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CI Financial Corp. (CIX.CA)

Q4 2022 Earnings Call

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Nik Priebe

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Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Scott Chan

Analyst, Canaccord Genuity Corp.

Graham Ryding

Analyst, TD Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to the CI Financial Fourth Quarter 2022 Earnings Conference Call. My name is Bruno and I will be operating your call today. [Operator Instructions]

I will now hand over to your host, Kurt MacAlpine, CEO of CI Financial. Please go ahead.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

Good morning, everyone, and welcome to CI Financial's fourth quarter earnings call. Joining me is our CFO, Amit Muni. Together, we'll cover the following: an overview of the highlights of the quarter, a review of our financial performance during the quarter, an update on the execution of select items of our corporate strategy. Then we will take your questions.

We ended 2022 with strong Q4 results, capping off a successful year where we executed well and made material progress against our strategic initiatives. Our adjusted EPS of CAD 0.74 represents a CAD 0.01 increase from the prior quarter. This reflects lower average AUM in our asset management business, more than offset by stronger profitability from our Canadian and US wealth businesses.

For the full year, 2022 represented the second highest EPS result in the firm's history, only 1% below last year's record result and 27% higher than the next best year. This performance was achieved with significant market headwinds, as 2022 was the worst market performance for a diversified 60/40 portfolio in 85 years. Adjusted EBITDA per share increased 3%, while free cash flow is up 5% from the prior quarter.

Capital allocation during the quarter was focused on M&A as we completed the acquisitions of three high quality US RIAs and made other deferred and earn-out payments related to prior deals. Our asset management business generated net inflows for the second consecutive quarter. Within Canadian retail, our inflows are CAD 1.6 billion were once again a stark contrast to the billions of outflows incurred by the Canadian mutual fund and ETF industry.

Our wealth businesses continue to generate consistently positive inflows. Despite the market volatility and risk-off sentiment in 2022, we generated a record CAD 10.4 billion of net inflows, which is CAD 4 billion more than the previous record achieved last year. As a reminder, given our business model, flows into our US wealth management business come at similar margins to asset managers, not Canadian wealth managers.

We also continue to execute well against our three strategic priorities to modernize asset management, expand wealth management, and globalize the company. We progressed towards the IPO of our US wealth business with the submission of an S-1 to the SEC last year. We continue to work through the regulatory approval process.

In connection with the planned offering we delisted from the NYSE effective mid-January. As we discussed last quarter post-IPO, our Canadian business will trade exclusively on the Toronto Stock Exchange, and our US business will trade exclusively on a US exchange. During the quarter, we closed on the acquisitions of Eaton Vance Investment Counsel, Inverness Counsel and KORE Private Wealth, adding CAD 25 billion of assets.

Before I turn the call over to Amit to discuss the financial results, I want to highlight two corporate awards we received recently. Our goal is to create a high performance culture by providing our colleagues with meaningful and exciting opportunities for growth and development. So we're proud to be recognized for our programs and practices by being named in December, a Greater Toronto Top Employer for 2023. In addition, we were granted the 2022 Digital Transformation Award by ITWC, reflecting the success we've had in implementing digital technologies and processes across our business.

I'll now turn the call over to Amit.

Amit Muni

Chief Financial Officer & Executive Vice-President, CI Financial Corp.

Thank you, Kurt, and good morning, everyone. Turning to slide 4, our global assets ended the quarter at CAD 376 billion, up due to net inflows in all our three business lines and positive market movement as well as from the acquisitions of three RIAs.

Turning to our financial results on the next slide, I'll focus my comments on our adjusted results. Adjusted net income was a CAD 136 million or CAD 0.74 per share for the quarter. Net revenues increased to CAD 572 million and adjusted EBITDA was CAD 243 million for the quarter.

Turning to the next slide, I'll highlight the revenue drivers for our three segments. On a comparable basis, revenues were up slightly as higher Canada and US wealth revenues due to positive flows and market movement were partly offset by lower asset management revenues due to negative markets. We generated CAD 23 million of additional revenues from the three acquisitions in the quarter.

