8	20.1	(32.9)
<b>Net sales (redemptions)<sup>(1)</sup></b>	<b>(1,101.2)</b>	<b>1,414.5</b>	<b>(2,736.4)</b>	<b>N/M</b>	<b>59.8</b>
Market and income	(25.6)	1,299.1	2,063.6	N/M	N/M
Net change in assets	(1,126.8)	2,713.6	(672.8)	N/M	(67.5)
Beginning assets	71,080.6	68,367.0	63,944.0	4.0	11.2
<b>Ending assets</b>	<b>\$ 69,953.8</b>	<b>\$ 71,080.6</b>	<b>\$ 63,271.2</b>	<b>(1.6) %</b>	<b>10.6 %</b>
<b>Consists of:</b>					
Mutual funds	\$ 48,774.0	\$ 49,106.2	\$ 43,593.9	(0.7) %	11.9 %
Sub-advisory, institutional and other accounts	21,179.8	21,974.4	19,677.3	(3.6)	7.6
	\$ 69,953.8	\$ 71,080.6	\$ 63,271.2	(1.6) %	10.6 %
<b>Monthly average total assets<sup>(2)</sup></b>	<b>\$ 71,166.2</b>	<b>\$ 69,353.1</b>	<b>\$ 62,803.5</b>	<b>2.6 %</b>	<b>13.3 %</b>
<hr/>					
Nine months ended (\$ millions)			2014 SEP. 30	2013 SEP. 30	% CHANGE
Sales			\$ 10,647.0	\$ 9,219.3	15.5 %
Redemptions			9,552.0	11,872.8	(19.5)
<b>Net sales (redemptions)<sup>(1)</sup></b>			<b>1,095.0</b>	<b>(2,653.5)</b>	<b>N/M</b>
Market and income			3,543.6	4,447.3	(20.3)
Net change in assets			4,638.6	1,793.8	158.6
Beginning assets			65,315.2	61,477.4	6.2
<b>Ending assets</b>			<b>\$ 69,953.8</b>	<b>\$ 63,271.2</b>	<b>10.6 %</b>
<b>Monthly average total assets<sup>(2)</sup></b>			<b>\$ 69,038.5</b>	<b>\$ 63,536.7</b>	<b>8.7 %</b>

(1) In the third quarter of 2014, there were tactical rebalances by an institutional client that resulted in net redemptions of \$905 million out of separately managed account investment mandates advised on by Mackenzie.

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

In the nine months ended September 30, 2014, there were tactical rebalances by an institutional client that resulted in gross sales of \$1.2 billion, redemptions of \$1.2 billion and net sales of \$35 million into separately managed account investment mandates advised on by Mackenzie.

In the nine months ended September 30, 2013, there was a similar rebalance transaction in addition to the internalization of the Waddell & Reed Financial, Inc. mandate previously sub-advised by Mackenzie resulting in gross sales of \$861 million, redemptions of \$3.0 billion and net redemptions of \$2.1 billion out of separately managed account investment mandates advised on by Mackenzie.

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

Cundill Emerging Markets Class subject to investor approval. The change involves a broadening of investment objectives in order to expand beyond its current focus. Pending investor approval of objective changes, the Mackenzie Global Emerging Markets Team will assume portfolio management responsibilities and the Fund will be renamed Mackenzie Emerging Markets Opportunities Class.

#### **Change in Assets under Management – 2014 vs. 2013**

Mackenzie's mutual fund assets under management were \$48.8 billion at September 30, 2014, an increase of 11.9% from \$43.6 billion at September 30, 2013. Mackenzie's sub-advisory, institutional and other accounts at September 30, 2014 were \$21.2 billion, an increase of 7.6% from \$19.7 billion last year. Mackenzie's total assets under management at September 30, 2014 were \$70.0 billion, an increase of 10.6% from \$63.3 billion at September 30, 2013.

In the three months ended September 30, 2014, Mackenzie's mutual fund gross sales were \$1.4 billion, an increase of 8.9% from \$1.3 billion in the comparative period last year. Mutual fund redemptions in the current period were \$1.6 billion, an increase of 5.8% from last year. Mutual fund net redemptions for the three months ended September 30, 2014 were \$207 million, as compared to net redemptions of \$233 million last year. During the current quarter, market and income resulted in assets decreasing by \$126 million as compared to an increase of \$1.7 billion last year.

In the three months ended September 30, 2014, Mackenzie's gross sales for total assets under management were \$2.4 billion, a decrease of 3.8% from \$2.5 billion in the comparative period last year. Redemptions in the current period were \$3.5 billion, a decrease of 32.9% from \$5.3 billion last year. Net redemptions for the three months ended September 30, 2014 were \$1.1 billion, as compared to net redemptions of \$2.7 billion last year. During the current quarter, market and income resulted in assets decreasing by \$26 million as compared to an increase of \$2.1 billion last year.

During the third quarter of 2014, there were tactical rebalances by an institutional client that resulted in net redemptions of \$905 million out of separately managed account investment mandates advised on by Mackenzie. During the third quarter of 2013, Waddell & Reed Financial Inc. internalized a fund previously sub-advised by Mackenzie resulting in a redemption of \$2.4 billion.

In the nine months ended September 30, 2014,

Mackenzie's mutual fund gross sales were \$5.5 billion, an increase of 17.8% from \$4.7 billion in the comparative period last year. Mutual fund redemptions in the current period were \$5.3 billion, an increase of 1.5% from the previous year. Mutual fund net sales for the nine months ended September 30, 2014, were \$262 million, as compared to net redemptions of \$495 million last year. During the period, market and income resulted in assets increasing by \$2.5 billion as compared to an increase of \$3.7 billion last year.

During the nine months ended September 30, 2014, there were tactical rebalances by an institutional client that resulted in gross sales of \$1.2 billion, redemptions of \$1.2 billion, and net sales of \$35 million into separately managed account investment mandates advised on by Mackenzie. During the nine months ended September 30, 2013, there was a similar rebalance relating to this same client in addition to the Waddell & Reed Financial Inc. transaction that resulted in gross sales of \$861 million, redemptions of \$3.0 billion and net redemptions of \$2.1 billion out of separately managed account investment mandates advised on by Mackenzie.

