

EVENT: CI FINANCIAL CORP.
SECOND QUARTER RESULTS CONFERENCE CALL
TIME: 16H00 E.T.
LENGTH: APPROXIMATELY 35 MINUTES
DATE: AUGUST 11, 2009

OPERATOR: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the CI Financial 2009 second quarter results conference call. At this time all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press the * followed by the 0 for operator assistance at any time.

This presentation contains forward-looking statements reflecting management's current expectations regarding the future performance of CI and its products, including its business operations and strategy and financial performance and condition. Although management believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties. Actual results may differ materially from those expressed or implied by such forward-looking statements. For further information regarding factors that could cause actual results to differ from expectations, please refer to Management's Discussion and Analysis available at www.ci.com/cix.

EBITDA, earnings before interest, taxes, depreciation and amortization, adjusted EBITDA, operating margins, and pre-tax operating earnings are not standardized earnings measures prescribed by GAAP, generally accepted accounting principles. However, management believes

that most of its shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these performance measures in analyzing CI's results. CI's method of calculating these measures may not be comparable to similar measures presented by other companies.

EBITDA is a measure of operating performance, a facilitator for valuation and a proxy for cash flow. A reconciliation of EBITDA to net income is included in Management's Discussion and Analysis available at www.ci.com/cix.

I would also like to remind everyone that this conference call is being recorded today, Tuesday, August 11th, 2009, at 4:00 p.m. Eastern Time.

I will now turn the conference over to Mr. William Holland, Chief Executive Officer of CI Financial Corporation. Please go ahead, sir.

WILLIAM T. HOLLAND (Chief Executive Officer, CI Financial Corporation): Thank you, Janick.

Good afternoon, everybody, and welcome to our second quarter conference call. I will tell you that it is with a great deal of relief that I review our second quarter results. From the world is ending, bottom, in about mid-March, our assets have actually increased by almost \$14 billion, or 31 per cent.

I am reasonably sure that we've never seen a period of time in CI where we've seen this type of asset increase. While I do believe that we will continue to see retail investors remain pretty cautious after the second

global bear market of over 50 per cent in a seven-year period, it is for sure a night and day difference today between today and the market lows.

During the second quarter our assets under management increased by 13 per cent to \$56 billion. Our average assets under management increased by 10 per cent to \$53.7 billion. Our EBITDA, when adjusted for equity-based compensation, was up 9 per cent to \$135.8 million. Probably our best indicator of financial performance is pre-tax operating earnings. They were up 12 per cent during the quarter to \$120 million.

Very encouraging, our gross sales were up 9 per cent, over the first quarter, which is seasonally a much stronger period of time because of the RSP season. On the redemption front, redemptions were down 15 per cent over the first quarter and remain at historical low levels. Our net sales were up almost three times to \$663 million.

Looking at our operating margin for the second quarter, it came in at 98.3 basis points, down very slightly over the first quarter but down 3.5 basis points on a year-over-year basis. In fact, almost all of the decline is the result of the rapid increase in the size of the money market funds at CI, which have almost tripled over the last 20 months or so as investors have flocked to the safety of money market funds.

In a zero interest rate environment, which is essentially where we are, we have also had to greatly reduce management fees that we charged to our money market funds. We are aware that this will, of course, reverse

over time, the money market funds will become smaller and we will be able to charge normal management fees again; but in the meantime it does put a fair bit of pressure on the margins. If you look at the rest of our retail business, our margins were essentially flat year over year.

On the sales front, our long-term sales have continued to be very consistent and very strong in a difficult market. Over the last 12 months our net sales of \$1.1 billion ranks third among all our competitors.

And on a year-to-date basis our net sales of \$886 million ranks us number two amongst our peers. And you start to see that very few companies are getting the business and several, most companies are suffering quite dramatically.

Going hand-in-hand with sales is obviously fund performance. Our fund performance during the bear market was truly exceptional, but we are more than holding our own now on the run-up. If you look at our assets, 76 per cent of our assets are in the top two quartiles year-to-date; 75 per cent over three years; 82 per cent over five years; and 85 per cent over 10 years. And if you look in the top quartile we've had 71 per cent over five years and 78 per cent over 10 years.

