

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **IGM Financial Inc.**

Summary of Consolidated Operating Results	5
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### **Investors Group**

Review of the Business	10
Review of Segment Operating Results	16

### **Mackenzie Investments**

Review of the Business	19
Review of Segment Operating Results	24

### **Corporate and Other**

Review of Segment Operating Results	26
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### **IGM Financial Inc.**

Consolidated Financial Position	27
Consolidated Liquidity and Capital Resources	30
Risk Management	34
Outlook	46
Critical Accounting Estimates and Policies	48
Internal Control Over Financial Reporting	49
Other Information	49

# 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 months ended March 31, 2017 and should be read in conjunction with the unaudited Interim

Condensed Consolidated Financial Statements (Interim Financial Statements) as well as the 2016 IGM Financial Inc. Annual Report filed on [www.sedar.com](http://www.sedar.com). Commentary in the MD&A as at and for the three months ended March 31, 2017 is as of May 5, 2017.

## 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:

- Adjusted net 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.

"Adjusted net earnings available to common shareholders", "adjusted diluted earnings per share" (EPS) and "adjusted 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, 2 and 3.

## 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.

Investment fund assets under management were \$141.7 billion at March 31, 2017 compared with \$127.1 billion at March 31, 2016 and \$137.2 billion at December 31, 2016. Average investment fund assets under management for the first quarter of 2017 were \$139.6 billion compared to \$124.4 billion in the first quarter of 2016.

Total assets under management were \$147.1 billion at March 31, 2017 compared with \$133.4 billion at March 31, 2016 and \$142.3 billion at December 31, 2016. Average total assets under

management for the first quarter of 2017 were \$144.9 billion compared to \$130.8 billion in the first quarter of 2016.

Net earnings available to common shareholders for the three months ended March 31, 2017 were \$177.1 million or 74 cents per share compared with net earnings available to common shareholders of \$167.0 million or 69 cents per share for the comparative period in 2016.

Shareholders' equity was \$4.8 billion as at March 31, 2017, compared to \$4.7 billion at December 31, 2016. Return on average common equity for the three months ended March 31, 2017 was 15.3% compared with 14.7% for the comparative period in 2016. The quarterly dividend per common share declared in the first quarter of 2017 was 56.25 cents, unchanged from the fourth quarter of 2016.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

THREE MONTHS ENDED (\$ millions)	2017 MARCH 31		2016 DECEMBER 31		2016 MARCH 31	
	EARNINGS	EPS <sup>(1)</sup>	EARNINGS	EPS <sup>(1)</sup>	EARNINGS	EPS <sup>(1)</sup>
<b>Adjusted net earnings available to common shareholders –</b>						
<b>Non-IFRS measure</b>	\$ 177.1	\$ 0.74	\$ 199.0	\$ 0.83	\$ 167.0	\$ 0.69
Reduction in income tax estimates related to certain tax filings	–	–	34.0	0.14	–	–
<b>Net earnings available to common shareholders – IFRS</b>	<b>\$ 177.1</b>	<b>\$ 0.74</b>	<b>\$ 233.0</b>	<b>\$ 0.97</b>	<b>\$ 167.0</b>	<b>\$ 0.69</b>
<b>EBITDA – Non-IFRS measure</b>	<b>\$ 324.6</b>		<b>\$ 352.0</b>		<b>\$ 304.2</b>	
Commission amortization	(58.9)		(58.4)		(59.8)	
Amortization of capital assets and intangible assets and other	(12.2)		(11.8)		(11.0)	
Interest expense on long-term debt	(26.8)		(23.2)		(22.9)	
<b>Earnings before income taxes</b>	<b>226.7</b>		<b>258.6</b>		<b>210.5</b>	
Income taxes	(47.4)		(23.4)		(41.3)	
Perpetual preferred share dividends	(2.2)		(2.2)		(2.2)	
<b>Net earnings available to common shareholders – IFRS</b>	<b>\$ 177.1</b>		<b>\$ 233.0</b>		<b>\$ 167.0</b>	

(1) Diluted earnings per share

## REPORTABLE SEGMENTS

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

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

Management measures and evaluates the performance of these segments based on EBIT as shown in Tables 2 and 3. 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 and 3 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt.

- *Income taxes* – changes in the effective tax rates are shown in Table 4.

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 adjusted net earnings is reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.

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

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q1 2017 VS. Q1 2016

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2017 MAR. 31	2016 MAR. 31	2017 MAR. 31	2016 MAR. 31	2017 MAR. 31	2016 MAR. 31	2017 MAR. 31	2016 MAR. 31
<b>Revenues</b>								
Fee income	\$ 478.1	\$ 431.7	\$ 198.5	\$ 185.4	\$ 65.3	\$ 62.0	\$ 741.9	\$ 679.1
Net investment income and other	18.0	13.8	0.1	0.3	29.7	29.6	47.8	43.7
	<b>496.1</b>	<b>445.5</b>	<b>198.6</b>	<b>185.7</b>	<b>95.0</b>	<b>91.6</b>	<b>789.7</b>	<b>722.8</b>
<b>Expenses</b>								
Commission	169.6	147.4	74.6	71.7	45.1	42.4	289.3	261.5
Non-Commission	147.7	135.0	82.5	77.6	16.7	15.3	246.9	227.9
	<b>317.3</b>	<b>282.4</b>	<b>157.1</b>	<b>149.3</b>	<b>61.8</b>	<b>57.7</b>	<b>536.2</b>	<b>489.4</b>
<b>Earnings before interest and taxes</b>	<b>\$ 178.8</b>	<b>\$ 163.1</b>	<b>\$ 41.5</b>	<b>\$ 36.4</b>	<b>\$ 33.2</b>	<b>\$ 33.9</b>	<b>253.5</b>	<b>233.4</b>
Interest expense							(26.8)	(22.9)
Earnings before income taxes							226.7	210.5
Income taxes							47.4	41.3
<b>Net earnings</b>							<b>179.3</b>	<b>169.2</b>
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							<b>\$ 177.1</b>	<b>\$ 167.0</b>
<b>Adjusted net earnings available to common shareholders<sup>(1)</sup></b>							<b>\$ 177.1</b>	<b>\$ 167.0</b>

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

TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q1 2017 VS. Q4 2016

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2017 MAR. 31	2016 DEC. 31	2017 MAR. 31	2016 DEC. 31	2017 MAR. 31	2016 DEC. 31	2017 MAR. 31	2016 DEC. 31
<b>Revenues</b>								
Fee income	\$ 478.1	\$ 489.5	\$ 198.5	\$ 198.2	\$ 65.3	\$ 64.7	\$ 741.9	\$ 752.4
Net investment income and other	18.0	20.1	0.1	0.7	29.7	27.9	47.8	48.7
	<b>496.1</b>	509.6	<b>198.6</b>	198.9	<b>95.0</b>	92.6	<b>789.7</b>	801.1
<b>Expenses</b>								
Commission	169.6	169.9	74.6	73.8	45.1	44.5	289.3	288.2
Non-Commission	147.7	139.1	82.5	76.3	16.7	15.7	246.9	231.1
	<b>317.3</b>	309.0	<b>157.1</b>	150.1	<b>61.8</b>	60.2	<b>536.2</b>	519.3
<b>Earnings before interest and taxes</b>	<b>\$ 178.8</b>	\$ 200.6	<b>\$ 41.5</b>	\$ 48.8	<b>\$ 33.2</b>	\$ 32.4	<b>253.5</b>	281.8
Interest expense							(26.8)	(23.2)
Earnings before income taxes							226.7	258.6
Income taxes							47.4	23.4
<b>Net earnings</b>							<b>179.3</b>	235.2
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							<b>\$ 177.1</b>	\$ 233.0
<b>Adjusted net earnings available to common shareholders<sup>(1)</sup></b>							<b>\$ 177.1</b>	\$ 199.0

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

TABLE 4: EFFECTIVE INCOME TAX RATE

THREE MONTHS ENDED	2017 MAR. 31	2016 DEC. 31	2016 MAR. 31
<b>Income taxes at Canadian federal and provincial statutory rates</b>	<b>26.84 %</b>	26.84 %	26.84 %
Effect of:			
Proportionate share of affiliate's earnings	(3.33)	(2.76)	(3.56)
Loss consolidation <sup>(1)</sup>	(2.64)	(2.36)	(2.87)
Other items	0.03	0.49	(0.76)
<b>Effective income tax rate – adjusted net earnings</b>	<b>20.90</b>	22.21	19.65
Reduction in income tax estimates related to certain tax filings	–	(13.15)	–
<b>Effective income tax rate – net earnings</b>	<b>20.90 %</b>	9.06 %	19.65 %

(1) See Note 25 – Related Party Transactions of the Consolidated Financial Statements included in the 2016 IGM Financial Inc. Annual Report (Annual Financial Statements).

## SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$147.1 billion at March 31, 2017 compared to \$133.4 billion at March 31, 2016. Changes in total assets under management are detailed in Table 5.

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

TABLE 5: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q1 2016

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2017 MAR. 31	2016 MAR. 31	2017 MAR. 31	2016 MAR. 31	2017 MAR. 31	2016 MAR. 31	2017 MAR. 31	2016 MAR. 31
<b>Investment funds</b>								
<b>Mutual funds<sup>(2)</sup></b>								
Gross sales – long-term	\$ 2,563	\$ 1,964	\$ 2,752	\$ 1,731	\$ 209	\$ 245	\$ 5,524	\$ 3,940
Total mutual fund gross sales	2,932	2,267	2,861	1,841	217	262	6,010	4,370
Net sales – long-term	719	355	50	(228)	12	65	781	192
Total mutual fund net sales	890	467	76	(198)	17	79	983	348
<b>ETFs</b>								
Net creations			\$ 114	\$ –			\$ 114	\$ –
<b>Total investment fund net sales<sup>(3)</sup></b>	<b>\$ 890</b>	<b>\$ 467</b>	<b>\$ 139</b>	<b>\$ (198)</b>	<b>\$ 17</b>	<b>\$ 79</b>	<b>\$ 1,046</b>	<b>\$ 348</b>
<b>Sub-advisory, institutional and other accounts</b>								
Net sales	\$ –	\$ –	\$ 289	\$ (189)	\$ –	\$ –	\$ 119	\$ (282)
<b>Combined net sales<sup>(2)</sup></b>	<b>\$ 890</b>	<b>\$ 467</b>	<b>\$ 428</b>	<b>\$ (387)</b>	<b>\$ 17</b>	<b>\$ 79</b>	<b>\$ 1,165</b>	<b>\$ 66</b>
<b>Change in total assets under management</b>								
Net sales	\$ 890	\$ 467	\$ 428	\$ (387)	\$ 17	\$ 79	\$ 1,165	\$ 66
Investment returns	1,860	(176)	1,847	(576)	135	(28)	3,614	(836)
Net change in assets	2,750	291	2,275	(963)	152	51	4,779	(770)
Beginning assets	81,693	75,373	64,035	61,653	4,501	4,178	142,281	134,124
<b>Ending assets</b>	<b>\$ 84,443</b>	<b>\$ 75,664</b>	<b>\$ 66,310</b>	<b>\$ 60,690</b>	<b>\$ 4,653</b>	<b>\$ 4,229</b>	<b>\$ 147,060</b>	<b>\$ 133,354</b>
<b>Total assets under management consists of:</b>								
<b>Investment funds</b>								
Mutual funds	\$ 83,900	\$ 75,223	\$ 52,937	\$ 47,627	\$ 4,653	\$ 4,229	\$ 141,487	\$ 127,076
ETFs	–	–	234	–	–	–	234	–
Total investment funds <sup>(4)</sup>	83,900	75,223	53,102	47,627	4,653	4,229	141,652	127,076
<b>Sub-advisory, institutional and other accounts</b>	<b>543</b>	<b>441</b>	<b>13,208</b>	<b>13,063</b>	<b>–</b>	<b>–</b>	<b>5,408</b>	<b>6,278</b>
<b>Ending assets</b>	<b>\$ 84,443</b>	<b>\$ 75,664</b>	<b>\$ 66,310</b>	<b>\$ 60,690</b>	<b>\$ 4,653</b>	<b>\$ 4,229</b>	<b>\$ 147,060</b>	<b>\$ 133,354</b>

- (1) Total Net Sales excluded \$170 million in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$93 million in 2016). Total assets under management excluded \$8.3 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$7.2 billion at March 31, 2016).
- (2) During the first quarter of 2017, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million.
- (3) Mackenzie and Consolidated investment fund net sales exclude Mackenzie mutual fund investment in ETFs of \$51 million at March 31, 2017.
- (4) Mackenzie and Consolidated investment fund assets under management exclude Mackenzie mutual fund investment in ETFs of \$69 million at March 31, 2017.

## SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 6 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Changes in average daily investment fund assets under management over the eight most recent quarters, as shown in Table 6, largely reflect changes in domestic and foreign markets.

TABLE 6: SUMMARY OF QUARTERLY RESULTS

	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2
<b>Consolidated statements of earnings (\$ millions)</b>								
Revenues								
Management fees	\$ 527.7	\$ 525.7	\$ 518.3	\$ 497.4	\$ 483.8	\$ 504.1	\$ 508.5	\$ 517.3
Administration fees	109.0	109.0	107.9	104.4	100.3	104.7	104.6	106.0
Distribution fees	105.2	117.7	101.1	96.3	95.0	97.0	92.7	95.3
Net investment income and other	47.8	48.7	49.1	46.3	43.7	49.7	45.9	44.6
	<b>789.7</b>	<b>801.1</b>	<b>776.4</b>	<b>744.4</b>	<b>722.8</b>	<b>755.5</b>	<b>751.7</b>	<b>763.2</b>
Expenses								
Commission	289.3	288.2	273.1	267.2	261.5	264.3	263.2	267.7
Non-commission	246.9	231.1	224.9	231.7	227.9	214.5	208.4	215.9
Interest	26.8	23.2	23.2	22.9	22.9	23.2	23.2	22.9
	<b>563.0</b>	<b>542.5</b>	<b>521.2</b>	<b>521.8</b>	<b>512.3</b>	<b>502.0</b>	<b>494.8</b>	<b>506.5</b>
Earnings before undernoted Restructuring and other charges	226.7	258.6	255.2	222.6	210.5	253.5	256.9	256.7
	-	-	-	-	-	(33.9)	-	-
Earnings before income taxes	226.7	258.6	255.2	222.6	210.5	219.6	256.9	256.7
Income taxes	47.4	23.4	55.4	47.5	41.3	43.5	55.7	56.0
Net earnings	179.3	235.2	199.8	175.1	169.2	176.1	201.2	200.7
Perpetual preferred share dividends	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Net earnings available to common shareholders	\$ 177.1	\$ 233.0	\$ 197.6	\$ 172.9	\$ 167.0	\$ 173.9	\$ 199.0	\$ 198.5
<b>Reconciliation of Non-IFRS financial measures<sup>(1)</sup> (\$ millions)</b>								
Adjusted net earnings available to common shareholders – non-IFRS measure	\$ 177.1	\$ 199.0	\$ 197.6	\$ 172.9	\$ 167.0	\$ 198.2	\$ 199.0	\$ 198.5
Other items:								
Reduction in income tax estimates related to certain tax filings	-	34.0	-	-	-	-	-	-
Restructuring and other charges, net of tax	-	-	-	-	-	(24.3)	-	-
Net earnings available to common shareholders – IFRS	\$ 177.1	\$ 233.0	\$ 197.6	\$ 172.9	\$ 167.0	\$ 173.9	\$ 199.0	\$ 198.5
<b>Earnings per Share (c)</b>								
Adjusted net earnings available to common shareholders <sup>(1)</sup>								
– Basic	74	83	82	72	69	81	81	80
– Diluted	74	83	82	72	69	81	81	80
Net earnings available to common shareholders								
– Basic	74	97	82	72	69	71	81	80
– Diluted	74	97	82	72	69	71	81	80
<b>Average daily investment fund assets (\$ billions)</b>	<b>\$ 139.6</b>	<b>\$ 134.8</b>	<b>\$ 132.2</b>	<b>\$ 127.9</b>	<b>\$ 124.4</b>	<b>\$ 127.8</b>	<b>\$ 128.6</b>	<b>\$ 131.4</b>
<b>Total investment fund assets under management (\$ billions)</b>	<b>\$ 141.7</b>	<b>\$ 137.2</b>	<b>\$ 133.7</b>	<b>\$ 128.8</b>	<b>\$ 127.1</b>	<b>\$ 127.5</b>	<b>\$ 124.9</b>	<b>\$ 129.7</b>
<b>Total assets under management (\$ billions)</b>	<b>\$ 147.1</b>	<b>\$ 142.3</b>	<b>\$ 140.3</b>	<b>\$ 135.1</b>	<b>\$ 133.4</b>	<b>\$ 134.1</b>	<b>\$ 131.4</b>	<b>\$ 136.4</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 clients, shareholders, Consultants and employees are closely aligned. Investors Group's business strategy is focused on:

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

#### CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships. This approach is consistent with studies in recent years which indicate that client households receiving advice from a financial advisor have higher assets than non-advised households, and that this advantage increases based on the length of the relationship with the financial advisor. At the centre of these relationships is a national distribution network of Consultants based in 115 region offices across Canada.

At March 31, 2017, Investors Group had a Consultant network of 4,754, down from 5,321 at March 31, 2016. To help better understand the nature and composition of Investors Group's Consultant network, the following detail provides a breakdown of the Consultant network into its significant components:

- 2,262 Consultant practices at March 31, 2017 (2,366 at March 31, 2016), which reflect Consultants with more than four years of Investors Group experience. These practices may include Associates as described below. The level of Consultant practices is a key measurement of our business as they serve clientele representing over 95% of AUM.
- 1,482 New Consultants at March 31, 2017 (2,051 at March 31, 2016), which are those Consultants with less than four years of Investors Group experience.
- 1,010 Associates and Regional Directors at March 31, 2017 (904 at March 31, 2016). Associates are licensed team

members of Consultant practices who provide financial planning services and advice to the team's clientele.

Investors Group has accelerated the departure of some Consultants who have not developed a successful practice. We also tightened recruiting standards to promote greater likelihood of success while also enhancing our culture and brand.

Over 50% of Consultant practices have professionals who are qualified as Certified Financial Planners (CFP) or its Quebec equivalent, Financial Planners (F.Pl.) and approximately 80% of Consultant practices are qualified or enrolled to be qualified. At March 31, 2017, 1,578 individuals in our Consultant network held the CFP designation or the F.Pl. designation. In addition, there were 2,571 individuals enrolled in these programs to gain these designations. The total of 4,149 of those studying to be or qualified as CFP or F.Pl. is up 78% from 2,325 at March 31, 2016. The CFP and F.Pl. designations are nationally recognized financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards. The Financial Planning Standards Council published in 2016 that Investors Group has more CFP designation holders than any other organization in Canada.

#### ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

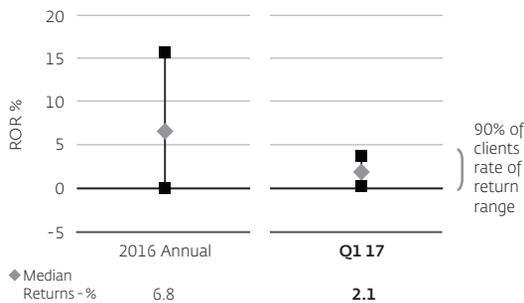
Administrative support for Consultants and clients includes timely and accurate client account record-keeping and reporting, effective problem resolution support, and continuous improvements to servicing systems.

This administrative support is provided from both Investors Group's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from Investors Group's head office in Winnipeg, Manitoba for Consultants and clients in the rest of Canada. The Quebec General Office has over 200 employees and operating units for most functions supporting close to 1,100 Consultants throughout Quebec and the 21 Quebec region offices. Mutual fund assets under management in Quebec were approximately \$14 billion as at March 31, 2017.

#### NEW DEALER PLATFORM

A new dealer platform was launched in the fourth quarter of 2016 which delivers an enhanced service experience to Consultants and clients. This new dealer platform has allowed us to internalize carrying broker functionality and client statement preparation for Investment Industry Regulatory Organization of Canada (IIROC) and Mutual Fund Dealers Association of Canada (MFDA) nominee accounts, which were previously performed

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



by a third party service provider, and has provided increased automation of transaction activity. This platform supports the introduction of new IIROC based products designed to support the high net worth segment of our client base. The new platform is expected to result in efficiencies over the long term.

### QUARTERLY STATEMENTS

Regular communication with our clients includes quarterly reporting of their Investors Group mutual fund holdings and the change in asset values of these holdings during the quarter. Individual clients experience different returns as a result of having different composition of their portfolios in each quarter as illustrated on the accompanying charts. The first chart reflects in-quarter client account median rates of return for the current year. The second chart reflects the client account median rates of return based on one, three and five year timeframes as at March 31, 2017. Both charts also illustrate upper and lower ranges of rates of return around the median for 90% of Investors Group client accounts.

For the three months ended March 31, 2017, the client account median rate of return was approximately 2.1% and 97% of client accounts experienced positive returns.

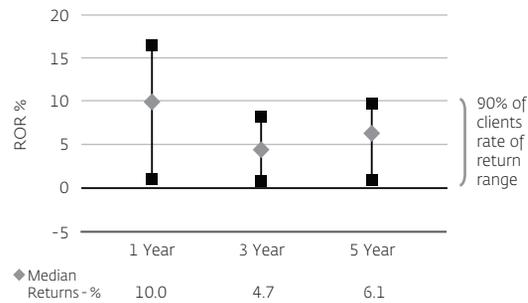
### CLIENT PERFORMANCE AND RATE OF RETURN REPORTING

Investors Group has long believed that providing our clients with personal account level performance and rate of return information over multiple time periods is a meaningful benefit to our clients and further demonstrates the value provided through advice over the history of our client relationships.

Beginning with the June 30, 2015 client statements, we added quarterly multiple-period account rate of return reporting to most Investors Group's client statements. Our clients now have a multiple-period view of their performance, including one year, three year and five year rates of return.

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

As at March 31, 2017



### CLIENT EXPERIENCE SURVEY

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

The results of the surveys for the four quarters ending March 31, 2017 are detailed in Table 7.

### ASSETS UNDER MANAGEMENT

The composition of total assets under management is summarized in Table 8. At March 31, 2017, Investors Group's mutual fund and total assets under management were \$83.9 billion and \$84.4 billion, respectively.

The level of assets under management is influenced by three factors: sales, redemptions and investment returns of our funds. Changes in mutual funds assets under management for the periods under review are reflected in Table 8.

