TD BANK GROUP

CIBC EASTERN INSTITUTIONAL INVESTOR CONFERENCE

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PARTICIPANTS

Leo Salom
TD Bank Group – EVP, Wealth Management

Rob Sedran
CIBC World Markets – Analyst

OPENING REMARKS

Rob Sedran – CIBC World Markets – Analyst

I'm always excited to have new executives, at least new to our conference here, to be able to explore a bit of a different business line. So, I'm excited about Leo Salom, who's the Executive Vice President of Wealth Management at TD Bank. Leo has been with TD since 2011. In his current role he is responsible for leading the growth of Wealth Management, Private Investment Advice, Financial Planning, and TD's Private Client Group. Prior to joining TD, Leo worked in senior retail banking roles and responsibilities in South America, Europe, the Middle East, and Asia. I'm not sure there's a continent missing in there. So, welcome to Montreal.

Leo Salom – TD – EVP, Wealth Management

Thank you.

Rob Sedran – CIBC World Markets – Analyst

And thank you for coming. Before we begin, I have been asked to remind you that Leo may make forward-looking statements that represent management's views as of today, and these statements are meant to assist listeners in understanding TD's financial position, objectives, priorities, and anticipated financial performance. They may not be appropriate for other purposes. Actual results could differ materially from what is discussed. And listeners should consult TD's regulatory filings for risk factors underlying these statements, which are available on TD's website and filed with securities regulators in Canada and the U.S.

So, having been duly warned about the forward-looking statements, I'm going to give Leo the opportunity to make some opening remarks before we go into the Q&A.

Leo Salom – TD – EVP, Wealth Management

Great, thank you very much, Rob. I'd like to before I start, describe the TD Wealth business somewhat. When we think about our Wealth business, we think about it in three core lines of businesses, our Direct Investing business, which has been our flagship, where we enjoy 40% plus share of the marketplace. It's been in many ways the source of tremendous innovation for our wealth business with regard to trading platform capabilities and emerging technologies.

The second pillar of our businesses is our core advice businesses. That's our financial planners in the branches, our full service brokers, and our private banking businesses. Anything that's intermediated with an advisor is part of our advice group. It's our fastest growing part of the business. It's a business that we've grown entirely organically. So we've not – unlike some of our competitors – we've not made any significant acquisitions. We've actually built an advice business with over 2,000 advisors in the Canadian marketplace.

And the third pillar is our asset management business. In our asset management business, couple of things – some headlines – we are the largest institutional money manager in the Canadian marketplace, largest pension fund operator, and we're also the fourth largest mutual fund complex in the Canadian marketplace, and it is – it's that – it's our asset management business that has been the core of a lot of the most recent growth that we've seen as markets have performed quite well.

Now, when you put those three core businesses together, look at third quarter numbers just to get a sense of how we performed, obviously, the Wealth Management business in the entire industry has done quite well, and certainly TD has followed suit.

Our overall earnings net income were $218 million for the third quarter, it was up 21% year-on-year on asset growth of about 18%. Drivers there are clearly strong tailwinds in the marketplace, strong – in fact record net asset growth in our core businesses, and we did get the opportunity to include our acquisition of Epoch Investment Partners in the U.S. in that overall number.

So net-net a good strong performance, those numbers exclude our equity interest in TD Ameritrade. So if you include that into the third quarter results, it's another $76 million of earnings and something that probably is lost on, because TD's identity is very much as a retail bank. But if you combine those two numbers in the Wealth segment, we generate just under $300 million in effective earnings that puts us in a very close number two position for the most profitable wealth management provider in the Canadian marketplace.

So, clearly it's a very important part of our business. And one that we believe, given the relative state of maturity of our Wealth business, should be able to deliver double-digit growth rates in the future.

And I'll just frame that last thought, and I'm sure, Rob will follow up on this point. But our retail bank enjoys a 22% share of the market. And despite the size that our Wealth business has already achieved, we only have an 8% to 9% share of the advice business in the Canadian marketplace.

So, this is an overly simplistic way of thinking about it, but we clearly have an opportunity to grow into a greater natural share that we enjoy from a retail perspective. And so, a lot of the strategies that we're pursuing at TD Wealth are essentially to try to close that gap and introduce our products, services, value propositions, to the TD client base that is already well represented either in the retail bank or in the commercial bank.

And I'll come back to that, because I think one thing that sets TD apart from some of our competitors is, we haven't been acquisitive. With the exception of the Epoch Investment Partners acquisition, which was really a capabilities fill-in for our asset management business, we haven't gone out and acquired significantly. So, as a result, our return on equity in the Wealth business is 46%, which is 2x the leading competitor. So I think we have a powerful organic growth model and one that we will continue to try to optimize to drive double-digit growth rates in the near-term.

