From the Desk of the Fixed Income Team

Macro and Fixed Income Update

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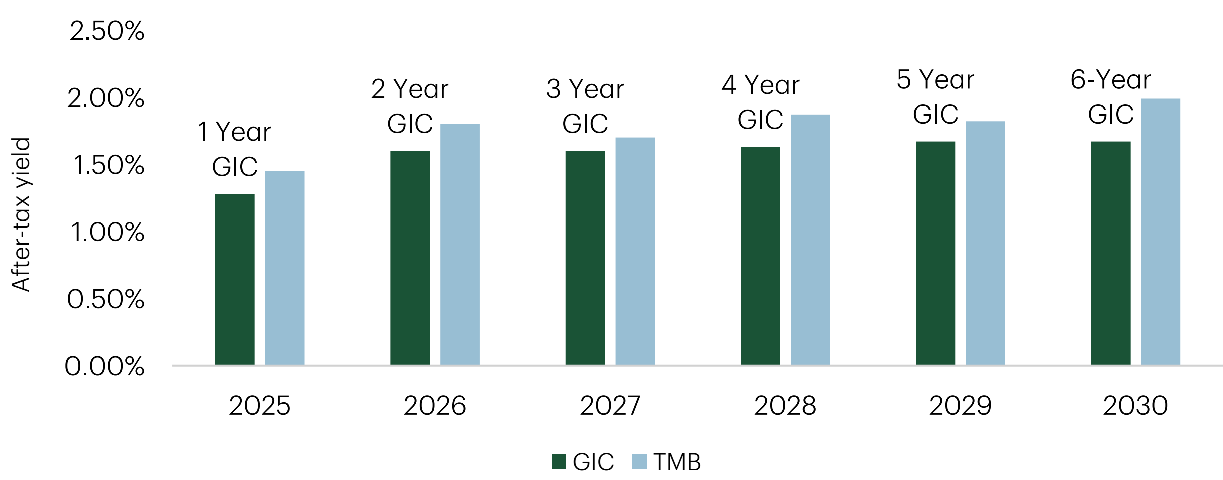
TD Target Maturity Bond Funds: Matures like a bond, trades like a stock, diversifies like a fund

Target Maturity Bond ETFs (TMBs) give investors the unique opportunity to get the experience of holding a bond that matures (lock-in yields that have greater predictability), with the convenience of trading like a stock, while providing diversification like a mutual fund. In an environment where uncertainty shrouds global markets, TMBs can serve as a source of stability and income predictability for a portfolio.

Benefits of Adding Target Maturity Bond ETFs to a Portfolio

- **An Attractive Alternative to Guaranteed Investment Certificates**
  With additional income generated from short-term corporate bonds, and a return profile optimized until maturity, TD Asset Management's (TDAM) TMBs' after-tax return is currently higher than guaranteed investment certificates (GIC) across every maturity (Chart 1). This makes TMBs an attractive alternative to GICs and can provide a good opportunity to move cash off the sidelines.

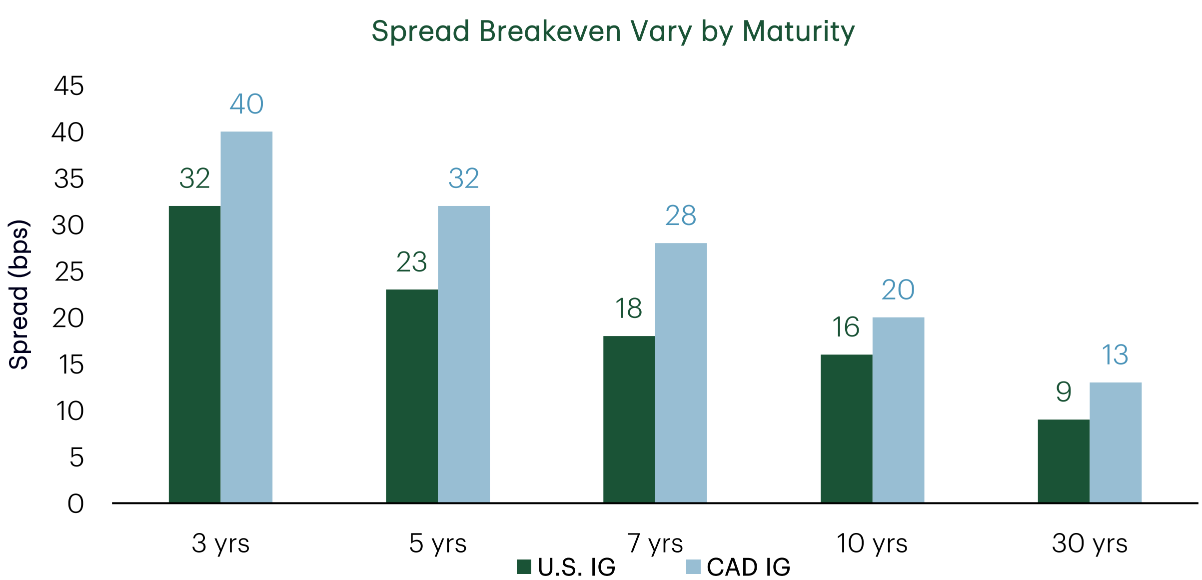
Chart 1: After-Tax Yield of Target Maturity Bond ETF and GICs



Source: TD Asset Management. As of Mar 28, 2025.

