Toronto-Dominion Bank: Doing Better Than its Peers

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) reported record Q3 2016 results last week. While's there's no denying that Canada's biggest bank is having a good year despite lingering problems related to the oil and gas industry, investors might want to take a closer look at the wealth management businesses of all six big banks.

If you do, you'll see that **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), not RBC, is doing the best job when it comes to mutual funds–a product that many believe is on the way out in favour of ETFs that are more easily traded.

While this might be true, it doesn't change the fact that the Canadian bank better known for its longer hours of operation at its retail branches than its mutual funds, is actually doing a pretty good job on this front. If you're a TD shareholder, you'll want to celebrate this little victory.

To come to this conclusion, I compared the year-to-date mutual fund revenue for each of the big Canadian banks. Royal Bank, the biggest mutual fund company in Canada with a 14.5% market share, saw its mutual fund revenue for the first three quarters of 2016 decline by $8 million to $2.14 billion. That might not seem like a lot, but when you're the top dog in a shrinking market, the least you can do is deliver flat revenues—not go backwards.

In RBC's defense, it has moved to lower mutual fund fees, which would naturally reduce revenue, but those changes only came into to effect at the end of June. Management estimates that investors will save $25 million annually from these fee reductions. So, it's possible $2 million of the $8 million decline was the result of lower fees collected in the month of July.

The rest would likely have come from a year-over-year change in asset mix—mutual fund assets under management at RBC in the first nine months of 2016 actually increased by 13% to $198 billion—that leaned more heavily on fixed income and other lower-cost mutual funds.

But at the end of the day, a decline is a decline. TD, as you'll see by the table below, was the only one of the Big Five to eke out an increase in mutual fund revenue in the first nine months of fiscal 2016.

Bank	2016 YTD Mutual Fund Revenue	Increase/Decrease
Toronto-Dominion Bank	$1.20B	+$36M
Bank of Nova Scotia	$1.21B	-$2M

Bank of Montreal	$1.02B	-$5M
Royal Bank of Canada	$2.14B	-$8M
Canadian Imperial Bank of Commerce	$1.08B	-$10M

Source: All five banks, Q3 supplementary financial information

The mutual fund revenues generated by the Big Five are a pittance compared to those generated by residential mortgages and other personal loans to Canadians—TD had $301 billion outstanding as of the end of July—but it's an important measure of how each bank is handling the wealth-management transformation currently underway in this country.

For a long time, I owned TD's eSeries of low-cost mutual funds. Passive in nature, they were perfect for someone writing about finance who didn't have a whole lot of time to pay attention to a portfolio of stocks. Then ETFs came along and I decided that it made sense to use low-cost ETFs combined with a few select stocks thrown in for good measure.

Unfortunately, at the time of my decision in 2014, TD didn't have ETFs, even though they were an early entrant more than a decade earlier. Today, they have six passive index ETFs with more on the way, including some actively managed funds.

Down in the U.S., the lines between mutual funds and ETFs have become blurred due to providers, such as **Vanguard,** keeping management fees low. The same thing is slowly happening in Canada; clearly, TD is prepared to be at the forefront of this movement.

No longer is it about mutual funds versus ETFs, but rather low-cost versus high-cost investing. Yes, ETFs are the growth vehicle with more than $100 billion in assets under management, but the evidence in the U.S. demonstrates that mutual funds and ETFs can co-exist.

So, with TD doing better than its peers in this seemingly inconsequential line item in the supplementary information provided by the big banks, I believe it points to an overall winner among the Big Five when it comes to wealth management.

And that winner is TD.

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