### FUND PERFORMANCE

At March 31, 2017, 50.2% of Investors Group mutual funds had a rating of three stars or better from the Morningstar<sup>1</sup> fund ranking service and 12.8% had a rating of four or five stars. This compared to the Morningstar<sup>1</sup> universe of 63.5% for three stars or better and 26.6% for four and five star funds at March 31, 2017. Morningstar Ratings<sup>1</sup> are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

In January, the Investors Québec Enterprise Fund received an award from FundGrade A+ Awards, along with the Investors International Small Cap Class – which also received a FundGrade A+ award in 2015. Also in January, Québec Enterprise Fund was

TABLE 7: CLIENT EXPERIENCE SURVEY – INVESTORS GROUP

SURVEYS COMPLETED FOR THE FOUR QUARTERS ENDING MARCH 31, 2017

<b>New client households surveyed 90 days after account opening</b>		
Satisfied with service		96 %
Offered a financial plan		92
Satisfied with discussion about goals and concerns		97
Willing to refer		94
<b>Client households with 12+ months tenure</b>		
Satisfied with service		92 %
Have a financial plan		85
Satisfied with level of contact		93
Willing to refer		88

TABLE 8: TOTAL ASSETS UNDER MANAGEMENT – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2017 MAR. 31	2016 DEC. 31	2016 MAR. 31	% CHANGE	
				2016 DEC. 31	2016 MAR. 31
<b>Mutual fund assets under management<sup>(1)</sup></b>					
Sales	\$ 2,932	\$ 2,089	\$ 2,267	40.4 %	29.3 %
Redemptions	2,042	1,828	1,800	11.7	13.4
<b>Net sales (redemptions)</b>	<b>890</b>	<b>261</b>	<b>467</b>	<b>241.0</b>	<b>90.6</b>
Investment returns	1,768	2,089	(141)	(15.4)	N/M
Net change in assets	2,658	2,350	326	13.1	N/M
Beginning assets	81,242	78,892	74,897	3.0	8.5
<b>Ending assets</b>	<b>\$ 83,900</b>	<b>\$ 81,242</b>	<b>\$ 75,223</b>	<b>3.3 %</b>	<b>11.5 %</b>
<b>Total assets under management</b>					
Mutual funds	\$ 83,900	\$ 81,242	\$ 75,223	3.3 %	11.5 %
Sub-advisory, institutional and other accounts	543	451	441	20.4	23.1
	<b>\$ 84,443</b>	<b>\$ 81,693</b>	<b>\$ 75,664</b>	<b>3.4 %</b>	<b>11.6 %</b>
<b>Average assets<sup>(2)</sup></b>					
Mutual Fund	\$ 82,751	\$ 79,744	\$ 73,549	3.8 %	12.5 %
Total	\$ 83,256	\$ 80,212	\$ 73,994	3.8 %	12.5 %

(1) Includes Investors Group Azure SMA and Investors Group mutual funds.

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

recognized by Corporate Knights as part of their 2017 Eco-Fund Rating – earning a five-star rating.

#### CHANGES TO MUTUAL FUND PRODUCT OFFERING

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

Effective November 1, 2016, Investors Group reduced the annual management fees on four mandates: IG AGF Global Equity Fund and Class, IG AGF U.S. Growth Fund and Class, IG Mackenzie Emerging Markets Class and Investors Canadian Natural Resource Fund.

Effective January 1, 2017, Investors Group discontinued the deferred sales charge (DSC) purchase option for its mutual funds and, at the same time, fees on no-load series were reduced.

## HIGH NET WORTH OFFERINGS

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

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

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

- Series J had assets of \$23.5 billion at March 31, 2017, an increase of 2.2% from \$23.0 billion at March 31, 2016.
- Series U provides a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At March 31, 2017, Series U assets under management had increased to \$8.1 billion, compared to \$3.8 billion at March 31, 2016, an increase of 113.3%.

### ***iProfile™***

This is a unique portfolio management program, launched in 2001, that is available for households with assets held at Investors Group in excess of \$250,000. *iProfile* investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The *iProfile* program has a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds.

At March 31, 2017, the *iProfile* program assets under management were \$3.3 billion, an increase of 101.9% from \$1.6 billion at March 31, 2016.

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

A growing portion of Investors Group's client assets are in Series U and *iProfile*, which are products with unbundled fee structures where a separate advisory fee is charged to the client account by the dealer. At March 31, 2017, \$11.4 billion, or 13.5% of Investors Group's mutual fund assets under management, were in products with unbundled fee structures, up 109.9% from \$5.4 billion at March 31, 2016.

### ***Separately Managed Accounts and Fee-Based Brokerage Account***

Investors Group recently launched a new separately managed account program, Azure Managed Investments™, as well as a Fee-Based Account, which are both offered through Investors Group's brokerage services firm, Investors Group Securities Inc.

Azure Managed Investments are discretionary managed accounts that allow clients to delegate responsibility for day-to-day investment decisions to a portfolio manager. There are seven different investment mandates available that provide core equity exposure in Canadian, U.S., North American and International equity markets and are managed with supporting expertise from I.G. Investment Management and external investment managers.

Investors Group's Fee-Based Account is a non-discretionary, fee-based brokerage account offering clients the benefits of a holistic approach to managing their portfolio.

## CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q1 2016

Investors Group's total assets under management were \$84.4 billion compared to \$75.7 billion at March 31, 2016.

Investors Group's sub-advisory, institutional and other accounts were \$543 million at March 31, 2017 compared to \$441 million at March 31, 2016, an increase of 23.1%. During the quarter, the Company launched the Ivy IG International Small Cap Fund with assets of \$39 million at March 31, 2017.

Investors Group's mutual fund assets under management were \$83.9 billion at March 31, 2017, representing an increase of 11.5% from \$75.2 billion at March 31, 2016. Average daily mutual fund assets were \$82.8 billion in the first quarter of 2017, up 12.5% from \$73.5 billion in the first quarter of 2016.

For the quarter ended March 31, 2017, sales of Investors Group mutual funds through its Consultant network were \$2.9 billion, an increase of 29.3% from the comparative period in 2016. Mutual fund redemptions totalled \$2.0 billion, an increase of 13.4% from 2016. Investors Group mutual fund net sales for the first quarter of 2017 were \$890 million compared with net sales of \$467 million in 2016. During the first quarter, investment returns resulted in an increase of \$1.8 billion in mutual fund assets compared to a decrease of \$141 million in the first quarter of 2016.

Sales of long-term funds were \$2.6 billion for the first quarter of 2017, an increase of 30.5% from the previous year. Net sales of long-term funds for the first quarter of 2017 were \$719 million compared to net sales of \$355 million in 2016.

Investors Group's annualized quarterly redemption rate for long-term funds was 9.2% in the first quarter of 2017 compared to 8.9% in the first quarter of 2016. Investors Group's twelve month trailing redemption rate for long-term funds was 8.8% at March 31, 2017 compared to 8.7% at March 31, 2016, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 16.3% at March 31, 2017.

## **CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q4 2016**

Investors Group's total assets under management were \$84.4 billion compared to \$81.7 billion at December 31, 2016. Investors Group's sub-advisory, institutional and other accounts were \$543 million at March 31, 2017 compared to \$451 million at December 31, 2016, an increase of 20.4%.

Investors Group's mutual fund assets under management were \$83.9 billion at March 31, 2017, an increase of 3.3% from \$81.2 billion at December 31, 2016. Average daily mutual fund assets were \$82.8 billion in the first quarter of 2017 compared to \$79.7 billion in the fourth quarter of 2016, an increase of 3.8%.

For the quarter ended March 31, 2017, sales of Investors Group mutual funds through its Consultant network were \$2.9 billion, an increase of 40.4% from the fourth quarter of 2016. Mutual fund redemptions, which totalled \$2.0 billion for the first quarter, increased 11.7% from the previous quarter and the annualized quarterly redemption rate was 9.2% in the first quarter compared to 8.3% in the fourth quarter of 2016. Investors Group mutual fund net sales were \$890 million for the current quarter compared to net sales of \$261 million in the previous quarter. Sales of long-term funds were \$2.6 billion for the current quarter compared to \$1.8 billion in the previous quarter. Net sales of long-term funds for the current quarter were \$719 million compared to net sales of \$202 million in the previous quarter.

## **OTHER PRODUCTS AND SERVICES**

### **SEGREGATED FUNDS**

Investors Group offers segregated funds which include the Investors Group Series of Guaranteed Investment Funds (GIFs). GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and six individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death benefit guarantee features, potential creditor protection and estate planning efficiencies. Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by Investors Group. At March 31, 2017, total segregated fund assets were \$1.8 billion compared to \$1.7 billion at March 31, 2016.

### **INSURANCE**

Investors Group distributes insurance products through I.G. Insurance Services Inc. For the quarter ended March 31, 2017, sales of insurance products as measured by new annualized

premiums were \$24 million, an increase of 30.6% from \$18 million in 2016.

### **SECURITIES OPERATIONS**

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

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

In the fourth quarter of 2016, the new IIROC platform and new products, which include separately managed accounts and fee-based accounts, were introduced enabling more Consultants to transition their registration to Investors Group Securities Inc.

### **MORTGAGE OPERATIONS**

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

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

Mortgage fundings for the quarter ended March 31, 2017 were \$311 million compared to \$457 million in 2016, a decrease of 31.9%. At March 31, 2017, mortgages serviced by Investors

Group related to its mortgage banking operations totalled \$11.1 billion, compared to \$10.6 billion at March 31, 2016, an increase of 4.8%.

#### **SOLUTIONS BANKING†**

Investors Group's Solutions Banking† 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. The offering also includes an All-in-One product which is a comprehensive cash management solution that integrates the features of a mortgage, term loan, revolving line of credit and deposit account to meet the needs of our clients while minimizing overall interest costs. Through Solutions Banking†, clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking†

offering supports Investors Group's approach to delivering total financial solutions for our clients through a broad financial planning platform. Total lending products of Investors Group clients in the Solutions Banking† offering totalled \$3.2 billion at March 31, 2017.

Available credit associated with Solutions Banking† All-in-One accounts originated for the quarter ended March 31, 2017 was \$149 million, compared to \$170 million in 2016. At March 31, 2017, the balance outstanding of Solutions Banking All-in-One products was \$1.8 billion, which represented approximately 46% of total available credit associated with these accounts.

#### **ADDITIONAL PRODUCTS AND SERVICES**

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

## REVIEW OF SEGMENT OPERATING RESULTS

Investors Group's earnings before interest and taxes are presented in Table 9.

### Q1 2017 VS. Q1 2016

#### 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 \$341.1 million in the first quarter of 2017, an increase of \$32.9 million or 10.7% from \$308.2 million in 2016.

The net increase in management fees in the three months ended March 31, 2017 was primarily due to the increase in average assets under management of 12.5%, as shown in Table 8. The average management fee rate in the first quarter of 2017 was 166.1 basis points of average assets under management compared to 167.6 basis points in 2016.

Management fees were also impacted by a decrease of \$2.8 million in fee income in the quarter due to one less calendar day in 2017 compared to 2016.

Investors Group receives administration fees for providing administrative services to its mutual funds and trusteeship

services to its unit trust mutual funds, which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled \$79.9 million in the current quarter compared to \$73.6 million a year ago, an increase of 8.6%. The increase resulted primarily from changes in average assets under management offset, in part, by fee reductions. Effective January 1, 2017, as part of the discontinuation of deferred sales charge (DSC) series options, Investors Group reduced the administration fees on no-load series to DSC levels. The impact on administration fee revenue during the quarter associated with the changes was \$1.7 million.

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 \$57.1 million for the first quarter of 2017 increased by \$7.2 million from \$49.9 million in 2016 primarily due to the strength of insurance sales in the quarter offset, in part, by lower redemption fees. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

TABLE 9: OPERATING RESULTS – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2017 MAR. 31	2016 DEC. 31	2016 MAR. 31	% CHANGE	
				2016 DEC. 31	2016 MAR. 31
<b>Revenues</b>					
Management fees	\$ 341.1	\$ 337.8	\$ 308.2	1.0 %	10.7 %
Administration fees	79.9	80.6	73.6	(0.9)	8.6
Distribution fees	57.1	71.1	49.9	(19.7)	14.4
	478.1	489.5	431.7	(2.3)	10.7
Net investment income and other	18.0	20.1	13.8	(10.4)	30.4
	496.1	509.6	445.5	(2.6)	11.4
<b>Expenses</b>					
Commission	90.9	96.0	79.0	(5.3)	15.1
Asset retention bonus and premium	78.7	73.9	68.4	6.5	15.1
Non-commission	147.7	139.1	135.0	6.2	9.4
	317.3	309.0	282.4	2.7	12.4
<b>Earnings before interest and taxes</b>	<b>\$ 178.8</b>	<b>\$ 200.6</b>	<b>\$ 163.1</b>	<b>(10.9) %</b>	<b>9.6 %</b>

## 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 \$18.0 million in the first quarter of 2017, an increase of \$4.2 million from \$13.8 million in 2016.

