CI FINANCIAL CORP.

FIRST QUARTER 2016 RESULTS

CONFERENCE CALL

May 5, 2016

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PRESENTATION

Stephen MacPhail, Chief Executive Officer, CI Financial Corp.

Welcome to CI's conference call for our 2016 first quarter results.

As you're aware, at the last quarterly results call I was excited to announce that Peter Anderson, a long-time CI executive and key contributor to CI's success, would be succeeding me as CEO of CI. Peter's been actively involved in all aspects of CI's business since the end of February, and the succession is well underway. Peter's been doing an exceptional job and I can say I'm very confident about the future of CI under his leadership.

As such, Peter and I will be splitting responsibilities today, with me providing a recap of our business in the first quarter and then Peter will address CI's plans going forward; Doug Jamieson, CI's CFO, will provide the financial overview of the quarter; and Steve Donald, President of Assante Wealth Management; Neal Kerr, President of CI Institutional Investment Management, and Derek Green, President of CI Investments, will all be available to answer your questions.

At the end of first quarter, CI's total fee-earning assets, including Assante Wealth Management, Stonegate Private Counsel, and First Asset Exchange Traded Funds, were $143.3 billion, down 1.7 percent from December 31, 2015. During the quarter, however, there was significant volatility caused by declining markets, as well as the Canadian dollar increasing in value by 6.4 percent, negatively affecting the value of CI's non-Canadian investments. This resulted in CI's average assets down 3 percent for the quarter, even though we finished the quarter on a much more positive note.

In addition, during the quarter we undertook a significant restructuring of our Harbour Funds Investment Management team. That, combined with retirement costs related to CEO succession, resulted in CI taking a one-off charge of $10 million after tax, or $0.04 per share. The effect of average assets down 3 percent in the first quarter, combined with the one-off charge, resulted in CI reporting earnings per share of $0.42 for Q1 2016. However, after netting out the one-time charge, CI earned $0.46 per share for the quarter.

Notwithstanding the sudden decline in markets, CI was successful in trimming its expense base by close to $3 million from Q4 to Q1, even after taking into consideration the fact that year-end raises and front-end-loaded government payroll expense charges automatically raised our first quarter base costs by over $3 million. We expect these cost reductions and other initiatives that are in the works to benefit CI over the remainder of the year.

During the quarter, CI repurchased 2.2 million shares for a total of $63.3 million and paid out $0.33 per share in dividends. As you saw in our press release, CI declared a dividend increase of 4.6 percent effective with the June 15 dividend payment, reflecting CI's strong cash flow, underlying EPS strength, and the long-term outlook for our business. CI's annual dividend is now $1.38 per share.

During the quarter, the overall industry experienced a significant decline in gross sales, reflecting investor concern over difficult markets in Q1 following poor markets in Canada in 2015. Industry net sales, as reported by IFIC, were down over $14 billion, or about 60 percent, year-over-year in the first quarter. CI was not immune to these market forces and we saw our retail gross sales for the quarter decline 24 percent from the prior year to $2.8 billion. At the same time, retail redemptions increased by about 12 percent, leaving our Retail business flat in the first quarter. The reduction in gross sales was primarily in the IROC and discount channel, where sales tend to be much more reactive to short-term market conditions. In addition, CI experienced a large institutional redemption from a legacy KBSH institutional business.

The combination of the above factors resulted in flat net sales in the overall retail channel, and net redemptions in the institutional channel, for overall net redemptions of $332 million. Notwithstanding, CI continued to see significant strength with net sales in Assante, Sun Life, Credit Union, and Edward Jones channels. Of special significance was the Assante/Stonegate Private Counsel business under Steve Donald's leadership, which experienced substantial net inflows just below the record 2015 levels and materially above industry experience of industry net sales down 57 percent.

