

TD BANK FINANCIAL GROUP AT RBC CAPITAL MARKETS CEO CONFERENCE – TORONTO

JANUARY 11, 2006

PANEL DISCUSSION

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CORPORATE PARTICIPANTS

| | |
|------------------------|--|
| Drew McReynolds | <i>RBC Capital Markets – Analyst</i> |
| Bill Holland | <i>CI Financial - Chief Executive Officer</i> |
| George Lewis | <i>RBC Asset Management - Chairman and CEO</i> |
| Bill Hatanaka | <i>TD Waterhouse - Group Head of Wealth Management, Chairman & CEO</i> |

PRESENTATION

Drew McReynolds - RBC Capital Markets - Analyst

Good morning and welcome to today's panel discussion on "The Evolution of Wealth Management." My name is Drew McReynolds. I am the research analyst covering diversified financial which includes the mutual fund companies. Today, we are very fortunate to have with us executives from three juggernauts of the mutual fund sector here in Canada and the broader Canadian wealth market. CI Financial, RBC Wealth Management and TD Wealth Management.

Joining us from CI Financial is CEO Bill Holland, sitting in the middle. Bill joined CI in 1989 and held several positions before being appointed CEO in 1999. Bill has played a key role in CI's growth initiatives including the acquisitions of BPI in 1999, Spectrum and Clarica Diversico in 2002. Synergy, Skylon, Assante in 2003, and most recently IQON and Synera. Bill's been a leading voice in the industry, and CI is nothing short of a tremendous success story in the Canadian mutual fund sector with now over 70 billion in fee earning assets. Bill, thanks for joining us.

Joining us from RBC is George Lewis, Chairman and CEO of RBC Asset Management and Executive Vice President of RBC Wealth Management. George has been responsible for overseeing Canada's largest mutual fund family, RBC Funds as well as full service brokerage RBC Dominion Securities, Discount Brokerage Action Direct and Royal Trust. Prior to joining RBC Asset Management in 2000, George was head of Institutional Equity at RBC Capital Markets and was a top rated analyst in the research department. George, welcome.

And joining us from TD is Bill Hatanaka, Group Head of Wealth Management and CEO of TD Waterhouse. Bill is responsible for overseeing TD's integrated wealth management business which includes TD Mutual Funds, TD Waterhouse both domestically and in the UK. He started his career as an investment advisor and is now over 25 years of experience in the financial services industry, and has held executive positions at RBC, Richardson Greenshields and [inaudible].

Perhaps what you don't know about Bill is that he's played professional football in the CFL, and actually was a member of the 1976 Ottawa Roughriders Grey Cup championship team. Doing a little digging into this, because this is what research analysts try to do; in this game Bill actually returned the punt 79 yards for a touchdown that at the time stood as the longest punt return in Grey Cups history. I believe today it's now the third longest punt return, but congratulations on that. And unless Bill Owen and George agree to it Bill they'll be no tackling today in today's panel, but thank you for joining us.

So we'll get right to it here. We're going to take about 30 minutes or so exploring how the wealth management industry in Canada is evolving. We'll leave five minutes at the end to take questions from the audience. So I'll start with first question. And just to set some perspective it looks as if the wealth management industry has recovered nicely, following the bursting of the technology bubble five years ago. Whether in the mutual fund industry or broader wealth market, how have the industry changed over the past five or ten years? And Bill Hatanaka why don't we start with you?

Bill Hatanaka - TD Waterhouse - Group Head of Wealth Management, Chairman and CEO

Well, I think that the bursting of the technology bubble 2000, 2001 zone basically made a lot of people, investors in general and many people in our parts of the industry, lose a lot of confidence in their ability to manage money. And I think that what we saw from a consumers perspective is a generation of investors that went quiet for a period of time, and you can monitor that by the volume of the investments.

And as that generation turns thought through their strategies going forward, I think we have an audience that is much more thoughtful, has returned to a lot of the fundamentals of sound investment as we would know it. They believe in diversification and conservative high-quality investments, and they see the investment component of their world as being only one aspect of the management of their overall financial circumstances as a family. So, I think this next generation is a much more thoughtful, more conservative group of investors, and I think that over long term that will serve them well.

Unidentified Participant

[inaudible - microphone inaccessible]

Bill Hatanaka - TD Waterhouse - Group Head of Wealth Management, Chairman and CEO

Very much so.

