

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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# management's discussion and analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the three months ended March 31, 2021 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements (Interim Financial Statements), as well as the 2020 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, 2021 is as of May 6, 2021.

## 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 report, 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, outbreaks of disease or pandemics (such as COVID-19), 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), "adjusted earnings before interest and taxes" (Adjusted EBIT), "earnings before interest, taxes, depreciation and amortization before sales commissions" (EBITDA before sales commissions), and "earnings before interest, taxes, depreciation and amortization after sales commissions" (EBITDA after sales commissions) are also non-IFRS financial measures. EBIT, Adjusted EBIT, EBITDA before

sales commissions and EBITDA after sales commissions are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. EBITDA before sales commissions excludes all mutual fund sales commissions and is comparable to prior periods. EBITDA after sales commissions includes all sales commissions and highlights aggregate cash flows. 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 EBITDA before sales commissions and EBITDA after sales commissions. 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 non-IFRS financial 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.

## Summary of Consolidated Operating Results

IGM Financial Inc. (TSX:IGM) is a leading wealth and asset management company supporting financial advisors and the clients they serve in Canada, and institutional investors throughout North America, Europe and Asia. The Company operates through a number of operating subsidiaries and also holds a number of strategic investments that provide benefits to these subsidiaries while furthering the Company's growth prospects. The Company's principle operating subsidiaries are wealth manager IG Wealth Management and asset manager Mackenzie Investments. The Company also operates through wealth manager Investment Planning Counsel and has strategic investments in Great-West Lifeco Inc. (Lifeco), China Asset Management Co., Ltd. (China AMC), Northleaf Capital Group Ltd. (Northleaf) and Wealthsimple Financial Corp. (Wealthsimple) as described more fully later in this MD&A.

In the third quarter of 2020, the Company realigned its financial reporting and related disclosures to reflect its current reportable segments of Wealth Management, Asset Management and Strategic Investments and Other. In the first quarter of 2021, the Company further expanded its reportable segment disclosures to report to Net Earnings. These segments are described later in this MD&A.

IGM Financial's assets under management and advisement were \$248.5 billion as at March 31, 2021, the highest level in the history of the Company, compared with \$168.4 billion at March 31, 2020 and \$240.0 billion at December 31, 2020, as detailed in Table 5. The increase of 47.6% from March 31, 2020 consisted of \$41.3 billion of client investment returns, \$8.5 billion of client net flows and \$30.3 billion of net business acquisitions in the fourth quarter of 2020. Average total assets under management and advisement for the first quarter of 2021 were \$243.9 billion compared to \$186.0 billion in the first quarter of 2020.

Total assets under management were \$221.6 billion at March 31, 2021, the highest level in the history of the Company, compared with \$147.5 billion at March 31, 2020 and \$214.0 billion at December 31, 2020, as detailed in Table 5. Average total assets under management for the first quarter of 2021 were \$217.6 billion compared to \$163.3 billion in the first quarter of 2020.

Net earnings available to common shareholders for the three months ended March 31, 2021 were \$202.2 million or 85 cents per share compared with net earnings available to common shareholders of \$160.9 million or 68 cents per share for the comparative period in 2020, an increase of 25.0% in earnings per share.

Shareholders' equity was \$5.2 billion as at March 31, 2021, compared to \$5.0 billion at December 31, 2020. Return on

average common equity based on net earnings for the three months ended March 31, 2021 was 14.8% compared with 14.1% for the comparative period in 2020. Excluding the impact of fair value through other comprehensive income investments net of tax, return on average common equity at March 31, 2021 is 16.9%. The quarterly dividend per common share declared in the first quarter of 2021 was 56.25 cents, unchanged from the fourth quarter of 2020.

### WEALTHSIMPLE FINANCIAL CORP. (WEALTHSIMPLE)

Wealthsimple is an online investment manager that provides financial investment guidance.

On May 3, 2021, Wealthsimple announced a \$750 million equity fundraising done at a valuation which increases the value of IGM's investment in Wealthsimple by \$897 million to \$1.45 billion at March 31, 2021.

The transaction consists of a \$250 million primary offering, as well as a \$500 million secondary offering by the Power Corporation of Canada group. As a result of the secondary offering, IGM Financial will dispose of a portion of its investment for proceeds of approximately \$295 million (\$257 million after-tax), and will continue to hold a 23% interest valued at \$1.15 billion.

### COVID-19

Governments worldwide have enacted emergency measures to combat the spread of a novel strain of coronavirus (COVID-19). These measures, which include the implementation of travel bans, closing of non-essential businesses, self-imposed quarantine periods and social distancing, have caused significant volatility and weakness in global equity markets and material disruption to global businesses. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

Volatility in financial markets in 2020 was significant, with continued upward trend in the last four quarters:

- The S&P TSX Composite index increased by 7.3% in the first quarter of 2021. In 2020, there was an increase of 2.2%, recovering from a decline of 21.6% in the first quarter of 2020.
- U.S. equity markets, as measured by the S&P 500 index, increased by 5.8% in the first quarter of 2021. The annual return in 2020 was 16.3%, recovering from a decline of 20.0% in the first quarter of 2020.
- The FTSE TMX Canada Universe Bond index decreased by 5.7% in the first quarter of 2021 as long-term interest rates increased by approximately 0.50% in the quarter. In 2020,

there was an increase of 5.9%, including an increase of 0.9% in the first quarter of 2020.

- Our clients experienced an average investment return in the first quarter of 2021 of 2.7%. Client investment returns in 2020 were 6.5%, recovering from a decline of 11.7% in the first quarter of 2020.

IGM Financial's assets under management and advisement increased from \$240.0 billion at December 31, 2020 by 3.6% to \$248.5 billion at March 31, 2021, and increased by 47.6% from \$168.4 billion at March 31, 2020. The increase of 47.6% included \$30.3 billion in net business acquisitions in the fourth quarter of GLC and Greenchip and also reflected the recovery in global equity markets after the first quarter of 2020.

Even though progress has been made on the deployment of vaccines, the duration and full impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. As a result, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results

and condition of the Company and its operating subsidiaries in future periods.

COVID-19 has the current and ongoing potential to expose the Company to a number of risks inherent in our business activities. These include: liquidity risk; credit risk; business risk and risks related to assets under management and advisement; operational risk; governance, oversight and strategic risk; regulatory developments; and people risk. These risks are discussed in further detail in the Risk Management section of this MD&A.

## REPORTING CHANGES

Effective the first quarter of 2021, the Company has expanded its reportable segment disclosures to report to Net earnings, whereas previously it went to Earnings before interest and taxes. These changes further build on the disclosure enhancements announced by the Company in the third quarter of 2020, which were introduced to improve transparency into key drivers of each business line and help stakeholders understand and assess

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

THREE MONTHS ENDED (\$ millions)	2021 MARCH 31		2020 DECEMBER 31		2020 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 – Non-IFRS measure</b>	\$ 202.2	\$ 0.85	\$ 204.3	\$ 0.86	\$ 160.9	\$ 0.68
Gain on sale of Quadrus Group of Funds net of acquisition costs, net of tax	–	–	21.4	0.09	–	–
Proportionate share of associate's adjustments	–	–	3.4	0.01	–	–
<b>Net earnings available to common shareholders – IFRS</b>	\$ 202.2	\$ 0.85	\$ 229.1	\$ 0.96	\$ 160.9	\$ 0.68
<b>EBITDA before sales commissions – Non-IFRS measure</b>	\$ 333.2		\$ 326.4		\$ 271.7	
Sales-based commissions paid	(47.1)		(41.3)		(40.7)	
<b>EBITDA after sales commissions – Non-IFRS measure</b>	286.1		285.1		231.0	
Sales-based commissions paid subject to amortization	40.2		36.1		33.0	
Amortization of capitalized sales commissions	(12.1)		(10.6)		(7.7)	
Amortization of capital, intangible and other assets	(24.0)		(21.5)		(20.1)	
<b>Adjusted earnings before interest and income taxes – Non-IFRS measure</b>	290.2		289.1		236.2	
Interest expense <sup>(2)</sup>	(28.1)		(27.9)		(27.3)	
Other items (gross)						
Gain on sale of QGOF net of acquisition costs (\$21.4 after-tax)	–		25.2		–	
Proportionate share of associate's adjustments	–		3.4		–	
<b>Earnings before income taxes</b>	262.1		289.8		208.9	
Income taxes	59.7		60.5		48.0	
<b>Net earnings</b>	202.4		229.3		160.9	
Non-controlling interest	0.2		0.2		–	
<b>Net earnings available to common shareholders – IFRS</b>	\$ 202.2		\$ 229.1		\$ 160.9	

(1) Diluted earnings per share.

(2) Interest expense includes interest on long-term debt and interest on leases.

components of value. The Company's reportable segments are Wealth Management, Asset Management and Strategic Investments & Other.

Prior period comparative information has been restated to reflect these changes.

These changes have no impact on the reported earnings of the Company.

These changes are intended to:

- Better reflect the business performance of underlying segments
- Reflect the capacity for financial leverage within the segments

- Encourage sum-of-parts approach to value assessment

To calculate segment Net earnings, debt and interest is allocated to each segment based on management's assessment of:

i) capacity to service the debt, and ii) where the debt is being serviced. Income tax expense is calculated based on revenue and expenses included in each segment.

#### REPORTABLE SEGMENTS

The segments as described below reflect the Company's internal financial reporting and performance measurement (Tables 2 and 3):

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q1 2021 VS. Q1 2020

THREE MONTHS ENDED (\$ millions)	WEALTH MANAGEMENT		ASSET MANAGEMENT		STRATEGIC INVESTMENTS & OTHER		INTERSEGMENT ELIMINATIONS		TOTAL	
	2021 MAR. 31	2020 MAR. 31	2021 MAR. 31	2020 MAR. 31	2021 MAR. 31	2020 MAR. 31	2021 MAR. 31	2020 MAR. 31	2021 MAR. 31	2020 MAR. 31
<b>Revenues</b>										
Wealth management	\$ 608.0	\$ 566.8	\$ –	\$ –	\$ –	\$ –	\$ (4.5)	\$ (4.1)	\$ 603.5	\$ 562.7
Asset management	–	–	259.9	223.8	–	–	(26.9)	(25.3)	233.0	198.5
Dealer compensation expense	–	–	(85.3)	(75.5)	–	–	4.6	4.1	(80.7)	(71.4)
Net asset management	–	–	174.6	148.3	–	–	(22.3)	(21.2)	152.3	127.1
Net investment income and other	1.8	(1.2)	1.2	(2.2)	0.2	1.5	(0.1)	(0.1)	3.1	(2.0)
Proportionate share of associates' earnings	–	–	–	–	41.6	20.1	–	–	41.6	20.1
	<b>609.8</b>	<b>565.6</b>	<b>175.8</b>	<b>146.1</b>	<b>41.8</b>	<b>21.6</b>	<b>(26.9)</b>	<b>(25.4)</b>	<b>800.5</b>	<b>707.9</b>
<b>Expenses</b>										
Advisory and business development	263.7	239.3	20.3	19.9	–	–	–	(0.1)	284.0	259.1
Operations and support	122.0	119.6	83.5	74.7	1.1	0.9	(0.1)	(0.1)	206.5	195.1
Sub-advisory	45.0	40.2	1.7	2.5	–	–	(26.9)	(25.2)	19.8	17.5
	<b>430.7</b>	<b>399.1</b>	<b>105.5</b>	<b>97.1</b>	<b>1.1</b>	<b>0.9</b>	<b>(27.0)</b>	<b>(25.4)</b>	<b>510.3</b>	<b>471.7</b>
<b>Adjusted earnings before interest and taxes</b>	<b>179.1</b>	<b>166.5</b>	<b>70.3</b>	<b>49.0</b>	<b>40.7</b>	<b>20.7</b>	<b>0.1</b>	<b>–</b>	<b>290.2</b>	<b>236.2</b>
Interest expense <sup>(1)</sup>	22.3	22.2	5.8	5.1	–	–	–	–	28.1	27.3
<b>Adjusted earnings before income taxes</b>	<b>156.8</b>	<b>144.3</b>	<b>64.5</b>	<b>43.9</b>	<b>40.7</b>	<b>20.7</b>	<b>0.1</b>	<b>–</b>	<b>262.1</b>	<b>208.9</b>
Income taxes	42.0	38.7	16.5	11.6	1.1	(2.3)	0.1	–	59.7	48.0
<b>Adjusted net earnings</b>	<b>114.8</b>	<b>105.6</b>	<b>48.0</b>	<b>32.3</b>	<b>39.6</b>	<b>23.0</b>	<b>–</b>	<b>–</b>	<b>202.4</b>	<b>160.9</b>
Non-controlling interest	–	–	–	–	0.2	–	–	–	0.2	–
<b>Adjusted net earnings available to common shareholders<sup>(2)</sup></b>	<b>\$ 114.8</b>	<b>\$ 105.6</b>	<b>\$ 48.0</b>	<b>\$ 32.3</b>	<b>\$ 39.4</b>	<b>\$ 23.0</b>	<b>\$ –</b>	<b>\$ –</b>	<b>202.2</b>	<b>160.9</b>
<b>Other items, net of tax</b>									–	–
<b>Net earnings available to common shareholders</b>									<b>\$ 202.2</b>	<b>\$ 160.9</b>

(1) Interest expense includes interest on long-term debt and interest on leases.

(2) 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 2021 VS. Q4 2020

THREE MONTHS ENDED (\$ millions)	WEALTH MANAGEMENT		ASSET MANAGEMENT		STRATEGIC INVESTMENTS & OTHER		INTERSEGMENT ELIMINATIONS		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	MAR. 31	DEC. 31	MAR. 31	DEC. 31	MAR. 31	DEC. 31	MAR. 31	DEC. 31	MAR. 31	DEC. 31
<b>Revenues</b>										
Wealth management	\$ 608.0	\$ 598.5	\$ -	\$ -	\$ -	\$ -	\$ (4.5)	\$ (4.3)	\$ 603.5	\$ 594.2
Asset management	-	-	259.9	242.1	-	-	(26.9)	(25.8)	233.0	216.3
Dealer compensation expense	-	-	(85.3)	(78.6)	-	-	4.6	4.3	(80.7)	(74.3)
Net asset management	-	-	174.6	163.5	-	-	(22.3)	(21.5)	152.3	142.0
Net investment income and other	1.8	1.0	1.2	1.0	0.2	1.1	(0.1)	0.1	3.1	3.2
Proportionate share of associates' earnings	-	-	-	-	41.6	40.1	-	-	41.6	40.1
	609.8	599.5	175.8	164.5	41.8	41.2	(26.9)	(25.7)	800.5	779.5
<b>Expenses</b>										
Advisory and business development	263.7	254.8	20.3	28.3	-	-	-	-	284.0	283.1
Operations and support	122.0	113.3	83.5	74.6	1.1	0.9	(0.1)	0.2	206.5	189.0
Sub-advisory	45.0	42.7	1.7	1.5	-	-	(26.9)	(25.9)	19.8	18.3
	430.7	410.8	105.5	104.4	1.1	0.9	(27.0)	(25.7)	510.3	490.4
<b>Adjusted earnings before interest and taxes</b>	<b>179.1</b>	<b>188.7</b>	<b>70.3</b>	<b>60.1</b>	<b>40.7</b>	<b>40.3</b>	<b>0.1</b>	<b>-</b>	<b>290.2</b>	<b>289.1</b>
Interest expense <sup>(1)</sup>	22.3	22.7	5.8	5.2	-	-	-	-	28.1	27.9
<b>Adjusted earnings before income taxes</b>	<b>156.8</b>	<b>166.0</b>	<b>64.5</b>	<b>54.9</b>	<b>40.7</b>	<b>40.3</b>	<b>0.1</b>	<b>-</b>	<b>262.1</b>	<b>261.2</b>
Income taxes	42.0	44.2	16.5	14.2	1.1	(1.7)	0.1	-	59.7	56.7
<b>Adjusted net earnings</b>	<b>114.8</b>	<b>121.8</b>	<b>48.0</b>	<b>40.7</b>	<b>39.6</b>	<b>42.0</b>	<b>-</b>	<b>-</b>	<b>202.4</b>	<b>204.5</b>
Non-controlling interest	-	-	-	-	0.2	0.2	-	-	0.2	0.2
<b>Adjusted net earnings available to common shareholders<sup>(2)</sup></b>	<b>\$ 114.8</b>	<b>\$ 121.8</b>	<b>\$ 48.0</b>	<b>\$ 40.7</b>	<b>\$ 39.4</b>	<b>\$ 41.8</b>	<b>\$ -</b>	<b>\$ -</b>	<b>202.2</b>	<b>204.3</b>
<b>Other items, net of tax</b>										
Gain on sale of Quadrus Group of Funds net of acquisition costs									-	21.4
Proportionate share of associate's adjustments									-	3.4
<b>Net earnings available to common shareholders</b>									<b>\$ 202.2</b>	<b>\$ 229.1</b>

(1) Interest expense includes interest on long-term debt and interest on leases.

(2) 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.

- **Wealth Management** – reflects the activities of operating companies that are principally focused on providing financial planning and related services to Canadian households. This segment includes the activities of IG Wealth Management and Investment Planning Counsel. These firms are retail distribution organizations who serve Canadian households through their securities dealers, mutual fund dealers and other subsidiaries licensed to distribute financial products and services. A majority of the revenues of this segment are derived from providing financial advice and distributing financial products and services to Canadian households. This

segment also includes the investment management activities of these organizations, including mutual fund management and discretionary portfolio management services.

- **Asset Management** – reflects the activities of operating companies primarily focused on providing investment management services, and represents the operations of Mackenzie Investments. Investment management services are provided to a suite of investment funds that are distributed through third party dealers and financial advisors, and through institutional advisory mandates to financial institutions, pensions and other institutional investors.

- **Strategic Investments and Other** – primarily represents the key strategic investments made by the Company, including China Asset Management Co., Ltd., Great-West Lifeco Inc., Northleaf Capital Group Ltd., Wealthsimple Financial Corp., and Portag3 Ventures LPs, as well as unallocated capital. Investments are classified in this segment (as opposed to the Wealth Management or Asset Management segment) when warranted due to different market segments, growth profiles or other unique characteristics.

#### **Assets under Management and Advisement (AUM&A)**

represents the consolidated AUM and AUA of IGM Financial. In the Wealth Management segment, AUM is a component part of AUA. All instances where the asset management segment is providing investment management services or distributing its products through the Wealth Management segment are eliminated in our reporting such that there is no double-counting of the same client savings held at IGM operating companies.

**Assets under Advisement (AUA)** are the key driver of the Wealth Management segment. AUA are savings and investment products held within client accounts of our Wealth Management segment operating companies.