From a product perspective, CI's managed solutions continue to be our fastest-growing product line. In addition, CI's focus on growing this high net worth business continues to show success, as CI's high net worth assets increased by almost 4 percent from the prior quarter and 27 percent from just one year ago. It's important to recognize that this successful growing of our high net worth business also means lower gross management fees, as we provide preferred pricing for high net worth investors, but to be clear, the growth in high net worth is a positive event, as growing this category is critical to the long-term growth of the firm.

From an investment perspective, short-term performance of a number of our large money management groups continues to be challenged as a result of defensive positioning and a value style approach to their money management. Long-term fund performance, however, remains strong, with 62 percent of CI's assets under management in the first or second quartile over 10 years.

You will recall that we took significant steps in 2015 to enhance CI's Signature Funds team under CIO, Eric Bushell. In 2016, under Neal Kerr's leadership, we continued our focus on investment management and completed the restructuring of the Harbour Fund's investment management team. Ryan Fitzgerald has joined Roger Mortimer and Paul Sandhu as the key portfolio managers of the Harbour Fund, and we now believe we have a world-class investment management team well positioned to generate long-term growth, and we are seeing it reflected in their investment results. Our investment team build-outs are now largely complete, with their focus to continue to be on strong, risk-adjusted, long-term performance for our clients.

Lastly, in the first quarter we hired a Senior Vice President of Institutional, reporting to Neal Kerr, to focus expressly on building our institutional business; again, an example of investing in our business for the long term.

With that, I'm going to turn it over to Doug Jamieson, CI's CFO. Doug?

Douglas Jamieson, CFO, CI Financial Corp.

Thank you, Steve. Taking a quick look at year-over-year highlights, average assets under management were up 1 percent from $106.5 billion in last year's first quarter to $107.3 billion. As Steve mentioned, reported net income was $116.6 million, and that was down 19 percent from $144.5 million last year, and on a per share basis was $0.42, down from $0.51 last year. Adjusted for all the provisions mentioned at the bottom of this slide, earnings were down 11 percent to $126.1 million and down 8 percent on a per share basis to $0.46. EBITDA per share was down $0.07 to $0.77. The drop in earnings was greater than the drop in average AUM over the past year primarily because of the change in CI's average management fee rate, as we continue to see a higher percentage of assets in high net worth programs. Dividends paid were up 5 percent, as CI paid out $0.315 per share in the first quarter last year and $0.33 in the first quarter this year.

Now, looking at consecutive quarters, average assets under management were down 1 percent from the fourth quarter, from $108.9 billion to $107.3 billion. Reported net income was down 8 percent from $127.2 million last quarter and on a per share basis was down $0.04 from $0.46 last quarter. Adjusted earnings were also down 8 percent from $137 million and $0.50 per share. EBITDA per share was down $0.06. Similarly here, on a quarter-over-quarter basis, the larger decline in earnings relative to average AUM was due to the drop in the average management fee rate.

Net debt ended the quarter at $493 million, up from $433 million at the end of the year. This was a result of an increase in CI's working capital and from returning cash to shareholders that was $11 million higher than free cash flow. CI's net debt to EBITDA ratio sits at just under 0.6 to 1, as reported, but net of the deposit at CRA, the ratio was 0.4 to 1.

This change in mix of products from Class A into Class F in high net worth, as well as the inclusion of First Asset for the quarter, has pushed our gross management fee line down from 184 basis points in 2009 to 159 basis points in this quarter. For the net fee line, we take the trailer fees paid and the amortization of DSC from gross fees, and that has held much more stable over the years, and here the impact of more high net worth assets and First Asset is a little more visible over the past two quarters.

The asset management margin measures how much we retain out of management fees after paying trailers, SG&A, and DSC on a trailing 12-month basis within the asset management segment. We see that we are left with $42.20 of every $100 in management fees earned, compared to $42.30 one year ago, and we're still up significantly from the first quarters of two and three years ago.

