

CI FINANCIAL THIRD QUARTER 2010 RESULTS CONFERENCE CALL

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CORPORATE PARTICIPANTS

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Derek Green

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Doug Jamieson

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PRESENTATION

Operator

Good afternoon. At this time, I would like to welcome everyone to the CI Financial 2010 third 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.

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 the Management's Discussion and Analysis available at www.ci.com/cix.

EBITDA, earnings before interest, taxes, depreciation and amortization, adjusted earnings and pre-tax operating earnings are not standardized earnings measures prescribed by GAAP, generally accepted accounting principles; however, management believes that those 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 now like to turn the call over to Mr. Stephen MacPhail, President and CEO of CI Financial. Mr. MacPhail, you may begin the conference.

Stephen MacPhail

Thank you. Good afternoon and welcome to CI's third quarter conference call. With me today is Derek Green, President of CI Investments, and Doug Jamieson, Chief Financial Officer of the company.

CI's third quarter is the start of what looks to be a great second half of 2010. The downturn experienced in the second quarter reversed itself and we saw CI's retail assets under management increase 7% by the end of the quarter, almost \$6 billion higher than when it started.

Even though average assets for the quarter were actually the same as for the second quarter, resulting in flat operating earnings for the quarter, the stage was set for a great fourth quarter. Since September 30, assets have reached all-time highs at CI and are now up over 13% from the beginning of July.

With our retail assets under management now at \$68.7 billion, when we close the Hartford acquisition, we will have over \$70 billion in retail assets under management. As a result of the increase in assets and expected increase in profitability, CI has increased dividend for the second time this year. Our annual dividend is now \$0.84 per share.

Quickly looking at the third quarter on a year-over-year basis, our average retail AUM was up 10% to \$63.5 billion. Our reported earnings per share for the quarter was \$0.27, up 13% from the prior year.

Adjusting earnings for equity-based compensation gives us adjusted earnings per share of \$0.28, up 12% year over year. Pre-tax operating earnings were \$0.52 per share, up 13% year over year and adjusted EBITDA was \$0.57 per share, up 10%.

SG&A, as a percent of retail assets under management, declined by 5% to 40 basis points. This expense covers money management, fund operating expenses and all corporate activities like sales and marketing.

Our market share stayed steady at 9.4%. Net debt declined year over year by 13% to \$654 million. And lastly, during the quarter, we paid \$0.19.5 in dividends, up 30% from the \$0.15 in dividends paid in the third quarter of 2009.

Derek Green, President of CI Investments, is now going to give you an overview of CI's sales. Derek has been a key member of the CI executive team for many years with over 17 years' experience at CI and is one of the key drivers behind CI's sales success over the years.

Go ahead, Derek.

Derek Green

Thanks, Steve. As you can see, sales for 2010 are up quite dramatically. In fact, year to date we've done as much business as we did in all of 2009 and, at our current run rate, we should do about \$9.5 billion by the end of 2010.

Mutual fund growth sales are up 32%. Our total sales, just to clarify which would be segregated funds and mutual funds, are strong across all of our key channels. Of note, at Sun Life our gross sales were up 22%, while their net sales are up 39%. At Assante, gross sales are up 12% and net sales are up 31%. In IIROC, which is a very pleasant surprise, the gross sales are up 46% while the net redemptions are down approximately 20%.

We continue to see redemptions from seg fund maturity contracts. We launched our new SunWise Essential Series on October 15 and we have seen \$34 million flow into the new product in the past three weeks.

You can see that CI's fund performance aligns very well with current industry flows. Signature High Income Fund, which has been a favorite amongst Canadian investors for over 10 years, is first quartile across-the-board. But we are very well aligned in the income and balanced space, where Canadian investors and advisors are moving a lot of money.

At this point in time, I would like to pass the call over to Doug Jamieson, and he will go over our third quarter financial highlights.

Doug Jamieson

Thanks, Derek. First, I'd like to compare Q3 results to those of Q2.

As Steve said, average retail AUM was essentially flat quarter over quarter, but the markets moved down during the second quarter and rebounded in the third. CI's reported earnings per share were down from \$0.31 per share last quarter to \$0.26 per share this quarter.