So, let me stop there, Rob.

Rob Sedran – CIBC World Markets – Analyst

And as always, questions are welcome from anywhere. But I'm going to start with that one, which is the fact that you've built organically and not acquired, has it been a capability issue? TD often talks about natural market shares and so now you're extending that concept into the Wealth Management segment. So is the fact that you're under represented in wealth, was it just that you didn't have the capabilities or was it a bank that was focused on TD Canada Trust?

Leo Salom – TD – EVP, Wealth Management

No, I think we started out in our history as a direct investment firm. So, we were countercultural. So we didn't build a full-service brokerage business. We built out a leading direct investing platform. So we led with that as a strategy. Our full-service brokerage business or I should say, our full-advice suite, is really the product that last 10 years to 11 years. And it's been the product of one advisor at the time building the current franchise we have today.

So I think it's just the matter of – the initial starting point was a little different, but I think just to be clear, we're focused on all three of those core segments. I think we have opportunities to continue to build on our leading DI franchise position. I think we've got an advice business that's young, growing, and certainly beginning to contribute quite significantly to the overall wealth results.

And I think our Asset Management business, we've demonstrated that we can be innovators in the asset management space with launches like absolute return products, low-volatility solutions, other retirement type funds and we'll continue to try to leverage that over time. So I think it's – I think very much, Rob, to your point. I think we're focused on being a balanced operator in the wealth management space.

Rob Sedran – CIBC World Markets – Analyst

Can you share with us what – even directionally that 8% or 9% might have looked like two years or three years ago, like how much progress is being made in terms of increasing that share of the advice channel?

Leo Salom – TD – EVP, Wealth Management

Yes, we've probably taken almost a full percentage point in that space.

Rob Sedran – CIBC World Markets – Analyst

And that sounds like nothing, but I mean it's a fair bit in a market where market shares don't move very much. We often measure basis points for other market shares.

Leo Salom – TD – EVP, Wealth Management

Correct.

Rob Sedran – CIBC World Markets – Analyst

So, is that – do you feel like that's a trend that can continue with that kind of rate?

Leo Salom – TD – EVP, Wealth Management

Without question. So, we currently serve, just to put some more stats on it, we currently serve about 1.9 million clients in sort of our entire wealth management group, that includes our Direct Investing business and our Advice business. We franchise clients with assets of over $585 billion at the aggregate level. So, it's a sizable book of business that we have today, once again organically built. But I still think that there is significant upside in terms of consolidating client relationships.

Rob Sedran – CIBC World Markets – Analyst

So, what has been changing in the branches to try to drive that market share?

Leo Salom – TD – EVP, Wealth Management

I think a trend that we're seeing in the industry as a whole, not unique to TD, but it's the fact that we're seeing more and more transaction offload. So, the traditional retail bank is becoming less a point of doing day-to-day transactional volumes, those are being migrated over to either the phone or certainly to online. And so, we're seeing much more focus on adding advice capabilities in the branches. That's clearly been the case at TD, where now we have over 4,000 financial advisors, and about 750 financial planners really focused around investment product distribution. And that's an incredibly important source of growth for us. While we do have direct advisors in the marketplace, our branches still represent a very powerful part of our distribution model. And certainly for the retail mutual fund engine is the primary source of distribution.

Rob Sedran – CIBC World Markets – Analyst

So, the full-service brokerage is – it hasn't been growing as rapidly. This is a branch strategy that we're talking about?

Leo Salom – TD – EVP, Wealth Management

Yes. If you think of – when you think of TD Wealth's distribution continuum, it starts with the 4,000 financial advisors that we've got at the retail level that are selling retail mutual funds. We then have 750 financial planners that are registered IIROC, that are selling largely mutual funds and other fee-based wraps. We have our full-service brokers, another 750 full-service brokers that are selling obviously an open architecture solution set. And then we've got our private investment counsel business, that really focus on the needs of clients over $1 million of net investible assets, largely in discretionary asset management solutions.

So when we think of distribution, we tend to talk a great deal about full-service brokerage business, but that's one leg of a multi-prong distribution model, and we're really trying to grow that end-to-end distribution continuum and make that as complete as possible. So we do intend to add some distribution capacity, but the other virtue of our organically built business model is that we still have a lot of latent capacity. We're still maturing some of the advisors that we've hired over the past five years, six years. So we think we can continue to grow, marginally increase the number of advisors, but still produce year-on-year increases in terms of net asset flows, and that should translate into increased profitability over time.

