# CI FINANCIAL 2010 SECOND QUARTER RESULTS CONFERENCE CALL

## AUGUST 10, 2010

OPERATOR: Good afternoon. My name is Krista, and I will be your conference operator today.

At this time, I would like to welcome everyone to the CI Financial 2010 Second Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key.

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EBITDA, earnings before interest, taxes, depreciation, amortization, adjusted EBITDA, pre-tax operating earnings and adjusted income are

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I would now like to turn the call over to Mr. William Holland, CEO of CI Financial. Mr. Holland, you may begin the conference.

WILLIAM HOLLAND (CEO, CI Financial): Thank you very much, Krista, and good afternoon, everyone.

The second quarter of 2010 was really very good on all fronts. It was relatively uneventful, and it marked the fifth consecutive quarter of increasing average assets under management coming out of the 2008/2009 fair market.

Average retail assets under management for the quarter was $63.5 million, up 18 percent year over year. More impressively, net income was $89 million, up from $53 million the previous year, 68 percent. Earnings per share were $0.31, up 72 percent. EBITDA per share was $0.60 for the

quarter, up 40 percent year over year, and our pre-tax operating earnings were $0.52 per share, and that was up 24 percent year over year.

We obviously benefited from the rising tide of a stock market that was on quite a tear, but we also had tremendous accomplishments on the cost containment side. Our SG&A (selling, general and administrative expenses) as a percentage of retail assets under management (AUM) was 40 percent, down 11 percent from the same quarter in 2009.

For the year, we increased our market share to 9.4 percent. Our gross debt declined from $872 million last year to $670 million at the end of the second quarter, down 23 percent. Our gross sales for the first half of the year were $5.4 billion, up 21 percent, and our net sales for the first half of the year were $1 billion, which was up 19 percent from the previous year.

If you look at our sales to the end of July and put them into historical perspective, our $6.2 billion in gross sales puts us just about in line with the best gross sales year that we've had. Our net sales of $1.2 billion for the first seven months puts us just about in line for the average net sales over the last six years.

Looking briefly at margins, our EBITDA margin for the second quarter was 48.6 percent, a historic high for us and up from 47.3 percent during the second quarter of 2009. Our pre-tax income margin, also at or

very close to all-time highs of 33.9 percent, was up from 30.6 percent last year.

During the second quarter, CI generated cash flow from operations of $152 million. Of that, $37 million was spent on new commissions. $63 million was spent to buy back our shares, and we paid dividends out of $54 million. This is in keeping with what we have said over the last decade, that we would get the earnings of the company out to the owners as quickly and as most tax-efficiently as we can.

A few final thoughts before I take questions. First of all, I would say in the last quarter we have made considerable progress identifying and being offered business opportunities with our largest shareholder, the Bank of Nova Scotia and, in fact, have had some business with them in the last week.

Secondly, later this month we will be launching our new family of segregated funds, called SunWise Essentials, ensuring that we maintain our leadership in this very important part of our business. Our assets today are up 5 percent from the second quarter, the second quarter's ending assets. We had net sales in July of $194 million. Also on the good news front, our corporate tax rate will decline from 30.9 percent in 2010 to 28.2 percent in 2011, obviously very positive for our free cash, and we intend to use that to continue to aggressively buy back our shares.

At this point, I think I will stop and take any questions people have. Operator?

OPERATOR: At this time, I would like to remind everyone, in order to ask a question, please press star, then the number one on your telephone keypad.

Our first question comes from the line of John Reucassel from BMO Capital Markets. Your line is open.

JOHN REUCASSEL: Thank you. Bill, just a question on the new Sun Life seg funds. Is the nature of this relationship with Sun Life any different than the one you have with the current seg fund lineup?

WILLIAM HOLLAND: If your question is, do we get paid less than we did in the last series that we launched, the answer is yes.

JOHN REUCASSEL: So is it a sub-advisor relationship?

WILLIAM HOLLAND: No.

JOHN REUCASSEL: Okay.

WILLIAM HOLLAND: But our margins, like all products that we do, are lower this time around than last time.

JOHN REUCASSEL: Okay. Two follow-up questions. First, you've done a great job on costs. Can the SG&A relative to AUM ratio really go much below 40 basis points or not? And then maybe could you talk more broadly about what are realistic growth expectations for, I guess, the industry and CI, within that context, on AUM and EBITDA?