The biggest three money management groups that we have are Harbour, Signature and Tetrem. All three continue to have exceptional performance over all periods.

I think it's helpful, given the enormous changes to our asset levels over the last few months, to show you a run rate of what we think we're earning today based on our current assets and based on our current cost levels. Today we have \$58 billion in assets under management. At current cost levels, we have an operating margin of 99 basis points. That works out to \$144 million a quarter, with about 6 million in other income, for a total of \$150 million, annualizing at 600, or \$2.05 of EBITDA per share.

We now have current debt of about \$800 million, so our run rate of debt to EBITDA is now down to 1.3 times. And at current trends by year end would be just a touch over our expected run rate, over 1 times our expected run rate for 2010, which I would say is probably under-levered in a decent credit market.

We're now hitting the mid-point of the third quarter and it's been incredibly strong. Net sales in July were \$159 million of long-term assets. Redemption levels continue to remain at all-time lows. And gross sales are starting to move up a little bit.

Current assets are up 8 per cent over the average of Q2, but performance remains very good with 76 per cent of our assets today rated 4 or 5 star by Morningstar. Our business really is benefiting considerably from the realignment of our cost structure that we did late last year, which I might add, was incredibly painful. And I think you'll start seeing more of the fruit of it as time goes on.

We're very aggressively retiring our debt and will continue to do so over the next few quarters while we pay very little in the way of cash taxes. We believe that our net debt should be down to about \$700 million by year end.

At this point, I think I will take questions from analysts, if they have any.

OPERATOR: Thank you. Ladies and gentlemen, we'll now conduct the question-and-answer session. If you have a question, please press the * followed by the 1 on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you're using a speakerphone before pressing any keys. One moment, please, for your first question.

Your first question comes from Geoff Kwan from RBC Capital Markets. Please go ahead. Mr. Kwan, are you there?

GEOFF KWAN: Hello. Sorry. I had two questions. First off is with respect to the Scotia relationship, is there any sort of update? And then secondly, with respect to the Blackmont Capital Markets Division, can you say whether or not it was at least EBITDA positive or negative for Q2?

WILLIAM T. HOLLAND: I can probably do both. Well, you know, it's closing in almost a year since Bank of Nova Scotia became our largest shareholder. But I would say that we're just not in a huge hurry to get any

kind of deal done. We have discussed many different ideas with them – some interesting, others not so much. But the reality of it is our business is working so well on all fronts, in my view, it's just smart to take our time.

I don't think we've come up with a formula that works for both sides. I think that they've been very clear that their intention is to bring us important business opportunities, so I continue to be very confident that this will be a beneficial association for CI shareholders. But I think that, a) dealing with a big bank; and b), just the sensitivity around the very difficult markets has probably made negotiations far more drawn out than they would likely be.

But I continue, you know, with all the talks we have, I continue to view as very positive, and I think we're moving this in the right direction. I just think it's at a slower pace than most people would want.

On the Blackmont front, the Blackmont Capital Markets was EBITDA positive in both the first quarter and the second quarter. I think that I made a point a couple of calls ago in saying that we would not lose money in Blackmont or the Assante distribution channel. We would work to at least break even, and we have done at least that for the last two quarters.

But Blackmont is a much smaller... the capital markets group is a much smaller firm than when we bought it two and a half years ago. It's down to approximately 48 professionals. It has no guarantees anymore. So the cost side of the business is under control. I think that this works a lot better if we start now working on the top line of the business.

GEOFF KWAN: Okay, great. Thank you very much.

OPERATOR: Your next question comes from Gabriel Dechaine from Genuity Capital Markets. Please go ahead.

GABRIEL DECHAIINE: Hi, good afternoon, Bill. Just to follow up on this Blackmont and Assante division, your comments seem to be focused more on the capital markets in terms of being EBITDA positive, but by my count here, it looks like the whole division is EBITDA negative. So capital markets can make money, but distribution is still losing money? Is that the take-away there?