Unidentified Corporate Representative

[inaudible - microphone inaccessible] places like energy and financials in just as meaningful a way as if you were overrated in technology, but I think the people consider that to be a much lower risk. I would say the biggest change though is that our business now being dominated by banks. That we're no longer -- we had a market share in 2000 of about -- I think about 40% our market share today and we're very pleased with it of sales is about 9% and the biggest change is how the banks have subject to dominate the asset management business in my view, but truly dominating it.

George Lewis - RBC Asset Management - Chairman and CEO

I think to some extent if you go back to 2000, to pickup on Bill's point, and that really dates my transfer from the sell side to the buy side. It's nice to see so many familiar former clients in the audience, and thanks Drew for the invitation. But the -- in many ways one of the biggest trends I think has been almost back to the future. When I came over to RBC Wealth Management Group in 2000, the bank had built a big business within the retail mutual fund area by following a portfolio approach, profiling customers, giving them portfolios of conservative balance and growth portfolios that had in the heydays of '99 and 2000 looked rather boring to a number of clients. With the tech bubble and the bear market, there's been a significant resurgence in the portfolio of products and the whole portfolio approach. And I think that would be one of the biggest trends I would point out.

The second in the brokerage side of the business, and I think this is true for most firms, there's been a significant increase in the proportion of fee-base and portfolio and recurring revenue from those businesses, as opposed to the old transaction based model still an important part. All models are a part of the full service brokerage business, but that business is transforming to much more of a recurring revenue wealth management model. And the third thing would be in the clients.

And I think it's very true, and I don't think this is just a cyclical change, but as the baby boomers age and there will be more and more focused on harvesting one's portfolio, as well as growing a portfolio. And so, you've seen not only income trusts become more important but specific fund products and brokerage solutions such as tax management return fund or cash flow portfolios, that really give a better result to a client that might have traditionally been in an only fixed income or GIC investment. So going back to 2000, those from both a product and different parts of wealth management and a client would be three big changes in my point of view.

Bill Holland - CI Financial - Chief Executive Officer

The real change started in '97. The industry peaked in '97. We had \$53 billion in sales. It represents 25% of assets at the beginning of the year. By 2000 the [inaudible] had fallen to about 6 or 7%. I think if it grows today at about 8%, 4% from sales and 4% from growth. That's a completely different business from the 30% for 15 years between '85 and 2000, if it grew at 35% a year. And this is just a completely different business. It has to be managed better, and this is one of the worst managed businesses in the world and the banks were terrible at it, up until 2000, the banks were exceptional at it. It's a different world. We have 8% growth we're looking at, and we have banks gaining market share. So that leaves 50 other fund companies to really struggle to get even low single digit type of growth. This is a completely different business. They rang the bell in 2000. Very rarely do you ring the bell and find that things are different. In 2000 they rang the bell, and everything changed.

Cost management became important. The fees that you can charge became important, but more than anything else its distribution. You've got to find a way to get your products distributed. And we're not number one in sales anymore. Both TD and Royal Bank have sold considerably more than we have in a year where we had truly exceptional performance. And I don't think that we have any expectation to being able to out sell these banks over any cycle anymore. They have distribution. We have very good distribution. Unfortunately for us now, the banks actually have better distribution and they're immeasurably better managed businesses than they were. I wish George would actually go back to the sell side, and if Bill wants to play football God bless him. This use to be our game.

George Lewis - RBC Asset Management - Chairman and CEO

I appreciate Bill's comments and Drew's comments. I think these two gentlemen will probably turn asset management into a contact sport any how. I'll let that ride. But I do think that there has been, from that 2001 period and on, there has been some gapping now from various mutual fund organizations that have been doing well in terms of net sales, particularly on the long term fund side, and of those who are struggling. And I think that one of the key criteria as Bill mentioned, is access to distribution on a permanent basis. And I think that one of the structural advantages that the large schedule A banks have as organizations and critical mass organizations, is that we do have full access to that retail audience which is a very, very powerful asset and client base obviously.

We have access to our proprietary broker/dealer distribution advisory and relationship group. So whether it's a discount brokerage or, financial planning or, a private investment advice, which is full service business, we have full access in terms of our mutual fund family being able to distribute within the organization. And I think that the banks are also getting a lot better and a lot stronger at developing a wholesaling network that is able to resonate well within the external broker/dealer audience. So having those three distinctive client segments that we are able to work within and tailor our operating to, is over a period of time going to be a significant advantage. However, some of the big strong independents I think are going to continue to do very well as well.