Turning to expenses on the next slide on a fully comparable basis total expenses increased 2.7%. CAD 3 million of the increase was due to higher revenue payouts to our – in our Canada Wealth segment due to higher revenues. SG&A was up CAD 6 million in total, which is primarily comprised of a onetime year-end true-up of

compensation in our US Wealth Management segment as we sunset a few legacy plans, which was partly offset by cost control measures. Expenses increased CAD 13 million due to impact of acquisitions in the quarter.

Turning to slide 8, we generated free cash flows of CAD 158 million for the quarter and paid dividends of a CAD 153 million.

Turning to the next slide. We can review our debt and leverage.

At the end of the quarter, we had approximately CAD 4.1 billion of net debt outstanding. Net debt is up due to the use of our credit facility to close on three RIA acquisitions in the quarter. Our credit facility leverage is 4.1 times.

Normalizing for the one-time yearend true-up in our US compensation, our EBITDA would have been higher and our credit facility leverage would be closer to 4 times. We recently amended our facility to increase our max leverage to 4.75 times. As a reminder, the weighted average maturity of our debt is 11.5 years, primarily at an average fixed rate of 4.1%. And 92% of our debt is covenant free. As we previously stated, we intend to use the proceeds from the IPO to reduce our debt and leverage.

Thank you. And now, let me turn the call back to Kurt.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

Thank you, Amit. For the second consecutive year, we generated net inflows from our Canadian retail business. Momentum built throughout the year with CAD 1.6 billion of inflows in the most recent quarter. We significantly outperformed the industry in both short- and long-term flows.

Reflecting the market environment, our positive net flows were led by our shorter duration fixed income products. Our products in these categories represent 13% of their category assets. However, we generated 47% of the categories' flows.

In the longer term categories, our retail funds represent 4.8% of the industry's assets. However, we suffered only 1.8% of the outflows. Put differently, our long term flow performance was 60% better than the industry average.

With the changes we've made to our investment platform and the associated investment – improvement in investment performance, the enhancements we've made to our product lineup and the modernization of sales and marketing processes, we believe we are very well-positioned to continue to capture a disproportionate share of the industries' flows.

I've touched on this a few times before, but I wanted to highlight the structural changes that we've made to our asset management business that have resulted in better outcomes for our clients. Only three years ago, we had a multi-boutique model that experienced years of challenge in investment, performance and redemptions.

As we fast forward through the transformation of our investment platform. Today's investment team is larger than it's ever been and the scale benefits associated with our integrated platform amplify this even more. Redundancies caused by our legacy boutique model have been replaced by true scale in all critical functions, research, asset allocation, portfolio construction, trading and implementation and risk and analytics.

We now have 66% of our funds beating their three-year peer averages and 71% beating their five-year peer averages. In 2022 we won the most FundGrade awards in the industry and the second most Lipper Awards. 106 of our investment products have five or four star ratings from Morningstar.

The next step in the modernization of our asset management business is to build the leading alternative investments platform for the Canadian retail market. Leading institutional investors typically allocate 30% or more of their portfolios to alternative investments. However, Canadian retail investors typically allocate 0%. The disconnect is not driven by demand or need, but by the lack of education on the asset class, lack of access to the underlying managers, and the inability to onboard service and administer the products.

To address this opportunity we recently launched the industry's first private markets multi-manager strategy to provide Canadian retail investors a single ticket solution for their illiquid alternatives exposure.

CI takes responsibility for the asset allocation, manager selection and onboarding and ongoing service and administration. We're providing Canadians with access to world class alternatives managers through our open architecture approach.

In addition to our internal due diligence teams, led by our CIO, Marc-Andre Lewis, who has a deep background in alternative investments. We've also engaged a third-party asset consultant who screens all managers before incorporating them in our portfolio, and it reviews and evaluates them on an ongoing basis.

What we've created addresses all the barriers to investing in private markets products. Over time, we believe this and other strategies we launch will help increase allocations from current levels to those more reflective of an institutional investor's portfolio.

