

**CI FINANCIAL CORP.**  
**SECOND QUARTER 2019 RESULTS**  
**CONFERENCE CALL**  
**August 8, 2019**

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## **PRESENTATION**

**Peter Anderson, Chief Executive Officer, CI Financial**

Thanks very much, and welcome to CI Financial's conference call for the second quarter of 2019. Joining me on the call is Doug Jamieson, our Chief Financial Officer.

We have a lot to discuss on the call today. Most important is the Board's announcement earlier this week of the appointment of CI's new CEO; Kurt MacAlpine will be joining the company on September 1. Kurt is exceptionally well qualified, and we are extremely pleased to have found an individual of his calibre. His global distribution experience at WisdomTree will be a significant asset in today's environment and he will bring a wealth of knowledge and strategic insights to CI thanks to his experience as a Partner and leader of McKinsey's North American asset management practice.

The Board developed a checklist of qualifications for the CEO role and Kurt ticked all the boxes. I'm very pleased to transition the role to Kurt, and as a shareholder I have an extremely high level of confidence in his ability to add long-term value in this very challenging environment for our industry.

Q2 was another positive quarter for equity markets, with the TSX and S&P 500 ahead 2.6 percent and 4.3 percent respectively. For the year-to-date ending June 30, indexes had very strong gains following the severe

pullback in Q4 last year. Growth continues to significantly outperform value, a trend that has been in place for several years. Many of our portfolio managers continue to take a conservative position in their portfolios as a result of global macroeconomic challenges and generally stretched valuations at this point in the current bull market. They believe this is a prudent investment decision, especially in today's environment.

Although we see improving trends in the overall Canadian asset management business, sales remain slower year-over-year, especially for non-bank participants. Management continues to execute our strategic and operational priorities, which we will discuss later in the call; however, our key priorities remain unchanged, including making it easier for advisor and investors to do business with our Company through investment excellence and modernized product platforms and offerings, including investments in high net worth and ultra-high net worth spaces. This is key to returning the overall business to positive net sales. Also, investing in and growing our integrated distribution platform, including Assante, Stonegate, WealthBar, BBS, and Virtual Broker.

Right now, let me pass the discussion over to Doug, who will take you through our Q2 financial results. Doug?

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**Doug Jamieson, Chief Financial Officer, CI Financial**

Thank you, Peter. Looking at CI's financial highlights, comparing the second quarter to the first quarter and the second quarter of 2018, average assets under management were up 2 percent quarter-over-quarter at \$131.1 billion. They were down 6 percent from a year ago. Ending assets at \$130.2 billion were down 1 percent from the end of March and were 6 percent below the level of one year ago. Assets under advisement grew 2 percent during the quarter and are up 7 percent from one year ago.

Net income as reported was down 20 percent from last quarter at \$111.9 million and down \$0.11 per share from last quarter and \$0.14 from last year. However, when we add back the provision that was taken this quarter, adjusted net income was only down 1 percent and was flat on a per-share basis.

Year-over-year adjusted earnings were down 13 percent and 5 percent on a per-share basis thanks to the share buyback program over the past year. Free cash flow was up 2 percent to \$146.5 million.

The \$35 million provision consists of severance and the write-down of software in the amount of \$6.4 million. The balance of \$28.6 million is severance and we have already begun restructuring the business by rationalizing

our platforms and fund line-up as well as streamlining and digitalizing processes. The initial impact of that streamlining can be seen in our SG&A for the second quarter.

CI's SG&A was \$124.8 million, down 2 percent from \$127.3 million in the second quarter last year and down \$1.3 million from \$126.1 million last quarter. Spend in the asset management segment was \$99.3 million compared to \$102.9 million in the second quarter last year, and we expect to manage that number lower as we reduce the spend on operating the retail fund side of the business while we increase the investment in the distribution side of the business. SG&A in the asset administration segment was \$25.5 million, up slightly from \$25.1 million last quarter. We are still on track to achieve our target run rate SG&A of \$480 million by the end of the year.

Here we have the last five quarters of CI's quarterly free cash flow and the return to shareholders. The level of share buybacks increased from \$61 million to \$95 million as the normal course issuer bid was renewed in mid-June. In the second quarter, free cash flow exceeded dividends and share buybacks by almost \$9 million. CI announced a change to its capital allocation policy one year ago. In the past four quarters, CI has repurchased \$504 million in shares, buying 25.2 million shares and maximizing its issuer bid for the 12 months ending in June 2019.