Bill Holland - CI Financial - Chief Executive Officer

I would agree with that. I think the biggest change has been kind of a two-way change since 2000 in the industry itself. Both TD and ourselves have focused on selling our funds outside of our branch networks. Focusing on performance. Putting in place full selling teams, and that's none very, very well. At the same time, we have introduced third-party fund products, including packaged products back in 2000, in our case into our branch networks. So, there will be ongoing opportunities and those are becoming important ones for top performing companies like the CI that are part of our programs. So I think, this whole [co-opertition] model is something that is going to continue. And for well run third party fund companies, I think things are going to be fine.

Drew McReynolds - RBC Capital Markets - Analyst

Thank you, here Bill. That's the --

Bill Holland - CI Financial - Chief Executive Officer

If that's the [word] for it.

Drew McReynolds - RBC Capital Markets - Analyst

Shifting gears a little bit to the future. Looking around the room this morning I see a number of baby boomers. I'm not one of them, but everyone tells me the baby boomers are responsible for everything that happens in this world. From the real estate cycle to the corporate downsizing. Even the popularity of tennis. It's no secret in the wealth market that the baby boomers are entering peak savings years. Looking into your crystal balls for a moment, what are the key trends that you see unfolding here? We can start with Bill Holland on that.

Bill Holland - CI Financial - Chief Executive Officer

I mean clearly the demographics are favorable. It's really where's the money going to go. I think that mutual funds have become kind of a middle class investment vehicle. We do not get the large tickets that we got five years ago. It wasn't unusual for us to get tickets for \$500,000 or \$1 million. Today, it would be highly unusual. So really, I think the moneys going to be spread out and I think the high net worth is going to migrate away from mutual funds. But I think the mutual fund industry will be very favorably benefiting from these demographics. And I think that clearly we have new competition like exchange rated funds, index funds in general, [inaudible].

There's a whole -- the pie is being sliced smaller and smaller. So, while the demographics are very favorable it's going to be spread out. And I think that with the mutual fund industry at \$575 billion. I mean we have such a big base, it looks like all these other vehicles are growing at a much more rapid pace. They are in terms of net sales, because they started at zero or with a very small base. I still think that 10 years from now that the mutual fund industry will have been seen as a huge beneficiary, huge beneficiary of this favorable demographic trend that we're entering into, but the expectations were so high. I mean it's not a 30% growing business. If you can grow your business at 8 or 10% it's a wonderful industry, and a wonderful business to be in.

George Lewis - RBC Asset Management - Chairman and CEO

I would share that optimism and extend it really across all the wealth management, in the sense that I think as baby boomers age there will be a growing demand as there already is for advice. And I mentioned the earlier trend in terms of focusing on harvesting ones portfolio. So I do think that basically having multiple ways to access baby boomer clients from a branch network from full service, from high net worth counselors is going to be both important and worthwhile, because there'll be an overall growth and demand for those advice services. I think there will also be opportunities -- we've done some work in terms of what's important in general to the baby boomer generation. And it's a very diverse group of people of which most of us here in the room are a part.

And there is if you look at the U.S. work on our generation, there is a sense that there is a less differential generation a little more cynical. I think that might change overtime, and you might see people willing to delegate as much if not more than their parents have to advisors and to wealth providers, as they seek to fulfill their non-financial life goals as we all age. There will be a segment as well that will be important that want to do it -- feel enable, and it will be important to provide them the tools and the products and solutions to do that as well. So, I think there will be enough demand there to make business cases will cross wealth management, and support the thesis that it is a growth business for us.

Bill Hatanaka - TD Waterhouse - Group Head of Wealth Management, Chairman and CEO

I think those are great plans. I think that there are several trends that we're very watchful of. One of them is that it's not just about the wealth accumulation business anymore. It's very much about looking at the financial life cycles side of seeing the accumulation zones, the preservation zones and the wealth transition zone or, that covenant of trust between the clients and the organization. So the accumulation of wealth, preservation -- accumulation of trust, preservation of that trust covenant, and then transition of that trust covenant down to the next generation or generations. And the large well financial organization that can put the profits into place and diagnostic into place that will allow us to be able to do that on an intuitive an approachable basis, I think will ultimately have significant sustainable competitive advantage going forward.