As I mentioned earlier, we continue to make progress towards the separation of our Canadian and US business via our US IPO. And I wanted to ensure that everyone was aware that from a structural perspective, the businesses is already ready for separation. Even within Canada, our Canadian businesses have been operating fully independently, leveraging shared service functions for finance, marketing and human resources. Darie Urbanky heads our Asset Management business and Chris Enright and Sean Etherington have joined accountability for Canadian Wealth Management. We're realizing strong benefits from this fully segmented structure.

In addition to points I've already mentioned on net flows and investment performance, we made considerable strategic progress on a number of fronts. As examples, in asset management, we completed the outsourcing of our transfer agency processes and digitized and automated several core workflows.

In Wealth Management, we created an integrated recruiting effort, centralized our operations and technology platform, driving efficiencies across the business. And we put in motion a custody business expansion which will drive increased profitability in 2023 and beyond.

Our US business operates entirely independent from the Canadian business. The leadership team is fully staffed in our US headquarters and structurally ready for separation. We've made considerable progress towards our goal of creating the leading integrated ultra-high and high net worth wealth manager in the US. We have one operating platform supporting the business in all individuals and non-client facing functions such as technology, operations, finance, marketing, HR, legal and compliance report directly into the platform.

In 2022, we achieved the number of integration milestones. A few of these examples include fully consolidating our ADV, implementing Workday and Salesforce, transitioning to a common brand and an integrated approach to marketing, centralizing finance and human resources, launching our tax function, and receiving approval for our trust business.

In closing, I'm pleased with the strategic progress we've made in 2022 and the market share gains we've achieved in all our core business lines. I believe the actions we've taken to our platforms have created operating leverage that will be evident as we continue to grow and scale our business. We have an ambitious agenda planned for 2023, and I'm very confident in our ability to deliver against it.

With that, I'd like to open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Kyle Voigt from KBW. Kyle, your line is now open. Please go ahead.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi. Good morning. The first question is on the US business. Last quarter you noted that you would consider selling a larger portion of your ownership in the US business and just given leverage has ticked higher again in 4Q due to the acquisitions, wondering if you could provide updated thoughts on how much of that business you would be willing to sell in the IPO in order to de-lever.

And the second part of this question, there has obviously been PE interest in your largest publicly-traded competitor in the US wealth space. I was wondering if you'd comment on whether you would be open to a sale of this CI Private Wealth platform if there was enough interest or whether an IPO is still the preferred route, given the significant ownership that CI wants to retain in that entity.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Sure. So let me take them in order. So just first – and thanks for the questions, Kyle. So first, as it relates to leverage, Amit had mentioned, as you clean out the noise, our leverage ratio on a quarter-over-quarter basis was essentially flat. And that reflects the underlying tweaks that we made to sunsetting some of the compensation practices overall.

As it relates to the plan from an IPO proceeds perspective, as I had mentioned, I believe it was last quarter we are flexible with the percentage that we sell as a result of that process. But as we work our way through the process, we'll get a better sense for what that ultimately looks like.

But we don't have a target percentage that we're looking to sell or a specific number that we're managing for. We're looking to maximize the value for our Canadian shareholders by allowing CI to retain meaningful ongoing participation in that business.

And I think as your second question is somewhat tied to it, the path that we're pursuing currently is getting ourselves ready for our IPO. We're working through the structural changes in the process to do that. And we should be ready once we get through the back end of the approvals.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. And then there's just one final one for me. There has been a couple of press reports out regarding the CEOs leaving Segall Bryant and Regent. Just wondering if you can comment on whether these were planned transitions or whether these were known at the time of deal closure and maybe just kind of provide some more color on retention at these acquired RIAs more broadly thus far.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Sure. And I'm glad you asked, because I just want to make sure people understand the positioning. So, yes, two CEOs of two of the businesses we acquired have chosen to retire. Both are in their 60s. They've had very long, very successful careers. Lots of impact for the businesses prior to and post coming to CI and we're very, very supportive of their decision to retire.

In the case of RegentAtlantic, a long standing employee had transitioned to the office managing partner there, totally seamless. And in the case of Segall Bryant, Carolyn had been promoted President over a year in advance of Phil's planned retirement as well.

