Bank of Montreal at TD Financial Services & Fintech Summit

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Mario Mendonca
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MANAGEMENT DISCUSSION SECTION

Mario Mendonca – *TD Cowen – Analyst*

Good morning, everyone. Thank you for joining us again. Today we've got Deland Kamanga. He's the Wealth Group Head at BMO. Deland, thank you for doing this.

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

My pleasure, Mario.

Mario Mendonca – *TD Cowen - Analyst*

Let's get started first. So not BMO's best quarter. Missed estimates by a little bit. Can you offer a little bit of an outlook? How would you sort of position that quarter and your view going forward?

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

Absolutely, Mario. Obviously, I'm focused on the Wealth business, but you're right, the overall quarter did disappoint. But if you look at the actual PPPT growth, we did grow at 7% PPPT. We actually said we're going to deliver positive operating leverage. You saw 3% positive operating leverage. And when you actually look at where the disappointment was, it really was around the credits, and some few lumpy credits that caused the disappointment. When you look at the operating business and the expectations for PPPT growth for the operating businesses, we actually were right on expectations. So, the operating business was strong. Operating leverage actually was a little bit better than expectations.

And when you look at the operating business going forward, the different leaders feel that we should be able to continue that operating growth. Now, you do have to realize that there certainly is in this environment continued pressures both Canada and the US on revenue growth. But the operating businesses feel good and with Wealth in particular where we are especially linked to all the different businesses, we are seeing good growth with our commercial partners, capital markets partners, retail partners. We grew AUM at 14% in the quarter, which is very, very strong. We are gaining new households, new accounts. So, we do see that we're set up for constructive markets, that we should be able to continue to have good performance.

Mario Mendonca – *TD Cowen – Analyst*

Okay. So let's now dive into Wealth Management very specifically. The industry has changed a lot in the last five years and BMO has changed with it. So could you walk us through some of these big trends and how BMO is addressing those?

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

The big change in Wealth in the last five years – say, the last 10 years, really accelerated in the last five years, is that you're really going from an environment where you had a lot of people who came to a Wealth platform really for investment management, just to invest your money. And you're seeing now clients with Wealth transfer – generational Wealth transfer. They really need a lot more complicated solutions – not more complicated, but got more complicated problems, so they needed more holistic solutions. And so now, when you look at what people are asking for, they want estate planning, they want retirement planning, they want tax planning. Implicit in that – although they won't ask for insurance, but implicit in that estate planning, tax planning or retirement planning is insurance products. So the big change we're seeing is that people now aren't just coming to us just for investment management, they want holistic solutions. We need to be able to structure our business to solve that.

If you look at even just from a gender standpoint, you got $3 trillion that's moving that women are going to be taking over the next little while. We really need to make sure that we're addressing that, getting them these tools that they need, having advisors that can also support them. So big changes from that standpoint as to what people are consuming on the other end. And we need to make sure that we're offering that kind of product for them.

Mario Mendonca – *TD Cowen – Analyst*

Now, what does BMO do to address these big trends? Like how do you – I know you can't opine on the strategies of your peers, but really think about BMO specifically. What's BMO doing to address these trends? What makes BMO special in Wealth? Maybe you can walk us through that.

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

So, I'm going to tell you two things, Mario, that I think make us special. Number one, let's look at the big trends as to what people are looking for and why are we different. We decided a number of years ago to say, look, we know this is happening. People are going to demand more broad solutions. So let's take our investment advisors, our traditional brokerage business, let's merge that with our investment counselors and our Private Bank. So that when a client comes to us, they are able to get access to everything that we have to offer. Let's also then build a financial planning, specialized financial planners, within the private wealth space. That's even within those, financial planners have people who are specialized in estate and insurance financial planning. So that when you come to us, it's a one-stop-shop, all within the Wealth platform, and you can get exactly what you need.

The other thing that we thought was important is that, you can't just provide these solutions only to the ultra or the high net worth. You also need to provide that to the mass affluent. So, with the Bank of Montreal, you're able to start your journey from mass affluent, get access to pure financial planning, all the way up to the ultra. We've organized ourselves differently. The other thing that we've done also, Mario, which is a little more recent, because we've said, we've got all of this expertise in Canada, all this expertise in the U.S., we really had them as separate businesses. We've brought them together under one leader. So, one North-South Wealth platform. This is quite a bit different from what you're seeing from our competitors. One North-South platform under one leader, we took the investment management and banking business, put that under one leader. We've taken the operational excellence, saying we're going to take the best of breed from what we're doing in Canada and the U.S. And we're going to standardize that across both platforms. So that makes it easier for our clients and our colleagues to do business with our clients.

