

IMR Update on Mackenzie's Acquisition of GLC

Executive Summary:

This update discusses the Investment Manager Research (IMR) team's ongoing analysis of Mackenzie Financial's (Mackenzie) decision to acquire GLC Asset Management Group Ltd. (GLC), previously announced on August 4th, 2020. IMR considers this to be a material event affecting the ownership of two investment managers on our platform. This acquisition immediately sets in motion our IMR process, resulting in a comprehensive evaluation of the event. While material, the IMR Committee, based on its exclusive interviews with senior leaders of Mackenzie and GLC, has confidence that this transaction will strengthen the overall capabilities of the combined Mackenzie-GLC asset manager. We are comfortable that it will result in minimal disruption to the management of those funds currently managed by GLC. Our view is supported by the following three key reasons:

1. **Transaction is internal:** The nature of the deal is unique relative to other industry transactions given the shared ownership of both firms by Power Financial, versus involving a third-party acquirer. The two firms will continue to be key partners and have a vested interest in making the deal successful, with minimal disruption. Given the strong partnership that already exists, Canada Life, GLC and Mackenzie have been at the discussion table throughout the negotiations to ensure not only minimal disruption to the Canada Life investments products, but also with the focus on enhancing an already strong platform.
2. **No changes as a result of this announcement:** In speaking with Mackenzie and GLC, they have confirmed that there will not be any immediate changes to any GLC-managed funds or fund managers as a result of this transaction as the deal is still pending regulatory approval and is expected to close in Q4 2020. Upon closing we do not expect material changes in the way the investment mandates are managed for mutual funds and segregated funds for which GLC serves as investment manager. This transaction was motivated by complementary capabilities and relationships, and not motivated by cost savings. Mackenzie will look to reinforce both firms' respective strengths while deepening their collective competitiveness, and where possible work to minimize any disruption or change. Once this assessment is complete, if any changes will result, they will then be announced.
3. **Maintaining distinctiveness:** Given Mackenzie's multi-boutique structure, it is our expectation that the majority of the mandates currently managed by the four investment teams from GLC (GWLIM, Laketon, London Capital and Portico) will continue to be managed using the same or a similar investment style and within the guidelines of the current investment policy statements.

The IMR team will continue to closely monitor the situation, and any further developments. As we approach the close of the transaction in Q4 2020, we will apply the IMR's rules-based approach to assess any associated impact to the funds and their unitholders as a result of the transaction. We will provide an updated IMR assessment and opinion at that time. There are no changes to the IMR grades applied to the affected GLC funds as a result of this announcement and based on our initial assessment.

Background

The Announcement

To recap, on August 4th, Great-West Lifeco Inc. announced it had reached an agreement to sell its Canadian asset management subsidiary, GLC Asset Management Group Ltd. (GLC) to Mackenzie Financial Corporation (Mackenzie) for cash consideration of C\$175 million. As part of the deal, Canada Life will acquire the fund management contracts related to the private label Quadrus Group of Funds from Mackenzie for C\$30 million cash consideration.

The asset manager's sale to Mackenzie includes:

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- GWL Investment Management
- London Capital Management
- Laketon Investment Management
- Portico Investment Management

The addition of these four investment boutiques, representing C\$36 billion in AUM, will increase Mackenzie's total AUM to C\$172 billion, making it one of Canada's largest asset managers. The transaction is expected to close in the fourth quarter of 2020, subject to regulatory approval. Note, Portfolio Solutions Group is not included in the transaction and will remain as part of Canada Life.

This deal allows Mackenzie to improve its position as one of Canada's leading asset managers, now ranking among the top 10 firms in the country as illustrated below:

Top 10 Asset Managers	Canadian AUM (12/31/19) (C\$Bil)
RBC GAM	355.5
TDAM	351.0
Blackrock	217.1
Sunlife Capital Management (Canada)	207.2
CIBC AM	182.8
Mackenzie/IGM*	172.0* (up from 136)
Brookfield Asset Management	155.6
Fidelity Investments (Canada)	142.6
CI Investments	132.1
Manulife Investment Management	125.6
Fiera Capital	102.0

*Includes \$36 billion in GLC assets and only includes assets where Mackenzie investments is listed as the manager. This number is up from approx. \$136 million at December 30, 2019.

Investment Manager Review Process

The IMR process is responsible for overseeing, monitoring, and evaluating the \$80+ billion of AUM across Canada Life's Group and Individual Customer investment platforms. The IMR team's objective and independent review process considers both qualitative and quantitative elements in its evaluation of funds on our wealth platforms. The qualitative assessment includes an in depth and detailed analysis of six core elements including: firm (including ownership), investment team, investment process, risk and portfolio construction, and legal and compliance resourcing. The IMR process immediately (and automatically) is set in motion with any material event and a comprehensive evaluation is conducted. The final output of the IMR process is an established grade for each fund on the platform, semi-annually at the end of June and December reporting periods.