CI's SG&A, net of First Asset, was 35.7 basis points. CI's average assets under management without First Asset declined by 2.8 percent from last quarter, and at the same time SG&A spend dropped by 2.9 percent. So, the basis points only increased here because of one less day in the quarter, and the reduction in SG&A dollars, as Steve pointed out, was during this first quarter where we typically face the headwinds of annual increases to base compensation and payroll taxes being paid in February on year-end incentive compensation. Otherwise, the drop in SG&A spend would've been larger. So, looking at the spend in dollar terms, CI's spend on SG&A in the fourth quarter, net of First Asset, was $95.7 million, and this declined to $92.9 million in the first quarter, and, again, would've been lower if not for those typical first quarter costs.

The SG&A efficiency margin looks at an available pool of management fees less trailer fees and DSC and how much of that pool remains after deducting SG&A spend. In the past 12 months, CI has retained 70.6 percent of that available pool. In the first quarter alone, the impact of First Asset was a one percent decline in this margin, given their higher proportion of SG&A to management fee revenue, and we expect this to improve as we continue to find synergies and as First Asset achieves greater scale.

CI's quarterly free cash flow remains strong, and $144 million this quarter is consistent with a level of a year ago and is also significantly above the level of the first quarters of two and three years ago.

Looking at the return to Shareholders, we start with operating cash flow and adjust for the after-tax provisions taken in the past two quarters and the deferred sales commissions paid to get to free cash flow. CI has paid out all of that free cash in the form of dividends and share buybacks over the past 12 months at $624 million. We are very comfortable with returning all free cash flow; in particular, the new level of dividend payout that we target to average 60 to 65 percent of free cash flow.

Here, on the leverage chart, the shaded area highlights our target leverage of 50 to 75 percent of EBITDA to be maintained over time. While CI is in the range of its target leverage ratio based on reported net debt, when considering the $172 million on deposit with CRA, it remains well below its target leverage, as shown by the dashed line in the chart. CI continues to operate with a strong balance sheet and has financial flexibility with respect to share buybacks and acquisition opportunities.

I will now turn it over to Peter.

Peter Anderson, Incoming Chief Executive Officer, CI Financial Corp.

Thanks, Doug. Since returning to CI two months ago, I've been spending a lot of my time getting reintroduced to the company. Although I left only three years ago, I realize that CI today is a very different company than it was when I left. I'm incredibly excited to return to the firm and to continue building CI from where we are today.

I will be the first to admit that we have a lot of work ahead of us. We have regulatory and industry headwinds, in some of our funds our short-term performance is soft, and finally, our sales reflect the changes in the industry and fund performance. Fortunately, we have an excellent company and a history of adapting to change.

As always, we're not standing still. Status quo has never been an option at CI. We'll be announcing very shortly additions to our sales and marketing teams, both nationally and regionally. We currently have a large and talented wholesaling team, and we're making it stronger. We've already significantly enhanced our portfolio management groups, most recently with the rebuild of the Harbour Fund team, and we plan to make additional changes throughout the company over the next few months. All of these are intended to make CI stronger and more competitive.

I do want to briefly talk on a few opportunities I see at the company today.

Firstly, I want to highlight the success of Assante and Stonegate Private Counsel. Under the leadership of Steve Donald and his team, Assante's assets continue to grow well above the industry average. When net sales for the industry in Q1 of this year declined dramatically versus the same period last year, Assante sales were basically in line with 2015's levels. Assante's focus on higher net worth families is also gaining traction; $16 billion of its assets are with families investing more than $1 million with Assante or Stonegate advisors. We see significant growth opportunities over the next few years.

The acquisition of First Asset late last year has provided CI with a new and strong distribution platform. We continue to see new ways for First Asset to enhance the offerings of CI Investments and Assante, and vice versa. The management team, led by Barry Gordon, sees tremendous opportunities with our new partnership.

We've also made an investment to build out our institutional group. We have new leadership and an increased focus on the business. This is part of our ongoing long-term strategy to grow the relative importance of the group.

Management and the Board of CI remain extremely confident with the company. We’ve expressed this by increasing our dividend. As Doug pointed out, we have strong free cash flow and will be using it to continue buying back shares opportunistically, and to increase CI's dividend.