Gross and net debt have remained essentially flat over the past three quarters, and with annualized EBITDA at \$841 million, CI's net debt to EBITDA ratio has held steady at 1.5 times. CI renewed its issuer bid for 21.7 million shares over the 12 months to June of 2020 and at CI's current share price and cash flow level, we are forecasting net debt to remain steady.

I will now turn it back to Peter.

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**Peter Anderson, Chief Executive Officer, CI Financial**

Thanks Doug. Let me now provide an update on our various business lines, including Canadian retail and institutional sales, GSFM, Assante, Stonegate Investment Management, and our digital platforms.

Our Canadian retail business continues to be a main source of the net redemptions at CI. As you know, this is not an isolated issue as we see this throughout the industry, especially with non-bank firms who are facing fierce competition for new business. As I've said, our top priority is to return the firm to positive sales, and we continue to invest in products, training and investment management among other initiatives to meet this goal.

We are seeing signs that our work is paying off. Redemptions have improved year-over-year and quarter-over-quarter. As well, although short term, we saw an improvement in net sales in each of the last three months. Improvements can be attributed to several factors, but most notably stronger performance by our investment management teams, strong support by our advisors for our new product offerings, including liquid alternatives, private pools, and a fund of ETFs, and an improvement in sales at IROC advisors and new advisors to CI.

CI First Asset, our active ETF platform, continues to grow AUM as we have now surpassed \$7 billion in overall assets. At acquisition, First Asset managed about \$1.9 billion in ETF assets. Today, this number exceeds \$6.6 billion. We recently launched a high interest savings ETF which is gaining terrific traction in this market environment, and on August 1 we launched a mutual fund version which we expect will also be very well received.

We have had strong and positive feedback on our current marketing campaign supporting advisors and active management. The campaign, called Seek Sound Financial Advice, promotes the use of an advisor and the value they offer to investors. This campaign will continue well into the fall.

We have several other initiatives to announce over the next few quarters, and I am more confident than ever that we are moving our retail business in the right direction. We have a lot of work to do but the signs are more encouraging.

CI's institutional business was also in redemptions for Q2 as a result of short-term underperformance and a shift in asset allocation by institutional investors, along with significant changes in the overall industry. We recently made some changes to the structure of our institutional group by aligning it with our very strong private client business. This has created synergies through sharing services while also enhancing the overall offering. The team continues to be successful in placing CI in a significant number of searches and finals. We expect CI institutional to continue to add value to CI's overall business.

At Assante and Stonegate, we continue to see solid AUA growth that outpaces our competitors. Growth in the high net worth and ultra-high net worth spaces continues as we develop a robust platform and specialized offerings to meet the needs of these clients. We continue to have success in recruiting advisors who prefer our independent and well capitalized platform, and we are ahead in our recruiting projections for 2019.

Assante and Stonegate continue to be key drivers of CI's success as increases in AUA also translate into increases in AUM growth. We are making significant investments in Assante and Stonegate to further support the growth of these businesses. Our five-year goal remains to double AUA at Assante and Stonegate.

Our investment management teams saw an overall improvement in performance in the second quarter with 76 percent of our assets in first or second quartile. One-year and three-year relative performance has also improved. We've seen solid improvements at some of our core teams, including Cambridge, Altrinsic and CI Multi Asset Management. We remain very focused on the results of our investment management teams and we continue to enhance these groups through technology and professional development. As you all know, performance is a leading indicator for sales.

At GSFM, our Australian business, we returned to positive sales in Q2 after a rare quarter of redemptions in the first quarter. We had excellent retail sales results and were in slight redemptions on the institutional side. I'm pleased to confirm GSFM has won an institutional mandate in excess of \$500 million which will be funded any day now. We believe GSFM is in an excellent position for future growth. As a result of the fall-out from the Royal Commission on Financial Services, we believe that independent firms such as GSFM should thrive. In addition, performance by their key PM teams, including Epoch, Payden & Rygel, and Munro have created excellent opportunities with both retail and institutional clients. Cambridge Global Asset Management is also beginning to see sales in Australia with their retail offering. I remain very encouraged by this acquisition.

Our digital businesses, WealthBar, BBS and Virtual Brokers, continue to deliver results ahead of our expectations. At WealthBar, sales remain robust. The firm's client roster recently exceeded 5,000 with an average investment of almost \$70,000. In Q2, we rolled out Assante Connect, a WealthBar offering designed to serve certain clients at Assante. The initial feedback from advisors at Assante has been very encouraging. We continue to see significant opportunities to leverage WealthBar's technology throughout all of our traditional businesses.