Rob Sedran – CIBC World Markets – Analyst

And how proactive are you being at moving customers through that channel – through that continuum from the original branch up into a private – into a financial planner, up into full-service brokers like this – a lot of that happen or do you tend to get where you start you end?

Leo Salom – TD – EVP, Wealth Management

No, we've put in a, for lack of a better word, a triaging model at the branch, that basically looks at a client's net investable assets, looks at their complexity, sort of the needs that they're trying to solve and then we triage them to the channel best fit. And that's – it's challenging to do particularly when you've got some commission-based sales forces, but we've put in that discipline right at the branch level that we'll tend to shift the client to the place where we think we can best serve them, and I think the results over the past year have been quite strong.

We've seen referrals in terms of volumes out of the retail branch network increase year-on-year by 23%, which is a powerful increase. Obviously, the markets have been quite strong, so some of that has been the tailwinds related to the markets, but I think the one big differentiator at TD, which I think is very powerful is just the strength of the retail, commercial, and wealth relationship. So having worked at two other organizations, there tends to be natural silo-type structures that exist between those different businesses.

I think something that TD does particularly well, is aligns those core lines of businesses together quite effectively. So whether that be through scorecards, whether that be through metrics and measurement, whether that be through some compensation-type structures, it is truly a community-based model as opposed to independent lines of businesses operating simply on a goodwill referral basis. And I think that's been the success, the real heart of the organic growth story that we've had in place.

Rob Sedran – CIBC World Markets – Analyst

There's been a fair bit of talk recently, and I guess the volume is being turned up on some of the regulatory changes coming to the wealth management sector. And I guess, the fact that you are a little less exposed to some of the full-service brokerage type businesses, perhaps makes it a bit less of an issue for you, but it's still a big issue I think for the industry. So when you think about some of the CRM2 and the potential for the unbundling of trailer fees that might follow and all that, how do you think of your business and how you think about regulatory risk?

Leo Salom – TD – EVP, Wealth Management

Yes. CRM2 is one of the regulatory changes. I think it probably started with some of the CSA point-of-sale disclosure rules. I think all of these different programs are really focused around driving greater disclosure and greater transparency at the moment of engagement with the client. And we've been involved in all the consultations, as have been the Big Five banks. And I think we've collectively shaped some of the outcomes that we're now introducing.

So, I think we're clearly supportive of the direction of greater disclosure and greater transparency. I think the challenge will be that advisors will increasingly have to demonstrate the strength of their value proposition.

In terms of what are they doing, in terms of the presales, what sort of financial planning process do they have in place, how do they arrive at their product and portfolio selections for a client, how do they rebalance them over time, what sort of annual review process do they have.

So, it's really going to really challenge every advisor. And something that we're working certainly very diligently at TD is to make sure that an advisor is delivering a very robust piece of advice that is that starts with that first moment of interaction, ends with that annual review process, so that clients do derive sufficient value from that core relationship. And, I think we're well-positioned.

Another stat, well that's interesting is, we've talked about the shift to fee-base as an emerging trend. The reality is, one-third of all of our assets today in our advice businesses are fee-based in nature already. So we've been on this journey. On a flow-basis, almost 50% of all the flows are in fee-based in core solutions, where the advisor already pre-settles what the price of the service that they're going to be receiving.

So, I think that gives us a huge advantage, as we think about preparing for the final 2016 threshold for CRM2. I think we're well ahead of that curve, but we'll continue to invest to make sure we're delivering the most robust advice session we possible can with our clients.

Rob Sedran – CIBC World Markets – Analyst

I want to draw in some of your international experience, because the view often is that regulatory change means lower fees, and the Canadians can sometimes be thought of as paying these high fees that perhaps comes down to market structure, perhaps it doesn't. So I'm curious to hear your views when you look at the Canadian market, the structure of the fees, the level of fees that investors are paying, will regulatory change bring lower fees and lower margins for the manufacturing side of this business?

Leo Salom – TD – EVP, Wealth Management

Yes. I think we're already seeing some gradual compression in terms of MER. I think even independent of the regulatory discussion, I think there has been a gradual compression in terms of overall MERs, and I think that's a healthy thing. I think that's a result of just the competition that's already taking place.

I think you're also seeing a D-Series mutual funds being introduced in the direct investing channels. You're seeing other value bundled, fund-of-fund solutions being introduced in the market. So, I think we'll see some degree of spread compression over the next two years, three years, four years, five years. But it's something that most of the manufacturers have been dealing with for some time, and I think it will be gradual in nature as opposed to anything that is outsized. And that's certainly our view.