**Assets under Management (AUM)** are the key driver of the Asset Management segment. AUM are a secondary driver of revenues and expenses within the Wealth Management segment in relation to its investment management activities. AUM are client assets where we provide investment management services, and include investment funds where we are the fund manager, investment advisory mandates to institutions, and other client accounts where we have discretionary portfolio management responsibilities.

#### **FINANCIAL PRESENTATION**

The financial presentation includes revenues and expenses to align with the key drivers of business activity and to reflect our emphasis on business growth and operational efficiency. The categories are as follows:

- **Wealth management revenue** – revenues earned by the Wealth Management segment for providing financial planning, investment advisory and related financial services. Revenues include financial advisory fees, investment management and related administration fees, distribution revenue associated with insurance and banking products and services, and net investment income and other revenue relating to mortgage lending activities.
- **Asset management revenue** – revenues earned by the Asset Management segment related to investment management advisory and administrative services.
- **Dealer compensation** – asset-based and sales-based compensation paid to dealers by the Asset Management segment.

- **Advisory and business development expenses** – expenses incurred on activities directly associated with providing financial planning services to clients of the Wealth Management segment. Expenses include compensation, recognition and other support provided to our financial advisors, field management, product & planning specialists; expenses associated with facilities, technology and training relating to our financial advisors and specialists; other business development activities including direct marketing and advertising; and wholesale distribution activities performed by the Asset Management segment. A significant component of these expenses vary directly with levels of assets under management or advisement, business development measures including sales and client acquisition, and the number of advisor and client relationships.
- **Operations and support expenses** – expenses associated with business operations, including technology and business processes; in-house investment management and product shelf management; corporate management and support functions. These expenses primarily reflect compensation and technology and other service provider expenses.
- **Sub-advisory expenses** – reflects fees relating to investment management services provided by third party or related party investment management organizations. These fees typically are variable with the level of assets under management. These fees include investment advisory services performed for the Wealth Management segment by the Asset Management segment.

Interest expense represents interest expense on long-term debt and interest expense on leases. Debt and interest expense is allocated to each segment based on management's assessment of: i) capacity to service the debt, and ii) where the debt is being serviced.

Income taxes are reported in each segment. IGM Financial consolidated changes in the effective tax rates are detailed 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.

Other items 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. These items as reflected in Tables 2 and 3 are not allocated to segments:

TABLE 4: EFFECTIVE INCOME TAX RATE

THREE MONTHS ENDED	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31
<b>Income taxes at Canadian federal and provincial statutory rates</b>	<b>26.64 %</b>	26.60 %	26.65 %
Effect of:			
Proportionate share of associates' earnings	(3.77)	(3.29)	(2.34)
Tax loss consolidation <sup>(1)</sup>	–	(0.96)	(1.30)
Other items	(0.10)	(0.19)	(0.02)
<b>Effective income tax rate – adjusted net earnings</b>	<b>22.77</b>	22.16	22.99
Disposition of assets net of acquisition costs	–	(0.98)	–
Proportionate share of associate's one-time charges	–	(0.31)	–
<b>Effective income tax rate – net earnings</b>	<b>22.77 %</b>	20.87 %	22.99 %

(1) See Note 26 – Related Party Transactions of the Consolidated Financial Statements included in the 2020 IGM Financial Inc. Annual Report (Annual Financial Statements). The benefits from the tax loss consolidation arrangements ended at December 31, 2020.

- 2020 Gain on sale of the Quadrus Group of Funds net of acquisition costs – \$25.2 million (\$21.4 million after-tax), recorded in the fourth quarter.
- 2020 Proportionate share of associate's adjustments – \$3.4 million which represented the Company's proportionate share in Great-West Lifeco Inc.'s after-tax adjustments, recorded in the fourth quarter, related to the revaluation of a deferred tax asset less certain restructuring and transaction costs.

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

Assets under management and advisement were \$248.5 billion at March 31, 2021 compared to \$168.4 billion at March 31, 2020, an increase of 47.6%. Total assets under management were \$221.6 billion at March 31, 2021 compared to \$147.5 billion at March 31, 2020, an increase of 50.2%. Changes in assets under management and advisement are detailed in Table 5. The increase in assets under management and advisement included

\$30.3 billion in net business acquisitions from the fourth quarter of 2020 of GLC Asset Management Group Ltd. (GLC) and Greenchip Financial Corp. (Greenchip).

Changes in assets under management for the Wealth Management and Asset Management segments are discussed further in each of their respective Review of the Business sections in the MD&A.

### SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 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 the impact of changes in domestic and foreign markets and net sales of the Company.



TABLE 5: ASSETS UNDER MANAGEMENT AND ADVISEMENT

THREE MONTHS ENDED (\$ millions)	WEALTH MANAGEMENT				ASSET MANAGEMENT		INTERCOMPANY ELIMINATIONS <sup>(1)</sup>		CONSOLIDATED	
	IG WEALTH MANAGEMENT		INVESTMENT PLANNING COUNSEL		MACKENZIE INVESTMENTS		2021	2020	2021	2020
	2021 MAR. 31	2020 MAR. 31	2021 MAR. 31	2020 MAR. 31	2021 MAR. 31	2020 MAR. 31	MAR. 31	MAR. 31	MAR. 31	MAR. 31
<b>Gross flows</b>										
Mutual fund gross sales <sup>(2)(3)</sup>	\$ 3,351	\$ 2,686	\$ 230	\$ 193	\$ 4,512	\$ 3,656	\$ -	\$ -	\$ 8,093	\$ 6,535
Dealer gross inflows	3,636	3,006	1,599	1,318			-	-	5,235	4,324
<b>Net flows</b>										
Mutual fund net sales <sup>(2)(3)</sup>	501	(50)	(109)	(81)	1,461	355	-	-	1,853	224
ETF net creations	-	-	-	-	405	82	-	-	405	82
Investment fund net sales	501	(50)	(109)	(81)	1,866	437	-	-	2,258	306
Institutional SMA net sales	-	-	-	-	(414)	(86)	-	-	(414)	(86)
Mackenzie net sales through Wealth Management	212	14	68	14	-	-	(280)	(28)	-	-
Managed asset net sales	713	(36)	(41)	(67)	1,452	351	(280)	(28)	1,844	220
Other dealer net flows	302	417	32	183	-	-	1	1	335	601
Total net flows	1,015	381	(9)	116	1,452	351	(279)	(27)	2,179	821
<b>Assets under Management and Advice</b>										
<b>Wealth Management</b>										
AUM	\$100,745	\$ 81,901	\$ 5,308	\$ 4,698			\$ -	\$ -	\$106,053	\$ 86,599
Mackenzie assets sold through Wealth Management	659	168	3,267	2,573			-	-	3,926	2,741
Other AUA	5,591	3,765	21,316	17,101			(10)	(7)	26,897	20,859
AUA	106,995	85,834	29,891	24,372			(10)	(7)	136,876	110,199
<b>Asset Management</b>										
Mutual funds					\$ 58,137	\$ 54,288			58,137	54,288
ETFs					4,174	2,335			4,174	2,335
Investment funds					62,311	56,623			62,311	56,623
Institutional SMA					53,213	4,275			53,213	4,275
Total ex sub-advisory to Wealth Management					115,524	60,898			115,524	60,898
Sub-advisory to Wealth Management					76,041	64,068			76,041	64,068
Total AUM					191,565	124,966			191,565	124,966
ETFs										
Distributed to third parties					4,174	2,335			4,174	2,335
Held within IGM managed products					5,359	2,920	(5,359)	(2,920)	-	-
Total ETFs					9,533	5,255	(5,359)	(2,920)	4,174	2,335
<b>Consolidated</b>										
AUM	100,745	81,901	5,308	4,698	191,565	124,966	(76,041)	(64,068)	221,577	147,497
Mackenzie assets sold through Wealth Management	659	168	3,267	2,573	-	-	(3,926)	(2,741)	-	-
Other AUA	5,591	3,765	21,316	17,101	-	-	(10)	(7)	26,897	20,859
AUM&A	106,995	85,834	29,891	24,372	191,565	124,966	(79,977)	(66,816)	248,474	168,356

(1) Consolidated results eliminate double counting where business is reflected within multiple segments.

(2) IG Wealth Management and Investment Planning Counsel AUM and net sales include separately managed accounts.

(3) During the first quarter, institutional clients which include Mackenzie mutual funds within their investment offerings made fund allocation changes which resulted in:  
2021 – sales of \$367 million and net redemptions of \$411 million.  
2020 – sales of \$373 million and net sales of \$181 million.

TABLE 6: SUMMARY OF QUARTERLY RESULTS

	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2
<b>Consolidated statements of earnings (\$ millions)</b>								
Revenues								
Wealth management	\$ 603.5	\$ 594.2	\$ 571.6	\$ 531.1	\$ 562.7	\$ 587.1	\$ 581.1	\$ 577.5
Asset management	233.0	216.3	207.4	190.7	198.5	203.4	201.2	198.5
Dealer compensation expense	(80.7)	(74.3)	(71.3)	(66.1)	(71.4)	(69.8)	(68.9)	(69.6)
Net asset management	152.3	142.0	136.1	124.6	127.1	133.6	132.3	128.9
Net investment income and other	3.1	3.2	2.2	7.6	(2.0)	6.7	2.0	4.9
Proportionate share of associates' earnings	41.6	40.1	43.5	43.3	20.1	32.6	28.9	28.2
	800.5	779.5	753.4	706.6	707.9	760.0	744.3	739.5
Expenses								
Advisory and business development	284.0	283.1	252.6	245.4	259.1	270.9	257.1	267.7
Operations and support	206.5	189.0	181.9	185.4	195.1	182.6	180.3	178.5
Sub-advisory	19.8	18.3	18.5	16.9	17.5	18.1	17.4	17.0
Interest <sup>(1)</sup>	28.1	27.9	27.9	27.5	27.3	27.8	27.8	27.6
	538.4	518.3	480.9	475.2	499.0	499.4	482.6	490.8
Earnings before undernoted	262.1	261.2	272.5	231.4	208.9	260.6	261.7	248.7
Gain on sale of Personal Capital	-	-	37.2	-	-	-	-	-
Gain on sale of Quadrus Group of Funds	-	-	-	-	-	-	-	-
net of acquisition costs	-	25.2	-	-	-	-	-	-
Proportionate share of associate's adjustments	-	3.4	-	-	-	-	-	-
Restructuring and other	-	-	(74.5)	-	-	-	-	-
Proportionate share of associate's one-time charges	-	-	-	-	-	(9.2)	-	(8.0)
Earnings before income taxes	262.1	289.8	235.2	231.4	208.9	251.4	261.7	240.7
Income taxes	59.7	60.5	44.3	47.9	48.0	59.8	59.2	55.6
Net earnings	202.4	229.3	190.9	183.5	160.9	191.6	202.5	185.1
Non-controlling interest	0.2	0.2	-	-	-	-	-	-
Net earnings available to common shareholders	\$ 202.2	\$ 229.1	\$ 190.9	\$ 183.5	\$ 160.9	\$ 191.6	\$ 202.5	\$ 185.1
<b>Reconciliation of Non-IFRS financial measures<sup>(2)</sup> (\$ millions)</b>								
Adjusted net earnings available to common shareholders – non-IFRS measure	\$ 202.2	\$ 204.3	\$ 214.2	\$ 183.5	\$ 160.9	\$ 200.8	\$ 202.5	\$ 193.1
Other items:								
Gain on sale of Personal Capital, net of tax	-	-	31.4	-	-	-	-	-
Gain on sale of Quadrus Group of Funds	-	-	-	-	-	-	-	-
net of acquisition costs, net of tax	-	21.4	-	-	-	-	-	-
Proportionate share of associate's adjustments	-	3.4	-	-	-	-	-	-
Restructuring and other, net of tax	-	-	(54.7)	-	-	-	-	-
Proportionate share of associate's one-time charges	-	-	-	-	-	(9.2)	-	(8.0)
Net earnings available to common shareholders – IFRS	\$ 202.2	\$ 229.1	\$ 190.9	\$ 183.5	\$ 160.9	\$ 191.6	\$ 202.5	\$ 185.1
<b>Earnings per Share (¢)</b>								
Adjusted net earnings available to common shareholders <sup>(1)</sup>								
– Basic	85	86	90	77	68	84	85	81
– Diluted	85	86	90	77	68	84	85	81
Net earnings available to common shareholders								
– Basic	85	96	80	77	68	80	85	77
– Diluted	85	96	80	77	68	80	85	77
<b>Average assets under management and advisement (\$ billions)</b>								
Investment fund assets under management	\$ 165.5	\$ 169.8	\$ 163.7	\$ 152.6	\$ 158.5	\$ 159.5	\$ 156.8	\$ 155.7
Total assets under management	217.6	177.6	171.4	159.2	163.3	164.5	162.1	161.8
Assets under management and advisement	243.9	202.2	194.9	181.5	186.0	187.4	184.7	184.2
<b>Ending assets under management and advisement (\$ billions)</b>								
Investment fund assets under management	\$ 168.4	\$ 162.3	\$ 164.9	\$ 157.8	\$ 143.2	\$ 161.8	\$ 157.6	\$ 156.3
Total assets under management	221.6	214.0	172.6	165.4	147.5	166.8	162.5	162.3
Assets under management and advisement	248.5	240.0	196.4	188.3	168.4	190.0	185.1	184.9

(1) Interest expense includes interest on long-term debt and interest on leases.

(2) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A in addition to the Summary of Consolidated Operating Results section included in the MD&A of the 2020 IGM Financial Inc. Annual Report for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

# Wealth Management

The Wealth Management segment consists of both IG Wealth Management and Investment Planning Counsel, Inc. (IPC).

Wealth Management revenue consists of:

- **Advisory fees** are related to providing financial advice to clients including fees related to the distribution of products.
- **Product and program fees** are related to the management of investment products and include management, administration and other related fees.
- **Other financial planning revenues** are fees related to providing clients other financial products including mortgages, insurance and banking products.

Sub-advisory fees are paid between segments and to third parties for investment management services provided to our investment products. Wealth Management is considered a client of the Asset Management segment and transfer pricing is based on values for similar sized asset management mandates.

Beginning the first quarter of 2021, each segment now reflects their results to adjusted net earnings. Debt and interest expense is allocated to segment based on management's assessment of: i) capacity to service the debt, and ii) where the debt is being serviced. Income taxes are also reported in each segment.

## Review of the Business

IG Wealth Management, founded in 1926, provides comprehensive personal financial planning and wealth management services to Canadians through our exclusive network of 3,323 Consultants. IG Wealth Management clients are more than one million individuals, families and business owners.

Investment Planning Counsel, founded in 1996, is an independent distributor of financial products, services and advice in Canada, with 693 financial advisors.

The Wealth Management segment provides a comprehensive planning approach, through IG Wealth Management Consultants and IPC Advisors, by offering a broad range of financial products and services.

The review of the business in the Wealth Management section primarily relates to IG Wealth Management as it represents 96% of adjusted net earnings of the total segment.

## 2020 DEVELOPMENTS

### COVID-19 AND CLIENT OUTREACH

As a result of COVID-19 and the resulting impact to global financial markets, we have significantly increased communications to clients and Consultants. We have provided comprehensive information and ongoing market updates to our Consultants, so they have the tools they need to support our clients and their long-term financial planning needs. Our Consultants continue to actively reach out and communicate with our clients, continuing to reinforce the importance of long-term planning and a diversified investment portfolio.

## IG WEALTH MANAGEMENT STRATEGY

IG Wealth Management's promise is to inspire financial confidence.

Our strategic mandate is to be Canada's financial partner of choice.

Canadians hold \$5.0 trillion in discretionary financial assets with financial institutions at December 31, 2019 based on the most recent report from Investor Economics, and we view these savings as IG Wealth's addressable market. 75% of these savings are held by households with over \$1 million, which are referred to as high net worth, and another 21% reside with households with between \$100,000 and \$1 million, which are referred to as mass affluent. These segments tend to have more complicated financial needs, and IG Wealth Management's focus on providing comprehensive financial planning solutions positions it well to compete and grow in these segments.

Our value proposition is to deliver better Gamma, better Beta and better Alpha.

We seek to deliver our value proposition through:

- Superior Advice – Acquiring a deep knowledge of Canadian investors and using those insights to shape everything we do.
- Segmented Client Experiences – Creating segmented experiences personalized throughout our clients' lifetimes.
- Entrepreneurial Advisors – Inspiring our entrepreneurial advisors to constantly deliver an engaging experience and a holistic plan that seeks to deliver superior outcomes.
- Powerful Financial Solutions – Providing our clients with a comprehensive suite of well-constructed, high-performing and competitively priced solutions.

- Business processes that are simple, easy and digitized – Re-designing client and advisor interactions to simplify processes, reduce errors, and digitize the experience with an appropriate cost structure.
- A high-performing and diverse culture.

## DELIVERING GAMMA

THE VALUE OF ALL EFFORTS THAT SIT OUTSIDE OF INVESTMENT PORTFOLIO CONSTRUCTION. THIS INCLUDES THE VALUE THAT A FINANCIAL ADVISOR ADDS TO A CLIENT RELATIONSHIP, AND COMES FROM THE CREATION AND FOLLOW THROUGH OF A WELL-CONSTRUCTED FINANCIAL PLAN.

### *Entrepreneurial Advisors, Superior Advice*

Our financial advisors provide value to clients by developing insight into their specific needs, creating and implementing well-constructed financial plans and offering superior advice. IG Wealth Management has a national distribution network of more than 3,000 highly qualified financial advisors (called Consultants) in communities throughout Canada. Our advisory services are most suited to individuals with complicated financial needs.

All IG Wealth Management Consultant practices hold a credentialed financial planning designation or are enrolled in a program. These 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 following provides a breakdown of the IG Wealth Management Consultant network into its significant components at March 31, 2021:

- 1,808 Consultant practices (1,827 at March 31, 2020), which reflect Consultants with more than four years of experience. These practices may include Associates as described below. The level and productivity of Consultant practices is a key measurement of our business as they serve clientele representing approximately 95% of AUM.
- 441 New Consultants (501 at March 31, 2020), which are those Consultants with less than four years of experience.
- 1,074 Associates and Regional Directors (1,035 at March 31, 2020). Associates are licensed team members of Consultant practices who provide financial planning services and advice to the clientele served by the team.
- IG Wealth Management had a total Consultant network of 3,323 (3,363 at March 31, 2020).

IG Wealth Management's recruiting standards increase the likelihood of success while also enhancing our culture and brand.

Our training curriculum is reviewed and refreshed each year to offer new Consultants important building blocks to develop client relationships. As Consultants progress, they develop their skills as financial planners and business managers through a selection of focused educational programs.