WILLIAM HOLLAND: Well, let me start off by pointing out that 40 basis points that we identify as our SG&A actually includes the whole dealership of Assante as well.

I would say that over half of the companies that we compete with charge more than that just for their ER (expense ratio) and their MER (management expense ratio). And so when you consider this includes our ER, our money management, our corporate overhead and our SG&A, I would say that it is unlikely that that number can be improved upon unless we had considerably more assets.

I think the other question you say is, what is a reasonable growth rate.

JOHN REUCASSEL: For a non-bank mutual fund company or non-bank operator, what are the realistic growth expectations for the business? Is it a growth business, and where does CI fit into that, the industry there?

WILLIAM HOLLAND: I think it's a growth business for the top three or four companies. Whether it's -- and if you're just talking about growth from earnings -- on an earnings basis or a free cash flow basis, which is all we would ever look at, I would say that it's clearly more strained than it's been, but there's an opportunity for three or four of the largest fund companies that are non-banks to do very well.

And so when I look at our sales -- and the reason why I show that third or fourth slide where it just shows historical sales, from 2005 on, our

sales have averaged around $2 billion, and I actually think that's what we averaged during a reasonable cycle.

And so can you, in fact, if that works out to being just a little under 3 percent and the market gives you 5 percent, are you looking at an 8 percent growth business? I think that's not unreasonable, but every product that you offer has to be profitable in order to grow your assets or your business by 8 percent. Your asset level doesn't also mean you're growing your earnings by 8 percent. As you can see, there's been a ton of pressure on the top line of fund companies over the last three or four years.

JOHN REUCASSEL: Okay, last question. Are the IROC and MFDA channels and the planner channel and broker channel, are they still growing or are they contracting, or how should we look at those channels going forward? Or are you getting all that growth from Essentials and BNS?

WILLIAM HOLLAND: I think that you have to look at the IROC channel, if you look at just the traditional brokers, it's clearly a business that we don't depend on for net sales. We have not had net sales in the IROC channel since 2000. Within the financial planning business, while a very much declining business, we do very, very well, so we get a lot of business still in the financial planning business, but most of our business overwhelmingly comes from Assante.

JOHN REUCASSEL: Great. Thanks, Bill.

OPERATOR: Your next question comes from the line of Geoff Kwan from RBC Capital Markets. Your line is open.

GEOFF KWAN: Hi, just had one question. It seems like we've been talking for several quarters now, kind of waiting for investors to come back and buy some of the longer-term equity funds. And given the way that the markets are right now, or maybe how are you looking at it, and do you think that means there may be a semi-permanent shift in terms of what investors are willing to buy and if that's something that you're willing to consider in terms of tweaking the product lineup?

WILLIAM HOLLAND: Well, we wouldn't have to tweak the product lineup because we have every product you could possibly fathom. Do I think that there's a permanent shift in the way that investors think about investing? I think "permanent" is probably too strong a word, but I think that there's still a reluctance. I think that in any market, any investor that's seen the stock market drop by almost 70 percent twice in seven years is going to be scared.

We're seeing a lot more fixed-income type and balanced type fund sales than you would ever expect after a rally like this. The tone of the sales was improving up until the middle of June when the market started to really kind of fall off a cliff for a while, and I would say that if the market stayed at and above these levels, that we would probably see a pretty

decent improvement of July/August sales and in September, October, November.

GEOFF KWAN: So it'd be more of trying to sell the existing products that you have rather than finding other complementary niche products to launch into the fund categories that are selling. Is that a fair way to think about it?

WILLIAM HOLLAND: Yes. If you really want to meaningfully change your sales, you change your compensation. Every fund company has every type of fund. I don't think that there's any room for a category-killer to come into the market and get business. That just doesn't exist anymore.

GEOFF KWAN: Okay, thank you.

OPERATOR: Your next question comes from the line of Steven Bowen (phon) from GMP Securities. Your line is open.

STEVEN BOWEN: Hey, Bill. Couple of questions. Just following on John's question about the new segregated fund family, considering some of your comments in the first quarter and your -- not frustration. I think you used a different word at the time, but it seems that just this new seg fund family, do you think this would sort of downplay some concerns that people have that the relationship with Sun Life has changed or is in jeopardy.