And then the other thing about that, number one difference is, we're completely re-platforming the actual technology stack that we're going to use. So, we're going from 40, 50 applications down to 4 or 5 applications. And again, to make it easy for the colleagues and make it easy for the customers to do business with the Bank of Montreal and not just in Canada, but North-South.

The second big differentiator that I would say that we have, and we might get into it later, Mario, so I don't want to say too much now but it is the connectivity that we have with the rest of the bank. We're co-locating with our commercial platform. We already co-located with our retail platform. We have over 300 advisors that actually sit in branches in Canada. And then, we have a large number – 80 to 100 advisors that sit in branches in the US. So, we have a very deep connectivity with the rest of the enterprise, and that's a big differentiator as well.

Mario Mendonca – *TD Cowen – Analyst*

So other banks have these names they assign to their individual cohorts. So BMO has got the mass affluent and the affluent. Does the affluent sit in what you call BMO Private Wealth? And then, the mass affluent is just BMO Wealth?

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

This is a very good question. So mass affluent for the most part sits in BMO Private Wealth – sorry, let me say it again. The high net worth and ultra-high net worth sits in BMO Private Wealth. The mass affluent, we do connect to that through our Wealth division, by manufacturing product through our Global Asset Management. And by providing a platform via our InvestorLine for clients to interact and to trade. The sales force, you could call it, the financial planners is a shared resource between Personal Bank and the Wealth business. So completely connected, not owned by one or the other, a shared resource saying, look, let's make sure that we can get out into the branches, make sure that the clients have access to everything that the Wealth platform has to offer. I would look at it not as one division or the other. It's, yes, ultra and high net worth that is served in Wealth, but the mass is a shared resource between both platforms, and we manufacture 100% of the product for that shared platform.

Mario Mendonca – *TD Cowen - Analyst*

That makes sense. Okay. So let's flip over a little bit now and talk about Bank of the West. How did that contribute to the Wealth deal? And maybe you want to combine that into a discussion of – I know Canada and the US are combined under your leadership. So I'd presume there'd be some different strategies as well. So, let's talk about Bank of the West, the US versus Canadian strategy if that's doable.

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

We can follow up on what we were just saying, when you wisely asked about the difference between the high net worth and ultra versus the mass affluent. In the US, we are much more of a high net worth and ultra offering. And that is – I would say, there's a big substantial difference between the US and Canada. Now the reality is in the US, you do have a lot more high net worth. So, the high net worth and the ultra of course, you just got such huge numbers. The Bank of the West really has given us a massive opportunity.

They actually increased our households by about 24%, increased our assets, so AUM and AUA by about US$18 billion. And even more importantly, they weren't necessarily the primary relationship for that US$18 billion. So, of the 21,000 customers that we have in the US, we know that there's about US$180 billion toUS$200 billion that they have sitting off-book, they have another relationship somewhere else. And Bank of the West just didn't have the product suite to provide those clients with an opportunity.

We say to our sales force in the US, we have a couple of years where you really don't need the prospect outside of BMO. You already have a client base that just hasn't had access to products. And to particularize it for you even more, which is what makes us so excited about the opportunity, if you look at California and Florida, because we already have a big position in Florida, the average account size that we have on us in California now after the Bank of the West – or I should say average account size. The assets per FTE in California is about US$600,000. In Florida, it's about US$1.5 million.

When we look at the penetration of our commercial clients in the old Bank of the West versus our BMO, there's 15% penetration for Bank of the West, 30% for Bank of Montreal. So, we think with the commercial business alone, another 11,000 customers – again, customers we have that are commercial customers who don't have a primary Wealth relationship with us, that 11,000 customers is another US$100 billion of opportunity. There's so much in our own backyard where we just provide these Bank of the West folks with the product, with the sales practices, with the sales training, with the operational excellence. And we think there's a huge growth opportunity just sitting with the clients that they already have.