In summary, we're making important changes throughout CI. As always, we continue to focus on being the most efficient company as possible, but also continue investing in our business wherever we see opportunities. The transition between Steve and I is going very smoothly, and I look forward to discussing more of our strategic plans at CI's annual meeting this June.

This concludes our formal presentation. Operator, I'd now like to open it up for questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. We have a question from Gary Ho from Desjardins Capital Markets. Please go ahead.

Gary Ho, Desjardins Capital Markets

Thanks, good afternoon. From your comments on the institutional redemption, I take it that's roughly $300 million to $400 million, so correct me if I'm wrong. Then, what was the reason behind the client redeeming the fund, and how does the institutional pipeline look today?

Neal Kerr, President, CI Institutional Asset Investment Management, CI Financial

So, yes, your math's approximately correct. As I've said before, our institutional sales flows are lumpy and the activity often comes without much lead time and it's difficult to predict in advance. That certainly was true last year when we brought in a bunch of new institutional business with a couple fairly large wins, and it's also proving to be true so far this year, as well, where we've had a couple of relatively large clients redeem.

With respect to the transactions, I'd say that they're outside of our normal business flows, but each situation is unique. However, they're both examples where clients have repatriated assets to in-house investment solutions, effectively at CI's expense. So, as I look at it, I'd say that neither of the redemptions are a result of our investment performance or our servicing capabilities, but the net result is they are outflows, one in Q1, one in Q2. These two transactions basically offset the new institutional business that we gained last year. The impact, though, is partially offset by the fact that we have picked up a number of new clients so far this year. However, the new assets are smaller in size than what left.

In terms of pipeline, as I've said before, we don't disclose the details of what we're potentially in line for. What I can say though, is our pipeline for short-term opportunities is strong. Long-list opportunities are also looking good. We obviously need to close on the business, and I don't want to get ahead of myself on that, and we haven't made a habit of forecasting what we expect to get, because we just don't have enough certainty to be comfortable doing that. Even in a short-list presentation, your odds of picking up the business are somewhere between typically 25 percent and a third.

Gary Ho, Desjardins Capital Markets

Yes. Can you remind me the institutional AUM as it stands today?

Neal Kerr, President, CI Institutional Asset Investment Management, CI Financial Corp.

It's about $16 billion.

Gary Ho, Desjardins Capital Markets

Sixteen billion, okay. Then my next question—I guess you've had April stats come in now—and this is towards the retail side—and then we've seen a nice rebound in equity markets, as well. So, have you seen a pickup in investor sentiment for being more invested, or is the sentiment still pretty sluggish? I just want to see what the outlook is for the balance of the year.

Derek Green, President, CI Investments Inc.

The first thing I would say is since the global financial crisis, it doesn't take much to spook investors. I would say April sales are still softer than I would like them to be. Part of that may be the soft performance, though, so I'm hopeful that things firm up.

When you look around the world, there are a lot of challenges. You look at Europe, you look at Japan, you look at the news that came out of Australia, you look at Brexit, the weaker economic data coming out of the States, there are a lot of people that are defensively positioned and they're nervous. We had two significant pullbacks. In the summer, we had a 10 percent pullback, and then we had a really tough start to the year, as well.

Gary Ho, Desjardins Capital Markets

Yes, okay.

Derek Green, President, CI Investments Inc.

One point I could make is that there was some data that came out earlier this week; there's really only one fund company that was in net sales in Q1. It's a big American company, I won't be specific. But, if you look at the five big banks in Canada, the numbers were down between 50 and 89 percent for the first quarter. So, that gives you an idea of just how challenging things have been.

Gary Ho, Desjardins Capital Markets

For sure, thanks. Then, my last question is on corporate class; another announcement came out a few weeks back now. Any changes in sales you've seen? I think the industry has been pushing for a December implementation date. Any success with that?

Derek Green, President, CI Investments Inc.