Redemptions of long-term mutual funds in the three and nine month periods ended September 30, 2014, were \$1.6 billion and \$5.0 billion, respectively, as compared to \$1.4 billion and \$4.8 billion last year. Mackenzie's annualized quarterly redemption rate for long-term mutual funds of 12.7% in the third quarter of 2014 was lower than the 13.4% in the third quarter of 2013. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 14.8% at September 30, 2014, as compared to 17.4% last year. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 14.9% at September 30, 2014. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

In the nine months ended September 30, 2014, Mackenzie's gross sales for total assets under management were \$10.6 billion, an increase of 15.5% from \$9.2 billion in the comparative period last year.



Redemptions in the current period were \$9.6 billion, a decrease of 19.5% from \$11.9 billion last year. Net sales for the nine months ended September 30, 2014 were \$1.1 billion, as compared to net redemptions of \$2.7 billion last year. During the period, market and income resulted in assets increasing by \$3.5 billion as compared to an increase of \$4.4 billion last year.

#### **Change in Assets under Management – Q3 2014 vs. Q2 2014**

Mackenzie's mutual fund assets under management decreased 0.7% to \$48.8 billion in the quarter and Mackenzie's sub-advisory, institutional and other accounts decreased \$0.8 billion from \$22.0 billion to \$21.2 billion at September 30, 2014. Mackenzie's total assets under management at September 30, 2014, were \$70.0 billion, a decrease of 1.6% from \$71.1 billion at June 30, 2014, as summarized in Table 14.

For the quarter ended September 30, 2014, Mackenzie mutual fund gross sales were \$1.4 billion, a decrease of 17.8% from the second quarter of 2014. Mutual fund redemptions, which totalled \$1.6 billion for the third quarter, increased 0.9% from the previous quarter. Net redemptions of Mackenzie mutual funds for the current quarter were \$207 million compared with net sales of \$115 million in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$1.6 billion, compared to \$1.5 billion in the second quarter of 2014. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the quarter ended September 30, 2014 was 12.7%, unchanged from the second quarter of 2014. Net redemptions of long-term funds for the current quarter were \$224 million compared to net sales of \$104 million in the previous quarter.

## Review of Segment Operating Results

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

### **2014 VS. 2013**

#### **Revenues**

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. Equity-based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail basis.

Within Mackenzie's retail mutual fund offering, certain series are offered for fee-based programs of participating dealers whereby dealer compensation is charged directly by the dealer to a client (primarily Series F). As Mackenzie does not pay the dealer

compensation, these series have lower management fees. At September 30, 2014, these series had \$2.5 billion in assets, an increase of 41.9% from the prior year.

Management fees were \$181.3 million for the three months ended September 30, 2014, an increase of \$14.1 million or 8.4% from \$167.2 million last year, primarily due to increases in average assets under management of 13.3%. Mackenzie's average management fee rate was 101.1 basis points for the three month period ended September 30, 2014 compared to 105.6 basis points in 2013. The decline in the average management fee rate was driven by lower management fees from CMA Holdings Inc. which resulted from renegotiated sub-advisory fee arrangements which became effective October 1, 2013.

For the nine months ended September 30, 2014, management fees were \$530.8 million, an increase of \$37.4 million or 7.6% from \$493.4 million last year, primarily due to increases in average assets under management of 8.7%. Mackenzie's average management fee rate was 102.8 basis points for the nine month period ended September 30, 2014 compared to 103.8 basis points in 2013.

TABLE 15: OPERATING RESULTS – MACKENZIE

Three months ended (\$ millions)	2014		2013	% CHANGE	
	SEP. 30	JUN. 30	SEP. 30	JUN. 30	SEP. 30
<b>Revenues</b>					
Management fees	\$ 181.3	\$ 177.8	\$ 167.2	2.0 %	8.4 %
Administration fees	26.7	26.5	26.4	0.8	1.1
Distribution fees	2.7	2.8	3.1	(3.6)	(12.9)
	210.7	207.1	196.7	1.7	7.1
Net investment income and other	1.4	0.4	0.8	N/M	75.0
	212.1	207.5	197.5	2.2	7.4
<b>Expenses</b>					
Commission	15.4	15.8	16.7	(2.5)	(7.8)
Trailing commission	60.0	59.0	51.2	1.7	17.2
Non-commission	67.5	66.8	65.2	1.0	3.5
	142.9	141.6	133.1	0.9	7.4
<b>Earnings before interest and taxes</b>	<b>\$ 69.2</b>	<b>\$ 65.9</b>	<b>\$ 64.4</b>	<b>5.0 %</b>	<b>7.5 %</b>
<b>Nine months ended</b>					
(\$ millions)			2014	2013	% CHANGE
			SEP. 30	SEP. 30	
<b>Revenues</b>					
Management fees			\$ 530.8	\$ 493.4	7.6 %
Administration fees			79.3	77.7	2.1
Distribution fees			8.7	10.3	(15.5)
			618.8	581.4	6.4
Net investment income and other			3.1	3.5	(11.4)
			621.9	584.9	6.3
<b>Expenses</b>					
Commission			48.1	53.1	(9.4)
Trailing commission			175.9	148.3	18.6
Non-commission			205.1	199.7	2.7
			429.1	401.1	7.0
<b>Earnings before interest and taxes</b>			<b>\$ 192.8</b>	<b>\$ 183.8</b>	<b>4.9 %</b>

Mackenzie earns administration fees primarily from providing services to its mutual funds. Administration fees were \$26.7 million for the three months ended September 30, 2014, as compared to \$26.4 million in 2013. Administration fees were \$79.3 million for the nine months ended September 30, 2014, compared to \$77.7 million in 2013.

Effective August 1, 2007, Mackenzie assumed responsibility for the operating expenses of the Mackenzie funds, other than GST/HST and certain specified fund costs, in return for a fixed rate administration fee established for each fund. The funds that existed as at August 1, 2007 may be required to pay a monthly operating expense adjustment to

Mackenzie if the combined average monthly net assets for all Mackenzie funds and series that were subject to the administration fee proposal that was approved by investors on August 7, 2007 fall to a level that is 95% of the amount of their total net assets on August 1, 2007.