BBS and Virtual Brokers are also posting very positive results. We converted a number of Assante accounts that were previously outsourced off book onto BBS' platform. This provided a cost savings to the firm and better coverage for our clients as well. BBS on-boarded 16 new institutional accounts, including robo-businesses, portfolio managers, and advisors. This business has grown from less than \$500 million in asset at acquisition to almost \$3 billion today. Although our digital businesses, WealthBar,

BBS and Virtual, have a relatively minor impact on overall financial results at CI, they are critical to our overall long-term strategy.

To summarize, let me highlight a few key points from our second quarter.

- CI's new CEO, Kurt MacAlpine will begin on September 1.
- Sales remain our top priority at CI. Although this is challenging for the industry and CI, we are seeing some positive and encouraging signs, especially in our retail business.
- We've taken a one-time provision this quarter of \$35 million for ongoing restructuring of the Company. We continue to focus on our SG&A as we believe this will become a key differentiator for CI. We are investing where we see growth opportunities but remain vigilant on expenses throughout the firm.
- Investment management performance has improved but we remain focused on delivering consistent long-term results for investors.
- Finally, we will continue to be buyers of CI shares as we believe CI remains undervalued and at this point is the best use of our free cash.

Finally, as this is my last analyst call for CI, I want to thank all of you for your continued support of CI during an extraordinary period of disruption and opportunity. As a shareholder, I am extremely pleased with the Board's decision to hire Kurt, and I am confident in his ability to lead this company forward. As I move onto my next chapter, I look forward to keeping in touch with all of you.

With that, let me close and say thank you, and let's open the phones to questions. Operator?

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## QUESTION AND ANSWER SESSION

### Operator

The first question is from Geoff Kwan with RBC Capital Markets. Please go ahead, your line is open.

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### Geoff Kwan, RBC Capital Markets

Hi, good morning. I know you talked about the redemptions, seeing that start to improve, and we've seen the industry flows, it looks like hopefully stabilize, even potentially improving. Would you say from CI's perspective on overall the net sales on the Canadian retail, do you think that it's stabilized, do you think that you're seeing maybe some early signs that it's getting better? Just wanted to get your characterization.

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**Peter Anderson, Chief Executive Officer, CI Financial**

I would say at a minimum, it's stabilized. We've seen, as I said, improvements in our redemptions. Gross sales are clearly a challenge in the industry, as you've seen, but I would say our retail business is improving.

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**Geoff Kwan, RBC Capital Markets**

Okay. I apologize if I missed it, but the institutional win at Grant Samuel, did you say how much that was going to fund in Q3?

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**Peter Anderson, Chief Executive Officer, CI Financial**

Yes, I have every expectation it will fund any day now, and it is at a minimum \$500 million.

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**Geoff Kwan, RBC Capital Markets**

Okay, then just my last question is more bigger-picture and not Company-specific, but the industry is under fee pressure, flow is going into passives from active. At the same time, the retail fund companies have lots of different funds, a lot of different series of funds, so I'm just trying to understand in terms of trying to mitigate that earnings pressure, how much of an impact—like for example, if you or the industry were to cut the number of funds in the industry by half, would that have a material impact to the bottom at line at all? If you went from all the different series of the funds and you went to—I don't know, just pick a number, two series, like the F class and maybe the I class simplistically, would that also have an impact in terms of what that does to the cost structure?

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**Peter Anderson, Chief Executive Officer, CI Financial**

It would certainly have an impact. We've talked about rationalizing and modernizing our business line-up in previous calls, and over the weekend we moved our entire business off of our tier pricing platform back to a rebating platform, significantly reducing the number of funds that we have at the company, which has a measurable cost savings to the business.

I would expect that you're going to see rationalization in the industry for sure. You're definitely going to see it at CI. Between now and the end of the year, we'll be reducing the number of funds that we have, and I would

suspect the industry will do the same. We're going to continue that into 2020 and beyond.

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**Geoff Kwan, RBC Capital Markets**

Do you think, did your point there—sorry, if I can just follow on, do you really think that, I guess, with the challenges the industry has seen in the last five years, that we actually would see a material decrease in terms of the number of funds? I'd say over the last decade plus, there's always been talk - oh, there's too many funds in the industry, and the number, it seems like it just goes up, not down, because whatever gets merged, there's always new funds that pop up to try and take advantage of a new investing strategy.

