

TD Asset Management

TD Q U.S. Small-Mid-Cap Equity ETF (TQSM)

535872
(03/25)

TD Exchange-Traded Funds Annual Management Report of Fund Performance

for the period ended December 31, 2024

This Annual Management Report of Fund Performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, at no cost, by writing to us at TD Asset Management Inc., P.O. Box 100, 66 Wellington Street West, TD Bank Tower, Toronto-Dominion Centre, Toronto, Ontario, M5K 1G8, or by visiting our website at www.td.com/ca/en/asset-management or the SEDAR+ website at www.sedarplus.ca.



Securityholders may also contact us or visit our website to get a copy of the investment fund's interim financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure at no cost.

Management Discussion of Fund Performance

Investment Objectives & Strategies

The investment objective of TD Q U.S. Small-Mid-Cap Equity ETF (the "Fund") is to seek to achieve long-term capital growth by investing primarily in, or gaining exposure to, equity securities of small or medium-sized issuers located in the United States. In seeking to achieve this objective, the Fund uses a quantitative equity strategy to optimize exposure to a large number of securities, broadly diversified across all sectors, that are expected to outperform the overall market. A quantitative equity strategy is the selection of equity securities based on mathematical or rules-based algorithm.

Risk

The risks of investing in the Fund remain as outlined in the prospectus.

Results of Operations

The Fund is an exchange-traded fund listed on the Toronto Stock Exchange ("TSX"). Units of the Fund are traded under TSX ticker symbol "TQSM". The Fund returned 20.6% for the year ended December 31, 2024 (the "Reporting Period"), versus 21.5% for the Fund's product benchmark and 35.8% for the Fund's general market index. The Fund's product benchmark is comprised of 50% S&P MidCap 400 Total Return Index (C\$) and 50% S&P SmallCap 600 Total Return Index (C\$), and its general market index is the S&P 500 Total Return Index (Net Dividend, C\$). Unlike the product benchmark and general market index, the Fund's return is quoted after the deduction of fees and expenses.

Market Update

The U.S. economy continued to expand over the Reporting Period, demonstrating its relative strength despite tight financial conditions and softer economic activity elsewhere around the world. Consumer spending was the key driver of growth as U.S. households proved their resiliency amid high borrowing costs and elevated inflation. However, small cracks began to emerge as the Reporting Period progressed. Relatively strong manufacturing activity began to fade in response to slower demand. Real estate market activity waned with high mortgage rates weighing on demand. A slowing U.S. labour market raised concerns about the health of the overall economy. The U.S. unemployment rate rose to its highest level since 2021. In response to the slowing labour market and easing inflationary pressures, the U.S. Federal Reserve Board ("Fed") lowered the target range of its benchmark interest rate by 1.00% to 4.25%-4.50%. At its final meeting of the Reporting Period, the Fed lowered its expectations for the number of interest rate cuts in 2025 given inflation was still above its 2% target and economic conditions were relatively stable.

U.S. equities delivered a strong gain over the Reporting Period, with 10 of 11 sectors generating positive returns. Communication services, information technology and consumer discretionary were the strongest-performing sectors, while materials, health care and real estate were the weakest-performing sectors.

The communication services and information technology sectors were key drivers of U.S. equity market gains over the Reporting Period. Both benefited from the progress and expected capabilities of artificial intelligence. Investors also raised the valuations of stocks in both sectors in response to lower interest rates. U.S. consumer spending remained resilient despite tight financial conditions, which benefited the consumer discretionary sector.

Key Contributors/Detractors Relative to the Product Benchmark

The Fund generated a positive return over the Reporting Period but underperformed its product benchmark.

- The Fund's stock selection within the energy sector detracted from performance, largely owing to positions in oil refining/marketing companies Par Pacific Holdings Inc., HF Sinclair Corporation and PBF Energy Inc., as all produced negative returns during the Reporting Period.
- The Fund's security selection within the industrials sector detracted from performance owing to positions in arc welding equipment manufacturer Lincoln Electric Holdings Inc., trucking company Landstar System Inc., research and consulting company CACI International Inc. and agricultural equipment company AGCO Corporation, each of which produced negative returns.
- The Fund's bias to the materials sector detracted from performance as this was one of the weakest-performing sectors during the Reporting Period.
- The Fund's stock selection within the consumer discretionary sector contributed to performance owing to its positions in home building companies Frontdoor Inc. and Toll Brothers Inc., and footwear apparel company Deckers Outdoor Corp., each of which outperformed the sector.
- The Fund's stock selection within the consumer staples sector contributed to performance owing to its positions in egg producer Cal-Maine Foods Inc., convenience store operator Casey's General Stores Inc. and beverage bottler Coca-Cola Consolidated Inc., each of which returned more than 50%.