WILLIAM T. HOLLAND: I think that's a fair assessment. I mean, it's pretty minor, as you'll see, but I don't think there's any model that has a retail brokerage business making money when the overnight flow to zero. And I can tell you that at \$6.5 billion, which we have, with very tight cost controls we can break even, but we can't make money.

GABRIEL DECHAIINE: Okay.

WILLIAM T. HOLLAND: That I'm sure of.

GABRIEL DECHAIINE: Now, one thing that jumped out at me is that the decline in the average management fee – and I was kind of expecting a bit of stability given the equity markets having rebounded since the end of last quarter – and I guess one thing I'm wanting to focus on now is the Class I and Class F funds. And I believe you've mentioned that they're net neutral to your margins overall, but it looks like, and maybe I'm looking at

the map the wrong way, but the fee reduction that they engender is not compensated enough by whatever you're saving on the trailer fee side.

WILLIAM T. HOLLAND: Well, the F Class, the F Class doesn't make any difference. The F Class is just the management fee minus trailer fee. The I Class is definitely discounted. The more I Class business we do, the lower our margins. I've said many times we should have margins for the I Class and margins for the retail business, and you have to look at them. We can increase our margins considerably. All we have to do is not take I Class business.

GABRIEL DECHAINE: Okay.

WILLIAM T. HOLLAND: But we reduce our earnings per share. And I've said year after year, I'm insensitive to what our margins are. What I want to do is maximize the earnings per share.

The other thing is when you start looking at our, if you just go back approximately 20 months from now, we had just over \$1 billion in money market funds, charging approximately 1 per cent. We peaked out a few months back at \$2.8 billion, charging next to nothing. And so, you know, I don't think that anybody has... all of a sudden everybody's flocking to an asset class that is returning zero. And so the impact that that has on your margins is substantial. And the good news is it peaked in probably four months back and it is starting to decline. The bad news is there's no increase in short-term interest rates in sight.

So I think that for a while these will have real impact. They'll be reversed. I mean, clearly we'll go back to a normal interest rate policy and at that time obviously the economic conditions will have improved and people will not want to be in money market as desperately.

But as it stands now, there's still a fair bit of caution, and there's an awful lot of money on the sidelines. I would say that our money market fund is still over two times what we would expect it to be like in a normal market. And if you think of it in terms of just after the market had appreciated by 50 per cent and we still have this much money in money market, we're clearly in a new frontier.

GABRIEL DECHAIINE: That money's that on the sidelines, is there a... do you expect to recapture that, or is that just stuff that flows around chasing...?

WILLIAM T. HOLLAND: Oh, most of it is money that was in the equity funds.

GABRIEL DECHAIINE: Okay.

WILLIAM T. HOLLAND: You know, I think our run rate of money market would likely be in the range of \$1 billion only. You know, we peaked at 2.8.

GABRIEL DECHAIINE: And just to go back to the I Class funds, I get your point that it helps your EPS and forget the margins, but is this truly a

situation where these are funds that you wouldn't otherwise have gotten anyway?

WILLIAM T. HOLLAND: Well, it's 100 per cent, it's a certainty. Someone comes with you... they're not... there's no chance that you can get them into mutual funds. If we had any chance of getting them into mutual funds, we would do it. This I Class business is a completely separate business.

And, you know, maybe next quarter what I have to do is find a way to completely segment it and show you that here are the margins that you get in I Class business and here is the other. It's just it's complicated. But what we're doing is making a conscious decision to take business at much lower rates for large retail clients.

We also do a pretty substantial high net worth business, which isn't done at mutual fund rates. It's a very profitable business, but it has the impact of lowering our margins. You know, doing more front-end load has the same impact on the margin basis. And so things are changing. I think you've got to keep your eye on the economics.