We also support Consultants and clients through our network of product and planning specialists, who assist in the areas of advanced financial planning, mortgages and banking, insurance, and securities. These specialists help to ensure that we are providing comprehensive financial planning across all elements of a client's financial life. Clients are served by our Mutual Fund Dealers Association of Canada (MFDA) and Investment Industry Regulatory Organization of Canada (IIROC) licensed Consultants or specialists.

### *Segmented Client Experiences*

IG Wealth Management distinguishes itself from our competition by offering comprehensive planning to our clients within the context of long-term relationships. A primary focus is on advising and attracting high net worth and mass affluent clients.

For the distinct needs of the high net worth market, we offer IG Private Wealth Management which includes investment management, retirement, tax and estate planning services.

IG Living Plan™ is our holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan provides a single, integrated view of all aspects of a client's finances. It incorporates investments, tax and risk management strategies, for a truly personalized plan. In the fourth quarter of 2020, IG Wealth Management introduced Conquest Planning as the next generation of the IG Living Plan. This tool shows clients their entire financial picture, allows for "what if" scenarios in a simplified, accessible way and it empowers the use of artificial intelligence to determine planning strategies customized to individual clients.

The IG Living Plan leverages the expertise of IG Wealth Management's Consultants who serve approximately one million clients located in communities throughout Canada.

IG Wealth Management has a full range of products that allow us to provide a tailored IG Living Plan that evolves over time. These products include:

- Powerful financial solutions that include investment vehicles that match risk and investment performance to each client's needs and requirements.
- Insurance products that include a variety of different policy types from the leading insurers in Canada.
- Mortgage and banking solutions that are offered as part of a comprehensive financial plan.

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

We have established a National Service Centre focused on clients with small account values, while our Consultant practices focus on those clients who have more complicated needs. These clients are largely supported by our National Service Centre which supports more than 200,000 clients.

IG Wealth Management Consultants are focused on the high net worth and mass affluent segments of the market, which we define as households with over \$1 million and between \$100k and \$1 million, respectively.

Assets under advisement for clients with household assets >\$1 million (defined as "high net worth") totalled \$34.2 billion at March 31, 2021, an increase of 66.4% from one year ago, and represented 32% of total assets under advisement.

Assets under advisement for clients with household assets between \$100 thousand and \$1 million (defined as "mass affluent") totalled \$63.0 billion at March 31, 2021, an increase of 15.7% from one year ago, and represented 59% of total assets under advisement.

Assets under advisement for clients with household assets less than \$100 thousand (defined as "mass market") totalled \$9.8 billion at March 31, 2021, a decrease of 9.7% from one year ago, and represented 9% of total assets under advisement.

### **Business Processes**

IG Wealth Management continually seeks to enhance our systems and business processes so our Consultants can serve clients more effectively. We look to enhance client and advisor interactions on an ongoing basis to simplify processes, reduce errors, and digitize the experience with an appropriate cost structure.

The IG Wealth Management Advisor Portal is a customer relationship management platform based on Salesforce launched in 2020. It enables our Consultants to manage client relationships, improve their efficiency through digitized workflows, and access data-driven reporting to help better run their practices.

IG Wealth Management's dealer platform provides increased automation and supports both MFDA and IIROC licensed advisors as well as new products on our investment dealer platform designed to support the high net worth segment of our client base.

### **A High-Performing and Diverse Culture**

It is essential that we offer competitive compensation and benefits to attract and retain outstanding people. Our training

and development approach, along with our use of feedback from periodic employee and advisor surveys, positions our employees and advisors to better serve our clients.

### **DELIVERING BETA AND ALPHA**

**BETA – THE VALUE CREATED BY WELL-CONSTRUCTED INVESTMENT PORTFOLIOS – ACHIEVING EXPECTED INVESTMENT RETURNS FOR THE LOWEST POSSIBLE RISK.**

**ALPHA – THE VALUE OF ACTIVE MANAGEMENT – ACHIEVING RETURNS SUPERIOR TO PASSIVE BENCHMARKS WITH A SIMILAR COMPOSITION AND RISK PROFILE.**

IG Wealth Management strives to achieve expected investment returns for the lowest possible risk through well-constructed investment portfolios (Beta), and to create value for clients through active management (Alpha). To do this, we select and engage high-quality global sub-advisors so our clients have access to a diverse range of investment products and solutions. Each asset manager is selected through a proven and rigorous process. We oversee all sub-advisors to ensure that their activities are consistent with their investment philosophies and with the investment objectives and strategies of the products they advise.

IG Wealth Management's relationships include Mackenzie Investments and other world class investment firms such as BlackRock, T. Rowe Price, PIMCO, China AMC, Putnam and JP Morgan Asset Management.

### **Powerful Financial Solutions**

We provide clients with an extensive suite of well-constructed and competitively priced financial solutions. We regularly enhance the scope and diversity of our investment offering with new funds and product changes that enable clients to achieve their goals.

Our solutions include:

- A deep and broad selection of mutual funds, diversified by manager, asset category, investment style, geography, market capitalization and sector.
- Managed portfolios that rebalance investments to ensure that a chosen mix of risk and return is maintained. These solutions include IG Core Portfolios, IG Managed Payout Portfolios, Investors Portfolios, and IG Managed Risk Portfolios.
- *IG Advisory Account (IGAA) and unbundled fee structures* – The IGAA is a fee-based account that improves client experience by offering the ability to simplify and consolidate selected investments into a single account while providing all of our clients with unbundled pricing solutions. IGAA accounts increase fee transparency and can hold most securities and investment products available in the marketplace to individual investors.
- *iProfile™ Portfolios* – iProfile Portfolios are a suite of four managed solutions that provide comprehensive diversification

and are designed to suit personal preferences for risk tolerance and investment goals. These portfolios provide exposure similar to the investments of the iProfile Private Pools, and are available to households with investments held at IG Wealth Management in excess of \$100,000.

- *iProfile™ Private Portfolios* – iProfile Private Portfolios are model portfolios comprised of iProfile Private Pools, available for households with investments held at IG Wealth Management in excess of \$250,000. iProfile Private Portfolios have been designed to deliver strong risk-adjusted returns by diversifying across asset classes, management styles and geographic regions. Recent enhancements include the launch of new discretionary model portfolios and six new iProfile Private Pools to support the new models: three iProfile Active Allocation Private Pools, iProfile Alternatives Private Pool with mandates including long short, global macro and global equity hedge strategies, iProfile ETF Private Pool providing exposure to passive ETFs and iProfile Low Volatility Private Pool with Canadian, U.S., International and Emerging Market geographic coverage. In addition, we have incorporated investments in private assets with the introduction of a Private Credit Mandate in the iProfile Fixed Income Private Pool, with commitments to three of Northleaf Capital Partners' private credit investments that focus on loans to middle market companies in North America and Europe, as well as commitments to Sagard and PIMCO.
- Segregated funds that provide for long-term investment growth potential combined with risk management, benefit guarantee features and estate planning efficiencies.
- Separately managed accounts (discretionary dealer-managed accounts) and fee-based brokerage accounts.

A growing portion of IG Wealth Management's client assets are in unbundled fee structures. We are in the process of migrating our clients to unbundled fee products, a significant change for IG Wealth Management and the Canadian mutual fund industry overall. Unbundled fee products separate the advisory fee that is charged directly to a client's account from the fees charged to the underlying investment funds. This separation provides clients with greater transparency into the fees they pay, and allows IG Wealth Management to offer competitive pricing, particularly for high net worth clients. This allows IG Wealth Management to differentiate pricing by client segment, ensuring that it is competitive and rewards client loyalty while encouraging consolidation of client wealth at IG and attracting new clients.

We have discontinued offering bundled purchase options for substantially all investment products.

IG Wealth Management monitors its investment performance by comparing to certain benchmarks. Morningstar<sup>†</sup> fund ranking service is one of the rankings monitored when determining fund performance.

At March 31, 2021, 70.3% of IG Wealth Management mutual fund assets had a rating of three stars or better from Morningstar<sup>†</sup> fund ranking service and 31.8% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 84.8% for three stars or better and 51.7% for four and five star funds at March 31, 2021. Morningstar Ratings<sup>†</sup> are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

## WEALTH MANAGEMENT ASSETS UNDER MANAGEMENT AND ADVISEMENT

Assets under management and advisement are key performance indicators for the Wealth Management segment.

Wealth Management's assets under advisement were \$136.9 billion at March 31, 2021, an increase of 24.2% from March 31, 2020. The level of assets under advisement are influenced by three factors: client inflows, client outflows and investment returns.

Wealth Management's assets under management were \$106.1 billion, an increase of 22.5% from March 31, 2020. The level of assets under management are influenced by sales, redemptions and investment returns.

Changes in Wealth Management assets under advisement and assets under management for the periods under review are reflected in Tables 7 and 8.

## IG WEALTH MANAGEMENT ASSETS UNDER MANAGEMENT AND ADVISEMENT

The introduction of the IG Advisory Account means that fees are charged on eligible external assets under advisement. Assets under advisement are therefore a key performance indicator for IG Wealth Management. Revenues from the IG Advisory Account are earned on eligible external assets under advisement. Our Consultants' compensation is also based on assets contributed into the IG Advisory Account and other fee-based programs.

IG Wealth Management's assets under advisement were \$107.0 billion at March 31, 2021, an increase of 24.7% from March 31, 2020, and mutual fund assets under management were \$100.7 billion, an increase of 23.0%.

Changes in IG Wealth Management assets under advisement and management for the periods under review are reflected in Tables 9 and 10.

For the quarter ended March 31, 2021, gross client inflows of IG Wealth Management assets under advisement were \$3.6 billion, an increase of 21.0% from \$3.0 billion in the comparable period in 2020. Net client inflows were \$1.0 billion in the first quarter, an improvement of \$634 million from net

TABLE 7: CHANGE IN ASSETS UNDER ADVISEMENT – WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
Gross client inflows	\$ 5,235	\$ 4,425	\$ 4,324	18.3 %	21.1 %
Gross client outflows	4,228	3,688	3,826	14.6	10.5
<b>Net flows</b>	<b>1,007</b>	<b>737</b>	<b>498</b>	<b>36.6</b>	<b>102.2</b>
Investment returns	3,286	6,831	(15,119)	(51.9)	N/M
Net change in assets	4,293	7,568	(14,621)	(43.3)	N/M
Beginning assets	132,583	125,015	124,820	6.1	6.2
<b>Ending assets under advisement</b>	<b>\$ 136,876</b>	<b>\$ 132,583</b>	<b>\$ 110,199</b>	<b>3.2 %</b>	<b>24.2 %</b>
IG Wealth Management	106,995	103,273	85,834	3.6	24.7
Investment Planning Counsel	29,891	29,318	24,372	2.0	22.6
<b>Average assets under advisement</b>	<b>\$ 134,873</b>	<b>\$ 128,342</b>	<b>\$ 121,850</b>	<b>5.1 %</b>	<b>10.7 %</b>
IG Wealth Management	105,491	100,295	94,923	5.2	11.1
Investment Planning Counsel	29,391	28,054	26,934	4.8	9.1

client inflows of \$381 million in the comparable period in 2020. During the first quarter, investment returns resulted in an increase of \$2.7 billion in assets under advisement compared to a decrease of \$11.6 billion in the first quarter of 2020.

Changes in mutual fund assets under management for the periods under review are reflected in Table 10.

In addition to net sales of \$501 million in the first quarter of 2021 to IG fund products, there were net sales to Mackenzie fund products of \$212 million for a total of \$713 million in net sales to IGM products. At March 31, 2021, \$58.8 billion, or 58% of IG Wealth Management's mutual fund assets under management, were in products with unbundled fee

structures, up 76.1% from \$33.4 billion at March 31, 2020 which represented 41% of assets under management.

#### CHANGE IN ASSETS UNDER MANAGEMENT AND ADVISEMENT – Q1 2021 VS. Q1 2020

IG Wealth Management's assets under advisement were \$107.0 billion at March 31, 2021, up 24.7% from \$85.8 billion at March 31, 2020. IG Wealth Management's mutual fund assets under management were \$100.7 billion at March 31, 2021, representing an increase of 23.0% from \$81.9 billion at March 31, 2020. Average daily mutual fund assets were \$99.6 billion in the first quarter of 2021, up 9.5% from \$90.9 billion in the first quarter of 2020.

TABLE 8: CHANGE IN ASSETS UNDER MANAGEMENT – WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
Sales	\$ 3,581	\$ 2,749	\$ 2,879	30.3 %	24.4 %
Redemptions	3,189	2,847	3,010	12.0	5.9
<b>Net sales (redemptions)</b>	<b>392</b>	<b>(98)</b>	<b>(131)</b>	<b>N/M</b>	<b>N/M</b>
Investment returns	2,628	5,118	(11,822)	(48.7)	N/M
Net change in assets	3,020	5,020	(11,953)	(39.8)	N/M
Beginning assets	103,033	98,013	98,552	5.1	4.5
<b>Ending assets under management</b>	<b>\$ 106,053</b>	<b>\$ 103,033</b>	<b>\$ 86,599</b>	<b>2.9 %</b>	<b>22.5 %</b>
IG Wealth Management	100,745	97,713	81,901	3.1	23.0
Investment Planning Counsel	5,308	5,320	4,698	(0.2)	13.0
<b>Daily average mutual fund assets</b>	<b>\$ 104,899</b>	<b>\$ 100,419</b>	<b>\$ 96,145</b>	<b>4.5 %</b>	<b>9.1 %</b>
IG Wealth Management	99,564	95,194	90,909	4.6	9.5
Investment Planning Counsel	5,335	5,225	5,236	2.1	1.9

TABLE 9: CHANGE IN ASSETS UNDER ADVISEMENT – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
Gross client inflows	\$ 3,636	\$ 2,938	\$ 3,006	23.8 %	21.0 %
Gross client outflows	2,621	2,453	2,625	6.8	(0.2)
<b>Net flows</b>	<b>1,015</b>	<b>485</b>	<b>381</b>	<b>109.3</b>	<b>166.4</b>
Investment returns	2,707	5,250	(11,647)	(48.4)	N/M
Net change in assets	3,722	5,735	(11,266)	(35.1)	N/M
Beginning assets	103,273	97,538	97,100	5.9	6.4
<b>Ending assets</b>	<b>\$ 106,995</b>	<b>\$ 103,273</b>	<b>\$ 85,834</b>	<b>3.6 %</b>	<b>24.7 %</b>
<b>Average assets under advisement</b>	<b>\$ 105,491</b>	<b>\$ 100,295</b>	<b>\$ 94,923</b>	<b>5.2 %</b>	<b>11.1 %</b>

For the quarter ended March 31, 2021, sales of IG Wealth Management mutual funds through its Consultant network were \$3.4 billion, an increase of 24.8% from the comparable period in 2020. Mutual fund redemptions totalled \$2.9 billion, an increase of 4.2% from 2020. IG Wealth Management mutual fund net sales for the first quarter of 2021 were \$501 million compared with net redemptions of \$50 million in 2020. During the first quarter, investment returns resulted in an increase of \$2.5 billion in mutual fund assets compared to a decrease of \$11.2 billion in the first quarter of 2020.

IG Wealth Management's annualized quarterly redemption rate for long-term funds was 11.2% in the first quarter of 2021, compared to 11.7% in the first quarter of 2020. IG Wealth Management's twelve month trailing redemption rate for long-term funds was 9.7% at March 31, 2021, compared to 10.7% at March 31, 2020, and remains well below the corresponding

average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 15.0% at March 31, 2021. IG Wealth Management's redemption rate has been very stable compared to the overall mutual fund industry, reflecting our focus on financial planning.

#### CHANGE IN ASSETS UNDER MANAGEMENT AND ADVISEMENT – Q1 2021 VS. Q4 2020

IG Wealth Management's assets under advisement were \$107.0 billion at March 31, 2021, an increase of 3.6% from \$103.3 billion at December 31, 2020. IG Wealth Management's mutual fund assets under management were \$100.7 billion at March 31, 2021, an increase of 3.1% from \$97.7 billion at December 31, 2020. Average daily mutual fund assets were \$99.6 billion in the first quarter of 2021 compared to \$95.2 billion in the fourth quarter of 2020, an increase of 4.6%.

TABLE 10: CHANGE IN ASSETS UNDER MANAGEMENT – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
Sales	\$ 3,351	\$ 2,572	\$ 2,686	30.3 %	24.8 %
Redemptions	2,850	2,581	2,736	10.4	4.2
<b>Net sales (redemptions)</b>	<b>501</b>	<b>(9)</b>	<b>(50)</b>	<b>N/M</b>	<b>N/M</b>
Investment returns	2,531	4,848	(11,210)	(47.8)	N/M
Net change in assets	3,032	4,839	(11,260)	(37.3)	N/M
Beginning assets	97,713	92,874	93,161	5.2	4.9
<b>Ending assets</b>	<b>\$ 100,745</b>	<b>\$ 97,713</b>	<b>\$ 81,901</b>	<b>3.1 %</b>	<b>23.0 %</b>
<b>Daily average assets under management</b>	<b>\$ 99,564</b>	<b>\$ 95,194</b>	<b>\$ 90,909</b>	<b>4.6 %</b>	<b>9.5 %</b>
<b>Managed asset net sales</b>					
Investment fund net sales	\$ 501	\$ (9)	\$ (50)	N/M %	N/M %
Mackenzie net sales through Wealth Management	212	130	14	63.1	N/M
	<b>\$ 713</b>	<b>\$ 121</b>	<b>\$ (36)</b>	<b>N/M %</b>	<b>N/M %</b>



For the quarter ended March 31, 2021, sales of IG Wealth Management mutual funds through its Consultant network were \$3.4 billion, an increase of 30.3% from the fourth quarter of 2020. Mutual fund redemptions, which totalled \$2.9 billion for the first quarter, increased 10.4% from the previous quarter and the annualized quarterly redemption rate was 11.2% in the first quarter compared to 10.3% in the fourth quarter of 2020. IG Wealth Management mutual fund net sales were \$501 million for the current quarter compared to net redemptions of \$9 million in the previous quarter.

## **IG WEALTH MANAGEMENT OTHER PRODUCTS AND SERVICES**

### **SEGREGATED FUNDS**

IG Wealth Management offers segregated funds which include the IG Series of Guaranteed Investment Funds (GIFs). 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 IG Wealth Management. At March 31, 2021, total segregated fund assets were \$1.5 billion, compared to \$1.4 billion at March 31, 2020.

### **INSURANCE**

IG Wealth Management continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, IG Wealth Management offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance.

The average number of policies sold by each insurance-licensed Consultant was 2.6 for the quarter ended March 31, 2021, compared to 2.1 in 2020. Distribution of insurance products is enhanced through IG Wealth Management's Insurance Planning Specialists, located throughout Canada, who assist Consultants with advanced estate planning solutions for high net worth clients.