Net investment income related to Investors Group's mortgage banking operations totalled \$16.8 million for the first quarter of 2017 compared to \$14.1 million in 2016, an increase of \$2.7 million. A summary of mortgage banking operations for the quarter under review is presented in Table 10. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – increased by \$1.4 million for the quarter ended March 31, 2017 to \$16.3 million compared to 2016. The increase resulted from higher average balances of securitized loans.
- Gains realized on the sale of residential mortgages – decreased by \$0.6 million for the quarter ended March 31, 2017 to \$2.1 million compared to 2016. The decrease in gains resulted from lower margins.

- Fair value adjustments – increased by \$0.5 million for the quarter ended March 31, 2017 to (\$1.3) million compared to 2016. The increase was primarily due to favourable fair value adjustments on interest rate swaps used to hedge interest rate risks on loans held temporarily pending sale or securitization to third parties.
- Other – increased by \$1.4 million for the quarter ended March 31, 2017 to (\$0.3) million compared to 2016 primarily due to lower mortgage issuance and portfolio insurance costs.

## 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 \$90.9 million for the first quarter of 2017, an increase of \$11.9 million from \$79.0 million in 2016. The

TABLE 10: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2017		2016		% CHANGE	
	MAR. 31	DEC. 31	MAR. 31	DEC. 31	2016 DEC. 31	2016 MAR. 31
<b>Total mortgage banking income</b>						
Net interest income on securitized loans						
Interest income	\$ 49.5	\$ 49.4	\$ 46.4	0.2 %	6.7 %	
Interest expense	33.2	32.8	31.5	1.2	5.4	
Net interest income	16.3	16.6	14.9	(1.8)	9.4	
Gains on sales <sup>(1)</sup>	2.1	3.2	2.7	(34.4)	(22.2)	
Fair value adjustments	(1.3)	2.1	(1.8)	N/M	(27.8)	
Other <sup>(2)</sup>	(0.3)	(2.5)	(1.7)	88.0	82.4	
	\$ 16.8	\$ 19.4	\$ 14.1	(13.4) %	19.1 %	
<b>Average mortgages serviced</b>						
Securitized	\$ 7,525	\$ 7,419	\$ 6,872	1.4 %	9.5 %	
Other	3,555	3,595	3,615	(1.1)	(1.7)	
	\$ 11,080	\$ 11,014	\$ 10,487	0.6 %	5.7 %	
<b>Mortgage sales to:<sup>(3)</sup></b>						
Securitized	\$ 331	\$ 717	\$ 610	(53.8) %	(45.7) %	
Other <sup>(1)</sup>	298	253	217	17.8	37.3	
	\$ 629	\$ 970	\$ 827	(35.2) %	(23.9) %	

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

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

(3) Represents principal amounts sold.

increase resulted primarily from compensation related to the distribution of other financial services and products.

Asset retention bonus and premium expense, which are based on the value of assets under management, increased by \$10.3 million for the first quarter ended March 31, 2017 to \$78.7 million compared to 2016. The increase was primarily due 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 fund assets under management. Non-commission expenses were \$147.7 million for the first quarter of 2017 compared to \$135.0 million in 2016, an increase of \$12.7 million or 9.4%. The increase in the period resulted largely from Consultant network support and other business development efforts.

## Q1 2017 VS. Q4 2016

### FEE INCOME

Management fee income increased by \$3.3 million or 1.0% to \$341.1 million in the first quarter of 2017 compared with the fourth quarter of 2016. The net increase in management fees in the first quarter was primarily due to the increase in average assets under management of 3.8% for the quarter, as shown in Table 8, and was offset in part by:

- A decrease in the average management fee rate in the first quarter of 2017, which was 166.1 basis points of average assets under management compared to 167.5 basis points in the prior quarter.
- A decrease of \$6.4 million due to two fewer calendar days in the first quarter compared to the fourth quarter of 2016.

Administration fees decreased to \$79.9 million in the first quarter of 2017 from \$80.6 million in the fourth quarter of 2016. The decrease was due to the impact of fee reductions totalling \$1.7 million, as well as two fewer calendar days in the first quarter compared to the prior quarter. These decreases were offset in part by the change in average mutual fund assets under management.

Distribution fee income of \$57.1 million in the first quarter of 2017 decreased by \$14.0 million from \$71.1 million in the fourth

quarter primarily due to a decrease in distribution fee income from insurance product sales.

### NET INVESTMENT INCOME AND OTHER

Net investment income and other was \$18.0 million in the first quarter of 2017 compared to \$20.1 million in the previous quarter, a decrease of \$2.1 million primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled \$16.8 million in the first quarter of 2017, a decrease of \$2.6 million from \$19.4 million in the previous quarter as shown in Table 10. The changes in mortgage banking income were due to:

- Gains realized on the sale of residential mortgages – decreased by \$1.1 million for the quarter ended March 31, 2017 to \$2.1 million compared to \$3.2 million in the previous quarter primarily due to lower margins.
- Fair value adjustments – decreased by \$3.4 million for the quarter ended March 31, 2017 to (\$1.3) million compared to \$2.1 million in the previous quarter primarily due to favourable fair value adjustments on certain securitization related financial instruments in the previous quarter.
- Other – increased by \$2.2 million for the quarter ended March 31, 2017 to (\$0.3) million, compared to (\$2.5) million in the previous quarter primarily due to lower mortgage issuance and portfolio insurance costs.

### EXPENSES

Commission expense in the current quarter was \$90.9 million compared with \$96.0 million in the previous quarter. The decrease primarily related to lower compensation related to the distribution of other financial services and products. The asset retention bonus and premium expense increased by \$4.8 million to \$78.7 million in the first quarter of 2017 primarily due to the increase in assets under management.

Non-commission expenses were \$147.7 million in the current quarter, an increase of \$8.6 million or 6.2% from \$139.1 million in the fourth quarter of 2016. This increase resulted from Consultant network support and other business development efforts as well as the seasonal nature of certain expenses normally incurred in the first quarter.

# MACKENZIE INVESTMENTS

## REVIEW OF THE BUSINESS

### MACKENZIE STRATEGY

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

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

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

- Delivering competitive and consistent risk-adjusted performance
- Offering innovative and high quality investment solutions
- Accelerating distribution
- Advancing brand leadership
- Driving operational excellence and discipline
- Building on a winning culture

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

Founded in 1967, Mackenzie will proudly celebrate its 50<sup>th</sup> anniversary in the Canadian financial services industry during 2017. Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our business focuses on multiple distribution channels: Retail, Strategic Alliances and Institutional.

Mackenzie distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace. Within the strategic alliance channel, Mackenzie offers certain series of its mutual funds and provides sub-advisory services to third party and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to

Investors Group, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries, and also include a private label mutual fund arrangement with Lifeco subsidiary Quadrus. Within the strategic alliance channel, Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company. In the institutional channel, Mackenzie provides investment management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants.

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

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

### SPONSORSHIP INITIATIVES

Building off the long-term agreement signed with the PGA TOUR in 2015, making Mackenzie the umbrella sponsor of the PGA TOUR Canada, Mackenzie announced during the quarter that it will serve as the title sponsor for the Mackenzie Investments Open, an official 72-hole event taking place in Montreal in July 2017. This grows Mackenzie's commitment to Canadian sport, as it invests in player development, local communities and charities from coast to coast.

Mackenzie also announced that it is the platinum sponsor of the True Patriot Love Scotiabank Mackenzie Expedition that will celebrate Sir Alexander Mackenzie's first crossing of North America in 1793. True Patriot Love Foundation is a national charity with the mission to inspire every Canadian to contribute to the resilience and wellbeing of military and Veteran families. This expedition will raise critical funds for programs and services that support Veterans and their families as they transition to civilian life.

### ASSETS UNDER MANAGEMENT

The changes in investment fund assets under management are summarized in Table 11 and the changes in total assets under management are summarized in Table 12. At March 31, 2017, Mackenzie's investment fund and total assets under management were \$53.1 billion and \$66.3 billion, respectively.

TABLE 11: CHANGE IN INVESTMENT FUND ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2017 MAR. 31	2016 DEC. 31	2016 MAR. 31	% CHANGE	
				2016 DEC. 31	2016 MAR. 31
Sales	\$ 2,861	\$ 1,953	\$ 1,841	46.5 %	55.4 %
Redemptions	2,785	1,977	2,039	40.9	36.6
Mutual fund net sales (redemptions) <sup>(1)</sup>	76	(24)	(198)	N/M	N/M
ETF net creations	114	43	–	165.1	N/M
<b>Investment fund net sales (redemptions)<sup>(2)</sup></b>	<b>139</b>	<b>19</b>	<b>(198)</b>	<b>N/M</b>	<b>N/M</b>
Investment returns	1,536	1,085	(620)	41.6	N/M
Net change in assets	1,675	1,104	(818)	51.7	N/M
Beginning assets	51,427	50,323	48,445	2.2	6.2
<b>Ending assets</b>	<b>\$ 53,102</b>	<b>\$ 51,427</b>	<b>\$ 47,627</b>	<b>3.3 %</b>	<b>11.5 %</b>
<b>Consists of:</b>					
Mutual funds	\$ 52,937	\$ 51,314	\$ 47,627	3.2 %	11.1 %
ETFs	234	113	–	107.1	N/M
Investment funds <sup>(3)</sup>	\$ 53,102	\$ 51,427	\$ 47,627	3.3 %	11.5 %
<b>Daily average investment fund assets</b>	<b>\$ 52,330</b>	<b>\$ 50,596</b>	<b>\$ 46,742</b>	<b>3.4 %</b>	<b>12.0 %</b>

(1) During the first quarter of 2017, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million.

(2) Total investment fund net sales exclude Mackenzie mutual fund investments in ETFs of \$51 million for the first quarter of 2017.

(3) Excludes Mackenzie mutual fund investments in ETFs of \$69 million at March 31, 2017.

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 net sales.

## FUND PERFORMANCE

Long-term investment performance is a key measure of Mackenzie's ongoing success. At March 31, 2017, 55.2% of Mackenzie mutual fund assets were rated in the top two performance quartiles for the one year time frame, 40.0% for the three year time frame and 34.3% 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>1</sup> fund ranking service. At March 31, 2017, 69.9% of Mackenzie mutual fund assets measured by Morningstar<sup>1</sup> had a rating of three stars or better and 42.7% had a rating of four or five stars. This compared to the Morningstar<sup>1</sup> universe of 77.1% for three stars or better and 37.9% for four and five star funds at March 31, 2017. These ratings exclude the Quadrus Group of Funds<sup>1</sup>.

## CHANGES TO PRODUCT OFFERINGS

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. In 2017, Mackenzie

continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their clients through a number of product launches and the automatic switching into its lower fee Private Wealth Series.

