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Royal PH&N

Posted: February 25, 2008, 12:05 PM by Jonathan_Chevreau

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Like most Canadians, I was surprised by last week's announcement that the country's largest bank – Royal Bank – had taken over one of the preeminent no-load direct-to-consumer mutual fund firms, Phillips Hager & North Ltd.

Reaction to the announcement has been mixed. An early fan of PH&N, Gordon Pape, said in his Internet Wealth Advisor that his first reaction was “disappointment.”

My own initial reaction was more positive, although colored by self-interest. I've never owned any PH&N funds but sometimes envied those that did. As a Royal Bank customer, the possibility of adding PH&N to the mix seemed – superficially at least – a plus.

Pape's take was that PH&N has been “one of the few money management firms that genuinely cares about the well-being of its clients” and “now that it is poised to become part of the RBC empire, I wonder how long that personal touch can be maintained.”

The history of boutique money management firms being snapped up by big banks certainly would give one pause before declaring the deal a plus for current PH&N unitholders. The first example that comes to mind is National Bank's acquisition of no-load Altamira Investment Services Inc., which was as esteemed as PH&N in its heyday.

Of course, the talent that made Altamira what it was – like Frank Mersch, Sue Coleman and Will Sutherland – were gone by the time National Bank acquired it. Similarly, most of the first and second-generation talent at Trimark has left the firm since the acquisition by UK giant Investco PLC.

Perhaps it's just a coincidence but in last week's blog entries we noted the creation of new start-up firms featuring some of the talent that built PH&N and Trimark: Tom Bradley's Steadyhand in the first case; and Tye Bousada's EdgePoint in the latter.

Pape notes that one of PH&N's attractions has been its low fund Management Expense Ratios (MERs). These are significantly lower than RBC's no-load mutual funds, although the gap narrows if you compare PH&N to RBC's D unit funds available to clients of discount brokerage RBC Direct [provided they have the minimum \$10,000.]

While RBC has stated it is committed to PH&N's low-fee model, Pape frets that “once the deal closes and the integration is complete, the bottom-line thinkers at RBC are going to be looking at ways to make this acquisition more accretive to their shareholders.”

In short, Pape is “skeptical ... PH&N customers will be fortunate if at the end of the day there is a continuation of the status quo from a cost and client relations perspective and some improvement in returns on the equity funds side.”

In an email bulletin issued over the weekend, fund analyst Dan Hallett said “we don't see any major concerns in the immediate future for PH&H unitholders” but “we're a little too skeptical to assume that this deal is going to be a true win-win longer-term.”

Like Pape, Hallett sees RBC's 2007 introduction of the low-fee D series as a plus. “We think PH&N's low fees will remain broadly accessible. But that doesn't mean more expensive versions of PH&N funds aren't in the cards.”

The way that might play out could involve a bigger push of PH&N (or “Royal PH&N?”) funds through the independent broker channel. As Hallett notes, PH&N recently launched B and F series units to get more

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