Key Contributors/Detractors Relative to the General Market Index

The Fund underperformed the general market index due to its focus on small-capitalization stocks over large-capitalization stocks.

Assets

The Fund experienced a significant increase in assets due to investor purchase activity.

Recent Developments

The Portfolio Adviser expects consumer and business activity to pick up after several central banks began to ease monetary policy and loosen financial conditions. Still, several risks to the outlook persist, such as geopolitical tensions, the potential for inflationary pressures to reemerge and the impact of potential tariffs on global trade activity. Many central banks are expected to keep lowering interest rates, which could further boost global economic activity in 2025 and help the global economy avoid a recession.

The Fed has embarked on a long-awaited cycle of cutting interest rates as inflationary pressures have eased and focus has shifted to employment and overall economic health. The Republican sweep of the U.S. presidential election in November 2024 may bode well for U.S. equity markets, if the pattern of President-Elect Donald Trump's first term is any guide. Consumer sentiment has also lifted in recent months, and lower interest rates should allow greater discretionary spending. However, Trump's proposed policies also bring risks. His proposed universal tariff policy and plans to deport undocumented immigrants could be inflationary, although tariffs could bolster domestic manufacturing, which would favour small- and mid-cap companies. Nonetheless, universal tariffs may bring the risk of retaliatory tariffs from other countries, which could negatively affect U.S. exporters, in the Portfolio Adviser's view.

In this environment, the Portfolio Adviser prefers companies with profitable and efficient business models, conservative leverage and low-price volatility, as well as companies with low short interest (percentage of shares that have been sold short but have not been covered or closed out). Based on the Portfolio Adviser's rules-based quantitative approach, the Fund's largest overweight allocations are in the financials and consumer discretionary sectors. Within the financials sector, the Portfolio Adviser currently favours property & casualty insurance and asset management & custody banks companies. Within the consumer discretionary sector, the Portfolio Adviser favours homebuilding and automotive parts & equipment companies. The Portfolio Adviser relies on return forecast modelling and risk modelling to help optimize the Fund's positioning.

Related Party Transactions

Affiliates of TD Asset Management Inc. ("TDAM") may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as in connection with banking, deposit-taking, custody, brokerage and derivatives transactions, subject to approval or review by the Fund's independent review committee ("IRC") and/or compliance with applicable internal policies and procedures.

Manager, Trustee and Portfolio Adviser:

TDAM, a wholly-owned subsidiary of The Toronto-Dominion Bank ("TD"), is the manager, trustee, portfolio adviser and promoter of the Fund. The Fund pays TDAM an annual management fee.

Designated Broker and Dealer:

TDAM has entered into an agreement with TD Securities Inc. ("TDS"), an affiliate of TDAM, to act as designated broker and dealer to perform certain duties for the Fund. The designated broker arrangements entered into with TDS are consistent with market terms and conditions.

Custodian:

TD is the sub-custodian of the Fund and may hold a portion of cash of the Fund.

Buying and Selling Securities:

TDAM has established the IRC to act as an impartial and independent committee to review and provide recommendations or, if appropriate, approvals respecting any conflict of interest matters referred to it by TDAM. The IRC prepares, at least annually, a report of its activities for securityholders of the Fund. The report is available on the TDAM website at www.td.com/ca/en/asset-management or at the securityholder's request at no cost by contacting TDAM (see front cover).

The Fund did not engage in any portfolio transactions requiring IRC approval during the Reporting Period.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five fiscal years, as applicable. For units of the Fund that commenced operations during any of the periods presented, the data reported for that period represents results from the commencement of operations (as disclosed in the Past Performance section) to the end of that reporting period.

Net Assets per Unit (\$)¹

	2024	2023	2022	2021	2020
Net Assets, Beginning of Year	20.94	17.84	17.95	14.56	14.87
Increase (Decrease) from Operations:					
Total Revenue	0.45	0.39	0.42	0.39	0.27
Total Expenses (excluding distributions)	(0.17)	(0.15)	(0.13)	(0.13)	(0.10)
Realized Gains (Losses) for the Period	1.43	0.79	0.47	0.59	(0.73)
Unrealized Gains (Losses) for the Period	2.12	2.93	(0.46)	2.46	2.31
Total Increase (Decrease) from Operations²	3.83	3.96	0.30	3.31	1.75
Distributions:					
From Net Investment Income (excluding dividends)	(0.22)	(0.18)	(0.25)	(0.07)	0.00
From Dividends	0.00	0.00	0.00	0.00	0.00
From Capital Gains	(0.58)	0.00	(0.38)	(0.41)	0.00
Return of Capital	(0.02)	0.00	0.00	(0.07)	(0.16)
Total Annual Distributions³	(0.82)	(0.18)	(0.63)	(0.55)	(0.16)
Net Assets at December 31	25.03	20.94	17.84	17.95	14.56

¹ This information is derived from the Fund's audited annual financial statements prepared in accordance with International Financial Reporting Standards. The Fund measures fair values of its investments based on close market prices, where the close market price falls within the bid-ask spread or based on quotations from recognized dealers. As such, the Fund's accounting policies for measuring the fair value of investments in the financial statements are substantively consistent with those used in measuring the net asset value ("NAV") for transactions with unitholders.

² Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of the net assets per unit.

³ Distributions were paid in cash or reinvested in additional units of the Fund, or both. The Fund may make notional distributions from time to time and the units issued on reinvestments are immediately consolidated with the units held prior to the notional distribution. As a result, the total number of units held after the notional distribution is identical to the number of units held before the notional distribution. The following table shows the notional distributions for the periods presented, as applicable.

	2024	2023	2022	2021	2020
Notional Income Distribution	0.00	0.00	0.01	0.00	0.00
Notional Dividend Distribution	0.00	0.00	0.00	0.00	0.00
Notional Capital Gains Distribution	0.58	0.00	0.38	0.34	0.00
Notional Return of Capital Distribution	0.02	0.00	0.00	0.07	0.00

Ratios and Supplemental Data

	2024	2023	2022	2021	2020
Total Net Asset Value (000s)¹	518,093	140,307	19,623	12,568	5,823
Number of Units Outstanding (000s)¹	20,700	6,700	1,100	700	400
Management Expense Ratio (%)²	0.44	0.45	0.45	0.45	0.45
Management Expense Ratio Before					
Waivers or Absorptions (%)	0.44	0.45	0.46	0.47	0.51
Trading Expense Ratio (%)³	0.03	0.01	0.02	0.01	0.01
Portfolio Turnover Rate (%)⁴	90.10	92.80	39.95	20.59	22.83
Net Asset Value per Unit (\$)	25.03	20.94	17.84	17.95	14.56
Closing Market Price (\$)⁵	25.05	20.96	17.86	17.99	14.57

¹ This information is provided as at December 31 of the past five fiscal years, as applicable.

² Management Expense Ratio ("MER") is based on total expenses (excluding distributions, commissions and other portfolio transaction costs) net of any waivers or absorptions for the stated period and is expressed as an annualized percentage of daily average NAV during the period. Any waivers or absorptions may be discontinued at any time by TDAM at its discretion without notice.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average NAV during the stated period.

⁴ The Fund's portfolio turnover rate ("PTR") indicates how actively the Fund's portfolio adviser manages its investments. A PTR of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the stated period. The higher a fund's PTR, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the fiscal year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

⁵ Mid price would be used if no transaction took place on the last business day of the financial period.

Management Fees

As manager of the Fund, TDAM is responsible for the overall business and affairs of the Fund, including activities related to providing, or arranging for the provision of, certain administrative services and marketing services to the Fund. In consideration for the provision of such services, the Fund pays TDAM a management fee.

Management fees, plus applicable taxes, are calculated and accrued on a daily basis based on the net asset value of the Fund and are paid monthly to TDAM.

The prospectus discloses a specified annual management fee rate that TDAM can charge to the Fund. TDAM may waive all or a portion of the management fees being charged to the Fund, which may be discontinued at any time by TDAM at its discretion without notice to unitholders.

The annual management fees and a breakdown of the major services rendered, as a percentage of the management fees paid, are as follows:

(expressed as a %)	Annual Mgmt. Fees*	Dealer Compensation	Waived Operating Expenses	Other†
Fund	0.40	N/A	0.00	100.00

* Includes management fees paid by the Fund and the proportionate management fees, if any, of the underlying fund(s) managed by TDAM held by the Fund. However, no management fees are payable by the Fund that, to a reasonable person, would duplicate a fee payable by the underlying fund(s) for the same services.

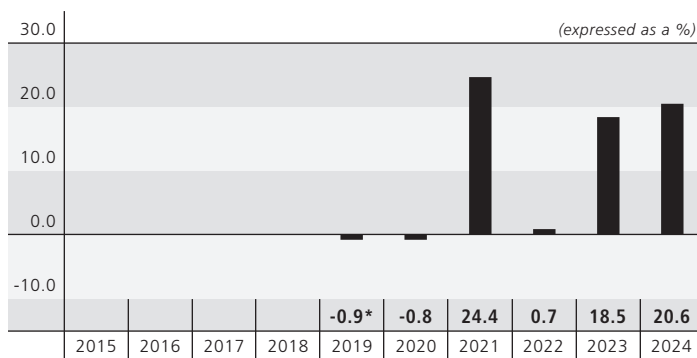
† Trustee, marketing services and other.