### **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. IG Wealth Management Consultants can refer clients

to one of our Wealth Planning Specialists available through Investors Group Securities Inc.

### **MORTGAGE AND BANKING OPERATIONS**

IG Wealth Management Mortgage Planning Specialists are located throughout each province in Canada, and work with our clients and their Consultants to develop mortgage and other lending strategies that meet the individual needs and goals of each client as part of their comprehensive financial plan.

Mortgages are offered to clients by IG Wealth Management, a national mortgage lender, and through IG Wealth Management's Solutions Banking<sup>†</sup>, provided by National Bank of Canada under a long-term distribution agreement. An All-in-One product, a comprehensive cash management solution that integrates the features of a mortgage, term loan, revolving line of credit and deposit account, is also offered through Solutions Banking<sup>†</sup>.

Mortgage fundings offered through IG Wealth Management and through Solutions Banking<sup>†</sup> for the first quarter ended March 31, 2021 were \$234 million compared to \$187 million in 2020, an increase of 25.0%. At March 31, 2021, mortgages offered through both sources totalled \$9.1 billion, compared to \$10.2 billion at March 31, 2020, a decrease of 10.2%.

Available credit associated with Solutions Banking<sup>†</sup> All-in-One accounts originated for the quarter ended March 31, 2021 were \$326 million, compared to \$209 million in 2020. At March 31, 2021, the balance outstanding of Solutions Banking<sup>†</sup> All-in-One products was \$3.5 billion, compared to \$3.0 billion one year ago, and represented approximately 51% of total available credit associated with these accounts.

Other products and services offered through IG Wealth Management's Solutions Banking<sup>†</sup> include investment loans, lines of credit, personal loans, creditor insurance, deposit accounts, and credit cards. Through Solutions Banking<sup>†</sup>, clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking<sup>†</sup> offering supports IG Wealth Management's approach to delivering total financial solutions for our clients through a broad financial planning platform. Total outstanding lending products of IG Wealth Management clients in the Solutions Banking<sup>†</sup> offering, including Solutions Banking<sup>†</sup> mortgages totalled \$5.3 billion at March 31, 2021, compared to \$4.7 billion at March 31, 2020.

## Review of Segment Operating Results

The Wealth Management segment's adjusted net earnings are presented in Table 11 and include the operations of IG Wealth Management and Investment Planning Counsel.

### IG WEALTH MANAGEMENT

IG Wealth Management adjusted net earnings are presented in Table 12. Adjusted net earnings for the first quarter of 2021 were \$110.5 million, an increase of 8.4% from the first quarter in 2020 and a decrease of 5.9% from the prior quarter.

Adjusted earnings before interest and taxes for the first quarter of 2021 were \$173.0 million, an increase of 7.3% from the first quarter in 2020 and a decrease of 5.2% from the prior quarter.

### Q1 2021 VS. Q1 2020

#### FEE INCOME

Advisory fees include fees for providing financial advice to clients including fees related to the distribution of products, and depend largely on the level and composition of assets under advisement. Advisory fees were \$271.3 million in the first quarter of 2021, an increase of \$19.6 million or 7.8% from \$251.7 million in 2020.

The increase in advisory fees in the three months ending March 31, 2021 was primarily due to the increase in average assets under advisement of 11.1%, as shown in Table 9, offset by a decrease in the advisory fee rate. The average advisory fee rate for the first quarter was 104.3 basis points of average assets

TABLE 11: OPERATING RESULTS – WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
<b>Revenues</b>					
Wealth Management					
Advisory fees	\$ 333.0	\$ 325.5	\$ 308.5	2.3 %	7.9 %
Product and program fees	224.8	219.8	211.2	2.3	6.4
	557.8	545.3	519.7	2.3	7.3
Redemption fees	3.8	3.2	6.2	18.8	(38.7)
Other financial planning revenues	46.4	50.0	40.9	(7.2)	13.4
Total Wealth Management	608.0	598.5	566.8	1.6	7.3
Net investment income and other	1.8	1.0	(1.2)	80.0	N/M
	609.8	599.5	565.6	1.7	7.8
<b>Expenses</b>					
Advisory and business development					
Asset-based compensation	172.7	164.3	154.7	5.1	11.6
Sales-based compensation	12.1	10.6	7.7	14.2	57.1
Other					
Other product commissions	20.2	20.1	18.1	0.5	11.6
Business development	58.7	59.8	58.8	(1.8)	(0.2)
	78.9	79.9	76.9	(1.3)	2.6
Total advisory and business development	263.7	254.8	239.3	3.5	10.2
Operations and support	122.0	113.3	119.6	7.7	2.0
Sub-advisory	45.0	42.7	40.2	5.4	11.9
	430.7	410.8	399.1	4.8	7.9
Adjusted earnings before interest and taxes	179.1	188.7	166.5	(5.1)	7.6
Interest expense	22.3	22.7	22.2	(1.8)	0.5
Adjusted earnings before taxes	156.8	166.0	144.3	(5.5)	8.7
Income taxes	42.0	44.2	38.7	(5.0)	8.5
<b>Adjusted net earnings</b>	<b>\$ 114.8</b>	<b>\$ 121.8</b>	<b>\$ 105.6</b>	<b>(5.7) %</b>	<b>8.7 %</b>

TABLE 12: OPERATING RESULTS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
<b>Revenues</b>					
Wealth Management					
Advisory fees	\$ 271.3	\$ 265.5	\$ 251.7	2.2 %	7.8 %
Product and program fees	210.9	205.8	196.7	2.5	7.2
	482.2	471.3	448.4	2.3	7.5
Redemption fees	3.7	3.0	6.1	23.3	(39.3)
Other financial planning revenues	41.5	45.3	35.9	(8.4)	15.6
Total Wealth Management	527.4	519.6	490.4	1.5	7.5
Net investment income and other	1.4	0.8	(1.7)	75.0	N/M
	528.8	520.4	488.7	1.6	8.2
<b>Expenses</b>					
Advisory and business development					
Asset-based compensation	124.4	116.8	109.6	6.5	13.5
Sales-based compensation	12.1	10.6	7.7	14.2	57.1
Other					
Other product commissions	17.1	17.3	15.2	(1.2)	12.5
Business development	50.9	52.3	50.7	(2.7)	0.4
	68.0	69.6	65.9	(2.3)	3.2
Total advisory and business development	204.5	197.0	183.2	3.8	11.6
Operations and support	109.9	101.8	107.7	8.0	2.0
Sub-advisory	41.4	39.2	36.6	5.6	13.1
	355.8	338.0	327.5	5.3	8.6
Adjusted earnings before interest and taxes	173.0	182.4	161.2	(5.2)	7.3
Interest expense	22.1	22.5	22.1	(1.8)	–
Adjusted earnings before taxes	150.9	159.9	139.1	(5.6)	8.5
Income taxes	40.4	42.5	37.2	(4.9)	8.6
<b>Adjusted net earnings</b>	<b>\$ 110.5</b>	<b>\$ 117.4</b>	<b>\$ 101.9</b>	<b>(5.9) %</b>	<b>8.4 %</b>

under advisement compared to 106.6 basis points in 2020, reflecting changes in product and client mix as we have more high net worth clients who are eligible for lower rates.

Product and program fees depend largely on the level and composition of mutual fund assets under management. Product and program fees totalled \$210.9 million in the current quarter, up 7.2% from \$196.7 million a year ago.

The increase in product and program fees in the first quarter of 2021 was primarily due to the increase in average assets under management of 9.5%, as shown in Table 10. The average product and program fee rate for the first quarter was 85.9 basis points of average assets under management compared to 87.0 basis points in 2020, reflecting changes in price and product mix.

Other financial planning revenues are primarily earned from:

- Mortgage banking operations
- 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>

Other financial planning revenues of \$41.5 million for the first quarter of 2021 increased by \$5.6 million from \$35.9 million in 2020. The increase in the three month period was primarily due to higher earnings from the mortgage banking operations and higher distribution fee income from insurance products.

A summary of mortgage banking operations for the quarter under review is presented in Table 13.

TABLE 13: MORTGAGE BANKING OPERATIONS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income	\$ 40.6	\$ 44.1	\$ 47.9	(7.9) %	(15.2) %
Interest expense	31.2	33.5	39.8	(6.9)	(21.6)
Net interest income	9.4	10.6	8.1	(11.3)	16.0
Gains on sales <sup>(1)</sup>	2.3	3.7	1.8	(37.8)	27.8
Fair value adjustments	(0.9)	(1.0)	(2.7)	10.0	66.7
Other	1.3	1.8	2.5	(27.8)	(48.0)
	\$ 12.1	\$ 15.1	\$ 9.7	(19.9) %	24.7 %
<b>Average mortgages serviced</b>					
Securitized	\$ 5,795	\$ 6,126	\$ 6,729	(5.4) %	(13.9) %
Other	2,583	2,670	2,772	(3.3)	(6.8)
	\$ 8,378	\$ 8,796	\$ 9,501	(4.8) %	(11.8) %
<b>Mortgage sales to:<sup>(2)</sup></b>					
Securitized	\$ 367	\$ 434	\$ 248	(15.4) %	48.0 %
Other <sup>(1)</sup>	234	246	226	(4.9)	3.5
	\$ 601	\$ 680	\$ 474	(11.6) %	26.8 %

(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 principal amounts sold.

## NET INVESTMENT INCOME AND OTHER

Net investment income and other is primarily related to investment income earned on our cash and cash equivalents and securities and other income not related to our core business. It also includes a charge from the Strategic Investments and Other segment for the use of unallocated capital.

## EXPENSES

IG Wealth Management incurs advisory and business development expenses that include compensation paid to our Consultants. The majority of these costs vary directly with asset or sales levels. Also included are other distribution and business development activities which do not vary directly with asset or sales levels, such as direct marketing and advertising, financial planning specialist support and other costs incurred to support our adviser networks. These expenses tend to be discretionary or vary based upon the number of consultants or clients.

Asset-based compensation fluctuates with the value of assets under advisement. Asset-based compensation, increased by \$14.8 million for the first quarter ended March 31, 2021 to \$124.4 million, compared to 2020. The increase was primarily due to increased average assets under advisement and Consultant performance.

IG Wealth Management Consultant sales-based compensation is based upon the level of new assets contributed to client accounts at IG Wealth Management (subject to eligibility requirements). All sales-based compensation payments are capitalized and amortized as they reflect incremental costs to obtain a client contract.

Sales-based compensation paid fluctuates with the level of new assets contributed to IG Wealth Management accounts. Sales-based compensation paid on the sale of investment products are capitalized and amortized over their estimated useful lives where the Company receives a fee directly from the client. All other sales-based compensation paid on investment product sales are expensed as incurred.

Sales-based compensation was \$12.1 million for the first quarter of 2021, an increase of \$4.4 million from \$7.7 million in 2020. The increase in expense is due to additional sales-based commission being capitalized and amortized throughout 2020 and 2021.

Other advisory and business development expenses were \$50.9 million in the first quarter of 2021, compared to \$50.7 million in 2020.

Operations and support includes costs that support our wealth management and other general and administrative functions such as product management, technology and operations, as well as other functional business units and corporate expenses. Operations and support expenses were \$109.9 million for the first quarter of 2021 compared to \$107.7 million in 2020, an increase of \$2.2 million or 2.0%.

Sub-advisory expenses were \$41.4 million for the first quarter of 2021 compared to \$36.6 million in 2020, an increase of \$4.8 million or 13.1%. The increase is primarily due to higher assets under management.

#### **INTEREST EXPENSE**

Interest expense, which includes allocated interest expense on long-term debt and interest expense on leases, totaled \$22.1 million in the first quarter of 2021 unchanged from the first quarter of 2020. Long-term debt interest expense is calculated based on a long-term debt allocation of \$1.7 billion to IG Wealth Management.

#### **Q1 2021 VS. Q4 2020**

##### **FEE INCOME**

Advisory fee income increased by \$5.8 million or 2.2% to \$271.3 million in the first quarter of 2021 compared with the fourth quarter of 2020. The increase in advisory fees in the first quarter was primarily due to the increase in average assets under advisement of 5.2% for the quarter, as shown in Table 9. The average advisory fee rate for the first quarter was 104.3 basis points of average assets under management compared to 105.3 basis points in the fourth quarter of 2020.

Product and program fees were \$210.9 million in the first quarter of 2021, an increase of \$5.1 million from \$205.8 in the fourth quarter of 2020. The increase in product and program fees was

due to higher assets under management. The average product and program fee rate was 85.9 basis points in both quarters.

Other financial planning revenues of \$41.5 million in the first quarter of 2021 decreased by \$3.8 million from \$45.3 million in the fourth quarter primarily due to a decrease in earnings from the mortgage banking operations as detailed in Table 13.

##### **NET INVESTMENT INCOME AND OTHER**

Net investment income and other was \$1.4 million in the first quarter of 2021 compared to \$0.8 million in the previous quarter, an increase of \$0.6 million.

##### **EXPENSES**

Advisory and business development expenses in the current quarter were \$204.5 million compared with \$197.0 million in the previous quarter primarily due to higher asset based compensation.

Operations and support expenses were \$109.9 million for the first quarter of 2021 compared to \$101.8 million in the previous quarter, increased of \$8.1 million or 8.0% due to the seasonality of expenses.

#### **INVESTMENT PLANNING COUNSEL**

##### **Q1 2021 VS. Q1 2020**

Adjusted net earnings related to Investment Planning Counsel were \$0.6 million higher in the first quarter of 2021 compared to the first quarter of 2020.

##### **Q1 2021 VS. Q4 2020**

Adjusted net earnings related to Investment Planning Counsel were \$0.1 million lower in the first quarter of 2021 compared to the prior quarter.

# Asset Management

The Asset Management segment includes Mackenzie Investments.

Asset Management revenue reflects:

- **Asset management fees** which includes fees received from our mutual funds, Wealth Management segment, and third parties for investment management services. Wealth Management is considered a client of the Asset Management segment and transfer pricing is based on values for similar sized asset management mandates.

- **Net asset management fees** which offset management fees with dealer compensation expenses.

Assets managed for IG Wealth Management are included in the Asset Management segment's assets under management.

Beginning the first quarter of 2021, each segment now reflects their results to adjusted net earnings. Debt and interest expense is allocated to segment based on management's assessment of: i) capacity to service the debt, and ii) where the debt is being serviced. Income taxes are also reported in each segment.

## Review of the Business

Mackenzie Investments is a diversified asset management solutions provider founded in 1967. We provide investment management and related services with a wide range of investment mandates through a boutique structure and using multiple distribution channels. We are committed to delivering strong investment performance for our clients by drawing on more than 50 years of investment management experience.

Mackenzie earns asset management fees primarily from:

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

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

## 2020 DEVELOPMENTS

### COVID-19 AND COMMUNICATION

As a result of COVID-19 and the resulting impact to global financial markets, we significantly increased communications to support the independent financial advisors and our institutional clients. Our focus has been to provide capital market and economic updates, ongoing commentary, and access to investment management to ensure they have the tools and resources they need to support their clients. Our multi-boutique approach ensures that investors can find the right solution in any market condition.

## ACQUISITIONS

### *GLC Asset Management Group Ltd. (GLC)*

On December 31, 2020, Mackenzie acquired GLC, a Canadian investment management firm with \$37 billion in assets under management, from Great-West Lifeco Inc. (Lifeco).

Separately, Lifeco's subsidiary, The Canada Life Assurance Company (Canada Life) acquired the fund management contracts relating to private label Quadrus Group of Funds (QGOF). Mackenzie was previously the manager and trustee of the QGOF. Subsequent to the sale, Mackenzie continues to provide investment and administration services to the QGOF.

Benefits of the deal to Mackenzie include the following:

- The net addition of \$30.1 billion in assets under management resulting in Mackenzie becoming one of Canada's largest asset managers.
- Expands Mackenzie's distribution reach to the fast-growing group retirement business channel and establishes Mackenzie as one of the top three providers in Canada of investment solutions to defined contribution plans and other group retirement offerings.
- Enhances Mackenzie's investment capabilities with the addition of a new Canadian Equity boutique.

The acquisition also includes a distribution agreement with Canada Life, positioning Mackenzie as the core investment advisor to its individual and group product offerings and enhancing Canada Life's capabilities and competitiveness.

### *Greenchip Financial Corporation (Greenchip)*

On December 22, 2020, Mackenzie acquired Greenchip, a leading Canadian firm focused exclusively on the environmental economy since 2007. The acquisition adds \$618 million in assets under management, of which \$435 million was sub-advisory mandates to the Mackenzie Global Environmental Equity Fund.

Mackenzie has been a leader in bringing sustainable investing to Canadians, with an evolving suite of funds focused on environmental leadership, gender diversity and sustainability. The acquisition of Greenchip is a natural evolution reflecting the success of Greenchip's sub-advisory relationship to the Mackenzie Global Environmental Equity Fund.

## ASSET MANAGEMENT STRATEGY

Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

Mackenzie's vision: We are committed to the financial success of investors, through *their* eyes. This vision impacts our strategic priorities and drives future business growth. Our strategic mandate is two-fold: win in the Canadian retail space and build meaningful strategic relationships. We aim to achieve this mandate by attracting and fostering 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.

To support this vision and strategic mandate our employees strive to:

- Deliver competitive and consistent risk-adjusted performance
- Offer innovative and high quality investment solutions
- Accelerate distribution
- Advance brand leadership
- Drive operational excellence and discipline
- Enable a high-performing and diverse culture

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

Our investment management capabilities are delivered through a boutique structure, with separate in-house teams having distinct focuses and diverse styles. Our research and portfolio management teams are located in Toronto, Montreal, Winnipeg, Boston, Dublin and Hong Kong. In addition to our own investment teams, we supplement our investment capabilities with strategic partners (third party sub-advisors) in selected areas. The development of a broad range of investment capabilities and products is a key strength in supporting the evolving financial needs of investors.

Our business focuses on three key distribution channels: retail, strategic alliances and institutional.

Mackenzie primarily distributes its retail investment products through third-party financial advisors. Our sales teams work with many of the more than 30,000 independent financial

advisors and their firms across Canada. Our innovative, comprehensive lineup of investment solutions covers all asset classes and parts of the globe. We offer a range of relevant products and investment solutions designed to help advisors meet the evolving needs of their clients. We regularly introduce new funds and we may merge or streamline our fund offerings to provide enhanced investment solutions.

In addition to our 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 our 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 IG Wealth Management, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries. During the second quarter of 2020, Mackenzie partnered with Wealthsimple and launched two Socially Responsible ETFs. 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. We attract new institutional business through our 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 continues to be positioned to continue to build and enhance our distribution relationships given our team of experienced investment professionals, strength of our distribution network, broad product shelf, competitively priced products and our focus on client experience and investment excellence.