GABRIEL DECHAIINE: Okay. And last one, with the capital, paying down debt, the deleveraging is a good thing. Now when do you start looking at your dividend again, because your comments in the MD&A are that you're generating enough excess cash to pay down the debt, to get to your targets, and I imagine there's going to be a bump up in capex

because you pull back during the crisis. But when's the dividend going to start getting another look, and what's a payout ratio you're comfortable with?

Because if I adjust for non-cash taxes and some other items like the stock-based comp and I get to around a 60-per-cent payout ratio, and with assets climbing that's going to be dropping, I guess, on a sustainable level. What's your comfort with increasing the dividend and target payout ratio?

WILLIAM T. HOLLAND: Well, you know, I think we should start with why we're paying down the debt, and late last year when the credit crisis was in full, we looked at our debt and said, okay, well, what made us comfortable 90 days ago doesn't make us comfortable today. And during the market bottoms in March, some of the non-financial covenants that we were close to hitting bothered us, and it bothered us the way the banks acted on them. And then when we renewed our line of credit at levels that were in a completely different league from what we expected and what we had been paying last year – obviously we were expecting to pay a higher loan rate – you know, we started rethinking the debt. And until the credit market improves substantially, we don't want to be beholden to a bank and an annual change in interest rates like we faced last year.

I would say that the market, the credit conditions have improved considerably and that by the first quarter of next year, our debt will probably be at a run rate of less than one, and we'll really have to review it,

because then I do think we're under-levered. But it's so close to a period of time when we saw banks acting in a way that we weren't sure you could renew lines of credit.

We would have no problem of having a payout ratio of dividends in a more normal environment, or with much lower debt in the 75-per-cent range. That wouldn't be a problem for us at all. I mean, we went years essentially paying out 100 per cent, either by way of dividend distribution or share buyback. We're just a little more cautious given what we've gone through over the last 18 months.

GABRIEL DECHAIINE: All right, thanks a lot.

OPERATOR: Your next question comes from John Reucassel, from BMO Capital Markets. Please go ahead.

JOHN REUCASSEL: Thank you. Bill, just to be clear on the margins, if you took the money market to a similar level, or the lower level you'd expect, are you saying your margins probably would have been closer to the 102 or 101.8 -- is that what you're meaning?

WILLIAM T. HOLLAND: I think that if we hadn't had both the move into money market and obviously the huge decline in the management fees, it would have been closer to about, you know, if you're looking at 100, I would say it would have been more like 101.

JOHN REUCASSEL: Okay. And the seg funds are still good sticky business. You haven't seen much other behaviour than what you'd expect out of that business?

WILLIAM T. HOLLAND: No, none at all. I mean, the business has an incredibly low redemption rate, and it's all at full margin. So that business continues to be truly exceptional. You know, you offset that's the best business and the I Class is the worst business and other things fall in between.

JOHN REUCASSEL: Okay. And just on Gabriel's question on your payout, you are benefiting from some tax advantages this year and next year, or part of next year. Should we expect cash taxes to rise sort of towards the end of next year?

WILLIAM T. HOLLAND: I think you can expect the cash taxes to rise and become more normalized in the second quarter of next year.

JOHN REUCASSEL: Okay, okay. And then just two final questions, more industry-focused. Could you maybe give us your views on why industry gross sales are so low or redemptions are so low? And then, I guess we have some new regulations coming in from the MFDA and any view on what that impact is going to be on the sales front?

WILLIAM T. HOLLAND: Yes, I think the gross sales, I think that the clients are pretty scared. The fact that our money market fund is so large, the fact that segregated fund sales were so strong, I really do believe that

the retail investor is incredibly cautious. And I think that they're cautious to invest, but they're also cautious to redeem and I think they're almost just frozen right now. And you know, we're all benefiting from a very, very low redemption rate, and gross sales are actually moving up a bit, and so this is not the environment, John, you would expect though after a 50-per-cent increase in the market.

In a normal market increase, you know, you would probably think that a company like CI would be doing 75 or 80, you know, after a 50-per-cent run-up, \$75 million or \$80 million of gross sales a day, not 28 or 30. And so this is real different.