So, look, very appreciative for all the contributions that both individuals made to the platform. We wish them the absolute best in their retirements. But, yes, both were preplanned and pre-prepared.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Understood. Thanks, Kurt.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

And then, I guess, Kyle, in terms of overall retention it's incredibly, incredibly strong across our platform.

Operator: Our next question is from Geoff Kwan from RBC Capital Markets. Geoff, your line is now open. Please go ahead.

Geoffrey Kwan

Analyst, RBC Capital Markets

Q

Hi. Good morning. My first question was just on your high interest savings ETF funds, if you accumulated a substantial amount of AUM in that strategy. Just was wondering, I think you made reference to it in the presentation, but what's the strategy on how to effectively kind of convert those assets to higher fee funds as investors look to redeploy their holdings elsewhere?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yeah. Great question, Geoff. I think the – I mean, the way that we would think about it is we look at it both in terms of short term and longer term categories. And I think the comments I made in my prepared remarks, we're punching well above our weight in our ability to gather assets in short term categories, which is reflective of market sentiment and investor demand today. And arguably, more importantly, for the long term, our market share gains and the reduction in redemptions that we've seen relative to all of our competitors set us up incredibly, incredibly well as market sentiment starts to shift and pivot.

So the changes that we've been making to our investment platform over the past few years, the structure, the process, the approach is resonating incredibly well with investors, which is reflective of our flows. And as you've seen, our investment performance has improved considerably since we executed the transition from the multi-boutique to the integrated global platform.

So I'd say the goal is to do both. It's to continue to capture outsized market share in the short term categories as long as it flows into them, stay persistent and continue to capture the disproportionate share we've been getting in long term categories relative to our industry peers.

Geoffrey Kwan

Analyst, RBC Capital Markets

Q

And so like the [indiscernible] (00:19:48) do you have a good sense as to where they're coming through like MFDA, IIROC, other channels? And how you – is it just a matter of staying on top of those advisors or the way that you're getting that money to try and like I said when people are looking to move their money out of that strategy to something else that you're able to capture it?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yeah. The visibility through the integrated database that I've talked about in the past and the predictive analytics and our integrated sales and marketing process provides us with better visibility today than what we've had in the past. We have a very relationship-based selling approach. Our wholesalers have very good visibility into who's buying products, what they're buying. And in addition to focusing on where the money is flowing today, we're certainly setting up the conversations to capture flows as market sentiment changes.

And as I mentioned, I mean, the changes that we've made to our investment platform cannot be understated. The simplification we've made, the scalability, the size of the team, the associated performance, I mean, it's resonating really well, which is why we've been able to turn from worst flows in the industry to the best flows over a couple of year period.

Operator: Our next question is from Nik Priebe from CIBC Capital Markets. Nik, your line is now open. Please go ahead.

Nik Priebe

Analyst, CIBC World Markets, Inc.

Q

Okay. Thanks for the question. Just with the three US wealth acquisitions completed in the quarter and in the context of the forthcoming IPO, would you consider transaction activity to be largely complete now as it relates to the buildout of that platform?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

I wouldn't say complete, Nik. I would say the way that we think about our aspirations for the US Wealth business, we want the leading integrated ultra-high and high net worth wealth manager in the US, period. The major difference in our approach, maybe relative to some alternative approaches, is we're not an aggregator. Our goal is to achieve that, and it's through a combination of very strong organic growth, which we've achieved, acquisitions of the leading firms in the industry where I believe we've been more successful than others, given the quality of firms that have joined us and the full integration of our operating platform.

So for us, M&A is a function of the quality of firms that are coming to market at that respective point in time and how they will help us achieve our overall aspiration. As it relates to, let's just say, the remainder of the quarter, we have no planned cash outlays for the rest of the quarter associated with acquisitions.

Nik Priebe

Analyst, CIBC World Markets, Inc.