There were two main reasons for this decline. CI's income tax expense was \$3 million higher this quarter on the modification of CI's employee option plan and that was about \$0.01 per share. Also, the equity-based compensation expense was \$3.3 million this quarter versus a recovery of \$7.9 million last quarter, and that difference accounts for nearly \$0.04 per share.

CI's adjusted earnings per share were \$0.28 this quarter compared to \$0.29 last quarter. The primary difference here is a bump in the effective tax rate from 27.5% to 29.4% relating to the timing of a couple of small loss utilizations and future tax reversals.

I would like to note that our statutory rate is currently 30.9%, and that will decline next year to 28.2%.

And so, CI's pre-tax operating earnings were flat at \$0.52 and adjusted EBITDA was flat at \$0.57 per share, in line with the flat retail AUM. CI's EBITDA margin, which is EBITDA dot as a percentage of revenues, was also flat quarter over quarter at 48.6% and up from 48.1% last year. Note that the year-ago number includes a small capital gain of \$3.2 million and would otherwise have been 47.4%. Given the increase in CI's retail AUM so far in the fourth quarter over the third quarter average, and our ability to hold the line on SG&A spending, we expect to see upward movement in this margin in Q4.

CI's pre-tax income margin increased slightly from 33.9% to 34% this quarter and has jumped from 32.1% a year ago. Again at this point, we expect to see this margin resume its upward climb in the fourth quarter.

Looking at our uses of cash, CI generated \$122 million in cash flow from operations during the third quarter. From that amount, CI paid deferred sales commissions of \$32 million, leaving free cash flow of \$90 million. From that amount, CI bought back \$11 million in stock and paid out \$56 million in dividends. The balance of cash flow went to supplement CI's cash balance at CI Investments for regulatory capital purposes.

I will now turn it back to Steve.

Stephen MacPhail

Thank you, Doug.

A few weeks ago, we announced that we had reached an agreement to buy Hartford's Canadian Mutual Fund business. I know it surprised a few people at the announcement but, after talking to most analysts, the general consensus is that it makes good sense for CI.

Hartford will provide CI with about \$1.8 billion in predominantly equity assets. These are for the most part are A Class funds, a part of the business where CI has great operational expertise. With Hartford comes good depth of portfolio management that we see as a good strategic fit with CI. As part of the CI model, we believe there's a great opportunity to significantly enhance the asset bases of some of these money managers.

Both Hartford and CI have strong distribution relationships. Combining assets will allow us to further enhance distribution, which has been a key part of CI's strategy for many years now. The business will be easy to integrate into CI's operations, which will lead to Hartford Fund unitholders being able to benefit from CI's low-cost operating platform.

Lastly – the part that I like – we anticipate EBITDA contribution from the business of about \$20 million in the year 2011.

I next want to focus on where assets are today to give you a bit of a clearer picture. If you look at the shaded area, it depicts average assets during the quarter.

As I mentioned at the beginning, though assets rose almost 7% during the quarter, the average for Q2 and Q3 were just about the same. But the dramatic move in assets is where we are today at \$68.7 billion in retail assets under management, we are 8% higher than the average asset level in Q3. Should assets just remain at today's levels, we would experience a very good increase in profitability from Q3 in the current quarter.

This leads us up to our dividend increase, our second for 2010.

First, AUM is up substantially from the date of the last increase in May. When we translate our current position to 2011, the new dividend should represent a payout ratio somewhere in the vicinity of 60% of net income. Again, based on forecasts from current asset levels, a dividend of \$0.84 would leave CI within the range of \$160 million to \$180 million available for stock buybacks or debt repayment.

And with that, I want to wrap up with a few key points. As mentioned, our current retail AUM is now up over 8% from the Q3 average. The Hartford acquisition is expected to close in early December, putting our AUM over \$70 billion -- again, a record high for CI. Sales across many channels are good, as Derek has pointed out. But in particular, the new SunWise [Essentials] Funds have very promising sales.

And lastly, we continue to see consolidation opportunities that we think can add value to CI.

Thank you. And with that, I would like to open it up to any questions you might have.

