



TD Private Debt Funds: A Half-Decade of Consistent Income Generation

TD Emerald Private Debt Pooled Fund Trust and TD Emerald Long Private Debt Pooled Fund Trust (the “TD Private Debt Funds”, or the “Funds”) celebrated their 5-year anniversaries in mid-2021. The TD Private Debt Funds aim to deliver yield enhancement through their investment-grade credit quality exposure to private debt, while also providing strong diversification to a traditional Canadian corporate bond allocation.

TD Private Debt Funds at a Glance

- Delivered consistent incremental income equal to or above their respective benchmarks since inception;
- Provide diversified sectoral and geographic exposure when compared to Canadian corporate bonds;
- Include novel liquidity features, allowing investors to receive regular cash flows; and
- Systematic analysis of Environmental, Social and Governance (“ESG”) risk factors is anticipated to further improve credit experience.

Quick Facts*

68 clients representing over \$4.1B in commitments	Client base spans 55 institutions, including pensions, insurance companies and endowments	Investment capacity of \$500M – \$1.0B per annum
75 unique private debt transactions	Growing pipeline – over 200 transactions and \$46B in investible assets over next 12 months	Assets under management of \$3.1B

*Source: TDAM. Information presented for the TD Private Debt Funds as of September 30, 2021.

In 2015 TD Asset Management Inc. (“TDAM”, “we”, “us”) committed significant resources to building a global private debt platform and began by assembling a team of senior professionals; a group of industry veterans interested in building something great from the ground up.

This cohesive team of like-minded professionals has remained a constant of our platform. Figure 1 shows the key members of our team. The overall stability and continuity of this group has translated into remarkable accomplishments and we are just getting started!

FIGURE 1: TDAM Private Debt Team



The information provided in the organizational chart above is valid as of the date of this presentation.

Income generation has remained strong

The TD Private Debt Funds offer an opportunity to invest in higher yielding fixed income instruments through exposure to investment grade private debt securities. The Funds have consistently generated incremental yield over their benchmarks which translates into additional income.¹

FIGURE 2: TD *Emerald* Private Debt PFT Cumulative Return

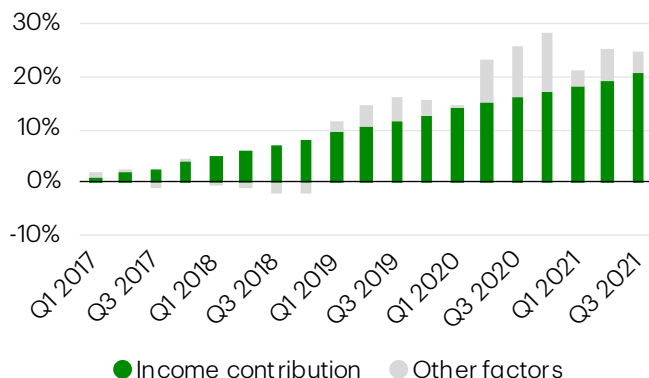
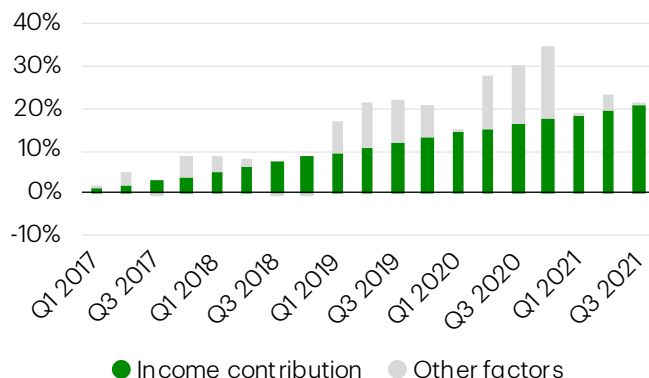