Mario Mendonca – *TD Cowen - Analyst*

So that really is the right lead in for me now into another question that you started to address, which is, how do you get folks in Wealth to play nice with the folks in Personal Banking, Commercial Banking? I know from experience, the leader has to insist on it, number one. It's got to be sort of built into the culture of the bank. But there's also that has to be sort of an incentive structure around that as well. So how do you make it work?

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

It's a great question. And I don't want to give away any secret sauce. However, look, the reality is, lots of people trying to figure out, it's who actually executes, right? So, what we've done is we've really tried to understand what is it that might be an objection on the Capital Markets, Commercial, P&BB side to refer to Wealth and what has been an objection from the Wealth side to refer to P&BB, Capital Markets and Commercial, because the money is one thing, but what is stopping you. So you'd be amazed, what we have done is, we've taken the Head of Commercial, Nadim Hirji, we brought him to our Chairman's Club event. He spent the whole three days with the group, came to all the business meetings, listened and learned and spoke to the advisors. And really tried to understand what is holding you back. With the advisors, what came up is not money. What they said was our lifeblood is our clients. We have nothing else if we don't have a great relationship with our clients, we're going to protect our clients. So, when we hand the client over to Commercial, how do we know – how can we be certain you'll look after that client.

And so, building those relationships and getting that level of trust, that's what's been key. So that's why Nadim with Commercial, myself with Wealth, we're co-located. We're having these people actually sit in branches together and work together in a much more connected fashions o they build those relationships over time. If you look at our Chairman's Council, Mario, 50% of the Chairman's Council have referred to Commercial. If I went back three years, that number might be 2%. So, as they've gotten trust and as they've gotten comfortable and as they believe, they're getting up to that point. And so, there's no reason why it can't continue to go as that trust continues.

The other thing that we're doing also, because you do that kind of stuff, but you also want to institutionalize it. Darryl's set up what's called a One Client Council, not just for Wealth or Commercial, but a One Client Council for the whole bank, chaired by two Executive Committee members. And then, every single business line, as well as the functions have a representative on this One Client Council. And that two EC members on the One Client Council don't report into any of the business heads or any of the function heads. They go right into Darryl, they are accountable to Darryl.

And what that does is, it allows for any disagreements, any things where people just can't get to the same place. It allows it to be adjudicated by the co-heads of the One Client Council. And they can take it to Darryl and they have his authority to say, okay, love your idea, love your idea, we're doing this. And then, it's our job to execute. And that does make a difference. 90% of the time there's not going to be disagreement. 10% of the time, you need somebody to step in and say, this is what we're going to execute and this is how we're going to move forward. And that has been a difference maker for us.

Mario Mendonca – *TD Cowen – Analyst*

The other thing I've noticed in paying attention to banks over the long term is, some of the really successful and developed systems and processes that allow them to measure their success down the road and actually measure profitability at a very granular level like client level type profitability. Where is BMO in that journey? Has BMO developed the systems, are you building that out now?

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

I love that, Mario. So one of the first things I noticed when I came into the seat, having spent my entire career in global markets on the trading floor, is that we needed to improve the data that we had to measure exactly what you're saying, not just the profitability of clients, but profitability of job functions, of advisors, of types of advisors, even to show them, hey, here's what great looks like, right, just for them to even see. So, for the first year we spent a lot of money and a lot of time building a system. I'm not going to tell you the name because I don't want anybody to steal it from us, even though it's a great business for these guys.

And we've rolled it out to all of our regional presidents, all of our market leaders, all of our assistant market leaders, so that they have the data. We've also even done it for our Global Asset Management business. We've done it for our InvestorLine business. So Private Wealth Canada, Private Wealth USA, BMO InvestorLine and Global Asset Management all have this system now. Each leader of the business was able to tweak it a little bit the way they wanted it to measure things that Deland Kamanga may not think needed to be measured because they're experts in their business. And so, they decided some of the differences, they're not all the exact same measurement of things as what the leader thought was very important. But that's helped us a lot.