- **Attractive Entry Opportunities in Short-Term Investment Grade Corporate Bonds**
  While corporate credit spreads remain relatively tight, we expect some widening led by tariff-related headlines and uncertainty, however, a severe and sustained widening is not the Portfolio Advisor's (we, our) base case amid supportive fundamentals and strong supply and demand dynamics for Investment Grade (IG) bonds. Naturally in this type of environment, investors use spread breakevens to measure how much spreads can widen before a position underperforms government bonds. As illustrated below (Chart 2), currently, these breakevens are higher for shorter term corporate bonds, implying short term corporate bonds can potentially absorb a greater move wider in spreads before they become less attractive than government bonds, versus longer-term corporate bonds. Since short term corporate bonds have shorter duration, they tend to be less sensitive to rate or spread changes, meaning the value of the bond does not fluctuate as much, especially closer to the maturity of the bond. At the same time, they offer more income than government bonds of similar maturities, making them a more attractive choice for investors looking to earn a relatively safe income stream.

Chart 2: Higher Breakevens for Shorter Investment Grade Corporate Bonds



Source: Bloomberg Finance L.P. As of Mar 13, 2025.

- **Relatively Predictive Income Stream:**
  Defined maturity in TMBs allows for a more predictable return profile. TMBs are like investing in short-corporate bonds but on autopilot; an investor invests in a diversified basket, collects interest monthly, and receives a return at maturity. As TMBs approach maturity they naturally pull to par, and they do so with little spread volatility-which is especially true for IG bonds where defaults are rare. The shorter the maturity of TMBs, the lower the volatility to either the rates or spread move. On the rates front, the short end of the yield curve is impacted by monetary policy, and we believe that the next move from the Central Banks (Bank of Canada or the U.S. Federal Reserve) is more likely to be a pause or a cut. This eases

volatility, making the front end of the yield curve a reliable source of income with limited downside.

- **Tax Efficiency**
  The goal of the TMBs is to optimize between yield and price. Currently, many of the TMBs we offer are at discounted price, as they pull to par, they benefit from price appreciation. Given that interest income, and capital gains are taxed differently, this price appreciation can be a source of tax-efficiency.

- **Flexibility**
  In addition to higher yields and increased predictability, TMBs are also flexible. In a volatile environment, the flexibility of trading like a stock, is a clear advantage. Investors are not bound by redemption restrictions or subject to reinvestment risk. As such, TMBs are a versatile tool for investment portfolios with an array of use cases:

  - Convenient and cost-effective solution to help build better bond ladders.
  - A simple and efficient way to manage cash flows, with potential to earn an attractive yield from a diversified portfolio of investment-grade bonds.
  - Ability to align maturity dates with cash needs.
  - Can complement existing core fixed income funds in portfolios, with the potential to construct a barbell strategy.

The TDAM Edge: Diversification and Robust Credit Research

The TDAM edge is what sets us apart from our peers, and these differences can add up. One key difference is how we handle the maturity year. At TDAM, our strategy involves more than a simple transition to Treasury Bills in the maturity year; instead, we continue to invest in corporate bonds in the earlier part of the maturity year. While it may seem like a small distinction, it can provide a material yield advantage.

Another key differentiator is how we diversify. While many target maturity bond funds can skew heavily towards the Financials sector (Canadian bank heavy), our TMBs are effectively diversified across a variety of sectors. This can help lower overall portfolio volatility. This effective portfolio diversification in our TMBs is made possible due to the collaboration with our independent credit research team.

At TDAM, our credit research team provides industry-specific insights across sectors and credit quality spectrum. With a 20+ year track record and spanning across the globe, our team covers more than 460 issuers, and more than 700 in depth credit reviews are conducted annually, to support proprietary, independent ratings and arrive at our approved credit list. Moreover, none of the names on our approved credit list have defaulted over the last 20 years. Our investment management teams are constantly reviewing and monitoring the economic landscape to find value and seek opportunities within the market.

Lastly, our relationships help us engage with issuer management teams early on which gives us valuable insights in shaping our fundamental view of specific companies. This also helps us identify potential risks or upside that the market may be overlooking.

If the idea of earning steady income from corporate bonds, without the hassle of picking and managing each bond is appealing, then TMBs may be a good fit for an investor's portfolios. They combine the art of diversification, with a predictable maturity and are easy to manage.

For Further Information,
Please Contact your TDAM Representative.