Look, I think there's going to be changes to the regulatory environment in point of sale material and things like that that will definitely affect sales. I just think it's too early to know what it will be. So I just don't know.

JOHN REUCASSEL: Okay. Thanks, Bill.

OPERATOR: Your next question comes from Doug Young from TD Newcrest. Please go ahead.

DOUG YOUNG: Hey, Bill. The first question, what is the discount on the I Class relative to your retail margins? Is it 10 per cent, 15 per cent, 20 per cent?

WILLIAM T. HOLLAND: It's all over the map. You know, on high net worth it may be 25 per cent. On a huge client it may be as much as 50 per

cent. So we have an I Class rate that is for clients. You know, really there's no formula and it just depends on how much they have. But it's a considerable discount. Like I don't think I've ever wanted to leave people with the impression that these are small discounts. What it is is business that comes in, that should hopefully have very little costs associated with it, and it's incremental to business that we would get. But it's a substantial discount.

DOUG YOUNG: So 25 to 50 per cent is kind of a range to think about?

WILLIAM T. HOLLAND: Yes.

DOUG YOUNG: And I think also the other question is, I mean, how big do you think this business gets over the next two to three years relative to your overall business, and how comfortable? Like what's the maximum you'd want to see this business as a per cent of your total business?

WILLIAM T. HOLLAND: I want more of everything. It doesn't matter. So I don't care if this is 90 per cent of our business, as long as our business is ten times bigger. It's hard for me to forecast out what our retail business will be like, and institutional business or I Class business is a little more, is even more unpredictable. But I don't care. We will continue to actively go after I Class business, F Class business, regular class business, seg fund business as aggressively as we can. You know, the objective is to earn more per share. That's just it.

DOUG YOUNG: And what I'm trying to get at is in two years' time, what do you think your operating margin is? Is it north of 1 basis point or is it south of 1 basis point?

WILLIAM T. HOLLAND: South. But you've got to remember the other thing that's changing this is our deferred sales charge.

DOUG YOUNG: Yes.

WILLIAM T. HOLLAND: You know, our deferred sales charge business, we actually had, I think we had more in amortization this quarter than we had in DSE spending. That's a first. Our DSE spend continues to go down and less and less of the business comes to the fund companies on a regular low DSE basis. And if it comes into the fund company on a low-load DSE basis, with some of the ones that are out there today, they are extraordinary money-losing propositions for the fund company.

Every single product that we sell earns a decent return, whether it's I Class, F Class, low-load, full-load, and I think we very carefully managed the margins of our business based on the product that we're offering.

DOUG YOUNG: So for you, I mean, how important is operating margin going forward? Should we be looking more at pre-tax operating earnings or just...?

WILLIAM T. HOLLAND: I think so. Because what happens if next quarter, if the trend towards going lower and lower and lower on the amount of sales that are coming in on a deferred sales charge basis, that's

going to reduce the operating margin, but it doesn't decrease the economics. It just means that because you're paying 1 per cent trailer fee on the front end and only half on the DSE business.

If you think about it from a 2-per-cent fee, if you charge... if 50 basis points is for amortization and 50 basis points are for trailers, it's no different than just paying a 1-per-cent trailer. But the operating margins look different.

DOUG YOUNG: Yes. I guess this is just happening, I guess a little bit faster than most would expect?

WILLIAM T. HOLLAND: I think that the change from... the 95 per cent of our long-term sales less than ten years ago, probably early 2000, were DSE. The run rate today, outside of seg funds, is more like 20.

DOUG YOUNG: Okay. On the expense side, would you expect that the asset levels continue to go up, that you're going to spend a little bit more?

WILLIAM T. HOLLAND: No. I don't think so. I think that because we have fixed our fund expenses at what's now is seen as a very, very low level we've had to be much more aggressive on the cost cutting than others. And we started from the lowest level. But we can't afford to move our costs up. Do I think bonuses will be higher this year? Sure, they will. But I don't foresee the expenses moving up much at all. I think we're probably more careful with expenses today than we've ever been.