So when you talk about what you do there, I think that it's important to think about the services that you provide ultimately. And it's not so much the cash [near], cash fixed incomes, core equity funds, funds to funds et cetera, et cetera up that continuum, there's another continuum as well that brings in private banking, the trust capability, the insurance capability, the philanthropic capability, the business succession planning capabilities. So there's this other continuum that large wealth management organizations are going to have to pay attention to.

And what we believe is, that we'll have to offer those services in order to facilitate what our clients are looking for in terms of preservation and transition, but we're also going to have to make sure that those things are available because we're going to have to be able to help our clients sort through their affairs in those areas, in order to earn the right to continue to manage the money. We believe that if we are not able to fulfill on those other areas, that we will lose the right to manage the money where much of the margins are today. So that's one of the key trends.

I think the other key trend that really interests us and really focuses us is, that this is the experienced economy now. When you see car advertisements you don't see them talking about miles per gallon or kilometers per gallon or car differential that kind of thing. They're selling on the experience of driving that automobile. And all the commercials that you see in the auto industry are centered around the experience of driving that particular car. If you go into a Starbucks it's the experience of having that coffee at Starbucks, which allows them to turn that \$0.20 cost for coffee into the \$5.00 cappuccino that everybody is so excited about.

So what we believe is that, the baby boomer generation as George and Bill pointed out is very critical to how we think in the future, is very much into the experience of investing or conducting wealth management within the various organizations. And I think that they're paying attention to that. So, the client experience, setting up a diagnostics that is approachable and intuitive from a clients perspective, and then having various segments where there self-directed or advised based or the private banking in the high net worth areas, we think are critical to making sure we fulfill in the future.

Bill Holland - CI Financial - Chief Executive Officer

I think the whole demographic thing is quite boring. Everybody knows, and we're going through a very favorable investment trend, there's no doubt about it. And a lot of money is going to be invested. The real issue is who's going to get it? I mean is it going to go to the banks? Is it going to go to the insurance companies? Is it going to go to independent financial counselors? Is it going to go to the money managers? And that's the real fight. The moneys going to be invested, and I think that that's such a given that you don't have to spend a lot of time on that. It's what's going to differentiate -- why would somebody buy a CI product through a cleric advisor over going to TD and buying a TD product through one of their financial planners?

And I really think that, that is the issue. This business is going to grow because of the favorable demographic trend. It's just going to grow -- I think just a handful of the players are going to get it, and that's the real issue. I think this isn't a 50 -- this country's not big enough to sustain 50 or 60 mutual funds companies. And if you look at it today, already the top six companies have market share of 60% and that number is only going up. And so the real issue is will there be -- what will our proposition be to keep money from the insurance companies or the banks, and vice versa for these guys.

George Lewis - RBC Asset Management - Chairman and CEO

And just to pickup on that. I mean two data points from our strategy, and as Bill described one element of it which is a focus on the wealth management process across all of our sales forces. And what we might mean by that is very similar paradigm, in the sense of we're going to help clients as we have historically grow their portfolios, harvest their portfolios. So money management at the core. Preserve their portfolios i.e., insurance solutions, and then transfer their wealth to succeeding generations i.e., trust services. So that wealth management paradigm, I think if you do that with your clients properly as a distributor, as a dealer those I think are going to be the advisory firms and dealer firms that manufacturers such as CI and others will do well with, in terms of integrating their products into those types of offerings.

And secondly, the other data point would be the tremendous investment that we are making and others such as TD in our branch based financial planning sales forces. I mean if you go back to the 1990s, Bill you're right about 2000 being kind of an interesting demarcation line. We had a good investment business within the branch. We built it up, but we had not made as many investments in the advice giving capability of our sales people as we have over the last five to seven years. We have 1,000 financial planners in our network now.

500 mobile investment planners that go out and target non-RBC clients from investors groups, and smaller financial planners and bring them back to RBC, because some of those clients left us in the '90s because we were not focused on delivering investment advice as we are now. So, those are just two data points in terms of the essential question you pose Bill, in terms of where -- which part of the distribution spectrum is going to be successful in attracting clients, and therefore which part of that spectrum is going to be successful to allowing oneself with from a manufacturing point of view.

Drew McReynolds - RBC Capital Markets - Analyst

That's very interesting. I hear what all three of you are saying the growth opportunities are highly competitive always brings back the question of pricing pressure, and I know this is always a concern of investors in the funds space, yet there's little evidence to date from the statistics that I've looked at that that there really is accelerated pricing pressure out there whether that's in stand alone mutual fund business or the broader wealth markets. Starting with George, what's your view on pricing pressure going forward?