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**Peter Anderson, Chief Executive Officer, CI Financial**

We're always going to roll out funds and new products where we see the industry is going. We want to be ahead of the game. That's why we launched alternative products and our pool products in our funded ETFs. But regarding our traditional business, I can tell you that we will be materially reducing the number of funds we have because we have a significant number of funds that can be rationalized and merged together to make our business more efficient.

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**Geoff Kwan, RBC Capital Markets**

Okay, thank you.

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**Operator**

Thank you. The next question is from Gary Ho with Desjardins Capital Markets. Please go ahead.

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**Gary Ho, Desjardins Capital Markets**

Thanks and good morning. Just want to dive into the restructuring charge a little bit, that piece that excludes the software write-down. Can you just go through what areas this impacted and the rationale? I think you listed a couple in your prepared remarks, maybe you can give us a little more details, was this investment management, back office? Give us some colour on that that would be great.

**Doug Jamieson, Chief Financial Officer, CI Financial**

Sure Gary, it's Doug. This is primarily for senior people and some portfolio management changes. As we restructure the business and rationalize our product line-up, there's going to be changes at the top, changes throughout the senior team, and some portfolio management throughout the operational side of the business. That's a longer-term thing that happens – we hope through natural attrition and not having to hire people back, that that's how we implement most of our digitalization and change in process in the back office.

**Gary Ho, Desjardins Capital Markets**

Okay, then maybe as a related question, maybe I missed it in your prepared remarks, what does this mean to your SG&A expense looking out relative to your Q2 run rate, and any expectations for further restructuring charge if I look out the next year or so?

**Doug Jamieson, Chief Financial Officer, CI Financial**

Yes, there's no expectation for more restructuring charges, and of course we expect to realize SG&A savings as we streamline the business. As Peter said, we've already started rationalizing our platforms and fund line-up. We have a target, as I said, \$480 million run rate SG&A, and we think we're on track for that.

**Gary Ho, Desjardins Capital Markets**

Okay. Perfect. Then just maybe the other side of the questions I have is just focusing on the gross sales, \$2.9 billion in the quarter, and that's been trending lower. If we kind of take a step back, what do you think it will take to reverse this trend? Do you think it's on the distribution side, better fund performance, sales and marketing? Just would like an update on the net flow's turnaround initiatives.

**Peter Anderson, Chief Executive Officer, CI Financial**

Gary, I didn't hear you completely. Can you just repeat your question? Sorry.

**Gary Ho, Desjardins Capital Markets**

Yes, just on the gross sales side, not on the net. There was—I think it was around \$2.9 billion for the quarter, and

I'm just wondering if you can highlight what you think will turn this number around the other way. Is it better distribution? I think you highlighted some of these, but I just wanted to know if you can highlight one or two points, which one would be the most important. Is it better fund performance, or is it sales and marketing?

**Peter Anderson, Chief Executive Officer, CI Financial**

I would say a little bit of both. I think performance by our investment management teams is certainly a leading indicator for sales, so from that point of view, that's important. I'm very confident in the strategies that our leadership on retail sales have put together and implemented. I think the product offering that we have today is strong. I'm very confident in our portfolio management teams. The industry is obviously challenged with gross sales lower than before and I'm actually very excited about the direction that we're taking Assante and Stonegate. There's no doubt in my mind that that's going to continue to be critically important to the success of our overall wealth management business, and as we continue to grow that business, whether it's through recruiting, through an acquisition or through organic growth, I continue to see the AUA that we grow from there as AUM.

Just a recap, I believe in the strategy that our sales, retail sales team has, believe in the strategy that our Assante team has, and I'm very comfortable with our investment management team to deliver long term performance in these crazy markets.

**Gary Ho, Desjardins Capital Markets**

Okay, perfect. That's helpful. That's it for me, thank you.

**Operator**

Thank you. The next question is from Graham Ryding with TD Securities. Please go ahead.

**Graham Ryding, TD Securities**

First, the hire of Kurt MacAlpine, he's not familiar to me, so I just wanted to maybe get some perspective, Peter, if you could speak on behalf of the Board. I don't know if you could do that, but what is the Board seeing here that they think Kurt can bring to CI, where there's opportunity or what was not there before? What's the logic and the excitement from the Board with this hire?