## ASSETS UNDER MANAGEMENT

The changes in total assets under management are summarized in Table 14 and the changes in investment fund assets under management are summarized in Table 15.

Assets managed for the Wealth Management segment are included in total assets under management. Prior to the third quarter of 2020, assets managed by Mackenzie for IG Wealth Management were excluded from the Mackenzie reportable segment. Comparative periods have been retroactively restated.

TABLE 14: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – ASSET MANAGEMENT<sup>(1)</sup>

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
<b>Assets under management excluding sub-advisory to Wealth Management</b>					
Net sales (redemptions)					
Mutual funds <sup>(1)</sup>	\$ 1,461	\$ 1,376	\$ 355	6.2 %	N/M %
ETF net creations	405	372	82	8.9	N/M
Investment funds <sup>(2)</sup>	1,866	1,748	437	6.8	N/M
Sub-advisory, institutional and other accounts	(414)	(75)	(86)	N/M	N/M
<b>Total net sales (redemptions)</b>	<b>1,452</b>	<b>1,673</b>	<b>351</b>	<b>(13.2)</b>	<b>N/M</b>
Change due to GLC <sup>(3)</sup>	–	30,300	–	(100.0)	–
Investment returns	3,134	4,365	(7,710)	(28.2)	N/M
Net change in assets	4,586	36,338	(7,359)	(87.4)	N/M
Beginning assets	110,938	74,600	68,257	48.7	62.5
<b>Ending assets</b>	<b>\$ 115,524</b>	<b>\$ 110,938</b>	<b>\$ 60,898</b>	<b>4.1 %</b>	<b>89.7 %</b>
<b>Consolidated assets under management</b>					
Mutual funds	\$ 58,137	\$ 55,462	\$ 54,288	4.8 %	7.1 %
ETFs	4,174	3,788	2,335	10.2	78.8
Investment funds <sup>(2)</sup>	62,311	59,250	56,623	5.2	10.0
Sub-advisory, institutional and other accounts	53,213	51,688	4,275	3.0	N/M
	115,524	110,938	60,898	4.1	89.7
Sub-advisory to Wealth Management	76,041	74,210	64,068	2.5	18.7
<b>Consolidated assets under management</b>	<b>\$ 191,565</b>	<b>\$ 185,148</b>	<b>\$ 124,966</b>	<b>3.5 %</b>	<b>53.3 %</b>
<b>Average total assets<sup>(4)</sup></b>					
Excluding sub-advisory to Wealth Management	\$ 112,718	\$ 77,186	\$ 67,136	46.0 %	67.9 %
Consolidated	187,213	149,491	137,464	25.2	36.2

(1) Mutual funds – Institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes:

- First quarter of 2021 – resulted in sales of \$367 million, redemptions of \$778 million and net redemptions of \$411 million.
- Fourth quarter of 2020 – Resulted in sales of \$625 million, redemptions of \$593 million and net sales of \$32 million.
- First quarter of 2020 – resulted in sales of \$373 million, redemptions of \$192 million and net sales of \$181 million.

(2) Investment Fund assets under management and net sales exclude investments into Mackenzie mutual funds and ETFs by IGM investment funds.

(3) Sold \$13.4 billion of fund management contracts relating to private label Quadrus Group of Funds (QGOF) to Great-West Lifeco. Inc. Acquired \$183 million in mutual fund assets under management related to acquisition of Greenchip Financial Corporation. Acquired \$43.5 billion in institutional accounts as part of transaction with Great-West Lifeco Inc.

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

At March 31, 2021, Mackenzie's total assets under management were \$191.6 billion, an all-time high, and an increase of 53.3% from \$125.0 billion last year. The increase in assets under management included the impact of the \$30.3 billion related to the net business acquisitions from the fourth quarter of GLC and Greenchip. Mackenzie's total assets under management (excluding sub-advisory to Wealth Management) were \$115.5 billion, also an all-time high, and an increase of 89.7% from \$60.9 billion last year. The change in Mackenzie's assets under management is determined by investment returns generated for our clients and net contributions from our clients.

#### CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2021 VS. Q1 2020

Mackenzie's total assets under management at March 31, 2021 were \$191.6 billion an increase of 53.3% from \$125.0 billion. The increase in assets under management included \$30.3 billion in net business acquisitions noted previously. Mackenzie's total assets under management, excluding the net acquisitions of \$30.3 billion related to the net business acquisitions noted previously, increased 29.0% from March 31, 2020. Assets under management excluding sub-advisory to the Wealth Management segment were \$115.5 billion, an increase of 89.7% from \$60.9 billion at March 31, 2020.



TABLE 15: CHANGE IN INVESTMENT FUND ASSETS UNDER MANAGEMENT – ASSET MANAGEMENT<sup>(1)</sup>

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
Sales	\$ 4,512	\$ 4,501	\$ 3,656	0.2 %	23.4 %
Redemptions	3,051	3,125	3,301	(2.4)	(7.6)
Mutual fund net sales (redemptions) <sup>(2)</sup>	1,461	1,376	355	6.2	N/M
ETF net creations	405	372	82	8.9	N/M
<b>Investment fund net sales (redemptions)<sup>(3)</sup></b>	<b>1,866</b>	<b>1,748</b>	<b>437</b>	<b>6.8</b>	<b>N/M</b>
Change due to divestiture of Quadrus Group of Funds and Greenchip acquisition <sup>(4)</sup>	–	(13,216)	–	100.0	–
Investment returns	1,195	3,789	(7,025)	(68.5)	N/M
Net change in assets	3,061	(7,679)	(6,588)	N/M	N/M
Beginning assets	59,250	66,929	63,211	(11.5)	(6.3)
<b>Ending assets</b>	<b>\$ 62,311</b>	<b>\$ 59,250</b>	<b>\$ 56,623</b>	<b>5.2 %</b>	<b>10.0 %</b>
<b>Consists of:</b>					
Mutual funds	\$ 58,137	\$ 55,462	\$ 54,288	4.8 %	7.1 %
ETFs	4,174	3,788	2,335	10.2	78.8
Investment funds	\$ 62,311	\$ 59,250	\$ 56,623	5.2 %	10.0 %
<b>Daily average investment fund assets</b>	<b>\$ 60,647</b>	<b>\$ 69,343</b>	<b>\$ 62,362</b>	<b>(12.5) %</b>	<b>(2.8) %</b>

(1) Investment Fund assets under management and net sales excludes investments into Mackenzie mutual funds and ETFs by IGM investment funds.

(2) Mutual funds – Institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes:

- First quarter 2021 – resulted in sales of \$367 million, redemptions of \$778 million and net redemptions of \$411 million
- Fourth quarter 2020 – resulted in sales of \$625 million, redemptions of \$593 million and net sales of \$32 million.
- First quarter 2020 – resulted in sales of \$373 million, redemptions of \$192 million and net sales of \$181 million

(3) Total investment fund net sales and assets under management exclude Mackenzie mutual fund investments in ETFs.

(4) Sold \$13.4 billion of fund management contracts relating to private label Quadrus Group of Funds (QGOF) to Great-West Lifeco. Inc. Acquired \$183 million in mutual fund assets under management related to acquisition of Greenchip Financial Corporation.

Investment fund assets under management were \$62.3 billion at March 31, 2021, compared to \$56.6 billion at March 31, 2020, an increase of 10.0%. The net increase was inclusive of the decrease of \$13.2 billion of net assets under management related to the sale of mutual fund contracts in the divestiture of QGOF and the Greenchip acquisition, noted previously. Mackenzie's mutual fund assets under management of \$58.1 billion increased by 7.1% from \$54.3 billion at March 31, 2020. Mackenzie's ETF assets excluding ETFs held within IGM managed products were \$4.2 billion at March 31, 2021, an increase of 78.8% from \$2.3 billion at March 31, 2020. ETF assets inclusive of IGM managed products were \$9.5 billion at March 31, 2021 compared to \$5.3 billion at March 31, 2020.

In the three months ended March 31, 2021, Mackenzie's mutual fund gross sales were \$4.5 billion, a record high, an increase of 23.4% from \$3.7 billion in 2020. Mutual fund redemptions in the current quarter were \$3.1 billion, a decrease of 7.6% from last year. Mutual fund net sales for the three months ended March 31, 2021 were \$1.5 billion, as compared to net sales of \$355 million last year. In the three months ended March 31, 2021, ETF net creations were \$405 million compared to

\$82 million last year. Investment fund net sales in the current quarter were \$1.9 billion compared to net sales of \$437 million last year. During the current quarter, investment returns resulted in investment fund assets increasing by \$1.2 billion compared to a decrease of \$7.0 billion last year.

During the first quarter of 2021, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$367 million, redemptions of \$778 million and net redemptions of \$411 million. During the first quarter of 2020, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$373 million, redemptions of \$192 million and net sales of \$181 million. Excluding these transactions in 2021 and 2020, mutual fund gross sales increased by 26.3% in the three months ended March 31, 2021 compared to last year, mutual fund redemptions decreased by 26.9% and mutual fund net sales of \$1.9 billion in 2020 compared to mutual fund net sales of \$174 million last year.

Total net sales excluding sub-advisory to the Wealth Management segment for the three months ended March 31, 2021 were \$1.5 billion compared to net sales of \$351 million

last year. Excluding the transactions noted above, net sales were \$1.9 billion for the three months ended March 31, 2021 compared to net sales of \$170 million last year. During the current quarter, investment returns resulted in assets increasing by \$3.1 billion compared to a decrease of \$7.7 billion last year.

Redemptions of long-term mutual funds in the three months ended March 31, 2021, were \$3.0 billion compared to \$3.2 billion last year. Redemptions of long-term mutual funds excluding mutual fund allocation changes made by third party programs were \$2.2 billion in the three months ended March 31, 2021 compared to \$3.0 billion last year. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 20.6% in the first quarter of 2021, compared to 22.0% in the first quarter of 2020. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 15.2% in the first quarter of 2021, compared to 20.6% in the first quarter of 2020. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 16.5% at March 31, 2021, compared to 17.0% last year. Mackenzie's twelve month trailing redemption rate for long-term funds, excluding rebalance transactions, was 14.2% at March 31, 2021, compared to 16.4% at March 31, 2020. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 14.6% at March 31, 2021. 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.

As at March 31, 2021, Mackenzie's sub-advisory to the Wealth Management segment were \$76.0 billion or 71.7% of total Wealth Management assets under management compared to \$64.1 billion or 74.0% of total Wealth Management assets under management at March 31, 2020.

#### **CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2021 VS. Q4 2020**

Mackenzie's total assets under management at March 31, 2021 were \$191.6 billion, an increase of 3.5% from \$185.1 billion at December 31, 2020. Assets under management excluding sub-advisory to the Wealth Management segment were \$115.5 billion, an increase of 4.1% from \$110.9 billion at December 31, 2020.

Investment fund assets under management were \$62.3 billion at March 31, 2021, an increase of 5.2% from \$59.3 billion at December 31, 2020. Mackenzie's mutual fund assets under management were \$58.1 billion at March 31, 2021, an increase

of 4.8% from \$55.5 billion at December 31, 2020. Mackenzie's ETF assets were \$4.2 billion at March 31, 2021 compared to \$3.8 billion at December 31, 2020. ETF assets inclusive of IGM managed products were \$9.5 billion at March 31, 2021 compared to \$8.5 billion at December 31, 2020.

For the quarter ended March 31, 2021, Mackenzie mutual fund gross sales were \$4.5 billion, an increase of 0.2% from the fourth quarter of 2020. Mutual fund redemptions were \$3.1 billion, a decrease of 2.4% from the fourth quarter of 2020. Net sales of Mackenzie mutual funds for the current quarter were \$1.5 billion compared with net sales of \$1.4 billion in the previous quarter.

During the current quarter, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$367 million, redemptions of \$778 million and net redemptions of \$411 million. During the fourth quarter of 2020, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$625 million, redemptions of \$593 million and net sales of \$32 million. Excluding these mutual fund allocation changes made by third party programs during the first quarter of 2021 and the fourth quarter of 2020, mutual fund gross sales increased 6.9%, redemptions decreased 10.2% and mutual fund net sales were \$1.9 billion in the current quarter compared to net sales of \$1.3 billion in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$3.0 billion, unchanged from the fourth quarter of 2020. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 20.6% compared to 18.2% in the fourth quarter. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 15.2% in the first quarter of 2021, compared to 14.5% in the fourth quarter of 2020. Redemptions of long-term mutual funds excluding mutual fund allocation changes made by third party programs were \$2.2 billion in the three months ended March 31, 2021 compared to \$2.4 billion in the fourth quarter of 2020. Net sales of long-term funds for the current quarter were \$1.4 billion compared to net sales of \$1.3 billion in the previous quarter.

For the quarter ended March 31, 2021, Mackenzie ETF net creations were \$405 million compared to \$372 million in the fourth quarter.

Investment fund net sales in the current quarter were \$1.9 billion compared to net sales of \$1.7 billion in the fourth quarter.

As at March 31, 2021, Mackenzie's sub-advisory to the Wealth Management segment were \$76.0 billion or 71.7% of total Wealth Management assets under management compared to \$74.2 billion or 72.0% of total Wealth Management assets under management at December 31, 2020.

## INVESTMENT MANAGEMENT

Mackenzie has \$191.6 billion in assets under management at March 31, 2021, including \$76.0 billion of sub-advisory mandates to the Wealth Management segment. It has teams located in Toronto, Montreal, Winnipeg, Boston, Dublin and Hong Kong.

We continue to deliver our investment offerings through a boutique structure, with separate in-house investment teams which each have a distinct focus and investment approach. This boutique approach promotes diversification of styles and ideas and provides Mackenzie with a breadth of capabilities. Oversight is conducted through a common process intended to promote superior risk-adjusted returns over time. This oversight process focuses on i) identifying and encouraging each team's performance edge, ii) promoting best practices in portfolio construction, and iii) emphasizing risk management.

Our investment team currently consists of seventeen boutiques including the recent additions in the fourth quarter of 2020 and our newly launched boutiques described below:

- Addition of a new Canadian Equity boutique with the acquisition of GLC at December 31, 2020.
- Addition of a new Greenchip boutique with the acquisition of Greenchip Financial Corp. at December 22, 2020.
- Launch of our new sustainability-focused boutique in April 2021 which will invest exclusively in companies exemplifying leadership in environmental, social and governance (ESG) behaviours and practices.

The investment in Northleaf enhances our investment capabilities by offering global private equity, private credit and infrastructure investment solutions to our clients.

In addition to our own investment teams, Mackenzie supplements investment capabilities through the use of third party sub-advisors and strategic beta index providers in selected areas. These include Putnam Investments Inc., TOBAM, China AMC, Impax Asset Management LLC and Rockefeller Capital Management.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At March 31, 2021, 22.2% of Mackenzie mutual fund assets were rated in the top two performance quartiles for the one year time frame, 57.3% for the three year time frame and 60.0% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar<sup>†</sup> fund ranking service. At March 31, 2021, 84.5% of Mackenzie mutual fund assets measured by Morningstar<sup>†</sup> had a rating of three stars or better and 48.8% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 84.8% for three stars or better and 51.7% for four and five star funds at March 31, 2021. These ratings exclude the Quadrus Group of Funds<sup>†</sup>.

## PRODUCTS

Mackenzie continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their clients. In 2021, Mackenzie launched a number of new products to strengthen its product shelf.

### MUTUAL FUNDS

Mackenzie manages its product shelf through new fund launches and fund mergers to streamline fund offerings for advisors and investors.

In April of 2021, Mackenzie expanded its selection of sustainable solutions today with the introduction of two new mutual funds:

- Mackenzie Greenchip Global Balanced Fund
- Mackenzie Global Sustainable Bond Fund

Mackenzie Greenchip Global Balanced Fund is Canada's first environmental thematic fund for retail investors. It is focused primarily on investing in the environmental economy and is managed by a unique combination of two investment teams. The equities sleeve is run by the Mackenzie Greenchip boutique, a pre-eminent Canadian investment management team that focuses exclusively on environmental thematic investing. The equity component of the Fund will generally invest in medium and large market capitalization companies that are focused on developing products or services that are directly supporting various environmental sectors. The fixed income sleeve is managed by the Mackenzie Fixed Income Team, an early adopter of sustainable investing with a proven proprietary process. The bond portion of the Fund will invest primarily in labelled green bonds and other debt instruments that are used to finance environmental and sustainable solutions.

Mackenzie Global Sustainable Bond Fund helps address investors' demand for sustainable fixed income solutions. The Fund seeks to provide moderate capital growth by investing primarily in fixed income securities of issuers across all geographies and is one of just a handful of sustainable fixed income products currently available in Canada.

### EXCHANGE TRADED FUNDS

The addition of Exchange Traded Funds (ETF) has complemented Mackenzie's broad and innovative fund line-up and reflects its investor-focused 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 when building long-term diversified portfolios.

In the second quarter of 2021, Mackenzie will be launching the Wealthsimple Shariah World Equity Index ETF further broadening our diverse offerings of ETFs.

Mackenzie's current line-up consists of 41 ETFs: 22 active and strategic beta ETFs and 19 traditional index ETFs. ETF assets under management ended the quarter at \$9.5 billion, inclusive of \$5.4 billion in investments from IGM managed products.

#### **ALTERNATIVE FUNDS**

In the first quarter of 2021, Mackenzie launched the Mackenzie Northleaf Private Credit Fund. This fund is managed by

Mackenzie's Fixed Income Team in partnership with Northleaf Capital Partners ("Northleaf"). It targets to invest a majority of its capital in Northleaf's senior secured private lending program for institutional investors. This enables the fund to provide accredited retail investors with the opportunity to achieve higher income with enhanced lender protections as compared to investments in the public debt markets.

## Review of Segment Operating Results

The Asset Management segment includes revenue earned on advisory mandates to the Wealth Management segment and investments into Mackenzie mutual fund and ETFs by the Wealth Management segment.

The Asset Management segment adjusted net earnings are presented in Table 16. Adjusted net earnings for the first quarter of 2021 were \$48.0 million, an increase of 48.6% from the first quarter in 2020 and an increase of 17.9% from the prior quarter.

Adjusted earnings before interest and taxes for the first quarter of 2021 were \$70.3 million, an increase of 43.5% from the first quarter in 2020 and 17.0% from the prior quarter.

### Q1 2021 VS. Q1 2020

#### REVENUES

Asset management fees are classified as either Asset management fees – third party or Asset management fees – Wealth Management.

- Net asset management fees – third party is comprised of the following:
  - Asset management fees – third party consists of management and administration fees earned from our investment funds and management fees from our third party sub-advisory, institutional and other accounts. The largest component is management fees from our investment funds. 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 retail and sold through third party financial advisors.