George Lewis - RBC Asset Management - Chairman and CEO

Well I think in terms of pricing pressure it's important to compare apples to oranges and I'll come back to that. I mean first with respect to management expense ratios in the fund industry, I mean we like others constantly look at those over 95% of our funds have below average MERs. CI has made significant progress in bringing and focusing on this issue, as well relative to some of the other independents. At the end of the day I think it is an important piece, but I would say that investment performance, investment in our branch network, broadening our channels of distribution, having the right products for the clients has been the primary reason for our success in terms of meeting the industry in net sales, but people are increasingly focused on management expense ratios and to some extent maybe voting with their feet in that regard as well. But I think it's important to recognize that some of the comparisons that you see between mutual fund fees, and for example ETF to come back to an earlier point.

Most of the mutual funds in Canada still are sold on a bundled basis, including both the money management fee and the compensation for distribution, the trailer fee. And well over 50% of our management fee we actually pay to our distribution partners. We think that makes sense, because looking at all the services that a dealer/firm provides; know your client, portfolio construction statements et cetera all the obligations they have and we have within wealth management where we have our wealth distribution businesses, that seems to make sense. So, what is the right apples to apples comparison for a mutual fund versus an ETF?

We have as others do S-class funds where we strip out those trailer fees and make those classes of funds available for sale by advisors, who charge clients separately for their advice and dealer services. And they're 75 basis points. I think those are among the lowest in the industry. In our view, as asset money managers, and I think many of you can sympathize with this, if we can't outperform an ETF at 20 basis points, then there's an issue. Now we've been able to do that, and we're confident that we're going to continue to be able to do it. So all I'm saying is, when it comes to the issue of pricing pressure I think there's going to be two components, increasingly as we get more transparency in fees in the wealth management overall. The value of advice and from a dealer and from distribution, and then the value that a manufacturer of asset management provides.

Bill Holland - CI Financial - Chief Executive Officer

Well as price setters, we always want to say that price doesn't matter much. The reality of it is that the media is never going to let it go. But it's a very tricky game because on the one hand we like to point out that we charge lower MERs than our competitors, but then one day I saw one of the ETF companies send out a flyer with my quote on it, saying that we charge less and then they show how much less they charge than we do. So it really is a tricky game. I think the thing that we're trying to say is that, fees truly matter and in the mutual fund distribution you still have these outliers these funds that charge 3% and up, and those funds don't sell. They sell for a very short period of time and have exceptional performance, and then they tend to die away.

And if you look at fund companies that have very low relative funds and very high relative fee funds, you'll see the low relative fee funds on average sell much, much better. It's an evolutionary thing fees. It really is, and it's there. It's there to stay. The big banks and the big independents are all clustered around approximately the same fees. It's the mid tier and the smaller companies. I mean there are companies out there that have many, many billions of dollars that actually have 20 funds with MERs above three. If you think that doesn't matter, it does. And people are voting with their feet, and those funds are declining rapidly. So it's subtle, but it's there.

Bill Hatanaka - TD Waterhouse - Group Head of Wealth Management, Chairman and CEO

I agree with these gentlemen. I think that fees are exceptionally important, but that fees are also one component of the overall offering of a mutual fund organization. To answer your question directly, I think that I do not see a rapid decline in mutual fund MERs going forward. What I do see is a gradual decline in overall mutual fund MERs over the next five years, and many of the outliers that Bill Holland talked about leaving the business altogether. I think that part of the pricing integrity will come with those higher MER smaller fund mutual fund organizations being acquired by some of the larger organizations, and those MERs being adjusted downwards by the consolidator going forward. So I think that's a much more likely scenario, but fees do matter and a gradual decline is what I would foresee.

Drew McReynolds - RBC Capital Markets - Analyst

One of the things that has puzzled me since following the funds space, and perhaps the greater wealth market is everyone's been asking when the next round of consolidation in the fund industry will occur. What we saw in 2005 is that the banks captured the bulk of net sales in the fund industry is only a fraction of mutual funds as they're actually generating positive new money, yet there appear to be no willing sellers. I guess my question, and we'll start with Bill, is there need out there for further consolidation not only in the mutual fund industry, but perhaps the broader wealth markets?

Unidentified Company Representative

Which Bill?

Drew McReynolds - RBC Capital Markets - Analyst

Sorry, Bill Holland.