IMR Key Findings

When the transaction was announced, the IMR team immediately reached out to the impacted firms and leaders: Tony Elavia, (EVP & CIO, Mackenzie) and Ron Hanson, (CIO & President, GLC) to gain further insight into the details of the transaction. The following highlights our key findings from this meeting and our assessment of the deal at this stage:

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GLC Asset Management

GLC Asset Management (GLC) is a leading investment management firm with a legacy going back over 50 years, which previously operated as a subsidiary of Canada Life. GLC works with some of Canada's largest financial institutions to manage fund strategies for individual, group and institutional marketplaces. Each of the investment management divisions within GLC has a distinct investment approach and offers expertise within specialized areas of investment management.

- GWL Investment Management (GWLIM) management style blends top-down macro-analysis with bottom-up fundamental stock research across the market cap spectrum
- London Capital Management's bottom-up, quantitative-approach underpins both stock selection and portfolio construction
- Laketon Investment Management does a deep dive analysis and dynamic financial modeling of companies to select large cap holdings within concentrated portfolios
- Portico Investment Management manages risk and captures incremental gains within the fixed-income market through an integrated multi-factor approach

Mackenzie Financial

Mackenzie Investments (Mackenzie) is a leading Canadian asset management firm that is responsible for AUM of C\$172 billion. The firm is structured as a multi-boutique, allowing each of its investment teams to operate independently, with distinct investment philosophies and differentiated expertise. In total, there are 14 investment boutiques that comprise Mackenzie's stable of managers. The firm also benefits from its ownership structure, which provides financial strength and a global footprint while maintaining a dedicated focus on investment management akin to a smaller boutique firm.

From an IMR perspective, based on the several mandates which are already on the Group/Individual client platforms, Mackenzie has several strengths within their line-up prior to the transaction. For example, the fixed income capabilities under Steve Locke and team, high conviction equity mandates managed by Bluewater, small/mid cap U.S. growth strategies managed by Phil Taller and lastly the conservative foreign equity mandates managed by the Ivy team. Adding additional capabilities from GLC will only enhance the investment management capabilities at Mackenzie and ultimately strengthen the line-up.

An Industry in Consolidation

Consolidation has been a prevalent theme throughout the asset management industry globally including Canada, and just over the last five years alone we have seen considerable deal making as these firms look to enhance their competitive position. Notable examples include Franklin Templeton's acquisition of Brandywine (2020) through the acquiring of Legg Mason, Scotiabank's acquisition of Jarislowsky Fraser (2018), TD's acquisition of Greystone (2018), Sun Life's acquisition of emerging markets specialist firm Excel Funds (2017), and CI Financial's acquisition of Sentry Investments (2017). Mackenzie's purchase of GLC is in line with this trend. In our view, consolidation will only continue given the competitive forces in the marketplace, the importance of scale. To compete effectively in the asset management space requires a global footprint, and investment management excellence in key asset classes that are desirable in the market.

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Investment Manager Review Analysis & Opinion

While material, the IMR Committee, based on its exclusive interviews with senior leaders of Mackenzie and GLC, has confidence that this transaction will strengthen the overall capabilities of the combined Mackenzie-GLC asset manager and comfort that it will result in minimal disruption regarding the management of those funds currently managed by GLC. Our view is supported by the following three key reasons:

1. **Transaction is internal:** The nature of the deal is unique relative to other industry transactions given the shared ownership of both firms by Power Financial, versus involving a third-party acquirer. The two firms will continue to be key partners and have a vested interest in making the deal successful, with minimal disruption. Given the strong partnership that already exists, Canada Life, GLC and Mackenzie have been at the discussion table throughout the negotiations to ensure not only minimal disruption to the Canada Life investments products, but also with the focus on enhancing an already strong platform.
4. **No changes as a result of this announcement:** In speaking with Mackenzie and GLC, they have confirmed that there will not be any immediate changes to any GLC-managed funds or fund managers as a result of this transaction as the deal is still pending regulatory approval and is expected to close in Q4 2020. Upon closing we do not expect material changes in the way the investment mandates are managed for mutual funds and segregated funds for which GLC serves as investment manager. . This transaction was motivated by complementary capabilities and relationships, and not motivated by cost savings. Mackenzie will look to reinforce both firms' respective strengths while deepening their collective competitiveness, and where possible work to minimize any disruption or change. Once this assessment is complete, if any changes will result, they will then be announced.
5. **Maintaining distinctiveness:** Given Mackenzie's multi-boutique structure, it is our expectation that the majority of the mandates currently managed by the four investment teams from GLC (GWLIM, Laketon, London Capital and Portico) will continue to be managed using the same or a similar investment style and within the guidelines of the current investment policy statements.

The nature of the deal is unique relative to other similar transactions given the shared ownership of both firms by Power Financial, versus this involving a third-party acquirer. The two firms are key partners and have a vested interest in making the deal successful. The Canada Life Product team, GLC and Mackenzie have been at the discussion table to ensure not only minimal disruption to the Canada Life investments platform, but more importantly with the focus on enhancing the overall platform and ultimately improving our competitive position.