Due to the level of mutual fund assets, Mackenzie continued to receive an operating expense adjustment in the current period. The operating expense adjustment in the three months ended September 30, 2014 was \$1.1 million and in the nine months ended September 30, 2014 was \$4.3 million as compared to \$3.4 million and \$11.0 million, respectively, in 2013. As part of the retail pricing changes announced during the quarter, effective April 1, 2015, this operating expense adjustment will be discontinued.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Redemption fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Redemption fees for low load assets range from 2.0% to 3.0% in the first year and decrease to zero after two or three years, depending on the purchase option. Distribution fee income in the three months ended September 30, 2014 was \$2.7 million, a decrease of \$0.4 million from \$3.1 million last year. Distribution fee income in the nine months ended September 30, 2014 was \$8.7 million, a decrease of \$1.6 million from \$10.3 million last year.

### Expenses

Mackenzie's expenses were \$142.9 million for the three months ended September 30, 2014, an increase of \$9.8 million or 7.4% from \$133.1 million last year. Expenses for the nine months ended September 30, 2014 were \$429.1 million, an increase of \$28.0 million or 7.0% from \$401.1 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the

applicable deferred sales charge assets. Commission expense was \$15.4 million in the three months ended September 30, 2014, as compared to \$16.7 million last year. Commission expense in the nine months ended September 30, 2014 was \$48.1 million compared to \$53.1 million in 2013. This decline is consistent with the lower amount of deferred sales commissions paid in recent years combined with lower write-offs of the unamortized balance of deferred sales commissions associated with redemptions.

Trailing commissions paid to dealers are paid on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$60.0 million in the three months ended September 30, 2014, an increase of \$8.8 million or 17.2% from \$51.2 million last year. Trailing commissions in the nine months ended September 30, 2014 were \$175.9 million, an increase of \$27.6 million or 18.6% from \$148.3 million last year. The change in trailing commissions resulted both from the period over period increase in average mutual fund assets as well as a change in the composition of mutual fund assets towards series of mutual funds that pay higher trailer rates. During the period, this included both the impact of having a higher weighting of equity funds as well as having a higher weighting of no load series of funds, both of which are subject to higher trailer rates. Trailing commissions as a percentage of average mutual fund assets under management were 48.7 basis points in the three months ended September 30, 2014 and 48.6 basis points in the nine months ended September 30, 2014 as compared to 47.4 basis points and 46.6 basis points, respectively, in 2013.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$67.5 million in the three months ended September 30, 2014, an increase of \$2.3 million or 3.5% from \$65.2 million in 2013. Non-commission expenses in the nine months ended September 30, 2014 were \$205.1 million, an increase of \$5.4 million or 2.7% from \$199.7 million in 2013. Mackenzie continues to attract, retain and develop employees and invest strategically in systems and technology to enhance its future operating capabilities

while at the same time investing in revenue generating initiatives to further grow its business.

### Q3 2014 VS. Q2 2014

#### Revenues

Mackenzie's revenues were \$212.1 million for the current quarter, an increase of \$4.6 million or 2.2% from \$207.5 million in the second quarter of 2014.

Management fees were \$181.3 million for the current quarter, an increase of \$3.5 million or 2.0% from \$177.8 million in the second quarter of 2014.

Factors contributing to the net increase in management fees are as follows:

- Average total assets under management were \$71.2 billion in the current quarter compared to \$69.4 billion in the quarter ended June 30, 2014, an increase of 2.6%.
- Mackenzie's average management fee rate was 101.1 basis points in the current quarter as compared to 102.9 basis points in the second quarter of 2014 due to a change in the composition of assets under management.
- There was one additional calendar day in the current quarter compared to the second quarter of 2014.

Administration fees were \$26.7 million in the current quarter, an increase of \$0.2 million or 0.8% from \$26.5 million in the prior quarter. Included in administration fees for the current quarter was the fund operating expense adjustment of \$1.1 million as compared to \$1.3 million in the second quarter of 2014.

#### Expenses

Mackenzie's expenses were \$142.9 million for the current quarter, an increase of \$1.3 million or 0.9% from \$141.6 million in the second quarter of 2014.

Commission expense, related to the amortization of selling commissions, was \$15.4 million in the quarter ended September 30, 2014, as compared to \$15.8 million in the second quarter of 2014.

Trailing commissions were \$60.0 million in the current quarter, an increase of \$1.0 million or 1.7% from \$59.0 million in the second quarter of 2014. The change in trailing commissions reflects the 1.7% period over period increase in average mutual fund assets under management. The effective trailing commission rate for the third quarter was 48.7 basis points consistent with the second quarter of 2014.

Non-commission expenses were \$67.5 million in the current quarter, an increase of \$0.7 million or 1.0% from \$66.8 million in the second quarter of 2014.

## Corporate and Other Review of Segment Operating Results

The Corporate and Other segment includes net investment income not allocated to the Investors Group or Mackenzie segments, the Company's proportionate share of earnings of its affiliate, Great-West Lifeco Inc. (Lifeco), operating results for Investment Planning Counsel Inc., other income, as well as consolidation elimination entries.

Corporate and other earnings before interest and taxes are presented in Table 16.

### 2014 VS. 2013

Net investment income and other increased to \$28.3 million in the third quarter of 2014 compared to \$25.4 million in 2013. Net investment income and other totalled \$81.4 million for the nine months ended September 30, 2014, an increase of \$6.5 million compared with 2013. The increase in the three and nine month periods was largely due to the increase of \$1.6 million and \$4.7 million in the Company's proportionate share of

Lifeco's earnings as discussed in the Consolidated Financial Position section of this MD&A.

Earnings before interest and taxes related to Investment Planning Counsel were \$2.0 million higher in the third quarter of 2014 compared to the same period in 2013 and \$3.3 million higher in the nine months ended September 30, 2014 compared with 2013.

### Q3 2014 VS. Q2 2014

Net investment income and other totalled \$28.3 million in the third quarter of 2014 compared to \$26.2 million in the second quarter of 2014. The increase was due in part to the increase of \$0.9 million in the Company's proportionate share of Lifeco's earnings as discussed in the Consolidated Financial Position section of this MD&A.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.8 million higher in the third quarter of 2014 compared with the previous quarter.