The industry has been pushing for us to push this out. I wouldn't limit it just to December, but I think they would like to see some relief from finance. It's hard to discern whether the slower sales are because of the news on corporate class or it's because of the sluggish markets and the soft performance, so that's a tough call. I would say there's a division. There are some people that still see significant value in corporate class and then there are other people that think, it's over. We still continue to evaluate what it means. There are benefits. I'm not sure exactly how this shakes out. It has definitely affected us more than most people, in that out of $135 billion in corporate class structures, we had approximately a third of those assets, but in my mind there is still some benefit.

Gary Ho, Desjardins Capital Markets

Okay, perfect. That's it for me, and Steve, best of luck in your retirement.

Stephen MacPhail, Chief Executive Officer, CI Financial Corp.

Thank you.

Operator

Thank you. The next question is from Paul Holden from CIBC. Please go ahead.

Paul Holden, CIBC World Markets

Thank you. Good afternoon. The first question is with respect to other income. So, it was down both Q-over-Q and year-over-year, even after stripping out the fair value adjustment, so I'm just wondering if there's been some kind of permanent decline in that revenue item.

Douglas Jamieson, CFO, CI Financial Corp.

No, I wouldn't say there's a permanent decline, other than slightly lower equity pickup from our Altrinsic business in the U.S. Otherwise, we had a fairly significant fluctuation in the currency, and that's almost $1.5 million quarter-over-quarter, and last quarter we had more distribution income on our seed capital.

Paul Holden, CIBC World Markets

Okay, that's helpful, thanks for that. Then, I want to go back to the discussion on expense management. You discussed the $3 million cost reduction that would've happened Q-over-Q if not for some seasonal items, and also mentioned other initiatives that are now ongoing, so maybe you can help us out in terms of—let's just say over the next year AUM's flat, like it was over the last year.

Should we see a different trajectory in SG&A; i.e., should it be flat or are we still going to see growth?

Douglas Jamieson, CFO, CI Financial Corp.

We reported net of First Asset a drop of $3 million, and we could've had another $3 million if it wasn't the first quarter, so we're potentially looking at up to $6 million drop in SG&A quarter-over-quarter. Our intention is that that would continue through the year, and that if our assets were flat, we would keep SG&A growth well below that.

Paul Holden, CIBC World Markets

Okay. So, that sort of $6 million of annual—I assume that's annual run rate savings we should see flow through next quarter?

Douglas Jamieson, CFO, CI Financial Corp.

We're looking at more like $12 million annualized.

Paul Holden, CIBC World Markets

Okay, got it. In terms of the high net worth assets which are showing fantastic growth, I understand the top line fees on them are lower. How should we think about the margins on that product? Are they also significantly lower?

Douglas Jamieson, CFO, CI Financial Corp.

They are lower than the Class A retail, approximately 20 to 30 percent lower on a net margin.

Paul Holden, CIBC World Markets

Okay, that's helpful. You mentioned soft performance several times already on the call, so I'm just wondering how you characterize that soft performance, so maybe we have a better understanding of what may help that turn into strong performance.

Neal Kerr, President, CI Institutional Investment Management, CI Financial Corp.

As you probably know, we use a lot of different investment teams in our lineup, and we want diversity of team by investment style and asset class. That said, we would have a higher skew to value style investment management over, say, growth or momentum. Going back several years now, value has been underperforming as a style or a factor, really going back to 2008. Quantitative easing has not really been kind to value managers.

Another factor would be some of our larger funds, I would classify them as diversified income mandates. As a result of the income requirement from the strategy, the funds tend to be overweight from a fixed income standpoint credit, so investment grade and high yield bonds over, say, government bonds. So, over the last year or so, high yield has not been the best performing asset class, as you're probably aware.

Then, the last two factors, actually, are most of our portfolio managers employ some form of currency hedging in their products, so they're hedging foreign exposure back to Canadian. Until very recently the Canadian dollar's been depreciating, in particular against the U.S. dollar, really from 2012 to 2015, quite substantially. So, that hedging which is meant to reduce volatility and risk has mitigated some of the returns.