Rob Sedran – CIBC World Markets – Analyst

You mentioned the direct brokerage, how do you think about growth in this channel? I mean is the fee pressure that we've seen for the past many, many years more or less done and we've reached an equilibrium? Is the amount of activity in that channel going to grow? Is there a potential for – I mean in some ways Ameritrade offers advice as well.

Leo Salom – TD – EVP, Wealth Management

Sure.

Rob Sedran – CIBC World Markets – Analyst

So I mean is there potential for an evolution? Just talk a little bit about how you think of that channel.

Leo Salom – TD – EVP, Wealth Management

So just to put our direct brokerage business in context, we service about 1.1 million clients in our direct broker, about a $100 billion – a little bit over $138 billion in assets under administration. So it's a big portion of our overall complex. Clearly, it's been under significant pricing compression for the past year, year-and-a-half. There's been a number of noticeable headline reductions in terms of pricing.

I think we're at a point right now where pricing doesn't look too dissimilar from the U.S. market construct in terms of price per trade. We'll probably see a little bit more compression as it relates to some of the trailer commissions. So that with the introduction of D-Series products we'll see a little bit more. It's not that – that's not a very material number, our trailer commissions as part of our total revenues a little bit over 1% of our overall core revenues. So it's not a big impact, but we'll see a little bit more overall compression there. But I think we'll see a stabilization over the next two years, three years with regards to fees and actual trading commissions.

I think what you will see, and I think the big growth opportunity for a direct investing business, is the convergence of the direct trading platform with online advice. And we're seeing it certainly in the U.S. with a number of upstarts establishing and presenting themselves as an alternative to full-service brokers. But I do believe it'll be gradual, once again I don't think it will be revolutionary. But I do think increasingly, you'll see the convergence of direct brokers with some degree of online advice proposition. And that will provide clients with yet another channel alternative to be able to get value-based advice.

I think TD, given the strength of our direct brokerage platform, given the fact that we've been, we've provided advice through multiple channels not just the full-service brokers, I think we're uniquely positioned to be able to play in that space, and certainly evolve that space in the years to come.

Rob Sedran – CIBC World Markets – Analyst

And is there a risk of cannibalization in the direct with the robo advice, if I can call it that, or is it just serving a different kind of customer that wouldn't have been an advice based customer anyway?

Leo Salom – TD – EVP, Wealth Management

I think the sincere answer is probably little bit of both. I mean there is going to be some degree of cannibalization, but I think – we look at it as a channel evolution as opposed to necessarily a substitution. And I think there is plenty – fortunately the wealth business is a growth market. If you just think of the demographics at play, there will be expansion, near double-digit expansion in terms of the wealth market for years to come. And so therefore, I think this is less about hard substitution choices, I think this is about making sure that you're channel strategies are reflecting the needs of clients and that you're offering what's available, the sort of technology and the sort of experience that's available to clients today. I think the next generation, when you think of our kids and how they interact today, there is no question in my mind that they will be interacting in the online space very differently and that wealth will be provided in substantially different ways in the future than they have traditionally been delivered.

Rob Sedran – CIBC World Markets – Analyst

Can you talk a little bit about the direct business in the UK? It's not one I think that's as well understood in North America as certainly Ameritrade and Waterhouse are. How mature is that business there and what kind of growth can you get? And can it be something that approximates Ameritrade and Waterhouse in North America?

Leo Salom – TD – EVP, Wealth Management

Sure. So, the base business model in the UK is not too dissimilar from what we have certainly in Canada and the U.S. The exception is that, just the sheer size of the direct trading market is much smaller. It's less mature than the North American peers. So, in of itself, it's a much smaller pool relative to the size of the overall UK economy. So, in that regard, it's at an earlier stage of evolution, what is interesting is that there is three forces that play in the UK, all of which will tend to make the direct investing market in the UK much bigger over time. One is pension reform. It's been traditionally a defined benefit market. It's shifting dramatically to the defined contribution market. And there is number of platforms that are coming online now that will be seeking out direct investing and trading capabilities.

Second, the implementation of RDR, or the Retail Distribution Review, which basically changed the dynamic within the intermediated or advice channels, and you saw a number of banks exit the financial planning channel. And so that's going to drive clients to go – to seek advice elsewhere. And I believe online advice solutions will become much more prevalent, certainly over time. And then third, the government has increased the tax advantaged limits, such that it's more attractive now to invest into some of the long-term retirement schemes. So we'll see more dollars being funded in that direction.