WILLIAM HOLLAND: I don't know. I mean, I don't share the same fears, as I told you at the end of the first quarter. Our relationship with Sun Life, as they have said and I have said, continues to be the same as it was.

There is a difference though, today, given that the insurance companies have had a less than positive experience with the guarantees associated with seg funds, have made meaningful changes to them, and they're not as attractive to investors as they were a year and two years ago. There's no doubt about that.

So we would not expect our seg fund business to be anywhere near percentage of our gross sales than it was two years ago. And do I think that it's good for our relationship with Sun Life to continue with their latest product? Yes, I think it's great. And they're always, in my view, for the foreseeable future, they will be our most important or second most important customer, and we treat them accordingly.

STEVEN BOWEN: And just on the new management mandates with Scotia Bank, can you discuss some of those?

WILLIAM HOLLAND: Oh, yes. They have a whole menu of products, everything from institutional -- traditional institutional to ideas about pension plans that they're involved with and regular retail business, and they've been, I would say, very accommodating over the last couple of months in sitting down and going through areas where we could do business with them in a very, what I would consider to be, optimistic time frame of when we would do it.

So I think we're fortunate to have a relationship where our large shareholder can take a look down the list and say here's where we can do business together.

STEVEN BOWEN: Just lastly, on the launching side of duplicate funds, is that -- what cost is that?

WILLIAM HOLLAND: Are you talking about --

STEVEN BOWEN: Yes, the non-HST funds. Is it just -- there's really no additional cost to you or is the basis points up by one or two basis points?

WILLIAM HOLLAND: I believe that the implementation on short notice of the HST was beyond reckless, and there's no way that any company could get their systems in place to administer this new tax, and the fact that half the country doesn't have the tax is really problematic. I think this has all the intelligence of bicycle lanes all over Toronto. There's nothing in the short run. We can't just create duplicate fund processes because it's expensive, but we have to consider that.

And so there's two or three ideas that we want to go through and see what is the most practical to make sure we're not applying a tax to the provinces that are not part of the HST. And we'll obviously have to get there. Is there a cost to it? Yes, and it probably won't be borne by the Company. It's more likely to be paid for by the funds, but it is a big cost and an enormous amount of work.

STEVEN BOWEN: Okay. Thanks, Bill.

OPERATOR: Your next question comes from the line of Doug Young from TD Newcrest. Your line is open.

DOUG YOUNG: Hi, Bill. Just on the seg fund, the Essentials, you mentioned that the margins are lower. How much lower?

WILLIAM HOLLAND: I actually don't know, and I'm not sure that Sun Life has disclosed it. But it's business -- when we look at the business and the prospects of what we would get, we found it to be reasonable, and we're fine with it. Almost all business that comes in through another institution is being charged out at lower rates, so we're not naïve to think that nothing has happened between five years ago when we launched the previous seg fund series and this one. But it's still a very, very good business.

DOUG YOUNG: Maybe think of it in another way, should we be surprised if the margins are 40 percent less, or are we talking 10 to 15 percent less in terms of magnitude?

WILLIAM HOLLAND: Less than what? We've never identified what the margins that we were -- or what our margins were on the other business at the end. And I'm not sure that I know the answer to that right off the bat. But it will not be meaningful to our financial statements, I can tell you that, because the amount of business we're doing is about a fifth, or about a quarter of what we were doing at the peak.

And if I had to put a number in it, I would say that we're probably earning somewhere around 30 percent less than we were, but I'm not positive with that number. And it also depends on what products are sold, and it's only on the new SunWise Essentials product, not on the other business or the traditional regular seg fund business.

DOUG YOUNG: Sun Life is launching their own funds family, so you've obviously gone out and had discussions with some of these Sun Life advisors. Can you give us examples of feedback that you've gotten that gives you comfort that this isn't really going to be an issue over the near term?

WILLIAM HOLLAND: Doug, I would say to you, if TD put out a new mutual fund and you went out and thought that all of your stockbrokers were going to sell it, you people would think you were nuts. And I'm not saying that Sun Life won't get business from their sales force. They should get business. I hope they get business. But financial planners sell what they consider to be the easiest thing to sell, and so I don't think that a brand new fund company will shut out the business that we have with them. Of the things that I'm concerned about in our business today, and it's easy to find headwinds, you just have to look at the HST for an example, this is not one that I worry about at all.