## Exchange Traded Funds

During 2016, Mackenzie entered the Exchange Traded Fund (ETF) business by launching nine ETFs. The addition of ETFs compliments Mackenzie's broad and innovative fund line-up and reflects its investor-focus vision to provide advisors and investors with new solutions to drive investor outcomes and achieve their personal goals. These ETFs offer investors another investment option to utilize in building long-term diversified portfolios and include:

- Four unique fixed income actively managed ETFs managed by Mackenzie's Fixed Income Team
- Five Maximum Diversification Income Smart Beta ETFs in partnership with TOBAM, a global award-winning asset manager and index provider to some of the world's largest pension funds, to utilize their proprietary investment process. TOBAM's methodology seeks to protect portfolios from structural biases and unmanaged risks often found in market capitalization weighted indices. These ETFs seek to replicate,

TABLE 12: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2017 MAR. 31	2016 DEC. 31	2016 MAR. 31	% CHANGE	
				2016 DEC. 31	2016 MAR. 31
Net sales (redemptions)					
Mutual funds <sup>(1)</sup>	\$ 76	\$ (24)	\$ (198)	N/M %	N/M %
ETF net creations	114	43	–	165.1	N/M
Investment funds <sup>(2)</sup>	139	19	(198)	N/M	N/M
Sub-advisory, institutional and other accounts	289	(1,516)	(189)	N/M	N/M
<b>Total net sales</b>	<b>428</b>	<b>(1,497)</b>	<b>(387)</b>	<b>N/M</b>	<b>N/M</b>
Investment returns	1,847	1,259	(576)	46.7	N/M
Net change in assets	2,275	(238)	(963)	N/M	N/M
Beginning assets	64,035	64,273	61,653	(0.4)	3.9
<b>Ending assets</b>	<b>\$ 66,310</b>	<b>\$ 64,035</b>	<b>\$ 60,690</b>	<b>3.6 %</b>	<b>9.3 %</b>
<b>Consists of:</b>					
Mutual funds	\$ 52,937	\$ 51,314	\$ 47,627	3.2 %	11.1 %
ETFs	234	113	–	107.1	N/M
Investment funds <sup>(3)</sup>	53,102	51,427	47,627	3.3	11.5
Sub-advisory, institutional and other accounts	13,208	12,608	13,063	4.8	1.1
Total assets under management	\$ 66,310	\$ 64,035	\$ 60,690	3.6 %	9.3 %
<b>Average total assets<sup>(4)</sup></b>	<b>\$ 65,182</b>	<b>\$ 63,846</b>	<b>\$ 59,778</b>	<b>2.1 %</b>	<b>9.0 %</b>

(1) During the first quarter of 2017, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in net redemptions of \$305 million.

(2) Total net sales exclude Mackenzie mutual fund investments in ETFs of \$51 million for the first quarter of 2017.

(3) Excludes Mackenzie mutual fund investments in ETFs of \$69 million at March 31, 2017.

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

to the extent possible, the performance of select rules-based indices from the TOBAM Maximum Diversification Index Series.

During 2017, Mackenzie launched two ETFs:

- January 23 – the Mackenzie Maximum Diversification Emerging Markets ETF that is traded on the Toronto Stock Exchange. This ETF provides investors with an innovative option to invest in emerging markets with enhanced diversification. This ETF seeks to replicate the performance of the TOBAM Maximum Diversification Emerging Markets Index and invests primarily in equity securities of emerging markets.
- April 26 – the Mackenzie Global High Yield Fixed Income ETF that is traded on the Aequitas NEO Exchange. This ETF seeks to provide a steady flow of income with the potential for long-term capital growth by investing primarily in higher yielding fixed-income securities and instruments of issuers anywhere in the world and in other fixed-income securities issued by companies or governments of any size, anywhere in the world.

### Mutual Funds

During 2017, Mackenzie launched three mutual funds:

- January 25 – the Mackenzie High Diversification Emerging Markets Equity Fund. This fund is sub-advised by TOBAM as a core investment that invests directly into the Mackenzie Maximum Diversification Emerging Markets ETF and may also invest in other ETFs, or in securities directly, from time to time for active risk management purposes.
- April 26 – two mutual funds including:
  - The Mackenzie Global Credit Opportunities Fund which aims to provide investors with a high level of income and the potential for long-term capital growth potential. The fund has the ability to invest in investment grade and non investment grade corporate and government bonds including Emerging Market debt, loans and preferred shares.
  - The Mackenzie US Strategic Income Fund which aims to provide investors a balanced solution that satisfies their needs for income and capital growth. The fund invests primarily in US dividend paying equities and a diversified portfolio of fixed income securities, including high yield bonds and loans.

On January 18, 2017, Mackenzie enhanced its Registered Disability Savings Plan (RDSP) program with five new Funds: Mackenzie Canadian Growth Fund, Mackenzie Canadian Growth Balanced Fund, Mackenzie Ivy Canadian Balanced Fund, Mackenzie Ivy Global Balanced Fund and Mackenzie US Growth Class. With these additions, the number of funds available to RDSP investors with Mackenzie has expanded to more than 40 options.

#### **Private Wealth Series**

On March 8, 2017, Mackenzie announced that it is implementing automatic switching into its Private Wealth Series. Beginning April 13, 2017, qualified investors – investors with a minimum of \$100,000 per fund and households with a minimum of \$250,000 – will be automatically switched into the appropriate Private Wealth Series. These switches will occur such that investors will be invested in the lowest fee series for which they qualify.

#### **CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q1 2016**

Mackenzie's total assets under management at March 31, 2017 were \$66.3 billion, an increase of 9.3% from \$60.7 billion at March 31, 2016. Mackenzie's sub-advisory, institutional and other accounts at March 31, 2017 were \$13.2 billion, an increase of 1.1% from \$13.1 billion last year.

Mackenzie's investment fund assets under management were \$53.1 billion at March 31, 2017, an increase of 11.5% from March 31, 2016. Mackenzie's mutual fund assets under management were \$52.9 billion at March 31, 2017, an increase of 11.1% from \$47.6 billion at March 31, 2016. Mackenzie's ETF assets were \$234 million at March 31, 2017, inclusive of a \$69 million investment from Mackenzie mutual funds.

In the three months ended March 31, 2017, Mackenzie's mutual fund gross sales were \$2.9 billion, an increase of 55.4% from \$1.8 billion in the comparative period last year. Mutual fund redemptions in the current period were \$2.8 billion, an increase of 36.6% from last year. Mutual fund net sales for the three months ended March 31, 2017 were \$76 million, as compared to net redemptions of \$198 million last year. In the three months ended March 31, 2017, ETF net creations were \$114 million, inclusive of \$51 million in investments from Mackenzie mutual funds. During the current quarter, investment returns resulted in investment fund assets increasing by \$1.5 billion as compared to a decrease of \$620 million last year.

During the first quarter of 2017, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million. Excluding these transactions, mutual fund gross sales increased 38.4% and

mutual fund redemptions increased 6.3% in the three months ended March 31, 2017 compared to last year and mutual fund net sales were \$381 million in the current quarter compared to mutual fund net redemptions of \$198 million last year.

Total net sales for the three months ended March 31, 2017 were \$428 million, as compared to net redemptions of \$387 million last year. During the current quarter, investment returns resulted in assets increasing by \$1.8 billion as compared to a decrease of \$576 million last year. Excluding the mutual fund allocation changes made by third party programs during the first quarter of 2017 discussed previously, total net sales were \$733 million in the current quarter compared to net redemptions of \$387 million last year.

Redemptions of long-term mutual funds in the three months ended March 31, 2017, were \$2.7 billion, as compared to \$2.0 billion last year. Redemptions of long-term mutual funds in the current quarter excluding the mutual fund allocation changes made by third party programs was \$2.1 billion. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 21.3% in the first quarter of 2017, compared to 16.9% in the first quarter of 2016. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions, was 16.4% in the first quarter of 2017. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 16.2% at March 31, 2017, as compared to 16.4% last year. Mackenzie's twelve-month trailing redemption rate for long-term funds, excluding rebalance transactions, was 14.9% at March 31, 2017 and 14.3% at March 31, 2016. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 15.7% at March 31, 2017. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

#### **CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q4 2016**

Mackenzie's total assets under management at March 31, 2017, were \$66.3 billion, an increase of 3.6% from \$64.0 billion at December 31, 2016. Mackenzie's sub-advisory, institutional and other accounts at March 31, 2017 were \$13.2 billion, an increase of 4.8% from \$12.6 billion at December 31, 2016.

Mackenzie's investment fund assets under management were \$53.1 billion at March 31, 2017, an increase of 3.3% from

\$51.4 billion at December 31, 2016. Mackenzie's mutual fund assets under management were \$52.9 billion at March 31, 2017, an increase of 3.2% from \$51.3 billion at December 31, 2016. Mackenzie's ETF assets were \$234 million at March 31, 2017, an increase of 107.1% from \$113 million at December 31, 2016. ETF assets include investments from Mackenzie mutual funds of \$69 million at March 31, 2017.

For the quarter ended March 31, 2017, Mackenzie mutual fund gross sales were \$2.9 billion, an increase of 46.5% from the fourth quarter of 2016. Mutual fund redemptions, which totalled \$2.8 billion for the first quarter, increased by 40.9% from the previous quarter. Net sales of Mackenzie mutual funds for the current quarter were \$76 million compared with net redemptions of \$24 million in the previous quarter. Excluding the mutual fund allocation changes made by third party programs during the first quarter of 2017 discussed previously, mutual fund gross sales increased 30.5% and redemptions increased 9.6% in the three months ended March 31, 2017 compared to the previous quarter and net sales were \$381 million in the current quarter compared to net redemptions of \$24 million in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$2.7 billion, compared to \$1.9 billion in the fourth quarter of 2016. Redemptions of long-term mutual funds in the current quarter excluding the mutual fund allocation changes made by third party programs were \$2.1 billion. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 21.3% compared to 15.2% for the fourth quarter of 2016. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 16.4% in the first quarter of 2017. Net sales of long-term funds for the current quarter were \$50 million compared to net redemptions of \$78 million in the previous quarter. Net sales of long-term mutual funds for the current quarter excluding the mutual fund allocation changes made by third party programs were \$355 million.

For the quarter ended March 31, 2017, Mackenzie ETF net creations were \$114 million, an increase of \$71 million from the fourth quarter of 2016. In the current quarter, ETF net creations were inclusive of \$51 million in investments from Mackenzie mutual funds.

## REVIEW OF SEGMENT OPERATING RESULTS

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

### Q1 2017 VS. Q1 2016

#### REVENUES

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

Within Mackenzie's retail mutual fund offering, certain series are offered for fee-based programs of participating dealers whereby dealer compensation on such series is charged directly by the dealer to a client (primarily Series F). As Mackenzie does not pay the dealer compensation, these series have lower management fees. At March 31, 2017, these series had \$5.2 billion in assets, an increase of 41.3% from the prior year.

Management fees were \$171.8 million for the three months ended March 31, 2017, an increase of \$11.3 million or 7.0% from \$160.5 million last year. The net increase in management fees in the current quarter was due to an increase in average assets under management of 9.0%, offset by a 1.0% decline in the average management fee rate. Mackenzie's average

management fee rate in the first quarter of 2017 was 106.9 basis points compared to 108.0 basis points in 2016. The decrease in the average management fee rate was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products. In addition, there was one less calendar day in the first quarter of 2017 than in the first quarter of 2016 which resulted in a decrease in management fees in the current quarter.

Mackenzie earns administration fees primarily from providing services to its investment funds. Administration fees were \$24.4 million for the three months ended March 31, 2017, an increase of \$2.0 million or 8.9% from \$22.4 million last year.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. 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 March 31, 2017 was \$2.3 million, compared to \$2.5 million last year.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$0.1 million for the three months ended March 31, 2017 compared to \$0.3 million last year.