FIGURE 3: TD *Emerald* Long Private Debt PFT Cumulative Return

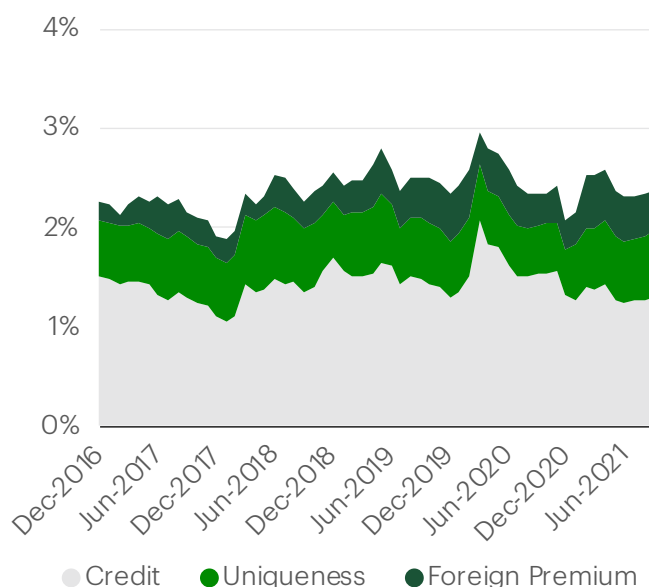


Source: TDAM. Information as of September 30, 2021. 'Other factors' of return include yield curve movements (interest rate sensitivity), credit spread movements and interim mark-to-market movements in the value of interest rate or currency hedges.

Uniqueness premium: stability through different market environments

How have TD Private Debt Funds continued to provide income at or above what their benchmarks achieve? Through their ability to command a yield premium from private borrowers. Since their inception, the Funds have been able to earn additional yield that we refer to as a "uniqueness premium"² from private issuers. Figure 4 shows the incremental income of the TD Private Debt Funds not only exceeds the credit spread achieved by comparable Canadian investment grade bonds, but the additional income it provides has been stable through volatile market environments. The investment grade private debt market consistently offers incremental income over public bonds of similar duration and quality.

FIGURE 4: Spread over Government of Canada



Source: TD *Emerald* Private Debt PFT. Source: TDAM as at September 30, 2021

¹ The Funds target a yield level range of 1.25% to 1.75% (TD *Emerald* Private Debt Pooled Fund Trust) and 1.0% to 1.25% (TD *Emerald* Long Private Debt Pooled Fund Trust) above their respective benchmarks, the FTSE Canada Universe Bond Index and FTSE Long Universe Bond Index. Both Funds have met, or for long stretches, exceeded these ranges since inception.

² TDAM defines the uniqueness premium primarily as the yield premium on a private loan, achieved at issue, when compared to a basket of public bonds comparable by tenor, credit rating and geography, as calculated by an independent provider, Markit Inc. The uniqueness premium may also include the fixed-coupon premium locked in via a cross-currency swap when hedging a foreign-denominated loan back to Canadian dollars.

Quality and resilience are always in fashion

We would expect that over extended credit cycles, investment grade private debt will experience a very low rate of impairment. However, since their inception over five years ago and despite the very real impact COVID-19 has had on the economy, the TD Private Debt Funds have experienced no impairment and received 100% of all interest and capital payments. How can the Funds achieve this level of quality and resilience? The answer lies in the art of portfolio construction, specifically the expression of selectivity and diversification.

The art of portfolio construction

From their launch, the TD Private Debt Funds have been carefully constructed to minimize credit risk and optimize diversification, while also ensuring that income generation objectives are achieved.