QUESTION AND ANSWER

Stephen Boland, Analyst, GMP Securities

Good afternoon. I guess a numbers question first. In the past, you have talked about the F Class and I Class growing as a percentage of your asset base. And we have seen that in the management fee percentage of average assets and it's come down, I guess, a couple of basis points there in the quarter.

Is the offset now, are we going to start to see that in the trailer fee reduction? Is that the expense that will be offset? And will that start [flowing] through the book?

Stephen MacPhail

Well, yes, you've got a good point there. The I Class (funds) clearly don't have any trailer fees associated with them, so the higher percentage of I Class, the lower the trailer fee would be. But it's totally dependent on the mix of business. If we do a lot more front-end load business, clearly that has a higher trailer fee attached to it, but no deferred sales charge attached to it. And that could offset any lack of trailer fee on the I Class.

But generally speaking, as we have more I Class, you tend to see the percentage paid in the trailer fees going down. That is correct.

Stephen Boland

Okay, because that's the first time we've seen that number go under 54 as a percentage of your assets. Second question is on the Hartford. The \$20 million of EBITDA, is that all expense synergies that you are stripping out of that business? Because I didn't think it had a lot of EBITDA when it was being sold from what I've heard.

Stephen MacPhail

Well, I don't know who is talking about it because I understand there were confidentiality agreements signed.

Stephen Boland

I didn't sign one. So ...

Stephen MacPhail

There you go. Clearly, with our size of business we can run a business like that at much higher or better economies of scale. And so we can take a business that may or may not have been making any money and have it make way more money. That has been the premise of our business platform all along, that we can make money on assets where a lot of our competitors can't.

Stephen Boland

And can you just talk about expanding the distribution relationships with – I know Edward Jones is a key partner [of theirs], but can you explain how you guys are going to infiltrate that channel a little bit more?

Stephen MacPhail

We are a very large customer of Edward Jones, and we have a very good relationship with them, obviously as did Hartford.

When you put it together, what you have is a situation where we should have a great relationship with them. The greater number of assets you have with any channel, then the more attention that you can pay to that channel. And that was the whole objective is, you know, to provide as much service excellence as we can to that whole channel. And you know, we will have a lot of assets there, which will make it all possible.

Doug Young, Analyst, TD Newcrest

Just a few questions. On the Hartford acquisition, can you tell us or give us an idea of the purchase price? How you are going to finance it just so we can kind of do the math and as far as doing the math, Steve, if I get to about \$0.02 accretion on the EPS, is that about right?

Stephen MacPhail

Well, you are persistent. First of all, let me just talk about the purchase price. We are not disclosing the purchase price, but what I can say is what we paid was a fair price to the seller and it was a fair price to us. So I don't think either party is upset about that. And it was a price at which it is accretive for us.

Our expectation is that we will just finance it with debt. It's not that material a number to CI at the end of the day, and we will just finance that with debt probably sometime later November or early December when we anticipate closing.

Doug Young

All right, I won't persist on it. How much in assets totally will you have with Edward Jones after the acquisition? Some skeptics out there may wonder if Edward Jones will remove you potentially from the platform because you are going to have a greater size on that platform? And can you give us some comfort that you've had discussions here and with Edward Jones and that's not going to be the case?

Stephen MacPhail

I am going to let Derek answer that because he has had discussions with Edward Jones directly and has a great relationship with them.

Derek Green

Ultimately, Edward Jones is the only one that determines who is a preferred partner and who's not. We have a preferred status with them on our segregated funds through our relationship with Sun Life. Collectively, when the two companies come together, we will have about \$1.8 billion.

Edward Jones is a great client already. We actually do more business with Edward Jones on a net basis than some of their preferred clients and we have more of our funds on their approved list than anyone else, any other fund company. So ultimately they will go through their due diligence.

I think what will help us is they've been doing extensive due diligence on our shop because of our relationship in seg funds. And so we are hopeful but, ultimately, Edward Jones is the only one that will determine who gets the preferred status and who doesn't. But we are working very closely with them. Hartford has a dedicated wholesale channel to them as Steve mentioned earlier. When the more assets that you have with the client the more resources that you can provide them with, so we are looking at input from them and doing whatever we can to help them grow their business in Canada.

Doug Young

I'm sorry. Derek, how many wholesalers do you have that focused on a channel?