The last factor would be as we get later in this bull market—it's been over seven years in the U.S. of a bull market in the S&P 500—a number of our investment teams are increasingly becoming cautious, and they're holding a lot of cash in the funds, and cash yields are at all-time lows. In a market that has generally risen over the last several years, that has mitigated some of the performance, as well.

So, those are the primary factors.

That said, you can go through all the major asset classes of mutual funds available to Canadians and you will find at the top or near the top of the asset class one or more—in some cases two or three—CI funds that are screening very well on a one-year basis. However, those funds are just not the largest funds that we have in our lineup, but they are there and we have a number of products that are very well positioned.

Paul Holden, CIBC World Markets

Okay, that's helpful. Thank you.

Operator

Thank you. We have a question from Graham Ryding from TD Securities. Please go ahead.

Graham Ryding, TD Securities

Good afternoon. The CSA recently brought out some proposals around Best Interest Standard, and that theme, so the targeted proposals, there's some emphasis there on disclosing conflicts of interest and dealers selling proprietary products. I'm just wondering, broadly speaking, if you feel like this is going to have a potentially material impact on your business or potentially even your costs.

Steven Donald, President, Assante Wealth Management Ltd.

Hi Graham, it's Steve Donald. Let me take a shot at your questions with regard to some of the changes that are being proposed. Certainly, the disclosures around conflicts, I think will have less of an impact both on our manufacturing and distribution businesses. In fact, it may be positive on our manufacturing business as it relates to restricted organizations or proprietary organizations. For those that are mixed or non-proprietary, I think the conflicts disclosure won't really have a meaningful impact.

I think where we're focusing our attention is on some of the other targeted reforms; know your client, and know your product. Certainly our view is that there is a misplaced understanding of the market in suggesting that our clients, our advisors at Assante, Stonegate, and other third-party channels, will have to understand and consider the structure, the strategy, all of the different attributes of every available fund, not only on their shelf, but in the marketplace, and we think that's just unworkable.

We are still waiting for guidance from the CSA on mutual fund fees; that's expected by the end of June. Could this be an offset where there are some pretty onerous requirements that are being suggested through this 33-404 proposal, could this just be setting us up for some other changes that may take place through the mutual fund fee review?

Graham Ryding, TD Securities

Okay, that's helpful. Then, on the Best Interest Standard, it looks like some provinces are supporting the idea, others are not. If this were something that were to come through, would it have to have unanimous support across all the provinces, or can this get implemented at a provincial level, and if so, how do you respond to that?

Stephen MacPhail, CEO, CI Financial Corp.

I think it is possible that it gets introduced at an individual provincial level. I think that would be incredibly unfortunate for the efficient operations of our capital markets. I think the fact that there is so much uncertainty and dissension amongst the CSA members gives it a lower likelihood that a Best Interest Standard would see the light of day. There's tremendous fragmentation among the CSA, which I think is very disappointing as we think about the potential benefits of a national securities regulator.

Graham Ryding, TD Securities

Yes, I would agree, it sounds very inefficient. Okay, thank you. I appreciate that.

Operator

We have a question from Tom MacKinnon from BMO Capital. Please go ahead.

Tom MacKinnon, BMO Capital Markets

Yeah, thanks very much. I got on the call late, so I apologize if my question's been asked. My question has to do with the arrangement with Sun Life with respect to seg funds, and I believe there's probably about $12 billion or $13 billion AUM associated with that, and I think it's probably been in net redemptions for some time, but with the end of that arrangement, do we actually see the entire gross redemptions now become net redemptions, and what has that pace sort of been like?

Derek Green, President, CI Investments Inc.

If you look at the relationship with Sun Life segregated funds, there are some contracts that are soft capped, they're not hard capped, there are some of the products that are hard capped, so meaning if a unitholder wants to make a new contribution, they're free to do that, but the contracts are not open right now.

You're right, there's $12 billion to $13 billion in segregated funds, and it historically has been pretty sticky money, but it's a GMWB product where people are using the product for income, so not a lot of new money going in and withdrawals are coming out as income. The asset class as a whole is in redemptions, for sure.