Q

Understood. Okay. That's helpful. And then just maybe a related question on the broader topic of capital allocation with share repurchases were sort of paused in the quarter, as you look out over the balance of 2023 do you expect to continue allocating more capital towards the deleveraging ambition? Or how do you see that playing out as we go forward here?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Sure. I mean, the intent is to keep a dynamic approach to our capital allocation. And we anticipate that being a combination of continued delevering, but also taking advantage of periodic disconnects in our share price and what we think is the implied market value. So as you mentioned, we have the planned IPO coming up as well.

Nik Priebe

Analyst, CIBC World Markets, Inc.

Q

Got it. Okay. And then one last quick one for me, maybe for Amit. The adjusted earnings figure included, I think, about CAD 40 million of transaction integration expenses. Can you just elaborate on the nature of that line item? Was that related to the acquisitions that were completed in the quarter?

Amit Muni

Chief Financial Officer & Executive Vice-President, CI Financial Corp.

A

Yeah, I'd say that two largest items in there are, one is cost that's related to our preparation for the IPO, and the second is a non-cash accounting charge we had to take in order to backstop certain loans that we made to partners to join the CIPW partnership.

Nik Priebe

Analyst, CIBC World Markets, Inc.

Q

Understood. Okay. That's it for me. Thank you.

Amit Muni

Chief Financial Officer & Executive Vice-President, CI Financial Corp.

A

Thanks.

Operator: Our next question is from Tom MacKinnon from BMO Capital. Tom, your line is now open. Please go ahead.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

Yeah. Thanks. Good morning. A question with respect to the net leverage. I think, Kurt, you said that it's increased quarter-over-quarter, largely due to some sunseting of compensation practices. And if you ex out the noise, it would have been largely unchanged quarter-over-quarter.

Can you correct me if I've got that wrong, but that seems to suggest that there's an additional CAD 300 million or so in sort of net leverage that happened in the quarter as a result of this noise. If you can just elaborate a little bit more on what the noise was, because I wouldn't have anticipated it affected the denominator in that net leverage comp calculation. So just a little bit more color on that. Thanks.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Sure. So what I was trying to express, Tom, was that net leverage, the absolute leverage has increased, but the associated underlying EBITDA that we've achieved didn't increase as much as it otherwise would have, given the onetime sunseting charges that Amit had mentioned as a result to changing of the compensation plans. So we didn't have that in place, yes, our absolute leverage would be up, our EBITDA would be up and our leverage ratio would be flat.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. And what was – did that show up in the essentially in SG&A in US Wealth, additional comp?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yes.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

And what was the dollar amount of that?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

We haven't disclosed specifically, but few million dollars.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. And the CAD 76.8 million in fair value contingency adjustments, was that entirely related to just the acquisition? Or was there any kind of true-ups with respect to any of the others? And how should we be thinking about the CIPW adjustments of CAD 27.7 million and going forward as well? Thanks.

Amit Muni

Chief Financial Officer & Executive Vice-President, CI Financial Corp.

A

Yeah. So it's composed of three pieces, obviously is the new acquisitions that came on. Second is, we re-fair value the contingent every quarter. That was the major portion of that charge as well as closing out that we have

a one year lookback to close out any PPA adjustments, but the big piece was re-fair valuing the existing contingent on the existing RIA platform [ph] numbers (00:27:00) that we have.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

So essentially, that means there's going to be an increase in payouts as a result of these things doing better than you would have anticipated. Is that the way I would read that?

Amit Muni

Chief Financial Officer & Executive Vice-President, CI Financial Corp.

A

That's right. That's right.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay.

Amit Muni

Chief Financial Officer & Executive Vice-President, CI Financial Corp.

A

If the expense goes up, that's actually a positive thing. That means that the firms are actually performing better than what we had thought when we did the acquisitions.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

And the CIPW adjustment. If you just remind us as to what that is and how we should be thinking about that CAD 27.7 million in the quarter is that – will that be increasing as the wealth stuff continues to increase.

Amit Muni

Chief Financial Officer & Executive Vice-President, CI Financial Corp.