Key members of the IMR team met with the CIOs of Mackenzie and GLC immediately following the announcement. The CIOs communicated their excitement with what the deal brings both entities and gave us their commitment to provide an open line of communication and updates as soon as regulatory approval and the deal closes. More importantly we gained comfort with the fact that with CIOs will provide us with any new details as they become available.

As a dedicated fund manager, the combined investment capabilities of Mackenzie and GLC will provide additional resources in the management of Canada Life products, and will bring scale. GLC highlights that this singular focus on investing under a larger asset manager (Mackenzie) is a strategic advantage, allowing both firms to broaden the resources available to them, and enhance their pedigree and relevance with their trading partners. This is particularly true in fixed income, where the addition of Portico's C\$16 billion in AUM will bring Mackenzie's total fixed income franchise to nearly C\$60 billion, among the largest in Canada.

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Mackenzie's multi-boutique structure, which allows dedicated investment teams to operate with distinct investment philosophies and processes, should permit GLC to integrate into the organization while playing to both firm's strengths.

The addition of GLC's four boutique investment management teams to Mackenzie's suite of independent managers will also bring with them a large client base in the group retirement market, establishing Mackenzie as one of the top providers in Canada of investment solutions to defined contribution plans and other group retirement offerings, a growing and important market segment.

The Portfolio Solutions Group (PSG) will remain within the Canada Life organization, subject to first obtaining all necessary registrations and other regulatory approvals. PSG will continue to focus on its solutions-oriented mandate as overseer of the asset allocation funds on Canada Life's platform. As PSG is remaining under the Canada Life organization, which also houses our IMR Team, both teams will collaborate in the sharing of ideas/best practices with fund selection and asset allocation.

Our early discussions with the leaders of the two organizations indicate that the majority of assets currently managed by GLC will not experience any material changes in the way that they are managed. This transaction was motivated by complementary capabilities and relationships, and not motivated by cost savings. Mackenzie will look to reinforce both firms' respective strengths while deepening their collective competitiveness, and where possible work to minimize any disruption or change. As these plans continue to develop, we will be actively engaging with Mackenzie and providing timely updates as information becomes available.

There is clear value in combining the two entities, which diversifies the overall investment capabilities available to both firms, enhances scale, and broadens the reach of both firms in the institutional, group retirement and retail distribution channels.

As a result of our review to date, we are comfortable with this transaction, and will not be putting any of the GLC mandates "Under Review" as a result of this transaction. As further developments are communicated to us we will use our rules-based approach to assess the impact to the funds and their unitholders. Ultimately, the IMR team will issue a report on our findings and fund grades for any of the impacted funds as a result of this event upon completion of the IMR review or the close of the transaction, whichever is earlier. A summary of current grades of each of the impacted GLC teams and mandates are included in the appendix.

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APPENDIX I – PRODUCTS AND GRADES OF GLC MANDATES ACQUIRED BY MACKENZIE AS AT 6/30/2020

Fund	GPAS	Canada Life Top Shelf	Final Grade
Diversified (GWLIM)	LDG	Yes	
Balanced Index Fund (GWLIM)	LBIG		
Canadian Equity (GWLIM)	LCEG	Yes	
Canadian Resources Fund (GWLIM)	LCRAG		
Dividend (GWLIM)	LDVDG	Yes	
Equity/Bond Fund (GWLIM)	LEBG		
Canadian Equity Index Fund (GWLIM)	LEIG		
SRI Canadian Equity (GWLIM)	LLEG	Yes	
Mid Cap Canada (GWLIM)	LMCCG	Yes	
SRI Balanced Fund (GWLIM)	SRBAL		
U.S. Dividend (GWLIM)	USDVG	Yes	
U.S. Index Registered (GWLIM)	USIXG		
Canadian Value Equity Fund (Laketon)	LLCNE		
Canadian Equity Fund (Laketon)	S002		
Canadian Dividend (Laketon)	S039	Yes	
Global Infrastructure Equity (London Capital)	GINFL	Yes	
Global Monthly Income Fund (London Capital)	LBMK		
Canadian Low Volatility (LC)	LLCMK	Yes	
Diversified Fund (London Capital)	LLDIV		
U.S. Mid Cap Fund (London Capital)	LLMCG		
Science & Technology Fund (London Capital)	LLSTG		
U.S. Equity Fund (London Capital)	LLUSE		
U.S. Large Cap Equity Fund (London Capital)	LUSEG		
North American Balanced Fund (London Capital)	PBA		
U.S. Value (London Capital)	S178		
Corporate Bond (Portico)	CORBP	Yes	
Canadian Bond Fund (Portico)	LCBG		
Canadian Bond Universe Index Fund (Portico)	LCBIL		
Government Bond (Portico)	LGBG		
Income (Portico)	LIG	Yes	
Core Bond (Portico)	LLBON	Yes	

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Money Market (Portico)	LLMON	Yes	
Core Plus (Portico)	S019		
Money Market (LK) Fund (Portico)	S029		
SRI Bond (Portico)*	SRBP	Yes	
Short Term Bond (Portico)	STBP	Yes	

Sep 11, 2020