Bill Holland - CI Financial - Chief Executive Officer

Well first of all there's way too many fund companies. I mean that's clear. We've got ourselves into a descent position in Canada by doing -- I think we've done eight acquisitions, but in reality our success has been from sales. If you take our net sales since the time we went public, we're the number one net seller of mutual funds as well, yet here we've done eight successful acquisitions and we've lead the country in sales for a dozen years, yet we're not in the top of the sales right now because the banks have a better position. My feeling is is that there has to be consolidation. Most companies are worth less today than they were in 1997. This was a business that for a long time was being run by money managers. Absolutely horrible at running the business of asset management.

When the bell was rung in 2000, and things started to change you stopped seeing professional management of these businesses. This is a mature business. This is a business that now is like any other mature business. It's about brand. It's about fees. It's about distribution. And so, what you're going to see

is consolidation continue, but the sellers like being -- the obvious sellers like being in the business. And so, you have this top tier of companies about \$40 billion that have such enormous advantages. The biggest single advantage in this business is size period. And so, the other companies that are in the mid tier and third tier they're becoming less and less profitable. I could see a time where a \$10 billion fund company, to try to stay competitive, would not be profitable. So, there's going to be consolidation.

I believe that banks will buy independent fund company. I believe that all five of the banks could potentially buy one of the independent fund companies under the right circumstances or scenarios. And - look, we've tried to buy every single company in Canada. We tried to do a combination with every single company in Canada, and you feel really ugly after a while, they always talk about us being 0 for 3 or 0 for 4. We're 0 for 36. I mean you start at the top. But the only way -- once you've gotten the first couple of rounds of consolidation out of the way it requires a little more imagination.

And I think some of the deals you're going to see will surprise people. And so my sense is there's going to be consolidation. It's not obvious anymore. And that really, what companies like ours are trying to do is, we believe that in order to compete with the banks we have to be as big as the banks. That's really our thesis here. So, we will continue to go out and look. When we look at an acquisition like a Clarington which is \$4 billion, obviously that's 8% of our assets that is not going to do much for us. What it does is allow us to lower our costs a little bit. Spread our costs among a larger base.

And that's the way -- I don't think we look at anything below 4 billion, unless it was uniquely positioned some how. So, the consolidation is going to continue. The banks are going to be part of it in my opinion as we go forward, but the main thing is is we're trying to keep competitive the independence. The Fidelitys, the Ames, the McKenzie's the CI's. We're trying to stay competitive with the banks, and that's what's driving our consolidation thoughts.

Drew McReynolds - RBC Capital Markets - Analyst

George?

George Lewis - RBC Asset Management - Chairman and CEO

Yes, I think Bill is much more close to the issues than I am, and I think he's -- I couldn't disagree with anything he just mentioned. All I would say from our perspective at RBC would be that we have very strong organic growth prospects across all of wealth management, but in particular in our asset management and branch investment business. We have a tremendous opportunity to win back those mass affluent clients. We have a lot of them, but there are a lot of them that deal with specialist financial planning firms right now which we think we have a great proposition to win back. We've got good investment performance, we have our own wholesaling team that goes out and markets to third party distributors. So an acquisition opportunity if it comes along, obviously as an industry leader we have to take a look at it. Having said that, it would have to further those strategic objectives, as well as meeting RBC's financial targets.

Bill Hatanaka - TD Waterhouse - Group Head of Wealth Management, Chairman and CEO

think that the organic growth that we've been able to expand for the last couple of years, if you take some of the top firms over the last couple of years, the net sales versus some of the other firms that have net redemptions the delta between the two in some cases is 7 or \$8 billion which is the size of a medium sized Canadian mutual fund organization. So organically, we're very comfortable with growing the way we are. In terms of potential acquisitions in the future, if something came along that was on strategy, shareholder friendly, sales niches or [gaps] that we thought were appropriate, and didn't disrupt the

dimension of our overall organization, I think we would be interested as these two gentlemen have talked about.

I do believe that consolidation is an inevitability. What I think is that the buoyancy of the Canadian capital markets over the last couple of years is slowing down that process, because even though some medium sized firms are experiencing net redemption year-over-year there apathy continues to rise. And in combination with relatively high MERs as Bill H. said, they like being in the business. So I think that what you'll see is consolidation accelerating if and when the market slopes downwards versus same period of time.

Drew McReynolds - RBC Capital Markets - Analyst

Okay, thanks very much for that. Unfortunately, we only have a few minutes left so if there are any questions from the floor?