DOUG YOUNG: Okay, fair enough. And just when you talk to the bank, the Nova Scotia business, is this going to be a traditional retail

business, do you think? Is that where the opportunity is, or is it really going to be a fund-to-fund partner on the platform?

WILLIAM HOLLAND: Oh, I think it's likely to be both. I think it will likely be institutional business. The stuff that we've looked at is retail business, institutional business, right? The fund-to-fund business, we're very keen on fund-to-fund business, I might add. So we're not so concerned about what the business is. We just want to be a major manufacturer for the Bank of Nova Scotia.

DOUG YOUNG: Okay, thank you.

OPERATOR: Again, if you would like to ask a question, please press star and the number one.

Your next question comes from the line of Paul Holden from CIBC. Your line is now open.

PAUL HOLDEN: Good afternoon. Speaking about fund-to-fund business, a large proportion of your sales to date seem to be coming from Class I shares. I'm estimating that approximately two-thirds are coming from Class I. Is that roughly correct? And can you also remind us what the approximate difference is on your possibility between the Class I and Class A funds?

WILLIAM HOLLAND: Yes. The Class I share sales, of our gross sales, are a fraction of that. I believe that they were about 13 percent.

PAUL HOLDEN: Okay. What about on a net basis?

WILLIAM HOLLAND: Oh, well, I don't know. I can only look at it on a gross sale basis because if you have no net sales or minimal net sales, it makes it look like all your business is going Class I when it's not.

The Class I business is probably -- you look at it as being a regular front-end business, probably about 20 percent less profitable if you looked at the entire group. We want to grow our Class I business considerably. We believe that you have to in order to stay competitive, and there will continue to be pressure on the fees of that as well.

PAUL HOLDEN: It does help the pressure on the fees because it's becoming more competitive or because the customers are becoming more price-sensitive?

WILLIAM HOLLAND: Our customers who are the institutions that are buying them are becoming more price-sensitive because their clients are becoming more price-sensitive, I would gather.

PAUL HOLDEN: Okay, fair enough. And then one question specific to the Harbour Funds. Obviously, two of your largest funds have been selling very well in the past. The last couple months we've seen net redemptions in those funds. Any particular colour you can provide regarding that change in trend?

WILLIAM HOLLAND: There are a couple of things there. They were for a long time one of the biggest sellers in our seg fund category whether

it was Manulife or Sun Life, and obviously, the seg fund sales have declined considerably.

And secondly, they have a lot of business that has come up for the ten-year period, and that even if they were so guaranteed paid, people tend to re-look at is. So we've seen quite a bit of redemptions of money that came in, in the first four or five months of 2000 which came into the seg fund that is now the seg funds that is now going out. But I would say that the biggest difference between the business that we would expect Harbour to get is that they're just not getting as much seg fund business because the seg fund business has slowed down so considerably.

And also, I think that just equity funds in general, particularly Canadian equity funds sales have slowed down considerably. If you actually look at the sales, and you can break it down bank and non-bank, almost all of the business that is being done is being done in some type of fixed-income type product.

PAUL HOLDEN: Okay, great. And on an asset-class basis, so as we've seen more of a demand for fixed income products, really a demand showing in your net sales, is that more the result of just -- and consumer demand changing, or has it bring any kind of shift in your sales focus?

WILLIAM HOLLAND: Our sales focus probably doesn't matter much. I think we have very little moral suasion over what advisors recommend and what clients invest in. Especially at times of high fear and high greed,

we have almost no moral suasion. I do think, though, that investors have shown a pretty significant reluctance to get back into equity funds in anything resembling what they did at market peaks of 2000 and 2007. And is that just a timing issue?  Is it cyclical or secular? I just don't know. But I think that the fear amongst retail investors is so high considering that the market is 65 percent above its low, and I don't think there's a lot of precedent for that, so I'm just guessing. And my guess is that we'll slowly improve, but I mean slowly.

PAUL HOLDEN:  Okay. Thanks, Bill.

OPERATOR: Again, if you'd like to ask a question, please press star and the number one.

There are no further questions at this time. I turn the call back over to Mr. Holland for any closing remarks.

WILLIAM HOLLAND:  Well, thank you very much for joining us today for our second quarter results, and I look forward to updating you on November 9th with the results of the third quarter.  Bye now.

OPERATOR: This concludes today's conference call. You may now disconnect.

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