TABLE 13: OPERATING RESULTS – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2017 MAR. 31	2016 DEC. 31	2016 MAR. 31	% CHANGE	
				2016 DEC. 31	2016 MAR. 31
<b>Revenues</b>					
Management fees	\$ 171.8	\$ 172.3	\$ 160.5	(0.3) %	7.0 %
Administration fees	24.4	23.8	22.4	2.5	8.9
Distribution fees	2.3	2.1	2.5	9.5	(8.0)
	198.5	198.2	185.4	0.2	7.1
Net investment income and other	0.1	0.7	0.3	(85.7)	(66.7)
	198.6	198.9	185.7	(0.2)	6.9
<b>Expenses</b>					
Commission	12.6	12.4	14.3	1.6	(11.9)
Trailing commission	62.0	61.4	57.4	1.0	8.0
Non-commission	82.5	76.3	77.6	8.1	6.3
	157.1	150.1	149.3	4.7	5.2
<b>Earnings before interest and taxes</b>	<b>\$ 41.5</b>	<b>\$ 48.8</b>	<b>\$ 36.4</b>	<b>(15.0) %</b>	<b>14.0 %</b>

## EXPENSES

Mackenzie's expenses were \$157.1 million for the three months ended March 31, 2017, an increase of \$7.8 million or 5.2% from \$149.3 million in 2016.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets. Commission expense was \$12.6 million in the three months ended March 31, 2017, as compared to \$14.3 million last year. 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 \$62.0 million in the three months ended March 31, 2017, an increase of \$4.6 million or 8.0% from \$57.4 million last year. The increase in trailing commission in the current quarter was due to an increase of 11.7% in daily average mutual fund assets under management offset by a 3.3% decline in effective trailing commission rate. Trailing commissions as a percentage of average mutual fund assets under management was 47.5 basis points in the current quarter compared to 49.1 basis points last year due to a change in composition of mutual fund assets towards series of mutual funds that do not pay trailing commissions.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$82.5 million in the three months ended March 31, 2017, an increase of \$4.9 million or 6.3% from \$77.6 million in 2016.

## Q1 2017 VS. Q4 2016

### REVENUES

Mackenzie's revenues were \$198.6 million for the current quarter, a decrease of \$0.3 million or 0.2% from \$198.9 million in the fourth quarter of 2016.

Management fees were \$171.8 million for the current quarter, a decrease of \$0.5 million or 0.3% from \$172.3 million in the fourth quarter of 2016. Factors contributing to the net decrease in management fees are as follows:

- Average total assets under management were \$65.2 billion in the current quarter compared to \$63.8 billion in the prior quarter, an increase of 2.1%.
- Mackenzie's average management fee rate was 106.9 basis points in the current quarter as compared to 107.1 basis points in the fourth quarter of 2016 due to a change in the composition of assets under management.
- There were two fewer calendar days in the first quarter of 2017 compared to the fourth quarter of 2016, which resulted in a decrease of \$3.6 million.

Administration fees were \$24.4 million in the current quarter, an increase of \$0.6 million or 2.5% from \$23.8 million in the prior quarter.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$0.1 million for the current quarter compared to \$0.7 million in the fourth quarter of 2016.

### EXPENSES

Mackenzie's expenses were \$157.1 million for the current quarter, an increase of \$7.0 million or 4.7% from \$150.1 million in the fourth quarter of 2016.

Commission expense related to the amortization of selling commissions was \$12.6 million in the quarter ended March 31, 2017, an increase of 1.6% from the fourth quarter of 2016.

Trailing commissions were \$62.0 million in the current quarter, an increase of \$0.6 million or 1.0% from \$61.4 million in the fourth quarter of 2016. The change in trailing commissions reflects the 3.3% period over period increase in average mutual fund assets under management, offset by a decline in effective trailing commission rate. The effective trailing commission rate for the first quarter was 47.5 basis points, compared to 48.6 basis points in the fourth quarter.

Non-commission expenses were \$82.5 million in the current quarter, compared to \$76.3 million in the fourth quarter of 2016. The increase related primarily to the seasonal nature of certain expenses normally incurred in the first quarter.

## 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.

Over the past year, the Company has made investments in Personal Capital Corporation, Wealthsimple Financial Corporation and Portag3 Ventures and has recently announced the investment in China Asset Management Co., Ltd., which is expected to close subject to customary closing conditions, including Chinese regulatory approvals. The earnings impact of these investments will be reported in the Corporate and Other segment in future quarters.

Corporate and other earnings before interest and taxes are presented in Table 14.

#### Q1 2017 VS. Q1 2016

The proportionate share of affiliate's earnings increased by \$0.2 million in the three months ended March 31, 2017 and

reflects equity earnings from Lifeco, which is discussed in the Consolidated Financial Position section of this MD&A. Net investment income and other decreased slightly to \$1.7 million in the first quarter of 2017 compared to \$1.8 million in 2016.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.7 million lower in the first quarter of 2017 compared to the same period in 2016.

#### Q1 2017 VS. Q4 2016

The proportionate share of Lifeco's earnings increased by \$1.5 million to \$28.0 million in the first quarter of 2017 compared to the fourth quarter of 2016. Net investment income and other increased to \$1.7 million in the first quarter of 2017 compared to \$1.4 million in the fourth quarter.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.6 million lower in the first quarter of 2017 compared with the previous quarter.

TABLE 14: OPERATING RESULTS – CORPORATE AND OTHER

THREE MONTHS ENDED (\$ millions)	2017 MAR. 31	2016 DEC. 31	2016 MAR. 31	% CHANGE	
				2016 DEC. 31	2016 MAR. 31
<b>Revenues</b>					
Fee income	\$ 65.3	\$ 64.7	\$ 62.0	0.9 %	5.3 %
Net investment income and other	1.7	1.4	1.8	21.4	(5.6)
Proportionate share of affiliate's earnings	28.0	26.5	27.8	5.7	0.7
	95.0	92.6	91.6	2.6	3.7
<b>Expenses</b>					
Commission	45.1	44.5	42.4	1.3	6.4
Non-commission	16.7	15.7	15.3	6.4	9.2
	61.8	60.2	57.7	2.7	7.1
<b>Earnings before interest and taxes</b>	\$ 33.2	\$ 32.4	\$ 33.9	2.5 %	(2.1) %

## IGM FINANCIAL INC.

### CONSOLIDATED FINANCIAL POSITION

IGM Financial's total assets were \$16.2 billion at March 31, 2017, compared to \$15.6 billion at December 31, 2016.

#### SECURITIES

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

#### AVAILABLE FOR SALE SECURITIES

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

#### Corporate Investments

Corporate investments is primarily comprised of the Company's investments in Personal Capital Corporation (Personal Capital), Wealthsimple Financial Corporation (Wealthsimple) and Portag3 Ventures (Portag3).

In May 2016, the Company invested \$64.5 million (USD\$50 million) in Personal Capital, a market-leading digital wealth advisor that is incorporated in and operates in the U.S. In December 2016, the Company invested an additional \$32.8 million (USD\$25 million) in Personal Capital.

In the fourth quarter of 2016, the Company invested a total of \$35 million in Wealthsimple and Portag3. In the second quarter of 2017, the Company has made a further investment of \$42.6 million in Wealthsimple. Wealthsimple is an online investment manager that provides financial investment guidance.

The investment was entered into through a limited partnership controlled by the Company's parent, Power Financial Corporation. Portag3 is an early-stage investment fund dedicated to backing innovating financial services companies and is controlled by the Company's parent, Power Financial Corporation.

#### 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 2016 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.

#### OTHER INVESTMENTS

##### China Asset Management Co., Ltd.

On December 29, 2016 and January 5, 2017, the Company entered into agreements to acquire 10% and 3.9% interests, respectively, in China Asset Management Co., Ltd. (China AMC), a leading fund manager in China. The aggregate consideration for the investment is approximately \$647 million (RMB¥3.3 billion). As at March 31, 2017, Other assets included a deposit of \$193.2 million (RMB¥1.0 billion) related to the investment (December 31, 2016 – \$193.5 million). The transactions are expected to close subject to customary closing conditions, including Chinese regulatory approvals.

TABLE 15: SECURITIES

(\$ millions)	MARCH 31, 2017		DECEMBER 31, 2016	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Available for sale</b>				
Corporate investments	\$ 142.1	\$ 153.3	\$ 141.6	\$ 152.0
Proprietary investment funds	16.3	16.9	6.1	6.4
	<b>158.4</b>	<b>170.2</b>	147.7	158.4
<b>Fair value through profit or loss</b>				
Equity securities	15.4	15.3	15.5	17.7
Proprietary investment funds	37.6	38.6	49.4	49.1
	<b>53.0</b>	<b>53.9</b>	64.9	66.8
	<b>\$ 211.4</b>	<b>\$ 224.1</b>	\$ 212.6	\$ 225.2

## LOANS

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

Loans consisted of residential mortgages and represented 48.8% of total assets at March 31, 2017, compared to 51.1% at December 31, 2016.

Loans classified as loans and receivables are primarily comprised of residential mortgages sold to securitization programs sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$7.7 billion at March 31, 2017, unchanged from December 31, 2016.

Loans classified as held for trading are residential mortgages held temporarily by the Company pending sale or securitization.

Residential mortgages originated by Investors Group are funded primarily through sales to third parties on a fully serviced basis, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization programs. Investors Group services \$13.5 billion of residential mortgages, including \$2.4 billion originated by subsidiaries of Lifeco.

## SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by Investors Group mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes residential mortgages through the CMHC sponsored National Housing Act Mortgage-Backed Securities

(NHA MBS) and the Canada Mortgage Bond Program (CMB Program) and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is mitigated through the use of insurance. Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they are accounted for as secured borrowings. The Company records the transactions under these programs as follows: (i) the mortgages and related obligations are carried at amortized cost, with interest income and interest expense, utilizing the effective interest rate method, recorded over the term of the mortgages, (ii) the component of swaps entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal, are recorded at fair value, and (iii) cash reserves held under the ABCP program are carried at amortized cost.

In the first quarter of 2017, the Company securitized loans through its mortgage banking operations with cash proceeds of \$323.2 million compared to \$596.9 million in 2016. Additional information related to the Company's securitization activities, including the Company's hedges of related reinvestment and interest rate risk, can be found in the Financial Risk section of this MD&A and in Note 4 of the Interim Financial Statements.

TABLE 16: LOANS

(\$ millions)	2017 MARCH 31	2016 DECEMBER 31
<b>Loans and receivables</b>	<b>\$ 7,616.5</b>	<b>\$ 7,644.5</b>
Less: Collective allowance	0.7	0.7
	<b>7,615.8</b>	<b>7,643.8</b>
<b>Held for trading</b>	<b>270.5</b>	<b>339.5</b>
	<b>\$ 7,886.3</b>	<b>\$ 7,983.3</b>

## 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 three months ended March 31, 2017 compared with 2016 are shown in Table 17.

TABLE 17: INVESTMENT IN AFFILIATE

THREE MONTHS ENDED (\$ millions)	2017 MAR. 31	2016 MAR. 31
<b>Carrying value, beginning of period</b>	<b>\$ 888.9</b>	<b>\$ 904.3</b>
Proportionate share of earnings	28.0	27.8
Dividends received	(14.6)	(13.7)
Proportionate share of other comprehensive income (loss) and other adjustments	9.0	12.1
<b>Carrying value, end of period</b>	<b>\$ 911.3</b>	<b>\$ 930.5</b>
<b>Fair value, end of period</b>	<b>\$ 1,464.3</b>	<b>\$ 1,417.0</b>

## CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

### LIQUIDITY

Cash and cash equivalents totalled \$1,202.9 million at March 31, 2017 compared with \$611.0 million at December 31, 2016.

Cash and cash equivalents related to the Company's deposit operations were \$2.3 million at March 31, 2017, compared to \$2.7 million at December 31, 2016, as shown in Table 18.

Working capital totalled \$1,021.8 million at March 31, 2017 compared with \$557.8 million at December 31, 2016 and \$841.8 million at March 31, 2016. 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.
- Fund the acquisition of China AMC subject to customary closing conditions.

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

\$324.6 million in the first quarter of 2017 compared to \$304.2 million in the first quarter of 2016 and \$352.0 million in the fourth quarter of 2016. Adjusted EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled \$58.9 million in the first quarter of 2017 compared to \$59.8 million in the first quarter of 2016 and \$58.4 million in the fourth quarter of 2016. As well as being an important alternative measure of performance, EBITDA is a common measure utilized by investment analysts and credit rating agencies in reviewing asset management companies.

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

### CASH FLOWS

Table 19 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Interim Financial Statements for the quarter ended March 31, 2017. Cash and cash equivalents increased by \$591.9 million in the first quarter of 2017 compared to a decrease of \$375.9 million in the first quarter of 2016.