A

That's right. That's basically related to how accounting treats the CIPW partnership units. We think about it essentially as equity and the CIPW partnership accounting treats it as a share-based payment award because of certain traits surrounding its redemption features investing provisions. But it is essentially equity. And then as the CIPW business continues to improve that charge, that non-cash charge will continue to go up again. This has performed well. The charge goes up. That's a good thing.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

And if we look at the operating free cash flow, CAD 150 million, is the thinking then to be less aggressive on buybacks and use some of this to drive down the credit facility going forward?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yes. The intention is to drive down the credit facility through free cash flow and through proceeds from the IPO whenever we execute that. As I've mentioned before, Canada owns the US business in its entirety today. So 100% of what we – the sale proceeds we received from the IPO will be going straight back to the Canadian business for the benefit to those shareholders.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

And just the free cash flow that's generated that seems to be less buybacks and more into driving down the credit facility as well. Do I have that correct?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yes. That was the case in the capital allocation tradeoff we made. But like I mentioned earlier, I'd like to keep it dynamic to take advantage of the opportunities. But yes, that directionally is correct in how we've been managing it.

Tom MacKinnon

Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Thanks so much.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Thanks.

Operator: Our next question is from Scott Chan from Canaccord. Scott, your line is now open. Please go ahead.

Scott Chan

Analyst, Canaccord Genuity Corp.

Q

Yeah. Thank you. Good morning. It seems like the January update was positive from an asset and flow perspective. Even from flows, I know seasonally January is pretty slow for CI. And just wondering kind of thoughts as we come to close [ph] a different RSP (00:30:00) season, maybe from an energy perspective on what you're seeing and how CI is participating in that.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Sure. So I think as you mentioned, Scott, for us, January typically tends to be a tough month of flows historically. So having positive flows in a retail business is a [ph] – this close for the month (00:30:21) is a very big win and a very meaningful turnaround relative to prior years, which I think sets us up very well for the rest of the year.

Once again, I would say that's entirely rooted in the changes we've made to the investment platform, modernized, streamlined, integrated approach, the team being bigger than it ever was, flowing through to better investment performance and a better structure to service our clients.

So I'd say as I look forward kind of beyond the January numbers we've disclosed for the remainder of 2023, I'm very excited about how well positioned we are, and I think we're better positioned today than we have been in probably a decade or more to participate in those flows.

Scott Chan

Analyst, Canaccord Genuity Corp.

Q

Okay. And then just on the new slide you talked about Kurt on the alternative investments, the CI Private Markets multi-manager solution you mentioned like having consultants on designing the portfolios for launch. Does CI has the current capabilities to provide all the funds or like within the solution or are you seeking some third-party support for this?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Sure. So the underlying components. The fund is ours. We do the asset allocation and the implementation. The underlying exposures are entirely done by world-class third-party alternative managers. So in this particular instance, it is not a CI team running, let's just say the underlying distressed debt exposure or private real estate exposure or infrastructure that's done by leading world class managers.

So our team runs, owns and operates the fund, conducts due diligence and then we use that additional asset consulting as the final stage of diligence before implementation. We participate economically through sharing of management fees, sharing of performance fees and associated sometimes ownership in the underlying GP.

That fund, Scott...

Scott Chan

Analyst, Canaccord Genuity Corp.

Q

And the equity...

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

...has already launched. We have about CAD 520 million of assets in it.

Scott Chan

Analyst, Canaccord Genuity Corp.

Q

And the equity and fixed income portion, is that like all CI or is that also kind of world class managers [indiscernible] (00:32:42)

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

So the fund itself, the fund itself that I was referring to is entirely private markets. We are not running the underlying sleeves. To the extent that that fund is incorporated in a broader strategy, the equity and fixed income like the public markets sleeves are absolutely CI. But the private markets is a CI fund, CI asset allocation, leveraging third-party underlying managers.

Scott Chan

Analyst, Canaccord Genuity Corp.

Q

I got it now. Thank you very much.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Thanks.

Operator: [Operator Instructions] Our next question is from Graham Ryding from TD Securities. Graham, your line is now open. Please go ahead.

Graham Ryding

Analyst, TD Securities, Inc.