We also brought in a few new leaders, Mario, who have had success using analytics like this, and they're all from different competitors using analytics to help with the productivity of the different levels of advisors and to help with the clients. And so, we are seeing some good results, you'll see – if you look at our NIX, you're not seeing us spending all kinds of money, but we are getting some nice AUM growth. We are getting new households, we are getting new accounts. And the advisors are very open. When you tell them, here's what it looks like – here's what your book looks like, here's what it could look like if you were to do a few things differently, because this is what Joe was doing in Edmonton, and your book could do that. Included in that, by the way, are potentially commercial referrals because those clients that you have, have a commercial account with XYZ bank. And when there's a transaction or that client sells, you may not even know about it because it's going to end up being taken care of by the other bank. But you get it on your books, this also helps you because this is what happened to Felix in Halifax. They have a very open mind to it, it changes how you execute your operational excellence and your sales practices. It changes it.

Mario Mendonca – *TD Cowen - Analyst*

Let's flip over now and talk about money in. So you've got deposits, you've got Wealth Management assets coming in. And let's talk about some of the recent trends like the last couple of years relative to what you could expect now that rates have come down – or rates may come down a little more. Talk about it globally as a big concept of money in, deposits and wealth in the context of a lower rate environment?

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

It's a great question. When you look at it and you look at the deposits – when you do your analysis, Mario, and you look at the deposits on the wealth platforms anywhere, you'll see that as rates went up, deposits have declined. What's interesting is that, if you look at BMO and I don't know this number for other people, I'm going to assume – well, there's one bank that I know this number for. If you look at deposit growth, it's the one bank that has better deposit growth than us.

But if you look at what's happened pre-pandemic, we were sitting at about $75 billion of deposits for the wealth platform. On the wealth platform now, you see that in the area of $60 billion, $62 billion, and that's in line with what you've seen other people do. However, those advisors, as rates have gone up, they've taken deposits down that were sitting in cash because you're getting 25 basis points, 50 basis points. Mrs. Jones didn't care that it was sitting in cash and they've moved that into BMO GICs into term investments. So our actual Wealth clients with deposits within the Bank of Montreal is now actually $100 billion.

Ironically, deposits have actually gone up. Yes, it's not cash. It's sitting in term, it's sitting in GICs. But the relationship has stayed here. And it's actually, we've net grown the money because you've had net new assets coming in and you've still actually grown the deposits in term. I actually think that this change in rates hasn't been as bad for the wealth businesses as the headlines might say, because we've actually gained relationships. We've called these clients and we've called these clients. Yes, they've moved the cash they had with us, but they've moved to new assets as well and put them into term.

Our Money Market ETFs have been growing very, very nicely as people go into that type of product. So, I think it's been a boom. The other side now is going to be, as rates come down and if people feel the market is constructive, I expect that as that cash comes out of term and goes into the market, when they make those calls to move that money, they'll also get other money that might be sitting in term somewhere else. So just like the overall term, overall cash, overall deposits grew when they made the call, I think the overall AUM will grow. And we'll all be in a battle for it, there's no question. But you're in a better position if you have the deposit with you, of course.

Mario Mendonca – *TD Cowen - Analyst*

Now, I don't know, you wouldn't be agnostic between whether it's in a term deposit or in your AUM, presumably there's a difference. I figure one would be a better business to be in than the other maybe, but let me ask you, how do you view that from a margin perspective?

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

There's no question that money that's sitting in term has a better margin short term. But what happens, Mario, the reality and the reason why the wealth business is so compelling is that, that term investment is just that, it's normally a term investment. It's two years, it's three years, maybe it's five years, right? But when Mrs. Jones takes that money and puts it into the market and has what is normally the case, except for once every four or five years, right, a good experience and has a good advisor who keeps her in the market. She keeps that money in the market for a very long time. So, the PV of that money sitting with you, if you look at our advisors, I'm not going to say who's number one, but we are number two share of wallet, we have 74% share of wallet.

When these clients convert that term into investment management products with us, we get the majority of their assets and they stay with us for a very long time. The average term for our advisors is about 19 years with us and the average time of clients is about 18.5 years. So, these people are very, very loyal, both the advisors – as crazy as that might sound, but both advisors and the clients. When that migrates over, yes, short term, we're going to make a little bit less margin. But the PV is much better because those clients would normally stay for a very long time, and they'll stay invested for a very long time.

Mario Mendonca – *TD Cowen - Analyst*

And then presumably at the center of the bank, the corporate treasury center of the bank has to cope with that change in deposit funding because it leaves the term deposit, it leaves the other deposit. But that's outside of what you focus on, right?