Operating activities, before payment of commissions, generated \$198.1 million during the quarter ended March 31, 2017, as compared to \$104.3 million in 2016. Cash commissions paid were \$81.4 million in 2017 compared to \$73.8 million in 2016. Cash flows from operating activities, net of commissions paid, were \$116.7 million in 2017 as compared to \$30.5 million in 2016.

TABLE 18: DEPOSIT OPERATIONS – FINANCIAL POSITION

(\$ millions)	2017 MAR. 31	2016 DEC. 31	2016 MAR. 31
<b>Assets</b>			
Cash and cash equivalents	\$ 2.3	\$ 2.7	\$ 3.2
Client funds on deposit	431.5	455.5	282.6
Accounts and other receivables	1.6	0.5	0.4
Loans	26.7	25.1	25.5
<b>Total assets</b>	<b>\$ 462.1</b>	<b>\$ 483.8</b>	<b>\$ 311.7</b>
<b>Liabilities and shareholders' equity</b>			
Deposit liabilities	\$ 451.3	\$ 471.2	\$ 300.9
Other liabilities	0.5	2.6	0.5
Shareholders' equity	10.3	10.0	10.3
<b>Total liabilities and shareholders' equity</b>	<b>\$ 462.1</b>	<b>\$ 483.8</b>	<b>\$ 311.7</b>

TABLE 19: CASH FLOWS

THREE MONTHS ENDED (\$ millions)	2017 MAR. 31	2016 MAR. 31	% CHANGE
Operating activities			
Before payment of commissions	\$ 198.1	\$ 104.3	89.9 %
Commissions paid	(81.4)	(73.8)	(10.3)
Net of commissions paid	116.7	30.5	N/M
Financing activities	391.1	(178.7)	N/M
Investing activities	84.1	(227.7)	N/M
<b>Increase (decrease) in cash and cash equivalents</b>	<b>591.9</b>	<b>(375.9)</b>	<b>N/M</b>
Cash and cash equivalents, beginning of period	611.0	983.0	(37.8)
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,202.9</b>	<b>\$ 607.1</b>	<b>98.1 %</b>

Financing activities during the three months ended March 31, 2017 compared to 2016 related to:

- A net decrease of \$74.0 million in 2017 arising from obligations to securitization entities compared to a net increase of \$65.2 million in 2016.
- Issuance of debentures of \$600.0 million in the first quarter of 2017.
- There was no purchase of common shares in 2017 under IGM Financial's normal course issuer bid compared with the purchase of 2,991,900 common shares at a cost of \$104.3 million in 2016.
- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2017, unchanged from 2016.
- The payment of regular common share dividends which totalled \$135.3 million in 2017 compared to \$137.8 million in 2016.

Investing activities during the three months ended March 31, 2017 compared to 2016 primarily related to:

- The purchases of securities totalling \$27.0 million and sales of securities with proceeds of \$25.5 million in 2017 compared to \$24.9 million and \$10.8 million, respectively, in 2016.
- A net decrease in loans of \$99.6 million in 2017 compared to a net increase of \$183.5 million in 2016 primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions was \$7.9 million in 2017 compared to \$17.0 million in 2016.

## 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 \$6.7 billion at March 31, 2017, compared to \$6.1 billion at December 31, 2016. 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 \$1,925.0 million at March 31, 2017, compared to \$1,325.0 million at December 31, 2016. 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.

On January 26, 2017, IGM Financial issued \$400 million of 10 year, 3.44% debentures priced to provide a yield to maturity of 3.448% and \$200 million of 30 year, 4.56% debentures priced to provide a yield to maturity of 4.560%. The offering was made pursuant to a prospectus supplement to IGM Financial's short form base shelf prospectus dated November 29, 2016. The net proceeds will be used by IGM Financial to finance a substantial

portion of the announced acquisitions of an equity interest in China AMC (refer to Note 7 to the Annual Financial Statements) and for general corporate purposes.

Perpetual preferred shares of \$150 million at March 31, 2017 remain unchanged from December 31, 2016.

The Company did not purchase any common shares during the three months ended March 31, 2017 under its normal course issuer bid (refer to Note 7 to the Interim Financial Statements). The Company commenced a normal course issuer bid on March 20, 2017 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 2017 included the declaration of perpetual preferred share dividends of \$2.2 million or \$0.36875 per share and common share dividends of \$135.3 million or \$0.5625 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.

In the fourth quarter of 2016, Standard & Poor's (S&P) increased the rating of the Company's senior unsecured debentures to "A+" from "A" with a stable outlook. Following the Company's announcement that it had entered into an agreement to acquire a 10% interest in China AMC, S&P changed the Company's rating outlook from stable to "CreditWatch negative". Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable rating trend.

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

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not

reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

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

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.

## FINANCIAL INSTRUMENTS

Table 20 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

- Securities and other financial assets and liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity.
- Loans classified as loans and receivables are valued by discounting the expected future cash flows at prevailing market yields.
- Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

TABLE 20: FINANCIAL INSTRUMENTS

(\$ millions)	MARCH 31, 2017		DECEMBER 31, 2016	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Financial assets recorded at fair value</b>				
Securities				
– Available for sale	\$ 170.2	\$ 170.2	\$ 158.4	\$ 158.4
– Held for trading	53.9	53.9	66.8	66.8
Loans				
– Held for trading	270.4	270.4	339.5	339.5
Derivative financial instruments	46.9	46.9	42.8	42.8
<b>Financial assets recorded at amortized cost</b>				
Loans				
– Loans and receivables	7,615.8	7,816.7	7,643.8	7,867.7
<b>Financial liabilities recorded at fair value</b>				
Derivative financial instruments	30.5	30.5	38.2	38.2
Other financial liabilities	8.3	8.3	9.8	9.8
<b>Financial liabilities recorded at amortized cost</b>				
Deposits and certificates	451.3	452.4	471.2	472.2
Obligations to securitization entities	7,650.5	7,790.5	7,721.0	7,873.1
Long-term debt	1,925.0	2,235.3	1,325.0	1,610.9

- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

See Note 12 of the Interim Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the three months ended March 31, 2017.

## RISK MANAGEMENT

The Company is exposed to a variety of risks that are inherent in its business activities. Its ability to manage these risks is key to its ongoing success. The Company emphasizes a strong risk management culture and the implementation of an effective risk management approach. The risk management approach coordinates risk management across the organization and its business units and seeks to ensure prudent and measured risk-taking in order to achieve an appropriate balance between risk and return. Fundamental to our enterprise risk management program is protecting and enhancing our reputation.

### RISK MANAGEMENT FRAMEWORK

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

### RISK GOVERNANCE

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

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

- The Executive Committee is responsible for the oversight of enterprise risk management by: i) ensuring that appropriate procedures are in place to identify and manage risks and establish risk tolerances, ii) ensuring that appropriate policies, procedures and controls are implemented to manage risks, and iii) reviewing the risk management process on a regular basis to ensure that it is functioning effectively.
- The Investment Committee oversees management of the Company's financial risks, being market risk, credit risk, and liquidity and funding risk by: i) ensuring that appropriate procedures are in place to identify and manage financial risks in accordance with tolerances, ii) monitoring the implementation and maintenance of appropriate policies, procedures and controls to manage financial risks, and

iii) reviewing the financial risk management process on a regular basis to ensure that it is functioning effectively.

- The Audit Committee has specific risk oversight responsibilities in relation to financial disclosure, internal controls and the control environment as well as the Company's compliance activities.
- Other committees having specific risk oversight responsibilities include: i) the Compensation Committee which oversees compensation policies and practices, ii) the Governance and Nominating Committee which oversees corporate governance practices, and iii) the Related Party and Conduct Review Committee which oversees conflicts of interest as well as the administration of the Code of Business Conduct and Ethics for Directors, Officers and Employees (Code of Conduct).

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

The Chief Executive Officers of the operating companies have overall responsibility for overseeing risk management of their respective companies.

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

### **First Line of Defence**

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

### **Second Line of Defence**

The Enterprise Risk Management (ERM) Department provides oversight, analysis and reporting to the Risk Management Committee on the level of risks relative to the established risk appetite for all activities of the Company. Other responsibilities include: i) developing and maintaining the enterprise risk management program and framework, ii) managing the enterprise risk management process, and iii) providing guidance and training to business unit and support function leaders.

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

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

### **Third Line of Defence**

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

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

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

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

### **RISK MANAGEMENT PROCESS**

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

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

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

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

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

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

### **RISK MANAGEMENT CULTURE**

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

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

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

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

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

## 1) FINANCIAL RISK

### LIQUIDITY AND FUNDING RISK

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

The Company's liquidity management practices include:

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

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

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act

Mortgage-Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the CMB Program. The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions and government regulations that are subject to change. A condition of the NHA MBS and CMB Program is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions and is subject to change.

As part of ongoing liquidity management during 2017 and 2016, the Company:

- Continued to expand our funding channels by issuing NHA MBS to multiple purchasers.
- Continued to assess additional funding sources for the Company's mortgage banking operations.
- Filed a short form base shelf prospectus to give the Company the flexibility to access debt and equity markets.
- Increased the Company's committed lines of credit by \$300 million during the fourth quarter of 2016.
- In January 2017, the Company issued \$400 million of 10 year, 3.44% debentures and \$200 million of 30 year, 4.56% debentures. The net proceeds will be used by IGM Financial to finance a substantial portion of its previously announced acquisition of a 13.9% equity interest in China AMC and for general corporate purposes.

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

TABLE 21: CONTRACTUAL OBLIGATIONS

AS AT MARCH 31, 2017 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ -	\$ 11.7	\$ 18.4	\$ 0.4	\$ 30.5
Deposits and certificates	432.8	8.1	8.2	2.2	451.3
Obligations to securitization entities	-	1,270.3	6,363.2	17.0	7,650.5
Long-term debt	-	150.0	375.0	1,400.0	1,925.0
Operating leases <sup>(1)</sup>	-	29.2	80.0	38.7	147.9
Pension funding <sup>(2)</sup>	-	34.4	-	-	34.4
<b>Total contractual obligations</b>	<b>\$ 432.8</b>	<b>\$ 1,503.7</b>	<b>\$ 6,844.8</b>	<b>\$ 1,458.3</b>	<b>\$ 10,239.6</b>

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

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2016. Pension funding requirements beyond 2017 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.

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 \$825 million at March 31, 2017, unchanged from December 31, 2016. The lines of credit as at March 31, 2017 consisted of committed lines of \$650 million (December 31, 2016 – \$650 million) and uncommitted lines of \$175 million (December 31, 2016 – \$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 March 31, 2017 and December 31, 2016, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2013, was completed in May 2014. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$23.4 million compared to \$106.3 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2012. The reduction in the solvency deficit resulted primarily from higher interest rates and market returns on the plan assets, and is required to be funded over five years. The Company has made contributions of \$3.1 million in 2017 (2016 – \$3.2 million). The Company expects to make contributions of approximately \$37.5 million in 2017. 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. An actuarial valuation for funding purposes based on a measurement date of December 31, 2016 is currently being performed and the outcome of this valuation may impact the total contributions required in 2017.

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, 2016.

## **CREDIT RISK**

Credit risk is the potential for financial loss to the Company if a counterparty to a transaction fails to meet its obligations.

The Company's cash and cash equivalents, securities holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

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

At March 31, 2017, cash and cash equivalents of \$1,202.9 million (December 31, 2016 – \$611.0 million) consisted of cash balances of \$66.0 million (December 31, 2016 – \$84.5 million) on deposit with Canadian chartered banks and cash equivalents of \$1,136.9 million (December 31, 2016 – \$526.5 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$127.9 million (December 31, 2016 – \$44.1 million), provincial government treasury bills and promissory notes of \$528.2 million (December 31, 2016 – \$197.1 million), bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$447.8 million (December 31, 2016 – \$246.8 million), and highly rated corporate commercial paper of \$33.0 million (December 31, 2016 – \$38.5 million).