Q

Hi, good morning. Maybe I could start on the Canadian retail side. Just what is it that's resonating on your high interest savings products that's leading the industry in terms of market share flows? Maybe we could start there.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Sure. I think it's a function of demand for the categories, people being more conservative in a risk off environment, looking for products that meet those needs. And I think that are – so we'd have the right product lined up in the right category. And I would say that the changes that we've made to our approach to distribution and marketing a couple of years ago, fully integrated client-centric, kind of combining sales process and marketing processes together have allowed us to create a very good job of awareness of our strategy and then working alongside clients to help implement. So I'd say a combination of the product and the sales practices we have in place.

Graham Ryding

Analyst, TD Securities, Inc.

Q

Okay. Understood. Can you tell us what the actual inflows were into your high interest savings products in the quarter and in the year? So we can have some context of the contribution to your overall retail business.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yeah. It was effectively [ph] 1.6, 1.5 (00:34:56) for the quarter. As I mentioned, if you kind of look at the in the prepared remarks, the chart, disproportionate share gains relative to our competitors there. And then on the redemption side, the reason we were able to be positive was because we controlled the redemptions much better than our peers through our improved performance and new platform.

Graham Ryding

Analyst, TD Securities, Inc.

Q

Okay. Perfect. Great. And that's both mutual fund and ETF. Not...

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yeah.

Graham Ryding

Analyst, TD Securities, Inc.

Q

...that [ph] 1.5, 1.6 (00:35:26). Great.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Correct.

Graham Ryding

Analyst, TD Securities, Inc.

Q

You mentioned CAD 425 million deployed towards M&A in the quarter. How much of that related to the deals that actually closed in Q4 versus how much was deferred in earnout payments from previous deals.

Amit Muni

Chief Financial Officer & Executive Vice-President, CI Financial Corp.

A

Majority of it was for the three acquisitions that closed during the quarter.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yeah. And it's a little bit...

Graham Ryding

Analyst, TD Securities, Inc.

Q

Okay.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

...inflated relative to the norm. One of the acquisitions, the largest one was acquired from Morgan Stanley directly. So just buying from a public company a little bit of a different structure as it relates to sequencing of payments and stuff like that. And so it's not traditional, I would say, in terms of just the structuring relative to the other transactions.

Graham Ryding

Analyst, TD Securities, Inc.

Q

Meaning more upfront and less...

[indiscernible] (00:36:25)

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

...change the mix to push more cash forward in the process given the seller was a public company.

Graham Ryding

Analyst, TD Securities, Inc.

Q

Got it. Okay. There has been a few questions already on the US IP. I'm just wondering, like, do you have any better visibility now in terms of potential timing here for the review and the actual IP.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yeah, we're not. Yeah. Just being in the quiet period, we're not allowed to comment on timing. And we did a press release that we had submitted our S-1 last year, and we're working through the review process. Unfortunately, we're not able to provide visibility on timing just given the quiet period.

Graham Ryding

Analyst, TD Securities, Inc.

Q

Okay. Understand, if I could sneak in one last one just for US business...

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Sure.

Graham Ryding

Analyst, TD Securities, Inc.

Q

...it sounds like you've had a productive year in terms of making some changes on the operating platform side. What sort of margin expansion do you think you can achieve in 2023 for your US wealth business?

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Yeah. We haven't given guidance yet and just does is it linked to the quiet period it's just a little difficult for us to do so. I think what Amit had mentioned was providing a factual update relative to where we would have been absent the comp sunseting process that we had gone through. So unfortunately, can't provide too much more at this time, Graham, but you'll see it obviously as we release our Q1 results and beyond in the coming quarters.

Graham Ryding

Analyst, TD Securities, Inc.

Q

Okay. All right. That's it for me. Thank you.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

A

Thanks.

Operator: We currently have no further questions. I will now hand back to our speaker for final comments. Mr. Kurt MacAlpine, please go ahead.

Kurt MacAlpine

Chief Executive Officer & Director, CI Financial Corp.

Thank you. Just wanted to say thanks, everyone, for your participation in today's call. Thanks for the interest in CI and we look forward to speaking to you next quarter.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines. Thank you.

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