TABLE 16: OPERATING RESULTS – CORPORATE AND OTHER

Three months ended (\$ millions)	2014 SEP. 30	2014 JUN. 30	2013 SEP. 30	% CHANGE	
				2014 JUN. 30	2013 SEP. 30
<b>Revenues</b>					
Fee income	\$ 58.7	\$ 56.6	\$ 44.0	3.7 %	33.4 %
Net investment income and other	28.3	26.2	25.4	8.0	11.4
	87.0	82.8	69.4	5.1	25.4
<b>Expenses</b>					
Commission	40.3	38.1	28.9	5.8	39.4
Non-commission	13.4	14.1	11.8	(5.0)	13.6
	53.7	52.2	40.7	2.9	31.9
<b>Earnings before interest and taxes</b>	<b>\$ 33.3</b>	<b>\$ 30.6</b>	<b>\$ 28.7</b>	<b>8.8 %</b>	<b>16.0 %</b>
<b>Nine months ended</b>					
(\$ millions)			2014 SEP. 30	2013 SEP. 30	% CHANGE
<b>Revenues</b>					
Fee income			\$ 172.5	\$ 132.7	30.0 %
Net investment income and other			81.4	74.9	8.7
			253.9	207.6	22.3
<b>Expenses</b>					
Commission			117.3	87.8	33.6
Non-commission			42.5	35.7	19.0
			159.8	123.5	29.4
<b>Earnings before interest and taxes</b>			<b>\$ 94.1</b>	<b>\$ 84.1</b>	<b>11.9 %</b>

# IGM Financial Inc.

## Consolidated Financial Position

IGM Financial's total assets were \$14.0 billion at September 30, 2014 compared to \$12.9 billion at December 31, 2013.

### SECURITIES

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

#### Available for Sale (AFS) Securities

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

#### Fair Value Through Profit or Loss Securities

Securities classified as fair value through profit or loss include equity securities and proprietary investment funds. Unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Certain proprietary investment funds are consolidated where the Company has made the assessment that it controls the investment fund as discussed in Note 2 of the Consolidated Financial Statements included in the 2013 IGM Financial Inc. Annual Report (Annual Financial Statements). The underlying securities of these funds are classified as held for trading and recognized at fair value through profit or loss.

### LOANS

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

Loans consisted of residential mortgages and represented 49.3% of total assets at September 30, 2014 compared to 45.4% at December 31, 2013. 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 \$6.4 billion at September 30, 2014, compared to \$5.6 billion at December 31, 2013.
- Intermediary operations – these loans are held by the Company to earn interest in the Company's deposit operations.
- Mortgage banking operations – these loans are held temporarily by the Company pending sale or securitization.

Residential mortgages originated by Investors Group are funded primarily through sales to third parties on a fully serviced basis, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization programs. Investors Group services \$11.9 billion of residential mortgages, including \$2.2 billion originated by subsidiaries of Lifeco.

### SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by Investors Group

TABLE 17: SECURITIES

(\$ millions)	SEPTEMBER 30, 2014		DECEMBER 31, 2013	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Available for sale</b>				
Proprietary investment funds	\$ 3.6	\$ 4.3	\$ 3.4	\$ 4.1
<b>Fair value through profit or loss</b>				
Equity securities	10.9	13.0	6.7	8.0
Proprietary investment funds	60.2	63.4	54.2	56.6
	71.1	76.4	60.9	64.6
	\$ 74.7	\$ 80.7	\$ 64.3	\$ 68.7

TABLE 18: LOANS

<i>(\$ millions)</i>	2014 SEPTEMBER 30	2013 DECEMBER 31
<b>Loans and receivables</b>		
Sold to securitization programs	\$ 6,339.6	\$ 5,491.5
Intermediary operations	30.8	36.4
	6,370.4	5,527.9
Less: Collective allowance	0.7	0.7
	6,369.7	5,527.2
<b>Held for trading</b>		
Mortgage banking operations	533.9	324.3
	\$ 6,903.6	\$ 5,851.5

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

In the third quarter of 2014, the Company securitized loans through its mortgage banking operations with cash proceeds of \$985.1 million compared to \$539.3 million in 2013. The fair value of the Company's retained interest was \$127.8 million at September 30, 2014 compared to \$112.5 million at

December 31, 2013. The retained interest includes cash reserve accounts of \$31.5 million, which are reflected on the balance sheet, and rights to future excess spread of \$115.3 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 \$19.0 million at September 30, 2014. Additional information related to the Company's securitization activities can be found in the Financial Instruments Risk section of this MD&A and in Note 4 of the Interim Financial Statements.

#### INVESTMENT IN AFFILIATE

Investment in affiliate represents the Company's 4% equity interest in Great-West Lifeco Inc. (Lifeco). IGM Financial and Lifeco are controlled by Power Financial Corporation.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence. The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment. Changes in the carrying value for the nine months ended September 30, 2014 compared with the same period in 2013 are shown in Table 19.

TABLE 19: INVESTMENT IN AFFILIATE

Nine months ended (\$ millions)	2014 SEP. 30	2013 SEP. 30
<b>Investment in affiliate – equity method</b>		
Balance, beginning of period	\$ 717.8	\$ 600.4
Additional shares acquired	–	49.7
Proportionate share of earnings	68.3	63.6
Dividends received	(36.7)	(35.5)
Proportionate share of other comprehensive income (loss) and other adjustments	24.4	17.3
Balance, end of period	\$ 773.8	\$ 695.5
<b>Fair value, end of period</b>	<b>\$ 1,277.2</b>	<b>\$ 1,192.5</b>

On March 12, 2013, the Company purchased 1,950,000 subscription receipts of Lifeco which were recorded at cost. On July 18, 2013, the acquisition of Irish Life Group Limited was completed and the subscription receipts of Lifeco were exchanged

for 1,950,000 Lifeco common shares at a cost of \$49.7 million. As a result of this transaction, the Company maintains its current ownership position in Lifeco of 4%.



## Consolidated Liquidity and Capital Resources

### LIQUIDITY

Cash and cash equivalents totalled \$1.02 billion at September 30, 2014 compared with \$1.08 billion at December 31, 2013 and \$770.2 million at September 30, 2013. Cash and cash equivalents related to the Company's deposit operations were \$7.0 million at September 30, 2014 compared with \$6.2 million at December 31, 2013 and \$5.9 million at September 30, 2013, as shown in Table 20.

Working capital totalled \$1,273.5 million at September 30, 2014 compared with \$1,161.1 million at December 31, 2013 and \$1,103.8 million at September 30, 2013. Working capital excludes the Company's deposit operations.