Unidentified Audience Member

All of you have spoken about a need for consolidation, and the fact is a bigger company is dominating net sales right now. I'd just like to know if you think, particularly for Bill Holland, there's a future for smaller fund companies, and if so what do they need to do to stay competitive in this future?

Bill Holland - CI Financial - Chief Executive Officer

Well I think that if you look out five years to just pick a number, that I think the top six or seven fund companies could represent 75 to 80% of the assets, all you need is one merger in the top six or seven to get there. And I think that in the not too distant future you're likely to see two levels in Canada, the bulge-bracket and the boutique. And the boutique can be successful. They're generally dependent on very good performance and some type of unique distribution angle that they have. Performance is the key thing for the small fund companies. And I think that there will be ample opportunity for boutiques, but I think that we're going to have a bifurcation that's going to be so clear it's going to be a line right down the middle. It's going to be the bulge -bracket and the rest.

In the United States, which is with a market ten times bigger than ours, the top three companies in the United States, American Funds, Fidelity and Vanguard literally dominate the market, literally dominate it. And in Canada, the same thing is going to happen here. Remember in this top six that represents 60% of the market share of this company, it doesn't include [Manulife]. Manulife at some point will be in there in some way as a top tier player right. And, in the sales of the last year -- absent from the sales is a very large company which is CIBC. I guarantee you CIBC will also be back in some way or some form as a major competitor. So this bulge-bracket might be seven companies, maybe eight. But you're going to see the top ten anyway, represent 90 plus percent of the business, and the rest are going to be boutique. And I think that that is almost a given.

Bill Hatanaka - TD Waterhouse - Group Head of Wealth Management, Chairman and CEO

Just to add to that, I think that the very small mutual fund complexes are going to have to deal with the fact that the structural costs of being in the business are rising very quickly. The cost around corporate governance regulatory issues and risks I think are coming up very quickly, and that will start marginalize their ability to make the big money at a relatively smaller [dilution]. So, just an add on to Bill's comment.

George Lewis - RBC Asset Management - Chairman and CEO

I very much agree with that because if you think about an asset management firm, I think of it as having four pillars if you will, portfolio management and trading, product and sales, middle office evaluation or operations, and in risk management and compliance. And I think, to be a significant player you've got to be if not best in class hopefully in all of those or, at least have no weak link in all of those. And Bill's point about the structural costs, and the costs of being really good at all those things is only going up.

Bill Holland - CI Financial - Chief Executive Officer

But you see also that when you get a group of three very fierce competitors like you have here, and we are. The fact that we agree on everything lets you know one thing. It's going to boil down to execution. It's obvious what has to be done. We understand the demographic trends. We understand all the stuff -- it's really who executes better that is going to get the business.

Drew McReynolds - RBC Capital Markets - Analyst

You probably have time for one question, maybe two. Go ahead here.

Unidentified Audience Member

My question is for Bill and George at the banks. And I'm curious, how important is the telephone banking channel and the Internet? I'm not fully familiar with regulations to what extent they impede the ability to utilize telephone banking as a point of referring business, but is that optimized at this stage? How involved is telephone banking?

George Lewis - RBC Asset Management - Chairman and CEO

Actually within our telephone banking operations, we have licensed mutual fund sales people as part of that operation so that they actually have the ability to do investment transactions and mutual funds through our telephone -- royal direct service. It has also more broadly though a very important tool in terms of lead generation and calling the clients proactively. Sometimes other parts of the organization follow-up on those on those leads. And secondly on the online side, very much an important channel for us. We're up there in terms of GICs and mutual funds. And I think overall that's going -- I think for the people who are comfortable with those channels, and that's the whole approach from an access point of view lets make sure our clients can access anyway that makes sense for them, is our strategy with respect to that.

Bill Hatanaka - TD Waterhouse - Group Head of Wealth Management, Chairman and CEO

I'm very much aligned with that. I think that what we're working to do as a consumer continuum whether it's retail or whether it's wealth management, what we're trying to do is setup so that we fulfill on a basis that is intuitive and approachable for all of our consumers. So over a period of time whether it's in person or whether it's telephony or whether it's web based access that our clients look for, we'll make sure that we fulfill based on their preferences, and we'll offer the full product service and solution continuum through their various channels.

Unidentified Audience Member

[inaudible question - microphone inaccessible]

Bill Hatanaka - TD Waterhouse - Group Head of Wealth Management, Chairman and CEO

I don't personally have percentages at this time. I would say that it's a small, but growing percentage. Most of our sales on the mutual fund side would person to person in the retail branch network or, an advised basis to our various advise based distribution channels.