TABLE 16: OPERATING RESULTS – ASSET MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
<b>Revenues</b>					
Asset management					
Asset management fees – third party	\$ 231.9	\$ 215.1	\$ 197.1	7.8 %	17.7 %
Redemption fees	1.1	1.2	1.5	(8.3)	(26.7)
	<b>233.0</b>	<b>216.3</b>	<b>198.6</b>	<b>7.7</b>	<b>17.3</b>
Dealer compensation expenses					
Asset-based compensation	(78.3)	(73.5)	(67.8)	6.5	15.5
Sales-based compensation	(7.0)	(5.1)	(7.7)	37.3	(9.1)
	<b>(85.3)</b>	<b>(78.6)</b>	<b>(75.5)</b>	<b>8.5</b>	<b>13.0</b>
Net asset management fees – third party	147.7	137.7	123.1	7.3	20.0
Asset management fees – Wealth Management	26.9	25.8	25.2	4.3	6.7
Net asset management	174.6	163.5	148.3	6.8	17.7
Net investment income and other	1.2	1.0	(2.2)	20.0	N/M
	<b>175.8</b>	<b>164.5</b>	<b>146.1</b>	<b>6.9</b>	<b>20.3</b>
<b>Expenses</b>					
Advisory and business development	20.3	28.3	19.9	(28.3)	2.0
Operations and support	83.5	74.6	74.7	11.9	11.8
Sub-advisory	1.7	1.5	2.5	13.3	(32.0)
	<b>105.5</b>	<b>104.4</b>	<b>97.1</b>	<b>1.1</b>	<b>8.7</b>
Adjusted earnings before interest and taxes	70.3	60.1	49.0	17.0	43.5
Interest expense	5.8	5.2	5.1	11.5	13.7
Adjusted earnings before taxes	64.5	54.9	43.9	17.5	46.9
Income taxes	16.5	14.2	11.6	16.2	42.2
<b>Adjusted net earnings</b>	<b>\$ 48.0</b>	<b>\$ 40.7</b>	<b>\$ 32.3</b>	<b>17.9 %</b>	<b>48.6 %</b>

- Redemption fees – consists of fees earned from the 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.
- Dealer compensation expenses – consists of asset-based and sales-based compensation. Asset-based compensation represents trailing commissions paid to dealers 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. Sales based compensation are paid to dealers on the sale of mutual funds under the deferred sales charge purchase option and on a low load purchase option.
- Asset management fees – Wealth Management consists of sub-advisory fees earned from the Wealth Management segment.

Net asset management fees – third party were \$147.7 million for the three months ended March 31, 2021, an increase of \$24.6 million or 20.0% from \$123.1 million last year. The increase in net asset management fees – third party was primarily due to a 67.9% increase in average assets under management partially offset by a decline in the effective net asset management fee rate. Mackenzie's net asset management fee rate was 53.2 basis points for the three months March 31, 2021 compared to 73.7 basis points in the comparative period in 2020. The decline in the net management fee rate was primarily due to the increase in sub-advisory assets from the GLC acquisition, which have lower effective rates. Other factors include a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products. Contributing to the increase in non-retail assets was the onboarding of \$2.6 billion of sub-advisory and institutional wins during the second quarter of 2020.

Management fees – Wealth Management were \$26.9 million for the three months ended March 31, 2021, an increase of \$1.7 million or 6.7% from \$25.2 million last year. The increase in management fees was due to an increase in the effective management fee rate and a 5.9% increase in average assets under management. Mackenzie's management fee rate was 14.7 basis points for the three months March 31, 2021 compared to 14.4 basis points in the comparative period in 2020. The increase in the management fee rate was due to a change in the composition of assets under management.

Net investment income and other primarily includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$1.2 million for the three months ended March 31, 2021 compared to \$(2.2) million last year.

## EXPENSES

Mackenzie incurs advisory and business development expenses that primarily includes wholesale distribution activities and these costs vary directly with assets or sales levels. Advisory and business development expenses were \$20.3 million for the three months ended March 31, 2021, an increase of \$0.4 million or 2.0% from \$19.9 million in 2020.

Operations and support includes costs associated with business operations, including technology and business processes, in-house investment management and product shelf management, corporate management and support functions. These expenses primarily reflect compensation, technology and other service provider expenses. Operations and support expenses were \$83.5 million for the three months ended March 31, 2021, an increase of \$8.8 million or 11.8% from \$74.7 million in 2020.

Sub-advisory expenses were \$1.7 million for the three months ended March 31, 2021, compared to \$2.5 million in 2020.

## INTEREST EXPENSE

Interest expense, which includes allocated interest expense on long-term debt and interest expense on leases, totalled \$5.8 million in the first quarter of 2021 compared to \$5.1 million in the first quarter of 2020. Long-term debt interest expense is calculated based on a long-term debt allocation of \$0.4 billion to Mackenzie.

## Q1 2021 VS. Q4 2020

### REVENUES

Net asset management fees – third party were \$147.7 million for the current quarter, an increase of \$10.0 million or 7.3% from \$137.7 million in the fourth quarter of 2020. The increase in net asset management fees – third party was primarily due to a 46.0% increase in average assets under management offset by a decline in the effective net asset management fee rate. Mackenzie's net asset management fee rate was 53.2 basis points for the current quarter compared to 70.8 basis points in the fourth quarter of 2020. The primary reason for the large decline in the net management fee rate is due to the increase in sub-advisory assets from the GLC acquisition which have lower effective rates.

Management fees – Wealth Management were \$26.9 million in the current quarter, an increase from \$25.8 million in the fourth quarter of 2020, primarily due to the increase in assets under management of 3.0% from the fourth quarter. The management fee rate was 14.7 basis points in the current quarter compared to 14.3 basis points in the fourth quarter.

Net investment income and other was \$1.2 million for the current quarter, an increase of \$0.2 million from the fourth quarter of 2020.

#### **EXPENSES**

Advisory and business development expenses were \$20.3 million for the current quarter, a decrease of \$8.0 million or 28.3% from \$28.3 million in the fourth quarter of 2020.

Operations and support expenses were \$83.5 million for the current quarter, an increase of \$8.9 million or 11.9% from \$74.6 million compared to the fourth quarter of 2020.

Sub-advisory expenses were \$1.7 million for the current quarter, compared to \$1.5 million in the fourth quarter of 2020.

# Strategic Investments and Other

## Review of Segment Operating Results

The Strategic Investments and Other segment includes investments in Great-West Lifeco Inc. (Lifeco), China Asset Management Co., Ltd. (China AMC), Northleaf Capital Group Ltd. (Northleaf), Wealthsimple Financial Corp., Portag3 Ventures LPs, and unallocated capital.

Earnings from the Strategic Investments and Other segment include the Company's proportionate share of earnings of its associates, Lifeco, China AMC and Northleaf as well as net investment income on unallocated capital.

In the third quarter of 2020, the Company sold its 24.8% equity interest in Personal Capital as discussed in the Consolidated Financial Position section of this MD&A. The gain on sale is excluded from segment results.

Assets held by the Strategic Investments and Other segment are included in Table 17.

Unallocated capital represents capital not allocated to any of the operating companies and which would be available for investment, debt repayment, distribution to shareholders or other corporate purposes. This capital is invested in highly liquid, high quality financial instruments in accordance with the Company's Investment Policy.

Strategic Investments and Other segment adjusted net earnings are presented in Table 18.

### Q1 2021 VS. Q1 2020

The proportionate share of associates' earnings increased by \$21.5 million in the first quarter of 2021 compared to the first quarter of 2020. These earnings reflect equity earnings from Lifeco, China AMC, Northleaf and, until the third quarter of 2020, Personal Capital, as discussed in the Consolidated Financial Position section of this MD&A. The increase in the first quarter of 2021 resulted primarily from increases in the proportionate share of Lifeco's earnings of \$13.8 million, China AMC's earnings of \$3.6 million and an increase in Personal Capital reflecting the sale of the Company's investment in the second quarter of 2020. The increase was also due to the proportionate share of Northleaf's earnings, net of non-controlling interest, which was \$0.8 million in the first quarter of 2021. Net investment income and other decreased to \$0.2 million in the first quarter of 2021 compared to \$1.5 million in 2020.

### Q1 2021 VS. Q4 2020

The proportionate share of associates' earnings was \$41.6 million in the first quarter of 2021, an increase of \$1.5 million from the fourth quarter of 2020. Net investment income and other was \$0.2 million in the first quarter of 2021, compared to \$1.1 million in the fourth quarter.

TABLE 17: TOTAL ASSETS – STRATEGIC INVESTMENTS AND OTHER

(\$ millions)	2021 MARCH 31	2020 DECEMBER 31
<b>Investments in associates</b>		
Lifeco	\$ 968.6	\$ 962.4
China AMC	693.7	720.3
Northleaf	249.6	248.5
	<b>1,911.9</b>	<b>1,931.2</b>
<b>FVTOCI investments</b>		
Wealthsimple (direct investment only)	1,409.1	511.6
Portag3 and other investments	114.5	81.7
	<b>1,523.6</b>	<b>593.3</b>
<b>Unallocated capital and other</b>	<b>290.7</b>	<b>240.6</b>
<b>Total assets</b>	<b>\$ 3,726.2</b>	<b>\$ 2,765.1</b>
Lifeco fair value	\$ 1,247.8	\$ 1,133.2



TABLE 18: OPERATING RESULTS – STRATEGIC INVESTMENTS AND OTHER

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31	% CHANGE	
				2020 DEC. 31	2020 MAR. 31
<b>Revenues</b>					
Net investment income and other	\$ 0.2	\$ 1.1	\$ 1.5	(81.8) %	(86.7) %
Proportionate share of associates' earnings					
Investment in Lifeco	28.1	27.3	14.3	2.9	96.5
Investment in China AMC	12.5	11.8	8.9	5.9	40.4
Investment in Northleaf	1.0	1.0	–	–	N/M
Investment in Personal Capital	–	–	(3.1)	–	100.0
	41.6	40.1	20.1	3.7	107.0
	41.8	41.2	21.6	1.5	93.5
<b>Expenses</b>					
Operations and support	1.1	0.9	0.9	22.2	22.2
Adjusted earnings before interest and taxes	40.7	40.3	20.7	1.0	96.6
Interest expense	–	–	–	–	–
Adjusted earnings before taxes	40.7	40.3	20.7	1.0	96.6
Income taxes	1.1	(1.7)	(2.3)	N/M	N/M
Adjusted net earnings	39.6	42.0	23.0	(5.7)	72.2
Non-controlling interest	0.2	0.2	–	–	N/M
<b>Adjusted net earnings available to common shareholders</b>	<b>\$ 39.4</b>	<b>\$ 41.8</b>	<b>\$ 23.0</b>	<b>(5.7) %</b>	<b>71.3 %</b>

# IGM Financial Inc.

## Consolidated Financial Position

IGM Financial's total assets were \$16.9 billion at March 31, 2021, compared to \$16.1 billion at December 31, 2020.

### OTHER INVESTMENTS

The composition of the Company's securities holdings is detailed in Table 19.

#### FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)

Gains and losses on FVTOCI investments are recorded in Other comprehensive income.

##### Corporate Investments

Corporate investments is primarily comprised of the Company's investments in Wealthsimple Financial Corp. (Wealthsimple), and Portag3 Ventures LP, Portag3 Ventures II LP and Portage Ventures III LP (Portag3).

Wealthsimple is an online investment manager that provides financial investment guidance. The investment is classified at Fair Value Through Other Comprehensive Income.

On May 3, 2021, Wealthsimple announced a \$250 million primary equity fundraising, as well as a \$500 million secondary offering. At December 31, 2020, the fair value of the Company's direct and indirect investment was \$550 million. Fair value has increased by \$897 million to \$1,448 million at March 31, 2021.

As part of the secondary equity offering, IGM Financial Inc. will receive proceeds of approximately \$295 million (\$257 million after-tax). Pro forma, the Company will continue to be the largest shareholder in Wealthsimple with an interest of 23% and its continuing investment will have a value of \$1,153 million.

Portag3 consists of early-stage investment funds dedicated to backing innovating financial services companies and are controlled by Power Financial Corporation, a subsidiary of

Power Corporation of Canada. In the first quarter of 2021, the Company invested \$4.1 million related to Portag3 Ventures III LP. As at March 31, 2021, the Company had invested a total of \$57.2 million in Portag3.

The total fair value of Corporate investments of \$1,523.6 million is presented net of certain costs incurred within the limited partnership structures holding the underlying investments.

#### FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Securities classified as FVTPL include equity securities and proprietary investment funds. 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. The underlying securities of these funds are classified as FVTPL.

### LOANS

The composition of the Company's loans is detailed in Table 20.

Loans consisted of residential mortgages and represented 35.5% of total assets at March 31, 2021, compared to 39.4% at December 31, 2020.

Loans measured at amortized cost 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 \$5.8 billion at March 31, 2021, compared to \$6.2 billion at December 31, 2020.

The Company holds loans pending sale or securitization. Loans measured at fair value through profit or loss are residential mortgages held temporarily by the Company pending sale.

TABLE 19: OTHER INVESTMENTS

(\$ millions)	MARCH 31, 2021		DECEMBER 31, 2020	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Fair value through other comprehensive income</b>				
Corporate investments	\$ 255.6	\$ 1,523.6	\$ 251.4	\$ 593.3
<b>Fair value through profit or loss</b>				
Equity securities	1.5	1.7	1.5	1.5
Proprietary investment funds	51.1	54.2	35.3	37.5
	52.6	55.9	36.8	39.0
	\$ 308.2	\$ 1,579.5	\$ 288.2	\$ 632.3

TABLE 20: LOANS

(\$ millions)	2021	2020
	MARCH 31	DECEMBER 31
<b>Amortized cost</b>	\$ 5,946.2	\$ 6,329.4
Less: Allowance for expected credit losses	0.8	0.8
	<b>5,945.4</b>	<b>6,328.6</b>
<b>Fair value through profit or loss</b>	<b>49.7</b>	<b>3.3</b>
	<b>\$ 5,995.1</b>	<b>\$ 6,331.9</b>

Loans held for securitization are carried at amortized cost. Total loans being held pending sale or securitization are \$324.3 million at March 31, 2021, compared to \$334.5 million at December 31, 2020.

Residential mortgages originated by IG Wealth Management 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. At March 31, 2021, IG Wealth Management serviced \$10.6 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 IG Wealth Management 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 partially 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 2021, the Company securitized loans through its mortgage banking operations with cash proceeds of \$351.0 million compared to \$243.0 million in 2020. 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 6 to the Interim Financial Statements.

## INVESTMENT IN ASSOCIATES

### *Great-West Lifeco Inc. (Lifeco)*

At March 31, 2021, the Company held a 4% equity interest in Lifeco. IGM Financial and Lifeco are controlled by Power Corporation of Canada.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence. Changes in the carrying value for the three months ended March 31, 2021 compared with 2020 are shown in Table 21.

### *China Asset Management Co., Ltd. (China AMC)*

Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained a position among the market leaders in China's asset management industry.

China AMC's total assets under management, excluding subsidiary assets under management, were RMB¥ 1,461.1 billion (\$285.1 billion) at December 31, 2020, representing an increase of 17.1% (CAD\$ increase of 18.9%) from RMB¥ 1,247.8 billion (\$239.7 billion) at June 30, 2020.

The equity method is used to account for the Company's 13.9% equity interest in China AMC, as it exercises significant influence. Changes in the carrying value for the three months ended March 31, 2021 are shown in Table 21. The change in other comprehensive income of negative \$12.3 million in the three month period ended March 31, 2021 was due to a 1.7% depreciation of the Chinese yuan relative to the Canadian dollar.

TABLE 21: INVESTMENT IN ASSOCIATES

(\$ millions)	MARCH 31, 2021				MARCH 31, 2020			
	LIFECO	CHINA AMC	NORTHLEAF	TOTAL	LIFECO	CHINA AMC	PERSONAL CAPITAL <sup>(3)</sup>	TOTAL
THREE MONTHS ENDED								
<b>Carrying value, January 1</b>	\$ 962.4	\$ 720.3	\$ 248.5	\$ 1,931.2	\$ 896.7	\$ 662.7	\$ 194.5	\$ 1,753.9
Investment	–	–	0.1	0.1	–	–	–	–
Dividends	(16.4)	(26.8)	–	(43.2)	(16.4)	(13.7)	–	(30.1)
Proportionate share of:								
Earnings (losses) <sup>(1)</sup>	28.1	12.5	1.0 <sup>(2)</sup>	41.6	14.3	8.9	(3.1)	20.1
Other comprehensive income (loss) and other adjustments	(5.5)	(12.3)	–	(17.8)	12.4	45.6	16.5	74.5
<b>Carrying value, March 31</b>	\$ 968.6	\$ 693.7	\$ 249.6	\$ 1,911.9	\$ 907.0	\$ 703.5	\$ 207.9	\$ 1,818.4

(1) The proportionate share of earnings from the Company's investment in associates is recorded in the Strategic Investments and Other segment.

(2) The Company's proportionate share of Northleaf's earnings, net of Non-controlling interest, was \$0.8 million.

(3) In 2020, the Company sold its equity interest in Personal Capital to a subsidiary of Lifeco, Empower Retirement.

#### Northleaf Capital Group Ltd. (Northleaf)

On October 28, 2020, the Company's subsidiary, Mackenzie, together with Lifeco, acquired a non-controlling interest in Northleaf, a global private equity, private credit and infrastructure fund manager headquartered in Toronto.

The transaction was executed through an acquisition vehicle 80% owned by Mackenzie and 20% owned by Lifeco for cash consideration of \$241 million and up to an additional \$245 million in consideration at the end of five years subject to the business achieving exceptional growth in certain performance measures over the period. Any additional consideration will be recognized as expense over the five year period based on the fair value of the expected payment, which is revalued at each reporting period date.

The acquisition vehicle acquired a 49.9% voting interest and a 70% economic interest in Northleaf. Mackenzie and Lifeco have an obligation and right to purchase the remaining equity and voting interest in Northleaf commencing in approximately five years and extending into future periods. The equity method is used to account for the acquisition vehicle's 70% economic

interest as it exercises significant influence. Significant influence arises from board representation, participating in the policy making process and shared strategic initiatives.

The Company controls the acquisition vehicle therefore it recognizes the full 70% economic interest in Northleaf and recognizes Non-controlling interest (NCI) related to Lifeco's net interest in Northleaf of 14%. Net of NCI, IGM's investment at December 31, 2020 was \$199.6 million, comprised of \$192.6 million in cash consideration, \$6.2 million in capitalized transaction costs and proportionate share of 2020 earnings of \$0.8 million.