Did you have another question about that, as well?

Tom MacKinnon, BMO Capital Markets

No, but I guess there was probably sales and then redemptions before, but now you don't have any sales coming into the thing, so …

Derek Green, President, CI Investments Inc.

There are some sales. Like I said, some of the products are soft capped, not hard capped.

Tom MacKinnon, BMO Capital Markets

Okay, sorry.

Derek Green, President, CI Investments Inc.

It's just that there isn't the same level of sales. One of the things that we're working on is another seg fund product to bring to market.

Tom MacKinnon, BMO Capital Markets

How should we look at the gross sales that went into the seg fund product as—what percentage of those would've been from soft capped stuff in, say, before this arrangement ended?

Derek Green, President, CI Investments Inc.

It's a relatively small number. When you look at the business with Sun Life overall, mutual funds and seg funds, we still continue to be in net sales with Sun Life.

Tom MacKinnon, BMO Capital Markets

Most of the stuff that was sold 10 years ago, was it generally a GMWB product and it sort of—so we would just have a trickle-down impact?

Derek Green, President, CI Investments Inc.

GMWB came into effect just about 10 years ago. We moved away from the 10-year maturity and moved to really the income product. So, the GMWB product would be about 10 years old when we first started selling.

Tom MacKinnon, BMO Capital Markets

Okay. So, to the extent that if everybody switched over to GMWB products or started buying GMWB products 10 years ago, versus before them having just a 10-year maturity product, we would probably anticipate to see some—does that change the course of redemptions associated with these products?

Derek Green, President, CI Investments Inc.

No, I think you're going to continue to see redemptions.

The one thing, when you have volatile equity markets and you have zero interest rates, the features and benefits, the insurance companies just couldn't afford to offer them, and that's why we are where we are, but we continue to look for a partner to offer a new seg fund, and I'm pretty hopefully that we'll have a product. It won't necessarily be an income product, but it will be a seg fund product, and there are big benefits to having segs from probate and estate, but we do have a guaranteed product in the G-520, which is not a seg fund.

Tom MacKinnon, BMO Capital Markets

Okay. Thanks, Derek.

Operator

Thank you. We have a question from Scott Chan from Canaccord Genuity. Please go ahead.

Scott Chan, Canaccord Genuity

Good afternoon. Just going back to the ETFs and the First Asset acquisition, you talk about it enhancing the Assante platform. Can you just give us a bit of colour on, you know, some of the ideas that you're thinking about to incorporate the ETFs on there?

Peter Anderson, Incoming Chief Executive Officer, CI Financial Corp.

Yes, sure. Not only do Assante and Stonegate have AUM with CI, but they also AUA with other providers. There are ways that we can use First Asset to help develop more products that may complement the Assante advisor. We see there are opportunities for us to switch AUA over to AUM through First Asset.

Scott Chan, Canaccord Genuity

Okay, and what about on the retail side? Is there an opportunity to put it into, say, Alfred Lam's group of managed solutions, as well?

Peter Anderson, Incoming Chief Executive Officer, CI Financial Corp.

Absolutely. There could be sleeves of investments or asset classes that we don't have today, that we would have to go out and get subadvisors to fill, or we could use First Asset to do it instead, and we would expect it to be cheaper to do it that way.

Scott Chan, Canaccord Genuity

With the growth in ETFs, I guess specifically in the U.S., and even in Canada, do you guys have like an internal target, say, for the next three to five years, what you can kind of grow this segment to—product segment into?

Peter Anderson, Incoming Chief Executive Officer, CI Financial Corp.

Yes, sure, we have high hopes of, and we're putting an awful lot of effort into growing the business. It's currently a little over $2 billion.

Could we see that business going to $10 billion and higher? Sure, I think so. The First Asset team have very high targets for themselves and they are working towards them today.

Scott Chan, Canaccord Genuity

Okay, that's great. Thanks a lot.