DOUG YOUNG: And just lastly, the credit line that you had, I guess you've brought it down and your asset covenants level is brought down. Does that go with your view that you'd like to bring your debt levels down, or is there anything else to think about around that?

WILLIAM T. HOLLAND: I don't think we want to bring our debt levels down. If six months from now we're looking at a world where the credit markets seem more comforting to us, we may look at something like raising some longer-term debt, some public debt or something like that.

I just think that we have concerns about annual renewals of very important big lines, and I think that we saw last year that the banks are going to be in a period of less accommodating, I would say.

DOUG YOUNG: Okay, thank you very much.

WILLIAM T. HOLLAND: Your next question comes from Stephen Boland, from GMP Capital. GMP Securities, sorry about that. Please go ahead.

STEPHEN BOLAND: Sorry, I thought there was a pause there. Bill, I just want to be clear here about margin versus sales and EPS growth, because in the past you've always said you could generate as much sales as you want, depending on what trailer you wanted to pay, but you didn't really want to sacrifice the margin. I mean, if you had increased your trailers by 10 basis points, you still have a profitable product, and probably

generate a tonne of sales, if that's true. And maybe you can confirm that, how sensitive that is.

So where is the balance here? It seems to be a little bit of a shift, or am I just reading that wrong?

WILLIAM T. HOLLAND: You're completely wrong. If we increased our trailer fees by 10 basis points on all of our business, it would take us 100 years of extra new business to make up for that. The reality of it is, I'm saying if we paid 125 basis points in trailer fee or if we did a low load that gave people 3 per cent and paid 2 per cent in trailers, we could sell several times what we're selling, but we'll lose money on it. We'll lose money. It's not a matter of sacrificing margins. I'm saying that if we look at every single product or category and try to maximize our margins within it, and I think it would be suicidal for us to raise trailer fees at this point.

STEPHEN BOLAND: Okay, yes, I didn't mean across the board. I just meant generally if you chose some of your long-term funds and tried to get a 75-basis trailer or a 50-basis to 60, you still earn a margin on that but...

WILLIAM T. HOLLAND: Yes, but you're losing a tonne of money on all of the assets that you've had for the last 20 years. And you remember that in this business, that wherever the trailer fee is the highest ultimately that's where the assets flow to.

STEPHEN BOLAND: Okay, that's good. I just want to make sure that it wasn't a shift going on here. Thanks.

OPERATOR: Your next question comes from Richard McCormick, from Blackmont Capital. Please go ahead.

RICHARD MCCORMICK: Hi, Bill. I just had a question on SG&A. So I'm looking here at the net SG&A for asset management. The asset management sector was up just over 6 per cent sequentially, and the asset administration was down 6 per cent. Can you give us some colour on the moving parts that led to this?

WILLIAM T. HOLLAND: Well, our asset management, are you talking about the money management component of it?

RICHARD MCCORMICK: Yes.

WILLIAM T. HOLLAND: Most of it is just basis points, right? So we pay most of the money manager in terms of basis points and it often is... it goes up or down with the level of assets.

RICHARD MCCORMICK: Okay. Okay, so it's just some more S&PM payout, okay. And what about the decline that you saw on the other side of things?

WILLIAM T. HOLLAND: On the...?

RICHARD MCCORMICK: On the asset administration, I think, was down a couple of million? Was it just...?

WILLIAM T. HOLLAND: It's, again, it's just the cost cutting that we undertook late last year. We don't have, the asset under administration business is proving to be a somewhat declining business, and so we've had to change our cost structure so it will probably decline from here as well.

RICHARD MCCORMICK: Okay. Okay, perfect, thanks.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the * followed by the 1. As a reminder, if you're using a speakerphone, please lift the handset before pressing any keys. Mr. Holland, there are no further questions at this time. Please continue.

WILLIAM T. HOLLAND: Well, thank you very much for joining me for our second quarter conference call. And I will look forward to reviewing our third quarter with you in 90 days. Bye now.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. You may now disconnect your lines.