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**Peter Anderson, Chief Executive Officer, CI Financial**

Well right off the bat, I think what the Board believed that outside blood might be important to bring to CI; a different perspective, somebody with a long runway. He's got a lot of runway left in his career which is exciting. He's got a strategic vision of the industry and he's had industry experience as a consultant with McKinsey. He's sat down and met hundreds of different firms in North America and globally, and he's also got a global perspective, which I think is great. Those were some of the checklists that the Board were looking for, and he ticked all the boxes.

The Board is very excited about a young, talented, strategic, global individual joining our company.

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**Graham Ryding, TD Securities**

Perfect, thank you for that. Your comment about aligning your institutional business with your private client business, what's the strategy there? How should we think about that?

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**Peter Anderson, Chief Executive Officer, CI Financial**

Well first of all, there's a lot of similarities between our private client business and institutional. The expectations of our private client investors aren't much different than what the expectations of consultants are asking for us on the institutional side. It makes an awful lot of sense to start to work and to align those businesses, because I think from a technology point of view, from a reporting point of view and from a client expectation point of view, they are quite similar.

The teams are being led by Jaime Ross. He's got a very good vision for delivering what clients expect, so I'm quite encouraged by what I've seen in a very short period of time. You do see that in other places, not necessarily Canada but you do see that also in other wealth management firms

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**Graham Ryding, TD Securities**

Got it, perfect. Then my last question will just be your comment about the industry as challenged, I presume you're referring more to the mutual fund space versus the ETF space, which continues to show some growth. What's it going to take for that industry pressure to subside and shift, in your view?

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**Peter Anderson, Chief Executive Officer, CI Financial**

Right off the bat, we've been in a bull market for 10 years, so passive will always do very well in an environment like that. I think good active management will certainly have its day, and I think we will definitely be able to show the value of active management over passive, but it's not a question of active or passive, it's both. We're going to be competing with passive forever, which is fine. I think what you're going to have to see, though, is sort of a culling of businesses. I think we're going to certainly see firms disappear through acquisitions. Consolidation is, in my mind, a no-brainer, but you're going to see the firms, the good firms rise to the top.

We're in a really good position because we're large, we're independent. We're strategic and we're building our business accepting that the industry is going to change, which you're seeing already with some of the things that we've done in the recent past; buying an active ETF platform, buying WealthBar, buying BBS and Virtual. Those are very different, but I think they're incredibly strategic, and we're integrating them into the overall business. We're putting them together because we think together it makes a better business.

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**Graham Ryding, TD Securities**

Great, appreciate the colour. Thank you.

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**Operator**

The next question is from Scott Chan with Canaccord Genuity. Please go ahead.

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**Scott Chan, Canaccord Genuity**

Good morning. You showed a little bit in one of the slides the year-to-date fixed income category is doing very well, and I suspect to date it's probably accelerated. How is CI positioned in that category in terms of the market, and are you guys capturing your fair share of market share there?

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**Peter Anderson, Chief Executive Officer, CI Financial**

I'll get back to you on that, but I would say that we're in a good position. We have fixed income teams at Signature,



we have fixed income teams in Cambridge, we have credit teams with Marret, Signature and Lawrence Park, so I think we're very well positioned on the fixed income space.

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**Scott Chan, Canaccord Genuity**

Okay, and at Assante, you talked about recruitment being higher this year, and I think in your annual report it stated that \$1.4 billion of AUA was incrementally added last year. What makes this year better compared to last year in terms of your recruitment process?

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**Peter Anderson, Chief Executive Officer, CI Financial**

We're certainly doing more of it. We're seeing an awful lot of advisors from different places who are looking for an independent home and a home that's well capitalized. We have a very good product offering, we have a commitment to the advisors of Assante and Stonegate, and we're investing in the business. A lot of firms aren't doing that today, so the individuals that are out across the country that are meeting with advisors continue to have a significant amount of positive feedback, and I would also add that it's not just us going out and recruiting, we have a lot of people knocking on the door as well.

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**Scott Chan, Canaccord Genuity**

Just lastly, just a clarification question on your AUM breakdown, what was the divestiture of \$560 million in the quarter?

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**Doug Jamieson, Chief Financial Officer, CI Financial**

Scott, it's Doug. That was at GSFM, related to the Tribeca business.

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**Scott Chan, Canaccord Genuity**

Oh, okay. Thank you.

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**Operator**

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

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**Peter Anderson, Chief Executive Officer, CI Financial**

Okay, well if there's no other questions, thank you so very much. Bye now.

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