Derek Green

Well, right now, we don't have a dedicated channel. All of our wholesalers that cover Edward Jones actually are insurance licensed, but we would have seven across Canada. I'm not sure. Hartford, I think, has four to five.

But I would think we would have a dedicated group of probably five in Canada. There are a couple of locations in rural areas where you just can't have a dedicated group of people. But I would think we'd have a dedicated sales channel of five that would cover only Jones and they're, as I said, they are a very important client. We can customize a coverage model for them and do what we need, what they want us to do.

Doug Young

We've been looking at your net flows, segmented by mutual funds, seg funds and other and it seems like more flows are going into your separately managed accounts. And so I'm just trying to get a better idea of this product and the margins on this product. You know, I'm going to guess it's not retail margins, but is it institutional margins that you are getting on that product?

Derek Green

Well, I guess therein lies the question and what's institutional. Certainly it is not Class A pricing. A lot of it is incremental business that we wouldn't receive. But, obviously, the margin is lower but it's business that we wouldn't have had. So the margins are what they are.

And I think you heard Bill say on one of the earlier calls I think it was last year that he wanted more of everything. We are trying to grow it in the pension space, we are trying to grow it in the SMA space. We are growing it in segregated funds and Class A mutual funds and the one nice thing about the Hartford deal is most of their business, if not all of their business, is almost all Class A higher margin business.

Doug Young

Lastly, you made a mention, Steve, of consolidation opportunities. Can you elaborate on what you are hearing what you're seeing? Is there more activity? You're having more discussions? Thank you.

Stephen MacPhail

I would say that there definitely is more activity. We've been presented with more situations where we are actively having conversations. A lot of them are in areas that are more niche businesses.

I think it's just like the Hartford acquisition surprised people, but when you really think through it, it made a lot of sense. Well, I knew it made a lot of sense. That's why I wanted to get it done.

But there's other similar type situations that probably aren't on your radar screen right now that, if we're able to do them, you would say, "Oh, that made a lot of sense for CI." And I think what people are seeing, that even though asset growth has been strong in a lot of places the pressure on costs and margins means a lot of people want to team up with the likes of CI, so that they see kind of a better future for their business.

Doug Young

And, Steve, these opportunities are in the asset management space only?

Stephen MacPhail

That's correct.

John Reucassel, Analyst, BMO Capital Markets

A couple of questions, Derek, you mentioned that CI and Hartford combined have \$1.8 billion at Edward Jones. Is that correct?

Derek Green

Yes. Approximately \$1.8 billion.

John Reucassel

And that's segs and mutual funds?

Derek Green

Segs and mutual funds.

John Reucassel

And then you, on slide four, you talked about sales, net flows for this year. Do you want to hazard a guess for next year if the world is kind of like it is today? Are we looking at similar net sales next year? Or how would you talk to us about the outlook for net flows next year?

Derek Green

Well, the one thing that I would say is we are incredibly well-positioned where people are [buying] and I think what's important is the market seems – I don't have a crystal ball – but the market seems to want to go higher. Everything points to it.

So there've been a lot of people that have been very conservative. They've been reluctant to go back into equities. We've got a great balanced lineup and we've got great income products. We came out with a new product last November and we have about \$800 million in new assets.

So I would like to think that the big issue, the biggest challenge for us, I think for 2010, was segregated funds. Either derisking and repricing and then coming out with a new seg product that took a lot of time. But also the seg fund maturity bubble with matured, closed contracts.

So I would think that everything being equal, the markets, you know, behaving themselves, I would think that 2011 will be a better year.

John Reucassel

Okay. Great. Steve, a question for you on the Hartford. Are there any tax benefits to this deal for CI and if so, magnitude or when should we see that? And then small question. But there's \$7.5 million in capital expenditures this quarter. That's a big number for CI in any given quarter. Was there something going on there that is unusual?

Stephen MacPhail

Sure. I'll answer those questions for you on it. On the capex – just so you know, we are moving office locations, and so, we are setting up a new office building right now. And so there's a lot of front-end costs related to our 15-year lease. So that is why you are seeing that cost on a capex side. Then it will be amortized over a period of time.