Working capital is utilized to:

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

IGM Financial continues to generate significant cash flows from its operations. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted

EBITDA) totalled \$375.8 million in the third quarter of 2014 compared to \$342.9 million in the third quarter of 2013 and \$349.5 million in the second quarter of 2014. Adjusted EBITDA totalled \$1,070.2 million for the nine months ended September 30, 2014 compared to \$1,007.1 million in 2013. Adjusted EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled \$57.2 million in the third quarter of 2014 compared to \$60.0 million in the third quarter of 2013 and \$58.2 million in the second quarter of 2014. As well as being an important alternative measure of performance, EBITDA is a common measure utilized by investment analysts and credit rating agencies in reviewing asset management companies.

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

### Cash Flows

Table 21 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Interim Financial Statements for the three and nine months ended September 30, 2014. Cash and cash equivalents increased by \$106.3 million in the quarter compared to a decrease of \$193.2 million in 2013. For the nine month period, cash and cash equivalents decreased by \$58.2 million compared to a decrease of \$288.9 million in 2013.

TABLE 20: DEPOSIT OPERATIONS – FINANCIAL POSITION

<i>(\$ millions)</i>	2014 SEP. 30	2013 DEC. 31	2013 SEP. 30
<b>Assets</b>			
Cash and cash equivalents	\$ 7.0	\$ 6.2	\$ 5.9
Accounts and other receivables	185.0	161.7	161.5
Loans	26.2	30.8	31.6
<b>Total assets</b>	<b>\$ 218.2</b>	<b>\$ 198.7</b>	<b>\$ 199.0</b>
<b>Liabilities and shareholders' equity</b>			
Deposit liabilities	\$ 205.0	\$ 186.4	\$ 185.2
Other liabilities	0.7	0.9	0.9
Shareholders' equity	12.5	11.4	12.9
<b>Total liabilities and shareholders' equity</b>	<b>\$ 218.2</b>	<b>\$ 198.7</b>	<b>\$ 199.0</b>

TABLE 21: CASH FLOWS

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2014	2013	% CHANGE	2014	2013	% CHANGE
<b>Operating activities</b>						
Before payment of commissions	\$ 364.5	\$ 249.9	45.9 %	\$ 775.0	\$ 695.0	11.5 %
Commissions paid	(57.3)	(49.3)	(16.2)	(198.3)	(180.2)	(10.0)
Net of commissions paid	307.2	200.6	53.1	576.7	514.8	12.0
<b>Financing activities</b>	381.6	(236.2)	N/M	455.8	(208.8)	N/M
<b>Investing activities</b>	(582.5)	(157.6)	N/M	(1,090.7)	(594.9)	(83.3)
<b>Increase (decrease) in cash and cash equivalents</b>	106.3	(193.2)	155.0	(58.2)	(288.9)	79.9
Cash and cash equivalents, beginning of period	917.9	963.4	(4.7)	1,082.4	1,059.1	2.2
<b>Cash and cash equivalents, end of period</b>	\$ 1,024.2	\$ 770.2	33.0 %	\$ 1,024.2	\$ 770.2	33.0 %

Operating activities, before payment of commissions, generated \$364.5 million and \$775.0 million during the three and nine month periods ended September 30, 2014, as compared to \$249.9 million and \$695.0 million in 2013. Cash commissions paid were \$57.3 million and \$198.3 million for the three and nine month periods in 2014 compared to \$49.3 million and \$180.2 million in 2013. Cash flows from operating activities, net of commissions paid, were \$307.2 million and \$576.7 million for the three and nine month periods in 2014 as compared to \$200.6 million and \$514.8 million in 2013.

Financing activities during the third quarter of 2014 compared to 2013 related to:

- A net increase of \$3.1 million in deposits and certificates in 2014 compared to a net increase of \$8.4 million in 2013.
- A net increase of \$528.3 million in 2014 arising from obligations to securitization entities compared to a net increase of \$117.7 million in 2013.
- Proceeds received on the issuance of common shares of \$9.2 million in 2014 compared with \$12.5 million in 2013.
- The purchase of 416,300 common shares in 2014 under IGM Financial's normal course issuer bid at a cost of \$21.3 million compared with the purchase of 307,700 common shares at a cost of \$14.8 million in 2013.

- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2014, unchanged from 2013.
- The payment of regular common share dividends which totalled \$135.5 million in 2014, unchanged from 2013.

Financing activities during the nine months ended September 30, 2014 compared to 2013 related to:

- A net increase of \$18.5 million in deposits and certificates in 2014 compared to a net increase of \$22.0 million in 2013.
- A net increase of \$874.1 million in 2014 arising from obligations to securitization entities compared to a net increase of \$417.6 million in 2013.
- Proceeds received on the issuance of common shares of \$31.1 million in 2014 compared with \$38.0 million in 2013.
- The purchase of 1,041,300 common shares in 2014 under IGM Financial's normal course issuer bid at a cost of \$54.5 million compared with the purchase of 1,050,000 common shares at a cost of \$47.9 million in 2013.
- The payment of perpetual preferred share dividends which totalled \$6.6 million in 2014, unchanged from 2013.
- The payment of regular common share dividends which totalled \$406.8 million in 2014 compared to \$406.4 million in 2013.

Financing activities during both the three and nine month periods in 2013 also included a net payment of \$222.3 million and \$225.4 million, respectively, arising from obligations related to assets sold under repurchase agreements. The net payment in 2013 included the settlement of \$218.6 million in obligations related to the sale of \$217.8 million in Canada Mortgage Bonds which is reported in investing activities.

Investing activities during the third quarter of 2014 compared to 2013 primarily related to:

- The purchases of securities totalling \$21.2 million and sales of securities with proceeds of \$22.6 million in 2014 compared to \$3.1 million and \$243.6 million, respectively, in 2013. Proceeds in 2013 included the sale of Canada Mortgage Bonds for \$217.8 million.
- A net increase in loans of \$569.6 million in 2014 compared to a net increase of \$387.7 million in 2013 primarily related to residential mortgages in the Company's mortgage banking operations.

Investing activities during the nine months ended September 30, 2014 compared to 2013 primarily related to:

- The purchases of securities totalling \$53.8 million and sales of securities with proceeds of \$48.5 million in 2014 compared to \$46.3 million and \$287.5 million, respectively, in 2013. Proceeds in 2013 included the sale of Canada Mortgage Bonds for \$217.8 million.
- A net increase in loans of \$1,048.9 million in 2014 compared to a net increase of \$760.3 million in 2013 primarily related to residential mortgages in the Company's mortgage banking operations.