Peter Anderson, Incoming Chief Executive Officer, CI Financial Corp.

Thanks, Scott.

Operator

Thank you. We have a follow-up question from Paul Holden from CIBC. Please go ahead.

Paul Holden, CIBC World Markets

Thank you. I just have to ask on the dividend increase, since no one else asked, and obviously CI has a long track record of increasing the dividend, but that typically comes at the same time of AUM growth and earnings growth, so it's a little bit different this time around. So, I'm wondering what kind of drove the decision to increase the dividend.

Douglas Jamieson, CFO, CI Financial Corp.

We generally are looking to increase the dividend when we have an opportunity to, and our institutional shareholders certainly like to see regular increases in the dividend. It had been a year since we had bumped it up and we certainly have the free cash flow to do so.

Paul Holden, CIBC World Markets

Okay. Thank you.

Operator

Thank you. We have a follow-up question from Graham Ryding from TD Securities. Please go ahead.

Graham Ryding, TD Securities

On the average management fee rate, I was just wondering if you could quantify the decline that we saw either quarter-over-quarter or year-over-year, how much of that came from change in product mix versus integrating First Asset?

Douglas Jamieson, CFO, CI Financial Corp.

Yes, the majority of it is the change in product mix. Quarter-over-quarter, our management fees were down $20 million and the change in mix was about $7 million.

Graham Ryding, TD Securities

Okay, that's helpful. Then, when I think of your AUM in gross sales, could you break out how much of that is within high net worth or fee-based funds maybe versus one year ago?

Derek Green, President, CI Investments Inc.

You know, I'm going to have to get back to you on that, but if you look at the high net worth, we've been making a big push in the last three or four years helping advisors transition their business to really prepare for CRM2 and what we believe will be the ultimate ban on embedded compensation. It's not doing away with trailer fees, it's really moving to a model where it's a negotiated fee. So, if we look at the number, we continue to see a bigger portion of the business go to the higher net worth or to the mass affluent product.

Margin compression is a fact of life. It has been a fact of life for the 20-odd years I've worked at CI, and it'll continue to be that. But what we're working on now; we live in an environment where the regulators are pressuring all players to ensure that investors get the lowest fee that they qualify for. I can't tell you when we'll offer the product, but our emphasis is to really become class-agnostic. So, whether a client owns a Class A fund, a Class F fund, a Class E fund, or a Class O, or an I, if they qualify for a discount, they're going to get the discount automatically. Will that have an effect on our average fee collected? It will. It'll be margin compression, but what it's setting us up is to make it easier for clients, advisors to deal with us, and to ensure that they get the lowest available price that they qualify for.

Graham Ryding, TD Securities

Okay, that's helpful, and how does is it set up now then? Does the advisor have to prompt the client to move from one class to another to get a lower fee product?

Derek Green, President, CI Investments Inc.

Yes, exactly. So, if you moved from Class A, if the DSC is off the fund, the client has to sign off on this and there has to be a negotiated fee—not our fee, but the advisor fee needs to be negotiated. So, it is somewhat cumbersome. We've been extremely successful at transitioning our business from Class A to Class O or Class E, but it is cumbersome, and what will happen is we will help out with the heavy lifting. It hasn't been a deemed disposition if you've moved from a corp to a corp or a trust to a trust and maintain that same mandate, but it is cumbersome and it does take some time to do. This just gets rid of a lot of the busy work that really advisors don't get paid to do in an era where the margins for advisors and for manufacturers is actually coming down.

Graham Ryding, TD Securities

Perfect. Thank you.

Operator

Thank you. There are no further questions registered at this time. I would like to turn back the meeting over to Mr. MacPhail.

Stephen MacPhail, Chief Executive Officer, CI Financial Corp.

I'd just like to say thank you for everyone participating today. As you know, this is my last conference call with you, so thank you very much for participating with me over the many years that I've been involved, and I look forward to listening in to Peter and his team on the next conference calls also. Thanks very much. Bye now.