Northleaf's assets under management, including invested capital and uninvested commitments, were \$15.9 billion as at March 31, 2021 (December 31, 2020 – \$14.6 billion). The increase of \$1.3 billion in assets under management during the quarter was driven by \$1.5 billion in new commitments, offset by a decrease of \$0.1 billion related to foreign exchange on USD denominated assets, and a decrease of \$0.1 billion in return of capital and other.

## Consolidated Liquidity and Capital Resources

### LIQUIDITY

Cash and cash equivalents totalled \$657.8 million at March 31, 2021 compared with \$771.6 million at December 31, 2020 and \$709.5 million at March 31, 2020. Cash and cash equivalents related to the Company's deposit operations were \$2.7 million at March 31, 2021, compared to \$5.2 million at December 31, 2020 and \$1.9 million at March 31, 2020, as shown in Table 22.

Client funds on deposit represents cash balances held by clients within their investment accounts and with the offset included in deposit liabilities.

Working capital, which consists of current assets less current liabilities, totalled \$379.4 million at March 31, 2021 compared with \$330.8 million at December 31, 2020 and \$591.1 million at March 31, 2020 (Table 23).

Working capital, which includes unallocated capital, is utilized to:

- Finance ongoing operations, including the funding of sales 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 and retirement of long-term debt.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization before sales commissions (EBITDA before sales commissions) totalled \$333.2 million for the first quarter of 2021 compared to \$271.7 million for the first quarter of 2020 and

\$326.4 million for the fourth quarter of 2020. EBITDA before sales commissions excludes the impact of both commissions paid and commission amortization (refer to Table 1).

Earnings before interest, taxes, depreciation and amortization after sales commissions (EBITDA after sales commissions) totalled \$286.1 million in the first quarter of 2021 compared to \$231.0 million in the first quarter of 2020 and \$285.1 million in the fourth quarter of 2020. EBITDA after sales commissions excludes the impact of commission amortization (refer to Table 1).

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 24 – 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, 2021. Cash and cash equivalents decreased by \$113.8 million in the first quarter of 2021 compared to a decrease of \$10.5 million in 2020.

Adjustments to determine net cash from operating activities during the first quarter of 2021 compared to 2020 consist of non-cash operating activities offset by cash operating activities:

- The add-back of amortization of capitalized sales commissions offset by the deduction of capitalized sales commissions paid.
- The add-back of amortization of capital, intangible and other assets.
- The deduction of investment in associates' equity earnings offset by dividends received.

TABLE 22: DEPOSIT OPERATIONS – FINANCIAL POSITION

(\$ millions)	2021 MAR. 31	2020 DEC. 31	2020 MAR. 31
<b>Assets</b>			
Cash and cash equivalents	\$ 2.7	\$ 5.2	\$ 1.9
Client funds on deposit	1,372.2	1,063.4	856.0
Accounts and other receivables	–	36.5	11.9
Loans	9.4	10.5	17.2
<b>Total assets</b>	<b>\$ 1,384.3</b>	<b>\$ 1,115.6</b>	<b>\$ 887.0</b>
<b>Liabilities and shareholders' equity</b>			
Deposit liabilities	\$ 1,351.8	\$ 1,104.9	\$ 876.4
Other liabilities	22.1	0.3	0.5
Shareholders' equity	10.4	10.4	10.1
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,384.3</b>	<b>\$ 1,115.6</b>	<b>\$ 887.0</b>

TABLE 23: WORKING CAPITAL

(\$ millions)	2021	2020	2020
	MAR. 31	DEC. 31	MAR. 31
<b>Current assets</b>			
Cash and cash equivalents	\$ 657.8	\$ 771.6	\$ 709.5
Client funds on deposit	1,372.2	1,063.4	856.0
Accounts receivable and other assets	443.5	391.3	375.4
Current portion of securitized mortgages and other	1,294.5	1,518.6	1,711.7
	<b>3,768.0</b>	<b>3,744.9</b>	<b>3,652.6</b>
<b>Current liabilities</b>			
Accounts and other payables	700.6	756.5	573.3
Deposits and certificates	1,350.4	1,101.4	872.1
Current portion of obligations to securitization entities and other	1,337.6	1,556.2	1,616.1
	<b>3,388.6</b>	<b>3,414.1</b>	<b>3,061.5</b>
<b>Working capital</b>	<b>\$ 379.4</b>	<b>\$ 330.8</b>	<b>\$ 591.1</b>

- The add-back of pension and other post-employment benefits offset by cash contributions.
- Changes in operating assets and liabilities and other.
- The deduction of restructuring provision cash payments.

Financing activities during the first quarter of 2021 compared to 2020 related to:

- An increase in obligations to securitization entities of \$351.9 million and repayments of obligations to securitization entities of \$678.9 million in 2021 compared to an increase in obligations to securitization entities of \$240.2 million and repayments of obligations to securitization entities of \$392.4 million in 2020.
- The payment of regular common share dividends which totalled \$134.0 million in 2021, unchanged from 2020.

Investing activities during the first quarter of 2021 compared to 2020 primarily related to:

- The purchases of other investments totalling \$35.9 million and sales of other investments with proceeds of \$15.6 million in 2021 compared to \$19.1 million and \$0.5 million, respectively, in 2020.
- An increase in loans of \$380.5 million with repayments of loans and other of \$727.1 million in 2021 compared to \$321.3 million and \$547.1 million, respectively, in 2020 primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets was \$18.8 million in 2021 compared to \$10.9 million in 2020.

TABLE 24: CASH FLOWS

THREE MONTHS ENDED (\$ millions)	2021 MAR. 31	2020 MAR. 31	% CHANGE
<b>Operating activities</b>			
Earnings before income taxes	\$ 262.1	\$ 208.9	25.5 %
Income taxes paid	(55.3)	(42.1)	(31.4)
Adjustments to determine net cash from operating activities	(154.4)	(76.5)	(101.8)
	<b>52.4</b>	<b>90.3</b>	<b>(42.0)</b>
<b>Financing activities</b>	<b>(468.5)</b>	<b>(294.2)</b>	<b>(59.2)</b>
<b>Investing activities</b>	<b>302.3</b>	<b>193.4</b>	<b>56.3</b>
<b>Change in cash and cash equivalents</b>	<b>(113.8)</b>	<b>(10.5)</b>	<b>N/M</b>
Cash and cash equivalents, beginning of period	771.6	720.0	7.2
<b>Cash and cash equivalents, end of period</b>	<b>\$ 657.8</b>	<b>\$ 709.5</b>	<b>(7.3) %</b>

## CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory capital 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 and common shareholders' equity which totalled \$8.0 billion at March 31, 2021, compared to \$7.1 billion at December 31, 2020. 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 \$2.1 billion at March 31, 2021, unchanged from December 31, 2020. 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.

Other activities in 2021 included the declaration of common share dividends of \$134.1 million or \$0.5625 per share. Changes in common share capital are reflected in the Interim Consolidated Statements of Changes in Shareholders' Equity.

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

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

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific

security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

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

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 25 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:

- Other investments 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, specifically lending rates offered to retail borrowers by financial institutions.
- Loans classified as amortized cost 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 25: FINANCIAL INSTRUMENTS

(\$ millions)	MARCH 31, 2021		DECEMBER 31, 2020	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Financial assets recorded at fair value</b>				
Other investments				
– Fair value through other comprehensive income	\$ 1,523.6	\$ 1,523.6	\$ 593.3	\$ 593.3
– Fair value through profit or loss	55.9	55.9	39.0	39.0
Loans				
– Fair value through profit or loss	49.8	49.8	3.3	3.3
Derivative financial instruments	38.4	38.4	37.3	37.3
<b>Financial assets recorded at amortized cost</b>				
Loans				
– Amortized cost	5,945.3	6,055.6	6,328.6	6,532.8
<b>Financial liabilities recorded at fair value</b>				
Derivative financial instruments	28.2	28.2	34.5	34.5
<b>Financial liabilities recorded at amortized cost</b>				
Deposits and certificates	1,351.8	1,352.1	1,104.9	1,105.4
Obligations to securitization entities	5,819.5	5,962.8	6,173.9	6,345.2
Long-term debt	2,100.0	2,493.8	2,100.0	2,653.8

- 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 13 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, 2021.



## Risk Management

IGM Financial is exposed to a variety of risks that are inherent in our business activities. Our ability to manage these risks is key to our ongoing success. The Company emphasizes a strong risk management culture and the implementation of an effective risk management approach. Our 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 our comprehensive Enterprise Risk Management (ERM) Framework which is composed of five core elements: risk governance, risk appetite, risk principles, a defined risk management process, and risk management culture. The ERM Framework is established under our ERM Policy, which is approved by the Executive Risk Management Committee.

### RISK GOVERNANCE

Our risk governance structure emphasizes ownership of risk management in each business unit and oversight by an executive Risk Management Committee accountable to the Risk Committee of the Board (Risk Committee) and ultimately to the Board of Directors. Additional oversight is provided by the ERM Department, compliance groups, and Internal Audit Department.

The Risk Committee provides primary oversight and carries out its risk management mandate. The Risk Committee is responsible for assisting the Board in reviewing and overseeing the risk governance structure and risk management program of the Company 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.

Other specific risks are managed with the support of the following Board committees:

- The Audit Committee has specific risk oversight responsibilities in relation to financial disclosure, internal controls and the control environment as well as our compliance activities, including administration of the Code of Conduct.
- The Human Resource Committee oversees compensation policies and practices.
- The Governance and Nominating Committee oversees corporate governance practices.

- The Related Party and Conduct Review Committee oversees conflicts of interest.

Management oversight for risk management resides with the executive Risk Management Committee which is comprised of the Chief Executive Officers of IGM Financial, IG Wealth Management and Mackenzie Investments, the Chief Financial Officer, the General Counsel, the Chief Operating Officer, the Chief Strategy and Corporate Development Officer and the Chief Human Resources Officer. The committee is responsible for oversight of IGM Financial's risk management process by: i) establishing and maintaining the risk framework and policy; ii) defining the risk appetite; iii) ensuring our 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 (the Internal Audit function) providing assurance and validation of the design and effectiveness of the ERM Framework.

In response to the impact of COVID-19, the Company is focusing our teams on addressing and managing COVID-19 issues and has established new committees and processes where required.

### *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 Operational Risk Management 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 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 Board Risk Committee.

### **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**

Significant risks that may adversely affect our ability to achieve strategic and business objectives are identified through our ongoing risk management process.

We use a consistent methodology across our organizations and business units to identify and assess risks, considering factors both internal and external to the organization. These risks are broadly grouped into five categories: financial, operational, strategic, business, and environmental and social.

#### **1) FINANCIAL RISK**

##### **LIQUIDITY AND FUNDING RISK**

This is the risk of an 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.

Our 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 and other business leaders.

A key funding requirement is the funding of Consultant network compensation paid for the distribution of financial products and services. This compensation continues 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 and to manage any derivative collateral requirements. 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 2021 and 2020, the Company:

- Continued to assess additional funding sources for the Company's mortgage banking operations.
- Received proceeds from the sales of the Company's investment in Personal Capital and the Quadrus Group of Funds of \$262.8 million.

The Company's contractual obligations are reflected in Table 26.

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, 2021, unchanged from December 31, 2020. The lines of credit at March 31, 2021 consisted of committed lines of \$650 million and uncommitted lines of \$175 million, unchanged from December 31, 2020. 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, 2021 and December 31, 2020, 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, 2017, was completed in May 2018. The valuation determines the plan surplus or deficit on both a solvency and going concern basis. The solvency basis determines the relationship between the plan assets and its

TABLE 26: CONTRACTUAL OBLIGATIONS

AS AT MARCH 31, 2021 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ -	\$ 13.1	\$ 15.0	\$ 0.1	\$ 28.2
Deposits and certificates	1,349.9	0.5	0.6	0.8	1,351.8
Obligations to securitization entities	-	1,324.5	4,454.5	40.5	5,819.5
Leases <sup>(1)</sup>	-	28.0	90.0	156.6	274.6
Long-term debt	-	-	-	2,100.0	2,100.0
Pension funding <sup>(2)</sup>	-	8.8	-	-	8.8
<b>Total contractual obligations</b>	<b>\$ 1,349.9</b>	<b>\$ 1,374.9</b>	<b>\$ 4,560.1</b>	<b>\$ 2,298.0</b>	<b>\$ 9,582.9</b>

(1) Includes remaining lease payments related to office space and equipment used in the normal course of business.

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2020. Pension funding requirements beyond 2021 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.

liabilities assuming that the plan is wound up and settled on the valuation date. A going concern valuation compares the relationship between the plan assets and the present value of the expected future benefit cash flows, assuming the plan will be maintained indefinitely. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$47.2 million compared to \$82.7 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2016. The decrease in the solvency deficit resulted primarily from higher assets due to contribution and investment returns and is required to be funded over five years. The registered pension plan had a going concern surplus of \$46.1 million compared to \$24.4 million in the previous valuation. The next required actuarial valuation will be based on a measurement date of December 31, 2020. During the first quarter of 2021, the Company made contributions of \$2.0 million (2020 – \$6.5 million). The Manitoba Government announced that they will temporarily waive certain contributions businesses are required to make to their defined benefit pension plans including solvency funding payments for the 13 months from December 2020 to December 2021. IGM has elected this special payment moratorium and as a result, the Company expects to only make current service cost annual contributions of approximately \$10.8 million in 2021, with \$8.8 million remaining for the rest of 2021. 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.

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, 2020.

## CREDIT RISK

This is the risk of financial loss to the Company if a counterparty to a transaction fails to meet its obligations.

The Company's cash and cash equivalents, other investment 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 and Client Funds on Deposit

At March 31, 2021, cash and cash equivalents of \$657.8 million (December 31, 2020 – \$771.6 million) consisted of cash balances of \$50.2 million (December 31, 2020 – \$76.6 million) on deposit with Canadian chartered banks and cash equivalents of \$607.6 million (December 31, 2020 – \$695.0 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$11.3 million (December 31, 2020 – \$96.0 million), provincial government treasury bills and promissory notes of \$115.9 million (December 31, 2020 – \$148.8 million), and bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$480.4 million (December 31, 2020 – \$450.2 million).

Client funds on deposit of \$1,372.2 million (December 31, 2020 – \$1,063.4 million) represent cash balances held in client accounts which are deposited at Canadian financial institutions.

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, 2020.

## Mortgage Portfolio

As at March 31, 2021, residential mortgages, recorded on the Company's balance sheet, of \$6.0 billion (December 31, 2020 – \$6.3 billion) consisted of \$5.7 billion sold to securitization programs (December 31, 2020 – \$6.0 billion), \$324.3 million held pending sale or securitization (December 31, 2020 – \$334.5 million) and \$13.3 million related to the Company's intermediary operations (December 31, 2020 – \$14.1 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 IG Wealth Management Consultants as part of a client's IG Living 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 \$3.0 billion (December 31, 2020 – \$3.2 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, 2020 – \$2.8 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$67.5 million (December 31, 2020 – \$73.0 million) and \$49.4 million (December 31, 2020 – \$45.6 million), respectively, at March 31, 2021. 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 1.9% of mortgages held in ABCP Trusts insured at March 31, 2021 (December 31, 2020 – 3.0%).

At March 31, 2021, residential mortgages recorded on balance sheet were 53.3% insured (December 31, 2020 – 55.3%). As at March 31, 2021, impaired mortgages on these portfolios were \$6.5 million, compared to \$4.8 million at December 31, 2020. Uninsured non-performing mortgages over 90 days on these portfolios were \$3.6 million at March 31, 2021, compared to \$2.3 million at December 31, 2020.

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 allowance for expected credit losses.

The Company's allowance for expected credit losses was \$0.8 million at March 31, 2021, unchanged from December 31, 2020, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience, ii) recent trends including the economic impact of COVID-19 and Canada's COVID-19 Economic Response Plan to support Canadians and businesses, iii) current portfolio credit metrics and other relevant characteristics, iv) our strong financial planning relationship with our clients, and v) 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, 2020.

### **Derivatives**

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

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

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$37.0 million (December 31, 2020 – \$35.8 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was \$2.1 million at March 31, 2021 (December 31, 2020 – \$3.8 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, 2021. Management of credit risk related to derivatives has not changed materially since December 31, 2020.

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

### **MARKET RISK**

This is the risk of loss arising from changes in the values of the Company's financial instruments due to changes in foreign exchange rates, interest rates or equity prices.

#### **Interest Rate Risk**

IGM Financial is exposed to interest rate risk on its mortgage portfolio and on certain of the derivative financial instruments used in our 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 \$11.7 million (December 31, 2020 – negative \$21.1 million) and an outstanding notional amount of \$0.7 billion at March 31, 2021 (December 31, 2020 – \$0.7 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 \$11.2 million (December 31, 2020 – \$19.9 million), on an outstanding notional amount of \$1.5 billion at March 31, 2021 (December 31, 2020 – \$1.3 billion). The net fair value of these swaps of negative \$0.5 million at March 31, 2021 (December 31, 2020 – negative \$1.2 million) is recorded on the balance sheet and has an outstanding notional amount of \$2.2 billion (December 31, 2020 – \$2.0 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. Hedge accounting is applied to the cost of funds on certain securitization activities. The effective portion of fair value changes of the associated interest rate swaps are initially recognized in Other comprehensive income and subsequently recognized in Wealth Management revenue over the term of the related Obligations to securitization entities. The fair value of these swaps was \$0.2 million (December 31, 2020 – negative \$0.3 million) on an outstanding notional amount of \$169.1 million at March 31, 2021 (December 31, 2020 – \$191.3 million).

As at March 31, 2021, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$2.2 million (December 31, 2020 – decrease of \$1.3 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2020.

#### **Equity Price Risk**

IGM Financial is exposed to equity price risk on our equity investments which are classified as either fair value through other comprehensive income or fair value through profit or loss or investments in associates. The fair value of the equity investments was \$1,579.5 million at March 31, 2021 (December 31, 2020 – \$632.3 million), as shown in Table 19.

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**

IGM Financial is exposed to foreign exchange risk on its investment in China AMC. Changes to the carrying value due to changes in foreign exchange rates is recognized in Other comprehensive income. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investments by approximately \$32.8 million (\$36.2 million).

The Company's proportionate share of China AMC's earnings, recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings, is also affected by changes in foreign exchange rates. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the Company's proportionate share of associates' earnings (losses) by approximately \$0.6 million (\$0.7 million).

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

At March 31, 2021, IGM Financial's total assets under management and advisement were \$248.5 billion compared to \$240.0 billion at December 31, 2020.

The Company's primary sources of revenues are advisory fees and asset management fees which are applied as an annual percentage of the level of assets under management and advisement. 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 and advisement 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 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.