Investing activities during the nine month period in 2013 also included the investment in affiliate of \$49.7 million in the first quarter of 2013. The Company purchased 1,950,000 subscription receipts of Lifeco which were exchanged in the third quarter of 2013 for 1,950,000 Lifeco common shares.

## CAPITAL RESOURCES

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

capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity which totalled \$6.2 billion at September 30, 2014, compared to \$6.0 billion at December 31, 2013. The Company regularly assesses its capital management practices in response to changing economic conditions.

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

The total outstanding long-term debt was \$1,325 million at September 30, 2014, unchanged from December 31, 2013. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Perpetual preferred shares of \$150 million at September 30, 2014 remain unchanged from December 31, 2013.

The Company purchased 1,041,300 common shares in the nine months ended September 30, 2014 at a cost of \$54.5 million under its normal course issuer bid (refer to Note 5 to the Interim Financial Statements). The Company commenced a normal course issuer bid on April 14, 2014 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Company's stock option plan and for other capital management purposes. Other activities in the first nine months of 2014 included the declaration of perpetual preferred share dividends of \$6.6 million or \$1.10625 per share and common share dividends of \$406.6 million or \$1.6125 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

In connection with its normal course issuer bid, the Company has established an automatic securities purchase plan for its common shares. The automatic

securities purchase plan provides standard instructions regarding how IGM Financial's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

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

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

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

The "A+" rating assigned to the Company's senior unsecured debentures by S&P is the fifth highest of the 22 ratings used for long-term debt. A debenture rated A+ indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the Company is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than companies in higher rated categories.

According to S&P, the "Stable" rating outlook means that S&P considers that the rating is unlikely to change over the intermediate term.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. Under the DBRS long-term rating scale, debt securities rated A (High) are of good credit quality and the capacity for the payment of financial obligations is substantial. While this is a favourable rating, entities in the A

(High) category may be vulnerable to future events, but qualifying negative factors are considered manageable.

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

## FINANCIAL INSTRUMENTS

Table 22 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, repurchase agreements, and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

- Securities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity.
- Loans classified as loans and receivables are valued by discounting the expected future cash flows at prevailing market yields.
- Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.
- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

TABLE 22: FINANCIAL INSTRUMENTS

(\$ millions)	SEPTEMBER 30, 2014		DECEMBER 31, 2013	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Financial assets recorded at fair value</b>				
Securities				
– Available for sale	\$ 4.3	\$ 4.3	\$ 4.1	\$ 4.1
– Held for trading	76.4	76.4	64.6	64.6
Loans				
– Held for trading	533.9	533.9	324.3	324.3
Derivative financial instruments	36.5	36.5	57.4	57.4
<b>Financial assets recorded at amortized cost</b>				
Loans				
– Loans and receivables	6,369.6	6,552.5	5,527.2	5,695.0
<b>Financial liabilities recorded at fair value</b>				
Derivative financial instruments	26.0	26.0	35.5	35.5
<b>Financial liabilities recorded at amortized cost</b>				
Deposits and certificates	205.0	206.3	186.4	187.9
Obligations to securitization entities	6,438.1	6,544.7	5,572.1	5,671.4
Long-term debt	1,325.0	1,653.5	1,325.0	1,577.8

See Note 10 of the Interim Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the nine months ended September 30, 2014.

## Risk Management

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

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

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

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

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

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

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

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

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

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

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

## FINANCIAL INSTRUMENTS RISK

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

### Liquidity and Funding Risk

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise. The Company's liquidity management practices include:

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

As part of ongoing liquidity management during 2014 and 2013, the Company:

- Added an additional Canadian bank sponsored committed ABCP facility.
- Expanded our funding channels by issuing the Company's inaugural syndicated National Housing Act Mortgage Backed Securities for \$224 million.
- Continued to assess additional funding sources for the Company's mortgage banking operations.

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

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

- Investors Mortgage and Short Term Income Fund and Investors Canadian Corporate Bond Fund;

- Third parties, including CMHC or Canadian bank sponsored securitization trusts; or
- Institutional investors through private placements.

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

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

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled \$525 million as at September 30, 2014, unchanged from December 31, 2013. The lines of credit as at September 30, 2014 consisted of committed lines of \$350 million (2013 – \$350 million) and uncommitted lines of \$175 million (2013 – \$175 million). The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at September 30, 2014 and December 31, 2013, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2013, was completed in May 2014. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$23.4 million compared to \$106.3 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2012. The reduction in solvency deficit resulted primarily from higher interest rates and market returns on the plan assets, and is required to be funded over five years. The annual contributions are \$19.7 million (2013 – \$36.1 million) and include annual current service costs of \$13.4 million (2013 – \$12.4 million). The Company has made contributions of \$13.0 million in the nine months

TABLE 23: CONTRACTUAL OBLIGATIONS

As at September 30, 2014 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 – 5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ –	\$ 8.8	\$ 17.2	\$ –	\$ 26.0
Deposits and certificates	184.4	8.2	9.3	3.1	205.0
Obligations to securitization entities	–	1,232.6	5,173.0	32.5	6,438.1
Long-term debt	–	–	525.0	800.0	1,325.0
Operating leases <sup>(1)</sup>	–	54.2	147.6	54.7	256.5
Pension funding <sup>(2)</sup>	–	21.5	32.8	–	54.3
<b>Total contractual obligations</b>	<b>\$ 184.4</b>	<b>\$ 1,325.3</b>	<b>\$ 5,904.9</b>	<b>\$ 890.3</b>	<b>\$ 8,304.9</b>

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

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2016. Pension funding requirements beyond 2016 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

ended September 30, 2014 (2013 – \$22.8 million) and expects to make additional contributions of approximately \$6.7 million in the remainder of 2014. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy. The next required actuarial valuation will be based on a measurement date of December 31, 2016.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2013.