The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

The Company's exposure to and management of credit risk related to cash and cash equivalents and fixed income securities have not changed materially since December 31, 2016.

### ***Mortgage Portfolio***

As at March 31, 2017, residential mortgages, recorded on the Company's balance sheet, of \$7.9 billion (December 31, 2016 – \$8.0 billion) consisted of \$7.6 billion sold to securitization programs (December 31, 2016 – \$7.6 billion), \$270.5 million held pending sale or securitization (December 31, 2016 – \$339.5 million) and \$30.5 million related to the Company's intermediary operations (December 31, 2016 – \$29.2 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and

- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and Investors Group Consultants as part of a client's comprehensive financial plan.

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

- Under the NHA MBS program totalling \$4.9 billion (December 31, 2016 – \$4.9 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$2.7 billion (December 31, 2016 – \$2.7 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$56.3 million (December 31, 2016 – \$54.7 million) and \$46.6 million (December 31, 2016 – \$45.0 million), respectively, at March 31, 2017. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 26.5% of mortgages held in ABCP Trusts insured at March 31, 2017 (December 31, 2016 – 29.1%).

At March 31, 2017, residential mortgages recorded on balance sheet were 72.7% insured (December 31, 2016 – 73.9%). As at March 31, 2017, impaired mortgages on these portfolios were \$3.4 million, compared to \$2.6 million at December 31, 2016. Uninsured non-performing mortgages over 90 days on these portfolios were \$1.0 million at March 31, 2017, compared to \$0.9 million at December 31, 2016.

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

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

The Company's collective allowance for credit losses was \$0.7 million at March 31, 2017, unchanged from December 31, 2016, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based

on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to mortgage portfolios have not changed materially since December 31, 2016.

### **Derivatives**

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions, to hedge market risk related to certain stock-based compensation arrangements, and to hedge foreign exchange risk on payments due on the close of the China AMC transaction. These derivatives are discussed more fully under the Market Risk section of this MD&A.

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

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$45.9 million (December 31, 2016 – \$41.4 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 \$1.9 million at March 31, 2017 (December 31, 2016 – \$3.0 million). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at March 31, 2017. Management of credit risk related to derivatives has not changed materially since December 31, 2016.

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

### **Interest Rate Risk**

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

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

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of \$22.4 million (December 31, 2016 – negative \$23.1 million) and an outstanding notional amount of \$1.1 billion at March 31, 2017 (December 31, 2016 – \$1.0 billion). The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled \$28.3 million (December 31, 2016 – \$30.0 million), on an outstanding notional amount of \$2.2 billion at March 31, 2017 (December 31, 2016 – \$2.1 billion). The net fair value of these swaps of \$5.9 million at March 31, 2017 (December 31, 2016 – \$6.9 million) are recorded on balance sheet and have an outstanding notional amount of \$3.3 billion (December 31, 2016 – \$3.1 billion).
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. The fair value of these swaps was nil (December 31, 2016 – \$0.4 million) on an outstanding notional amount of \$67.0 million at March 31, 2017 (December 31, 2016 – \$123.0 million).

As at March 31, 2017, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$0.4 million (December 31, 2016 – an increase of \$0.2 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2016.

#### **Equity Price Risk**

The Company is exposed to equity price risk on its equity securities which are classified as either available for sale or fair value through profit or loss. The fair value of the equity securities was \$224.1 million at March 31, 2017 (December 31, 2016 – \$225.2 million), as shown in Table 15.

The Company sponsors a number of deferred compensation arrangements for employees where payments to participants

are deferred and linked to the performance of the common shares of IGM Financial Inc. The Company hedges its exposure to this risk through the use of forward agreements and total return swaps.

#### **Foreign Exchange Risk**

The Company is exposed to foreign exchange risk on its investments in Personal Capital and China AMC. The Company has hedged its exposure to the final payments due on the close of the China AMC transaction through the use of forward currency contracts.

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

At March 31, 2017, IGM Financial's total assets under management were \$147.1 billion compared to \$142.3 billion at December 31, 2016.

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

Changing financial market conditions may also lead to a change in the composition of the Company's assets under management between equity and fixed income instruments, which could result in lower revenues depending upon the management fee rates associated with different asset classes and mandates.

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

#### **2) OPERATIONAL RISK**

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

TABLE 22: IGM FINANCIAL ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

AS AT MARCH 31, 2017	INVESTMENT FUNDS	TOTAL
Cash	0.9 %	1.3 %
Short-term fixed income and mortgages	6.9	6.9
Other fixed income	22.6	22.5
Domestic equity	30.0	29.8
Foreign equity	36.3	36.3
Real Property	3.3	3.2
	100.0 %	100.0 %
CAD	62.3 %	62.3 %
USD	25.1	24.9
Other	12.6	12.8
	100.0 %	100.0 %

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

#### OPERATIONAL RISK

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

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

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

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

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

#### TECHNOLOGY AND CYBER RISK

Technology and cyber risk driven by systems are managed through controls over technology development and change management. Information security is a significant risk to our industry and our Company's operations. The Company uses systems and technology to support its business operations and the client and financial advisor experience. As a result, we are exposed to risks relating to technology and cyber security such as data breaches, identity theft and hacking, including the risk of denial of service or malicious software attacks. Such attacks could compromise confidential information of the Company and that of clients or other stakeholders, and could result in negative consequences including lost revenue, litigation, regulatory scrutiny or reputational damage. To remain resilient to such threats, the Company has established enterprise-wide cyber security programs, benchmarked capabilities to sound industry practices, and has implemented robust threat and vulnerability assessment and response capabilities.

#### MODEL RISK

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

#### LEGAL AND REGULATORY COMPLIANCE

Legal and Regulatory Compliance Risk is the risk of not complying with laws, contractual agreements or regulatory

requirements. This includes distribution compliance, investment management compliance, accounting and internal controls, and reporting and communications.

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

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

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

Business units are responsible for management of legal and regulatory compliance risk, and implementing appropriate

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

### **CONTINGENCIES**

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

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

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

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

Oversight of IGM Financial is performed by the Board of Directors directly and through its seven committees. The Company's President and Chief Executive Officer has overall responsibility for management of the Company. The Company's activities are carried out principally by three operating companies – Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. – each of which are managed by a President and Chief Executive Officer.

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

### **ACQUISITION RISK**

The Company is also exposed to risks related to its acquisitions. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost

and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

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

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

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

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

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

Effective for annual periods commencing no later than July 15, 2016, Phase 2 of the CSA's Client Relationship Model (CRM2) requires dealers to provide their clients with enhanced information on the performance of their investments and the costs associated with them, including the compensation paid to the dealer (the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada have adopted rules that are to the same effect). These new requirements will provide important information to our clients and will build on already required existing disclosure related to distribution and fund management costs.

#### **BEST INTEREST STANDARD, TARGETED REFORMS AND MUTUAL FUND FEES**

In April 2016, the CSA published Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Toward Their Clients (the BIS Consultation Paper), which proposes a set of targeted reforms which all CSA jurisdictions are consulting on relating to the client-registrant relationship, including the regulation of conflicts of interest, the know-your-client and know-your-product requirements, the suitability obligation, the use by registrants of business titles and proficiency. All of the CSA jurisdictions except the British Columbia Securities Commission are also consulting on a regulatory best interest standard, accompanied by guidance, that would form both an over-arching standard and the governing principle against which all other client-related obligations would be interpreted. The Company's subsidiaries submitted comment letters on the BIS Consultation Paper. In November and December 2016, the Company participated in a series of roundtables hosted by certain jurisdictions to further explore the proposals in the BIS Consultation Paper. In March 2017, the Ontario Securities Commission published for comment its 2017-2018 Draft Statement of Priorities indicating its intention to proceed to publish regulatory reforms to create a best interest standard and targeted regulatory reforms and/or guidance under NI 31-103.

In January 2017, the CSA published CSA Staff Notice 81-408 Consultation on the Option of Discontinuing Embedded Commissions (the Fees Consultation Paper) which seeks input on the option of discontinuing embedded commissions and the potential impacts of such a change on Canadian investors and market participants. The Fees Consultation Paper was originally expected to be issued in the fall of 2016 and follows the publication of the CSA's initial consultation paper on mutual fund fee structures in December 2012. The comment period expires on June 9, 2017.

The Company will continue its active dialogue and engagement with regulators on both of these subjects.

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

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

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

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

## 5) BUSINESS RISK

### GENERAL BUSINESS CONDITIONS

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

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

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

The Company, across its operating subsidiaries, is focused on communicating with clients and emphasizing the importance of financial planning across economic cycles. The Company and the industry continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility Consultants and independent financial advisors play a key role in assisting investors in maintaining perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 23 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

### PRODUCT / SERVICE OFFERING

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

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

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

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

	2017 MAR. 31	2016 MAR. 31
<b>IGM Financial Inc.</b>		
Investors Group	8.8 %	8.7 %
Mackenzie	16.2 %	16.4 %
Counsel	15.7 %	14.7 %

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

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

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

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

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

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

#### **PEOPLE RISK**

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

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

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

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

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

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

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

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

IGM Financial manages environmental risks across the Company, with business unit management having responsibility for identifying, assessing, controlling and monitoring environmental risks pertaining to their operations. IGM Financial's Executive Management Corporate Responsibility Committee oversees its commitment to environmental responsibility and risk management.

Investors Group and Mackenzie are signatories to the Principles for Responsible Investment (PRI). Under the PRI, investors formally commit to incorporate environmental, social and governance (ESG) issues into their investment processes. In addition, Investors Group, Mackenzie and Investment Planning Counsel have implemented investing policies which provide information on how these ESG issues are implemented at each company.

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

## OUTLOOK

### THE FINANCIAL SERVICES ENVIRONMENT

Canadians held \$3.8 trillion in discretionary financial assets with financial institutions at December 31, 2015 based on the most recent report from Investor Economics. The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Approximately 66% (\$2.5 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the \$1.3 trillion held outside of a financial advisory relationship, approximately 62% consisted of bank deposits.

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

Approximately 42% of Canadian discretionary financial assets or \$1.6 trillion resided in investment funds at December 31, 2015, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 77% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With \$142 billion in investment fund assets under management, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

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

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 43% of total industry long-term mutual fund assets at March 31, 2017.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 69% of industry long-term mutual fund assets and 71% of total mutual fund assets under management at March 31, 2017. 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, 2016.

### CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company's accounting policies from those reported at December 31, 2016.

### 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, *Financial Instruments: Recognition and Measurement*, 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.

The transition to IFRS 9 is managed by a committee comprised of senior levels of management. Periodic reporting on the progress against plan is provided to the committee and other affected stakeholders within the Company. To date, the Company's efforts have been focused on updating accounting policies to address key aspects of the Standard including classification and measurement of financial instruments,

reviewing the impact to its impairment models and assessing the use of hedge accounting under IFRS 9.

The combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 may result in some assets currently classified as held for trading under IAS 39 being reclassified to fair value through other comprehensive income or amortized cost under IFRS 9. At this stage, it is not possible to reliably quantify the potential financial effect to the Company from the adoption of IFRS 9.

The Company will update accounting policy manuals, internal control documents and implement changes to business and financial reporting processes and systems to support the implementation of the Standard by its effective date of January 1, 2018.

### IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

### IFRS 16 LEASES

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

### OTHER

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING

During the first quarter of 2017, 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**

There were no changes to the types of related party transactions from those reported at December 31, 2016. 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 March 31, 2017 totalled 240,583,923. Outstanding stock options as at March 31, 2017 totalled 9,252,963, of which 4,150,734 were

exercisable. As at May 2, 2017, outstanding common shares totalled 240,587,923 and outstanding stock options totalled 9,176,718, of which 4,085,281 were exercisable.

Perpetual preferred shares of \$150 million were outstanding as at March 31, 2017, unchanged at May 2, 2017.

### **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).