Drew McReynolds - RBC Capital Markets - Analyst

We'll take one last question from [Jim].

Unidentified Audience Member

We haven't heard anything from you about this today and last year we had a major change with the listing of the foreign ownership limits. And to me this is both a great opportunity for the wealth management business. There's a significant long term for you as well. And I wondered if you could just talk about three areas of things that you need to sort of deal with, as we go through the development of people gradually moving outside Canada. And the first one is, on your distribution. What do you think you need to do to make sure that you're distribution channel is properly educated, to make sure that you don't send your clients to quick fixes as they move money abroad?

And on the manufacturing side, how do you balance off acquiring the skills or building the skills to offer increased amounts of foreign products without losing focus of your own Canadian manufacturing products? And then thirdly, you talked about MERs. Canadian MERs are significantly higher than international MERs, particularly in the U.S. and if your clients get more and more exposed to those don't you feel that overtime -- you mentioned three big players in the U.S. dominating, don't you think you're exposed overtime to one or more of those eventually coming here and lowering MERs?

Bill Holland - CI Financial - Chief Executive Officer

Sure. I mean first of all you have -- the reality of it is, is that the fees -- the huge component of the fees just to be clear, is paid for the distribution. Canadians want to buy through advisers. That's the Canadian way. There's been many attempts to go direct. And so right now if our management fee is 220 basis points all in our MER, 110 of it is going to the adviser. If you take that out, it's pretty competitive with the U.S. There's no education needed. Canadians had disproportionate amount of their assets in foreign content in 2000. In 2000, if you would have looked at our pool of assets we would have been approximately 75% in non-Canadian securities. Today, we'd be approximately 70% in Canadian securities.

Investors to be clear, chase performance, and there's no better performance than the Canadian dollar in the Canadian market, and the timing is impeccable. If you were going to make this change making it last March with the Canadian dollar going up the Canadian market, oil, gold, it was perfect timing. If there is a rotation, much like the rotation like we saw in the mid '90s into foreign or in the early 2000s out of the foreign, you will see this number -- we could be back to 75% foreign in 18 months. There's very little that's needed. And in terms of running the money it doesn't matter so many of the money management firms sub-advise out on a reasonable cost basis today.

So much of the money management, right now on the foreign side we have six different -- seven different money managers. Just at CI, you throw in Assante we're probably at a dozen, and the banks have the same. So there is no issue anymore about capabilities or capacity. We could get as much foreign capacity at approximately the same money management rates, which is very important for us because we're fighting this cost game all the time. But we could run as much -- whether it's Bill Miller or Sandra Bernstein. I mean all of these firms are managing money for us, and I would imagine it's very similar for any of the bulge-bracket players.

Unidentified Corporate Representative

From a distribution perspective just to pickup on Bill's point we have access to all the global solutions and provide advice already. So, I don't think the foreign content change longer term will affect distribution businesses within wealth management all that much. I agree that the impact on asset management firms has been somewhat masked this year, because of the performance of Canada, but I think it's a very significant longer term trend. From a manufacturing point of view, we're very well positioned. We have U.S. equity team -- international equity team, so we provide advice and portfolio construction and fulfill on those global solutions.

I think it will be interesting to see asset management firms in Canada pick one of two choices in terms of how to address this trend. We have a very team based approach. We share research across our U.S. equity team and Canadian equity team. Other firms that might have a star manager approach might allow that Canadian star manager to roam into U.S. or international stocks, and you'll see some blurring that Bill alluded to previously in terms of what is a Canadian equity fund. We think it should be a Canadian equity fund with Canadian equities in it. And then, solve the issue of advisors portfolio construction through a portfolio model that combine Canadian equity and U.S. equity and international equity funds fixed income, rather than blending foreign stocks into our Canadian funds. So, there will be all sorts of issues like that. All I can say is we're focused on them. We feel very comfortable that we're well positioned to address that trend.

Drew McReynolds - RBC Capital Markets - Analyst

That's great. And I think for time purposes, unfortunately we'll cut it off here. On behalf of our RBC Capital Markets, I'd like to thank the panel participants for sharing their thoughts and insights on the evolution of wealth management. I hope you found the session very informative, and we look forward to seeing strong momentum from CI, TD and RBC in 2006. Thanks, very much.