#### 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, 2014, cash and cash equivalents of \$1,024.2 million (December 31, 2013 – \$1,082.4 million) consisted of cash balances of \$79.6 million (December 31, 2013 – \$88.8 million) on deposit with Canadian chartered banks and cash equivalents of \$944.6 million (December 31, 2013 – \$993.6 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$269.4 million (December 31, 2013 – \$41.8 million), provincial government and government guaranteed commercial paper of \$367.4 million (December 31, 2013 – \$564.1 million) and bankers' acceptances issued by Canadian chartered banks of \$307.8 million (December 31, 2013 – \$387.7 million). The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

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, 2014, mortgages totalled \$6.9 billion (December 31, 2013 – \$5.9 billion) and consisted of residential mortgages:



- Sold to securitization programs which are classified as loans and receivables and totalled \$6.3 billion compared to \$5.5 billion at December 31, 2013. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$6.4 billion at September 30, 2014, compared to \$5.6 billion at December 31, 2013.
- Related to the Company's mortgage banking operations which are classified as held for trading and totalled \$533.9 million compared to \$324.3 million at December 31, 2013. These loans are held by the Company pending sale or securitization.
- Related to the Company's intermediary operations which are classified as loans and receivables and totalled \$30.8 million at September 30, 2014, compared to \$36.4 million at December 31, 2013.

As at September 30, 2014, the mortgage portfolios related to the Company's intermediary operations were geographically diverse, 100% residential (December 31, 2013 – 100%) and 91.5% insured (December 31, 2013 – 88.6%). As at September 30, 2014, impaired mortgages were nil, unchanged from December 31, 2013. Uninsured non-performing mortgages over 90 days were nil, unchanged from December 31, 2013. The characteristics of the mortgage portfolio have not changed significantly during 2014.

The NHA MBS and CMB Program require that all securitized mortgages be insured against default by an approved insurer. The ABCP programs do not require mortgages to be insured; however, at September 30, 2014, 56.0% of these mortgages were insured compared to 58.9% at December 31, 2013. At September 30, 2014, 82.6% of the securitized portfolio and the residential mortgages classified as held for trading were insured compared to 86.1% at December 31, 2013. As at September 30, 2014, impaired mortgages on these portfolios were \$3.5 million, compared to \$1.8 million at December 31, 2013. Uninsured non-performing mortgages over 90 days on these portfolios were \$1.2 million at September 30, 2014, compared to \$0.9 million at December 31, 2013.

The Company retains certain elements of credit risk on securitized loans. At September 30, 2014, 86.6% of securitized loans were insured against credit losses compared to 87.4% at December 31, 2013. 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 \$127.8 million at September 30, 2014 compared to \$112.5 million at December 31, 2013. Retained interests include:

- *Cash reserve accounts and rights to future net interest income* – which were \$31.5 million (December 31, 2013 – \$29.0 million) and \$115.3 million (December 31, 2013 – \$99.7 million), respectively, at September 30, 2014. 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 \$61.3 million (December 31, 2013 – \$59.0 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 \$85.5 million (December 31, 2013 – \$69.7 million). Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgages. 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 \$4.4 billion, compared to \$3.8 billion at December 31, 2013.

- *Fair value of principal reinvestment account swaps* – which had a negative fair value of \$19.0 million at September 30, 2014 (December 31, 2013 – \$16.2 million) and is reflected on the Company's balance sheet. These swaps represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. The notional amount of these swaps was \$352.4 million at September 30, 2014 (December 31, 2013 – \$1,023.4 million).

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors

Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

The Company's collective allowance for credit losses was \$0.7 million at September 30, 2014, unchanged from December 31, 2013, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based upon the following considerations:

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

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2013.

The Company utilizes over-the-counter derivatives to hedge interest rate risk and reinvestment risk associated with its mortgage banking and securitization activities, as well as market risk related to certain stock-based compensation arrangements. To the extent that the fair value of the derivatives are in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfill their obligations under these arrangements.

The Company participates in the CMB Program by entering into back-to-back swaps whereby Canadian Schedule I chartered banks designated by the Company intermediate between the Company and the Canada Housing Trust. The Company receives coupons on NHA MBS and eligible principal reinvestments and pays coupons on the Canada Mortgage Bonds. The Company also enters into offsetting interest rate swaps with the same bank counterparties to hedge interest

rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled \$13.8 million at September 30, 2014 (December 31, 2013 – \$16.8 million) and the outstanding notional amount was \$6.5 billion (December 31, 2013 – \$6.8 billion). Certain of these swaps relate to securitized mortgages that have been recorded on the Company's balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of \$4.1 billion (December 31, 2013 – \$3.6 billion) and having a negative fair value of \$24.9 million (December 31, 2013 – \$28.1 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 \$2.4 billion (December 31, 2013 – \$3.2 billion) and having a fair value of \$11.0 million (December 31, 2013 – \$11.2 million), are reflected on the balance sheet. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$33.8 million at September 30, 2014 compared to \$46.9 million at December 31, 2013.

The Company utilizes interest rate swaps to hedge interest rate risk associated with mortgages securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled \$0.4 million (December 31, 2013 – \$0.9 million) on an outstanding notional amount of \$34.0 million at September 30, 2014 (December 31, 2013 – \$66.0 million). The exposure to credit risk, which is limited to the fair value of swaps in a gain position, was nil at September 30, 2014 unchanged from December 31, 2013.

The Company enters into other derivative contracts which consist primarily of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by the Company as well as total return swaps and forward agreements on IGM Financial common shares utilized to hedge deferred compensation arrangements. The negative fair value of interest rate swaps, total return swaps and forward agreements was \$0.2 million on an outstanding notional amount of \$161.6 million at September 30, 2014 compared to a fair value of \$11.5 million on an outstanding notional amount of \$154.0 million at December 31, 2013. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was \$2.4 million at September 30, 2014, compared to \$11.5 million at December 31, 2013.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$36.2 million (December 31, 2013 – \$58.4 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was nil at September 30, 2014 (December 31, 2013 – \$3.9 million). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at September 30, 2014. Management of credit risk related to derivatives has not changed materially since December 31, 2013.

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

#### **Market Risk**

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

#### **Interest Rate Risk**

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

The objective of the Company's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at September 30, 2014, the total gap between deposit assets and liabilities was within the Company's trust subsidiary's stated guidelines.

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

- The Company has funded fixed rate mortgages with floating rate ABCP as part of certain securitization transactions with bank-sponsored securitization trusts. The Company enters into interest rate

swaps with Canadian Schedule I chartered banks to hedge the risk that ABCP rates rise. However, the Company remains exposed to the basis risk that ABCP rates are greater than the bankers' acceptances rates that it receives on its hedges.