But just so you know, in true CI style, the lease costs that we are paying on our new premises are below what we were paying before. So our net overall cost of premises will decline even though we have to make an upfront investment.

John Reucassel

Is that going for a quarter or two or are we done?

Stephen MacPhail

Yes. We will have everyone moved in pretty well by the end of January. Most of the money will all be spent that we are putting into that by the end of January.

The second one was on were their tax losses associated with Hartford? Yes, there were. There are sizable tax losses associated with it. I'll just say in the range of \$50 million to \$70 million.

John Reucassel

Okay, is there a time period in which those can be recouped?

Stephen MacPhail

We will look to start to recoup those in 2011.

John Reucassel

Okay. And then just on the funding, I don't know if I misread this or misunderstood. There was \$58 million of new debt this quarter. Are you pre-funding the acquisition or was there something different there?

Doug Jamieson

No, John. It's Doug. The increase in debt primarily was to bump up the cash level at CI Investments.

John Reucassel

Okay. For corporate purposes?

Doug Jamieson

Regulatory purposes. Yes.

John Reucassel

Regulatory purposes. Great. Thank you very much.

Paul Holden, *Analyst, CIBC World Markets*

Wonder if you can provide us with an update on your relationship and initiatives with Scotiabank? On the last call you mentioned that you had gained some new mandates. Maybe start there with some additional colour on that and potential for new mandates as well?

Stephen MacPhail

I will answer that for you. As we mentioned before, we launched a couple of new funds with them, and it's still early days. So we haven't seen a lot of business on those funds yet, but I think the test will be going through the RSP season and once they've had a full chance to really market those through their channels, the second thing is, absolutely, we continue to have discussions.

We are looking at one very interesting product with them that we have been working on for some time now on a corporate class basis that we think would certainly if introduced into Scotia would give them a jumpstart over their competitors. But technically, these are very tricky products. So whether or not we are successful getting in there or not, I don't know. But that would be the key thing that we are working on with them right now. And we continue to have other conversations where we could get into some of their other products when they launch them.

Paul Holden

Okay. Interesting. On the corporate class product, would that be CI basically providing the admin type services for it with, say, Scotia manufactured funds?

Stephen MacPhail

Well, I don't want to get into the technical aspects of it. Our corporate class product is, I would say, the best in Canada. It certainly is the largest. It has been around for the longest and it's got some advantages that a newly launched program can't possibly have. And what we're trying to figure out is how do we incorporate that into the Scotia system, so that they are able to utilize their products within it for their clients. So it's not as easy as it seems.

Paul Holden

Fair enough. With respect to the payout ratio forecast and cash flow forecast you provide for 2011, can you give us a sense of the underlying market growth assumption?

Stephen MacPhail

Yes. Just the standard one we would use all the time and that would be around 8% before fees. Take off fees and come up with a simulated net growth factor based on the funds we have.

Paul Holden

And then one final question, sort of an industry-related topic. CI stopped reporting to IFIC. I guess a couple of years ago another major fund company just recently stopped reporting to IFIC. Any thoughts on whether you think this will be a trend that continues? Do you think even more mutual fund companies will drop out as the data becomes less and less relevant as more of the top 10 companies stop reporting. Any thoughts?

Stephen MacPhail

Well, I wouldn't want to link the reasons that we are not part of IFIC for the same reason why one of our competitors dropped out. I'm not sure why they dropped, out. You would have to ask them.

But I think you are correct as fewer people are reporting into IFIC, then, yes it becomes more and more difficult. But if you compare Canada to the United States, we provide way more reporting in any event than the United States. The United States people aren't giving you this type of monthly data that you get in Canada where each company shows what's going in and out every fund. So we are a bit out of sync with the rest of the world.

That being said, that has been the standard in Canada for full disclosure. I just think as more and more people drop out, then the inclination maybe IFIC will look at changing some of its reporting. Notwithstanding, IFIC does a lot of other good things for the industry. I don't want to take away from that, and we do have discussions with them very regularly.

But I think there's a chance that the reporting might eventually change if more and more people aren't part of it.

Operator

We have no further questions at this time.

Stephen MacPhail

Well, I'd like to say thank you very much and we look forward to speaking to you on our conference call for the fourth quarter results, which we would expect to be held in the latter part of February. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.