Past Performance

The following chart shows how the Fund has performed in the past, and can help you understand the risks of investing in the Fund. These returns include the reinvestment of all distributions during the period in additional units at the net asset value per unit of the Fund at the time of distribution. They do not take into account sales, redemption, distribution or other optional charges or income taxes payable by any unitholder, and these returns would be lower if they did. The Fund's past performance does not necessarily indicate how it will perform in the future.

Year-by-year returns

The bar chart shows how the Fund's performance has varied from year to year for each of the years shown. It shows in percentage terms how an investment made on January 1 would have increased or decreased by December 31.



* From November 20, 2019 (commencement of operations) to December 31, 2019

Annual Compound Returns

The following table shows the annual compound total returns of the Fund for each of the periods indicated ended on December 31, 2024, compared with the following benchmarks:

- The Product Benchmark is comprised of:
 - 50% S&P MidCap 400 Total Return Index (C\$) – This index measures the performance of 400 mid-capitalization U.S. companies, reflecting the distinctive risk and return characteristics of this market segment; and
 - 50% S&P SmallCap 600 Total Return Index (C\$) – This index measures the performance of 600 small-capitalization U.S. companies that meet specific investability and financial viability criteria.
- General Market Index:
 - S&P 500 Total Return Index (Net Dividend, C\$) – This index is comprised of 500 widely-held U.S. companies.

(expressed as a %)	Past year	Past 3 years	Past 5 years	Past 10 years	Since inception
(Inception date November 20, 2019)					
TD Q U.S. Small-Mid-Cap Equity ETF	20.6	12.9	12.2	N/A	11.7
Product Benchmark (C\$)	21.5	8.0	11.7	N/A	11.8
General Market Index (C\$)	35.8	13.2	16.4	N/A	16.3

A discussion of the Fund's performance compared to the product benchmark and general market index can be found in the Results of Operations section.

Summary of Investment Portfolio

as at December 31, 2024

	% of Net Asset Value
ASSET ALLOCATION	
U.S. Equities	95.7
Global Equities	4.2
Cash (Bank Overdraft)	0.4
Other Net Assets (Liabilities)	(0.3)
PORTFOLIO ALLOCATION	
Financials	23.5
Industrials	21.9
Consumer Discretionary	17.5
Information Technology	9.0
Materials	8.1
Consumer Staples	6.6
Health Care	6.2
Real Estate	2.8
Energy	2.2
Communication Services	1.8
Cash (Bank Overdraft)	0.4
Utilities	0.3
Other Net Assets (Liabilities)	(0.3)
TOTAL NET ASSET VALUE (000s)	
	\$ 518,093

	% of Net Asset Value
TOP 25 INVESTMENTS	
Cal-Maine Foods Inc.	1.6
EMCOR Group Inc.	1.6
SEI Investments Company	1.5
American Financial Group Inc.	1.5
Old Republic International Corporation	1.4
Lennox International Inc.	1.4
InterDigital Inc.	1.4
Grand Canyon Education Inc.	1.4
TD SYNnex Corporation	1.3
First BanCorp	1.2
AptarGroup Inc.	1.2
Gentex Corporation	1.2
Brady Corporation	1.2
CACI International Inc.	1.1
Frontdoor Inc.	1.1
Mueller Industries Inc.	1.1
NewMarket Corporation	1.1
Lincoln Electric Holdings Inc.	1.1
Carlisle Companies Inc.	1.0
Sanmina Corporation	1.0
Silgan Holdings Inc.	1.0
CorVel Corporation	1.0
Flowers Foods Inc.	1.0
StoneX Group Inc.	1.0
Landstar System Inc.	1.0
Total % of Net Asset Value represented by these holdings	30.4

Note: Totals may not add due to rounding to one decimal place of individual figures.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. Updates are available quarterly. You may obtain the most current quarterly information by writing to us at TD Asset Management Inc., P.O. Box 100, 66 Wellington Street West, TD Bank Tower, Toronto, Ontario, M5K 1G8, or by visiting our website at www.td.com/ca/en/asset-management.

Caution regarding forward-looking statements

Certain portions of this report, including, but not limited to, “Results of Operations” and “Recent Developments”, may contain forward-looking statements including, but not limited to, statements about the Fund, its strategy, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” and similar forward-looking expressions or negative versions thereof.

In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and relevant market factors in North America and internationally, interest and foreign exchange rates, equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events.

The above mentioned list of important factors is not exhaustive. You are encouraged to consider these and other factors carefully before making any investment decisions and you are urged to avoid placing any undue reliance on forward-looking statements. Further, there is no specific intention of updating any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

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