You combine that with the fact that there isn't a very established full-service brokerage business in the UK marketplace, IFAs are largely fragmented, it opens up an opportunity for the very online advise model that might be – it might be a complementary channel here in Canada, or in the U.S., it could end up being a dominant channel in the UK context.

So, what we're very excited about is being able to participate in that market. We currently bank over 200,000 clients in that marketplace. We've got nearly £10 billion in assets. So it's a market that we think we can begin to shape and certainly innovate in that marketplace and be competitive. So we think it's got some real potential going forward.

Rob Sedran – CIBC World Markets – Analyst

It's early days but have you seen any benefit of any of this so far?

Leo Salom – TD – EVP, Wealth Management

Well, we – the reality is, Rob, we're trying to shift our model from being a pure direct trading business to being a broader advice provider. So I think it's early to be able to call it at this point. I'd say the next year or two will be critical in terms of being able to cement that model.

Rob Sedran – CIBC World Markets – Analyst

I want to talk a little bit about the U.S. wealth business, and it's obviously a very different model to the one we have in Canada.

Leo Salom – TD – EVP, Wealth Management

Sure.

Rob Sedran – CIBC World Markets – Analyst

Do you think and is the view – is TD's view that it will evolve into a Canadian type model over time, when you kind of look at the using of the branch network, the way you're starting to use it more in Canada?

Leo Salom – TD – EVP, Wealth Management

Yes. The U.S. model for us is – it's a great opportunity. For those of you that are familiar with the U.S. business over the last seven years or eight years the bank has built a pretty formidable retail and commercial banking business, largely East Coast based. We now have 1,300 branches from Maine to Florida. We serve about 8 million retail clients. And for the most part, it's been a retail commercial model only. We haven't really had a wealth proposition. So about 18 months ago we started down the path of building out, we put a brand new discretionary asset management platform in place. We hired a regional management team to mirror the retail distribution model that we had in place on the retail side of the house, added 72 advisors on the platform. We purchased Epoch Investment Partners, which gave us specific U.S. equity money management capabilities.

So we've made a couple of steps to really lay down the foundation for what will be a significant U.S. wealth business for us.

And just to put some – just to draw a bit of a comparison to the Canadian marketplace. In Canada, TD generates a little bit over $200 million in our advice businesses. There is no reason to believe that in a reasonable period of time, we shouldn't be able to match or exceed that number in the U.S. marketplace. So it is a – for us the U.S. market is a real virgin opportunity. It's one that we're quite excited about. It will require the same sort of effort that we invested in Canada in building our core advisory team. So we will have to be deliberate about building out the distribution model and making sure that we continue to evolve our core product and sort of value proposition there, but we're really excited about what that could be.

And the other thing that's interesting is, our footprint right now marries up really well to the wealth dynamic in the country. So if you exclude the California, the sort of West Coast wealth, we are in a number of the MSAs that you'd want to be if you're building a wealth business in the U.S. So, clearly very excited about it, much work to do, but certainly a long-term opportunity for us.

Rob Sedran – CIBC World Markets – Analyst

And do you need full ownership of Ameritrade or can you have, like part of your wealth strategy being – like can TD Ameritrade be part of your wealth strategy, even if you're not a majority owner of it?

Leo Salom – TD – EVP, Wealth Management

Yes. Rob, it is part of our wealth strategy now. I think we're quite comfortable with the equity structure we've got in place within today. Just to give you a sense, with TD Ameritrade, there are two drivers of value for us out of the TD Ameritrade relationship. One is strategic insight. Obviously, TD Ameritrade participates in one of the most competitive direct trading markets in the world and obviously, they have been innovators and they've got technology and they are constantly pushing the sort of the edge on innovation, whether it be functionality innovation or technological innovation. So obviously, we can take and glean that insight in terms of our road maps in Canada and the UK and elsewhere. So I think that's clearly one source of value.

The other source of value is that they are an integral part – to Rob's point, an integral part of our wealth model today. So clients that have net investment assets of less than $750,000 in the U.S. get referred to TD Ameritrade. And then TD Ameritrade will triage that client into one of three different solutions. So, they are today, they are our mass affluent distribution model in the U.S.

This year, we referred over $1.2 billion of retail flows over to TD Ameritrade; I think over time that number will certainly increase, but they're a very important part of the overall wealth continuum in the U.S.

Rob Sedran – CIBC World Markets – Analyst

We are exactly out of time. So, I enjoyed that. Thank you very much for your time...

Leo Salom – TD – EVP, Wealth Management

Thank you, Rob.

Rob Sedran – CIBC World Markets – Analyst

And thank you for participating in the conference this year.

Leo Salom – TD – EVP, Wealth Management

Thank you. Appreciate it.