The Company's exposure to the value of assets under management and advisement 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.

TABLE 27: IGM FINANCIAL ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

AS AT MARCH 31, 2021	INVESTMENT FUNDS	TOTAL
Cash	1.3 %	2.2 %
Short-term fixed income and mortgages	4.7	4.9
Other fixed income	24.7	24.2
Domestic equity	20.7	25.5
Foreign equity	46.0	41.3
Real Property	2.6	1.9
	100.0 %	100.0 %
CAD	52.7 %	57.9 %
USD	30.5	27.7
Other	16.8	14.4
	100.0 %	100.0 %

## 2) OPERATIONAL RISK

This is the risk of financial loss, reputational damage or regulatory actions resulting from inadequate or failed internal processes or systems, human interaction or external events. This excludes business risk, which is a separate category in our ERM framework.

We are 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.

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 Department, ERM Department and Internal Audit Department.

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 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.

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 help manage operational risk.

The Company has a crisis response plan which outlines crisis response coordination policies and procedures in the event of a crisis that could significantly impact the organization's reputation, brands or business operations. The Company executes simulation exercises on a regular basis. The Company has a crisis assessment team comprised of senior leadership who are responsible for crisis confirmation and management. In addition, this team is responsible for setting strategy, overseeing response and ensuring appropriate subject matter experts are engaged in the scenario-dependent crisis response team.

The Company also has a business continuity management program to enable critical operations and processes to function in the event of a business disruption.

For the health and safety of the Company's employees and clients and to help efforts to limit the speed and spread of the COVID-19 infection, the Company moved substantially all of its employees and Consultants to work from home and temporarily closed its offices in March 2020. The Company is continuously assessing its plan and protocols, and taking direction from external governing bodies such as the Medical Officers of Health, to determine when employees and advisors will return to the office.

The Company's business continuity plan has been effective at ensuring the Company is able to continue operations and provide client service with minimal disruptions.

## TECHNOLOGY AND CYBER RISK

We use systems and technology to support 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. The volume of these activities in our society has increased since the onset of COVID-19. 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, we have established enterprise-wide cyber security programs, benchmarked capabilities to sound industry practices, and implemented threat and vulnerability assessment and response capabilities. Extended duration of work from home programs introduces increased need to mitigate risk of potential data loss.

### **OUTSOURCING**

We regularly engage third parties to provide expertise and efficiencies that support our operational activities. Our exposure to third party service provider risk could include reputational, regulatory and other operational risks. Policies, standard operating procedures and dedicated resources, including a supplier code of conduct and outsourcing policy, have been developed and implemented to specifically address third party service provider risk. We perform due diligence and monitoring activities before entering into contractual relationships with third-party service providers and on an ongoing basis. As our reliance on external service providers continues to grow, we continue to enhance resources and processes to support third party risk management.

### **MODEL RISK**

We use 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 and reputation.

### **LEGAL AND REGULATORY COMPLIANCE**

This is the risk of not complying with laws, contractual agreements or regulatory requirements. These risks relate to regulation governing product distribution, investment management, accounting, 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 the management and provision of financial products and services, including securities, 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 continually evolve. 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 Executive Vice-President, General Counsel. The Company 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 Board 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 references many policies relating to the conduct of directors, officers and employees. Other corporate policies cover anti-money laundering and privacy. Training is provided on these policies on an annual basis. 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's Compliance Departments are responsible for providing oversight of all regulated compliance activities. The Internal Audit Department also provides oversight concerning regulatory compliance matters.

### **PRIVACY**

Our clients entrust us with their personal information, and we have a legal and ethical responsibility to protect it. In accordance with Canadian privacy laws, we collect only personal information that is necessary to provide our products and services to clients, or where we have consent to do so. We do not disclose personal information about clients unless required by law, when necessary to provide products or services to them, or as otherwise authorized by them.



If we need to share clients' personal information with third-party service providers, we remain responsible for that information and protect it through contracts that commit the service providers to maintain levels of protection comparable to ours.

Our operating companies have comprehensive procedures to respond to any privacy breaches, mitigate risks and prevent re-occurrence. If a breach is determined to pose a real risk of significant harm to a client, we will notify the individual, and the federal and/or provincial Privacy Commissioner where applicable, in a timely manner.

Privacy is covered in our annual, mandatory compliance training for employees. Topics include our privacy obligations, privacy tips and best practices, and how to handle privacy breaches, complaints and access to information requests. Each operating company also has its own Privacy Officer, who provides guidance to staff and manages our response to privacy concerns.

Each operating company has its own privacy-related procedures relevant to its business and we have an overarching Privacy Policy applicable across IGM Financial. We also conducted training for advisors and IG field staff on handling client privacy and security during the pandemic, and issued guidelines to all employees on how to protect client personal information and confidential business documents while working from home.

### **CONTINGENCIES**

The Company is subject to legal actions arising in the normal course of its business. In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie which alleges that the company should not have paid mutual fund trailing commissions to order execution only dealers. 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) STRATEGIC RISK**

This is the risk of potential adverse impacts resulting from inadequate or inappropriate governance, oversight, management of incentives and conflicts, regulatory developments and strategy.

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 our shareholders.

Oversight of IGM Financial is performed by the Board of Directors directly and through its five 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.

We have 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.

### **REGULATORY DEVELOPMENT RISK**

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

We are 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.

The Company continuously monitors regulatory developments, guidance and communications, and has been engaged in ongoing discussions with regulators as the industry works to address issues resulting from COVID-19.

### **ACQUISITION RISK**

The Company is exposed to risks related to its acquisitions and strategic investments. 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) BUSINESS RISK

##### GENERAL BUSINESS CONDITIONS

This risk refers to the potential for unfavourable impacts 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 geopolitical risk 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 and volatility 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.

To manage this risk, the Company, across its operating subsidiaries, communicates with clients and underscores 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 28 and are discussed in the Wealth Management and the Asset Management Segment Operating Results sections of this MD&A.

##### CATASTROPHIC EVENTS OR LOSS

Catastrophic events or loss refers to the risk that events such as earthquakes, floods, fire, tornadoes, pandemics, or terrorism could adversely affect the Company's financial performance.

Catastrophic events can cause economic uncertainty, affect investor confidence, income levels and financial planning decisions. This could affect the level and volatility of financial

markets and the level of the Company's assets under management and advisement.

The global COVID-19 pandemic has caused economic disruption, adversely impacted economic conditions, has caused significant volatility in the level of financial markets, and has increased unemployment in Canada and globally.

In response, the Company has implemented its business continuity plans and has transitioned substantially all of its employees and Consultants to working from home.

It is difficult to predict how significant the COVID-19 pandemic and government measures taken in response will be to world economies, our clients and our business. This event could have a material impact on the financial positions and results of the Company, subject to duration and severity.

##### PRODUCT / SERVICE OFFERING

This risk refers to the 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 investment performance, 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 further discussion.

We provide 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.

We strive to deliver strong investment performance on our products relative to benchmarks and peers. Poor investment performance relative to benchmarks or peers could reduce

TABLE 28: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2021 MAR. 31	2020 MAR. 31
<b>IGM Financial Inc.</b>		
IG Wealth Management	9.7 %	10.7 %
Mackenzie	16.5 %	17.0 %
Counsel	22.3 %	20.7 %

the level of assets under management and sales and asset retention, as well as adversely impact our brands and reputation. Meaningful and/or sustained underperformance could affect the Company's results. Our objective is to cultivate investment processes and disciplines that give us a competitive advantage, and we do this by diversifying our assets under management and product shelf by investment team, brand, asset class, mandate, style and geographic region.

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

This risk refers to the potential for unfavourable impacts on IGM Financial resulting from changes to key business or client relationships. These relationships primarily include IG Wealth Management clients and Consultants, Mackenzie retail distribution, strategic and significant business partners, clients of Mackenzie funds, and sub-advisors and other product suppliers.

*IG Wealth Management Consultant network* – IG Wealth Management derives all of its mutual fund sales through its Consultant network. IG Wealth Management 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 IG Wealth Management's results of operations and business prospects. IG Wealth Management 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 Wealth Management Review of the Business section of this MD&A.

*Asset Management* – 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. Lack of 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 Asset Management Review of the Business section of this MD&A.

#### **PEOPLE RISK**

This risk refers to the potential inability to attract or retain employees or Consultants, develop them to an appropriate level of proficiency, or manage engagement and 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 negatively affect IGM Financial's business and financial performance.

We have a Diversity and Inclusion Strategy with the purpose of driving an inclusive, equitable and consistent experience for employees and clients that supports our business objectives now and into the future. To achieve the desired outcomes, we focus on three pillars of action: raising awareness; improving inclusive leadership behaviours; and building external partnerships and community engagement.

COVID-19 has caused significant disruption in peoples' lives both professionally and personally. The Company's actions have included:

- Implementing a work at home strategy to maintain social distance for our employees and Consultants.
- Providing the tools and processes to enable our employees and Consultants to continue to operate effectively from home.
- Providing Employee Assistance Programs and other programs to support the mental and physical well-being of our employees, Consultants, and their families.
- Developing a return to office strategy to safely allow employees and advisors to return to the office when appropriate.

#### **5) ENVIRONMENTAL AND SOCIAL RISK**

This is the potential for financial loss or other unfavourable impacts resulting from environmental or social issues connected to our business operations or investment activities.

Environmental risks include issues such as climate change, biodiversity, pollution, waste, and the unsustainable use of energy, water and other resources. Social risks include issues such as human rights, labour standards, diversity and inclusion, and community impacts.

IGM Financial has a long-standing commitment to responsible management, as articulated in our Corporate Sustainability Statement approved by the Board of Directors. The Board's risk management oversight includes ensuring that material environmental and social risks are appropriately identified, managed and monitored.

The Company's executive Risk Management Committee is responsible for oversight of the risk management process. Other

management committees provide oversight of specific risks including the Corporate Sustainability (CS) Committee and the Diversity and Inclusion Executive Council. The CS Committee is composed of senior executives who are responsible for ensuring implementation of policy and strategy, establishing goals and initiatives, measuring progress, and approving annual reporting for environmental, social and governance (ESG) matters.

Our commitment to responsible management is demonstrated through various mechanisms. These include our Code of Conduct for employees, contractors, and directors; our Supplier Code of Conduct for the firms that do business with us; our Respectful Workplace Policy; our Diversity Policy; our Environmental Policy; and other related policies.

IG Wealth Management and Mackenzie Investments are signatories to the Principles for Responsible Investment (PRI). IG Wealth Management sub-advisors were also required to be signatories to the PRI by the end of 2019. Under the PRI, investors formally commit to incorporate ESG issues into their investment decision making and active ownership processes. In addition, IG Wealth Management, Mackenzie Investments and Investment Planning Counsel have implemented Responsible Investment Policies outlining the practices at each company.

IGM Financial reports annually on ESG management and performance in its Corporate Sustainability Report available on our website. The Company has been recognized for demonstrating strong ESG performance through positions earned on the FTSE4Good Index Series, Jantzi Social Index, Corporate Knights' 2021 Global 100 and Best 50 Corporate Citizens, and has been recognized by CDP at the leadership level for the past four years for its climate disclosures.

We believe that financial services companies have an important role to play in addressing climate change.

IGM Financial is a long-standing participant in the CDP (formerly Carbon Disclosure Project), which promotes corporate disclosures on greenhouse gas emissions and climate change management including setting and monitoring emission reduction targets. We have been recognized by CDP at the leadership level for the past three years for our climate disclosures.

Global practices are continually evolving relating to the identification, analysis, and management of climate risks and opportunities. The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) was established in response to investor demand for enhanced information on climate-related risks and opportunities. IGM Financial and its operating companies support the TCFD recommendations which include a framework for consistent, voluntary climate-related financial disclosures that provide decision-useful information to investors, analysts, rating agencies and other stakeholders.

## TCFD DISCLOSURE

The TCFD recommends that organizations disclose information about climate-related risks and opportunities in four areas: governance, strategy, risk management, and metrics and targets. Full implementation of TCFD will be a multi-year journey.

**Governance:** IGM Financial's Board is responsible for providing oversight on risk and strategy, which includes climate-related matters. Through its Risk Committee, the Board is responsible for ensuring that material climate-related issues are appropriately identified, managed and monitored. Our Chief Financial Officer (CFO) oversees implementation of the Corporate Sustainability and Enterprise Risk Management programs. We have established an enterprise wide TCFD Working Group of senior leaders to lead the planning and implementation of the TCFD recommendations. This working group is focused on enhancing our knowledge and tools to quantify climate risks in tandem with our industry, further integrating climate into our business strategy, operations and product offering, evolving our engagement approach with investee companies, and addressing increased disclosure expectations.

**Strategy:** Climate-related opportunities are identified and assessed within IGM Financial through our business planning processes which define our strategic priorities, initiatives and budgets. In addition to our commitments described above to be responsible investors through engagement and integration of material climate issues into our investment processes, we also offer investment products with specific environmental or social mandates.

At Mackenzie Investments, sustainable investing is one of our key areas of strategic emphasis, and we have established a dedicated function which reports to the CEO. We also have an investment boutique, Greenchip, which is exclusively focused on thematic investing to fight climate change.

At IG Wealth, we have integrated environmental and climate issues into our sub-advisory selection and oversight processes, and have requirements for all sub-advisors to our product offering to be UN PRI signatories. We have a Sustainable and Responsible Investing Committee whose responsibilities include incorporation of climate change awareness and management into our product and service offerings, and we have established education and communication programs for our financial planners.

**Risk Management:** Assessment and management of climate-related risks is integrated into our ERM framework. At Mackenzie Investments, our boutique investment teams are each responsible for determining when and how climate change is material and how to incorporate transition and physical risks into their investment process. The teams have access to ESG data tools and a service provider for comprehensive global

investor engagement who places a priority on climate change engagement. To help aid in the assessment of material climate risks and opportunities, Mackenzie Investments is in the process of implementing the Sustainability Accounting Standards Board framework and a tool to enhance climate data and analytics. We are following the development of climate scenario tools for our industry in order to incorporate scenario planning to enhance our understanding of how our clients and the Company will be impacted by various climate change scenarios.

**Metrics and Targets:** We set, monitor and report on climate change-related metrics and targets annually in our CDP response and our CS Report which are available at [igmfinancial.com/en/corporate-sustainability](http://igmfinancial.com/en/corporate-sustainability). We are reviewing tools to expand our reporting of emissions metrics in our investment portfolios. We have set emission reduction and renewable energy targets in our operations and are on track to meet these goals. As we continue to develop our climate strategy, we will review our targets to continue measuring our progress.

## The Financial Services Environment

Canadians held \$5.0 trillion in discretionary financial assets with financial institutions at December 31, 2019 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% (\$3.3 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 \$1.7 trillion held outside of a financial advisory relationship, approximately 61% consisted of bank deposits.

Financial advisors represent the primary distribution channel for IGM Financial's products and services, and the core emphasis of our 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. We actively promote 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 41% of Canadian discretionary financial assets or \$2.0 trillion resided in investment funds at December 31, 2019, 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 \$168 billion in investment fund assets under management at March 31, 2021, IGM Financial is among the country's largest investment fund managers. We believe that investment funds are likely to remain the preferred savings vehicle of Canadians. They offer 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.

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, that 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 47% of total industry long-term mutual fund assets at March 31, 2021.

The Canadian mutual fund industry continues to be very concentrated, with the 10 largest firms and their subsidiaries representing 73% of industry long-term mutual fund assets and 73% of total mutual fund assets under management at March 31, 2021. We anticipate continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

We believe 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 continues 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.
- A highly competitive landscape.
- Advancing and changing technology.

## THE COMPETITIVE LANDSCAPE

Our subsidiaries IG Wealth Management and Investment Planning Counsel compete directly with other retail financial service providers in the advice segment, including other financial planning firms, as well as full service brokerages, banks and insurance companies. Our asset management subsidiary, Mackenzie Investments, competes directly with other investment managers for assets under management, and our products compete with stocks, bonds and other asset classes for a share of Canadians' investment assets.

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

IGM Financial continues to focus on our commitment to provide quality investment advice and financial products, service innovations, effective and responsible management of the

Company and long-term value for our clients and shareholders. We are midway through a five-year transformation to modernize our digital platforms and technology infrastructure to enhance operations, achieve efficiencies and improve the service experience for our clients. We believe that IGM Financial is well-positioned to meet competitive challenges and capitalize on future growth opportunities.

Our competitive strength includes:

- Broad and diversified distribution through more than 35,000 financial advisors, with an emphasis on comprehensive financial planning.
- 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 Corporation group of companies.

#### **BROAD AND DIVERSIFIED DISTRIBUTION**

In addition to owning two of Canada's largest financial planning organizations, IG Wealth Management 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 global manufacturing and distribution entities to provide investment management services.

#### **BROAD PRODUCT CAPABILITIES**

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

#### **ENDURING CLIENT RELATIONSHIPS**

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

#### **PART OF THE POWER CORPORATION GROUP OF COMPANIES**

As part of the Power Corporation 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, 2020 except as follows:

- *Employee benefits* –The Company maintains a number of employee benefit plans. These plans include a funded registered defined benefit pension plan (RPP) for all eligible employees, unfunded supplementary executive retirement plans for certain executive officers (SERPs) and an unfunded post-employment health care and life insurance plan for eligible retirees.

Discount rates have increased significantly since December 31, 2020. The discount rate on the Company's RPP at March 31, 2021 was 3.50% compared to 2.70% at December 31, 2020. The pension plan assets increased to \$518.6 million at March 31, 2021 from \$517.0 million at December 31, 2020. The total defined benefit pension plan obligation was \$554.1 million at March 31, 2021 compared to \$650.1 million at December 31, 2020. The defined benefit pension plan had

an accrued benefit liability of \$35.5 million at March 31, 2021 compared to \$133.1 million at December 31, 2020. Total gains recorded in Other comprehensive income, including the defined benefit pension plan, the SERPs and post-employment benefit plans, were \$113.9 million (\$83.1 million after tax) for the three months ended March 31, 2021.

### CHANGES IN ACCOUNTING POLICIES

IGM Financial has not adopted any changes in accounting policies in 2021.

### 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.

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 2021, 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.

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## Other Information

### TRANSACTIONS WITH RELATED PARTIES

There were no changes to the types of related party transactions from those reported at December 31, 2020. For further information on transactions involving related parties, see Notes 8, 26 and 29 to the Company's Annual Financial Statements.

### OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at March 31, 2021 totalled 238,382,528. Outstanding stock options as at March 31, 2021 totalled 13,020,192 of which 7,269,091 were exercisable. As at April 30, 2021, outstanding common shares totalled 238,454,705 and outstanding stock options totalled 12,948,015 of which 7,196,914 were exercisable.

### 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).