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages decline. As previously discussed, as part of the CMB Program, the Company is also entitled to investment returns on reinvestment of principal repayments of securitized mortgages and is obligated to pay Canada Mortgage Bond coupons that are generally fixed rate. The Company hedges the risk that reinvestment returns decline by entering into interest rate swaps with Canadian Schedule I chartered bank counterparties.
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by the Company. The Company enters into interest rate swaps to hedge the interest rate risk related to mortgages held by the Company.

As at September 30, 2014, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$1.6 million. The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2013.

#### **Equity Price Risk**

The Company is exposed to equity price risk on its proprietary investment funds which are classified as available for sale securities and on its equity securities and proprietary investment funds which are classified as fair value through profit or loss, as shown in Table 17. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines there is objective evidence of impairment in value, at which time they are recorded in the Consolidated Statements of Earnings.

The Company sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the

common shares of IGM Financial Inc. The Company hedges this risk through the use of forward agreements and total return swaps.

## RISKS RELATED TO ASSETS UNDER MANAGEMENT

At September 30, 2014, IGM Financial's total assets under management were \$140.6 billion compared to \$131.8 billion at December 31, 2013.

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

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

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

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

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

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

TABLE 24: ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

As at September 30, 2014	CONSOLIDATED	
	MUTUAL FUNDS	TOTAL
Cash	1.1 %	1.4 %
Short-term fixed income and mortgages	6.9	6.6
Other fixed income	23.6	29.0
Domestic equity	33.2	30.7
Foreign equity	32.2	29.6
Real Property	3.0	2.7
	100.0 %	100.0 %
CAD	65.8	68.4
USD	22.1	20.5
Other	12.1	11.1
	100.0 %	100.0 %

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

	2014 SEP. 30	2013 SEP. 30
<b>IGM Financial Inc.</b>		
Investors Group	8.9 %	9.7 %
Mackenzie	14.8 %	17.4 %
Counsel	12.6 %	13.5 %

## OTHER RISK FACTORS

### Distribution Risk

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

*Mackenzie* – Mackenzie derives the majority of its mutual fund sales through third party financial advisors. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie’s ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a material adverse effect on Mackenzie’s operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie’s

diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada’s leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

### The Regulatory Environment

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

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages regulatory risk through its efforts to promote a strong culture of compliance. It monitors regulatory developments and their impact on the Company. It also continues to

develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

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

In March 2013, the Canadian Securities Administrators adopted a new set of rules as Phase 2 of the Client Relationship Model that will require dealers, among other things, to provide their clients with enhanced information on the performance of their investments and the costs associated with them, including the compensation paid to the dealer (the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada have published proposed rules that are to the same effect). These new requirements are effective for annual periods commencing no later than July 15, 2016 and comprise the following:

- **Performance and Rate of Return Reporting** – Dealers must provide clients with annual multiple-period performance information, including percentage rate of return results, on each of a client's accounts. The rule mandates use of a dollar-weighted methodology which takes into consideration all cashflows into and out of the account and all underlying funds and investments. This prescribed calculation methodology is one that the Company supports. This approach ensures that client cashflows to, from, and within their accounts are properly reflected in the rate of return calculations. This provides a

helpful view of the results of clients' many decisions to save, invest, transfer between different investments and withdraw funds.

- **Cost and Compensation Disclosure** – Dealers must also provide clients with an annual report on all charges associated with their accounts, including direct and indirect compensation that the dealer receives related to a client's account. These new requirements will provide important information to our clients and will build on already existing disclosure including information already provided through Fund Facts and the Management Report of Fund Performance (MRFP) related to distribution and fund management costs.

#### **Contingencies**

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

#### **Acquisition Risk**

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

#### **Model Risk**

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

## Outlook

### THE FINANCIAL SERVICES ENVIRONMENT

Canadians held \$3.4 trillion in discretionary financial assets with financial institutions at December 31, 2013 based on the most recent report from Investor Economics. The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Over 63% (\$2.2 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the \$1.2 trillion held outside of a financial advisory relationship, approximately 67% 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 39% of Canadian discretionary financial assets or \$1.3 trillion resided in investment funds at December 31, 2013, 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 \$125 billion in mutual fund assets under management, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Competition and technology have fostered a trend towards financial service providers offering a

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

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 44% of total industry long-term mutual fund assets at September 30, 2014.

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 67% of industry long-term mutual fund assets and total mutual fund assets under management at September 30, 2014. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

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

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

## THE COMPETITIVE LANDSCAPE

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

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

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

The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on those channels emphasizing comprehensive financial planning through a relationship with a financial advisor.
- Broad product capabilities, leading brands and quality sub-advisory relationships.

- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Benefits of being part of the Power Financial group of companies.

### Broad and Diversified Distribution

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

### Broad Product Capabilities

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

### Enduring Relationships

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

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

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



## Critical Accounting Estimates and Policies

### SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

There were no changes to the Company's assumptions related to critical accounting estimates from those reported at December 31, 2013.

### CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company's accounting policies from those reported at December 31, 2013.

### FUTURE ACCOUNTING CHANGES

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

#### IFRS 9 Financial Instruments

The IASB issued IFRS 9 which replaces IAS 39, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

- **Classification and measurement:** This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- **Impairment methodology:** This phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.

- **Hedge accounting:** This phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

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

#### IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. This standard is effective for annual reporting periods beginning on or after January 1, 2017 and the impact of the standard is currently being assessed.

#### 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>
Leases	2015
Macro Hedge Accounting	2015

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

## Internal Control Over Financial Reporting

During the third quarter of 2014, 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:

- The Company acquired \$1.25 billion of 6.01% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$1.25 billion of 6.00% secured demand debentures to Power Financial Corporation. Effective December 31, 2013, the Company exercised its legally enforceable right to settle the preferred shares and the debenture on a net basis.
- On January 7, 2014, the Company acquired \$1.67 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$1.67 billion of 4.50% secured demand debentures to Power Financial Corporation. The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights. The preferred shares and debentures and related dividend income and interest expense are offset in the

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

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

### OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at September 30, 2014 totalled 251,952,938. Outstanding stock options as at September 30, 2014 totalled 7,079,412, of which 3,186,187 were exercisable. As at November 5, 2014, outstanding common shares totalled 251,749,122 and outstanding stock options totalled 7,034,091 of which 3,164,203 were exercisable.

Perpetual preferred shares of \$150 million were outstanding as at September 30, 2014, unchanged at November 5, 2014.

### SEDAR

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