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

That's right. And what's interesting is that at the end of the day, if you look at the asset mix, I don't know what this is for other banks, I look at ours, I can only see for ours. If you look at the asset mix of our clients, they're actually 55%, 60% fixed income, so call it term – the average customer, when you look at the aggregate, they're still keeping a lot of money in fixed income type investments. And so, it's up to the advisor to choose, is that a Money Market Fund or is that a GIC, whatever. And so, that core funding for the banks as the AUM grows is still going to grow because you still get enough customers who will say, yes, I'm going to stay with you, but I'm going to trim a little bit. And I do like – I am comfortable having a decent amount in fixed income.

Mario Mendonca – *TD Cowen - Analyst*

I see. Now, let's talk a little bit about the lending side. I normally don't think too much about lending when I think about the Wealth Management business. But loan growth has been weak now for these banks for some time now. Do you see a slight change here with lower rates? Could we get a little bit of a lift in the lending space in Wealth?

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

It's interesting, Mario. If I go back to last year, our loan balances and you see when we show our numbers, it was about $42.1 billion. If you look at it now, it's about $42.3 billion – they've actually gone up very slightly. And what's interesting about that is that our clients are rich. So, when the rates go up, some of them, they don't want to borrow money at these rates, they pay down. So that $42.1 billion to $42.3 billion, that's after a lot of people have paid down.and we've brought in a lot. The number one place where we gain households is in Private Bank, Canada and US and they lead with the loan product, it is a very good business. It's a very good starting point with a lot of clients. You do have many clients who have a very small investment management product with us because we've led with the private banking and we're growing the investment management over time. So, it is a very important business. The pipeline is quite good in Canada and the US, but I would encourage you to say that although macro, it might appear that the loans are slowing down, actually no, there's a nice recycling going on. People are paying down. But then we do have enough people coming up that we are at least treading water in an environment where, quite frankly, with rates where they are now, you'd expect a lot more paydowns and you'd expect a lot less people taking on new loans. So, I'm encouraged with the environment.

Mario Mendonca – *TD Cowen - Analyst*

Although that could change, that could change as rates come down, for sure. Let's conclude with insurance. Insurance is a smaller part of the business. Let's talk about how insurance, like why does it belong in the Wealth segment? What products does it relate to? Are there similar customers? Let's just talk about BMO's insurance strategy overall.

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

Absolutely, Mario. we haven't spent a lot of time really explain to people about the insurance. I appreciate the question. It is such an integral business to the overall wealth platform. And it's not even just wealth. When you provide a mortgage buyer with creditor insurance, you double the ROE on the mortgage. So it's a very important business even for our retail business, and it's a very important business for those clients because those people who are buying it, God forbid they ever need it, it's a very, very valuable product for them. So, it's important for the retail business.

Now, to the Wealth business. When you ask customers what's the priority of what you want, they'll say, I want retirement planning, I want estate planning, I want tax planning. Those are the three big things that they ask for. And then you ask them – you'd give them the name of the other things that they might want. They'll say, well, that's not as important. So, investment management actually is lower than those big three. Insurance is 2% - 2% of them say, yeah, I want insurance. When you do a proper financial plan and you do the estate planning, you do the financial plan and you do you do the proper tax planning, insurance is integral to that solution.

And so that's a big part of what we do is innovate with the insurance platform. With our advisors – we have estate and insurance advisors embedded within the Wealth platform. And it's a very, very important of the business and has a lot of potential growth. And we have some areas that we think are gaps that we think we could grow in, in that area where we see our clients buying things and we aren't offering them yet. So we're going to broaden some of the products that we offer within insurance to fill that gap where we actually see money going out to pay other people for that product. We have that advantage. We can see it.

And so, the insurance business, I think, has a very interesting future for us, and we're getting at it. We've got a new leader there. The previous guy was excellent and built it to where we are and retired. And we've got a new leader in there who's picking up where he left off. We're excited about the insurance business for sure.

Mario Mendonca – *TD Cowen - Analyst*

Thank you. Deland, I got a lot of this. I definitely – not every meeting do I walk away thinking I've learned something; I think I learned something as well. Really appreciate you taking the time and thank you to everybody else who joined us.

Deland Kamanga – *Bank of Montreal- Group Head, BMO Wealth Management*

Thank you, Mario. My pleasure.