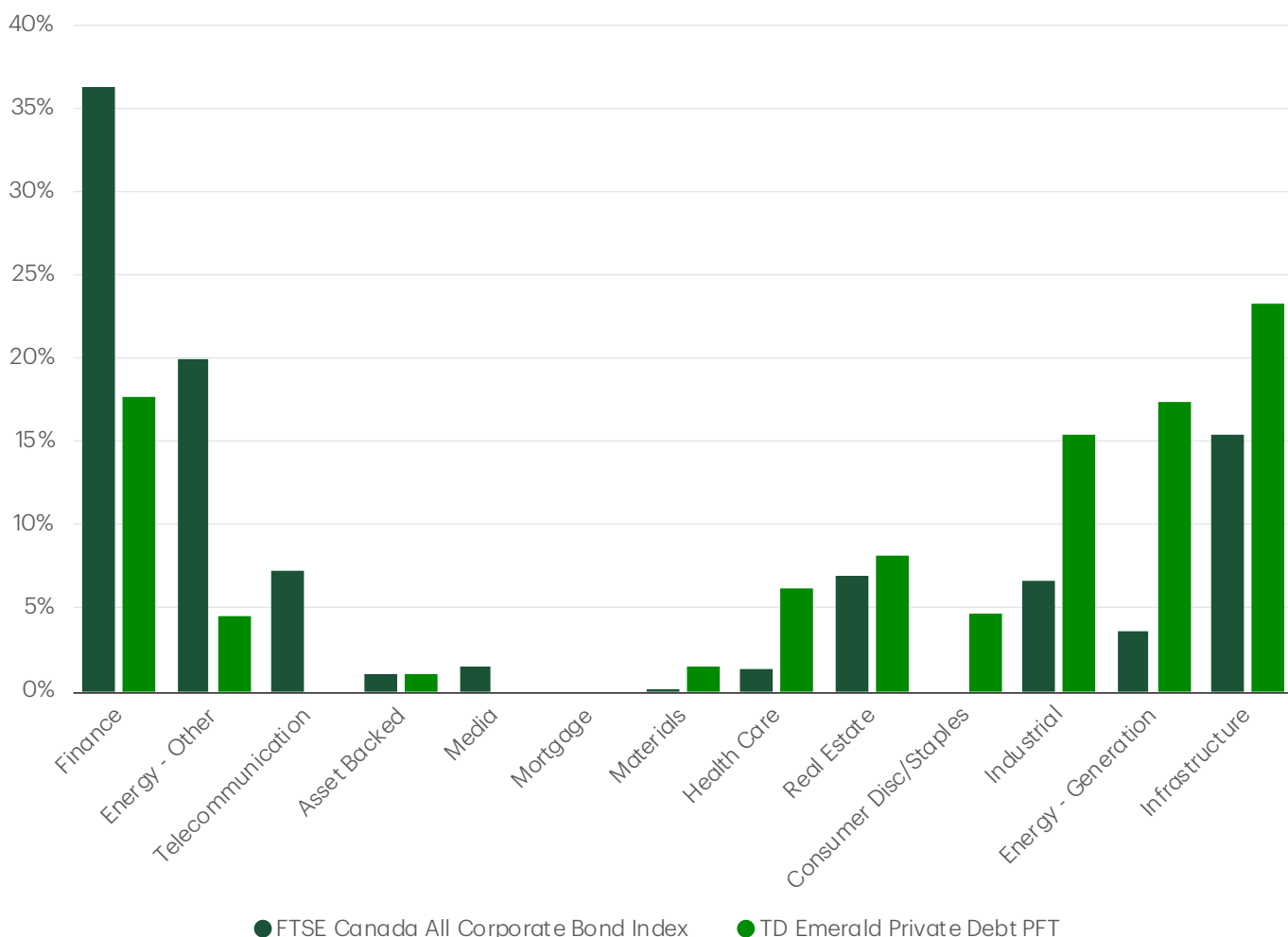
As buy-and-hold investors, our security selection process is the result of a strict due diligence process and strong credit risk oversight. In any given year, we reject over 95% of potential transactions, most often for not providing enough compensation for the risk taken

and/or for inadequate proposed terms and conditions. The term of credit risk is key to this process - when undertaking longer term transactions, TDAM has a bias towards higher credit quality.

As Figure 5 and Figure 6 show, TD Private Debt Funds are also strategically constructed to complement a traditional Canadian corporate bond exposure, where a few issuers and sectors comprise the bulk of the credit exposure.

FIGURE 5:

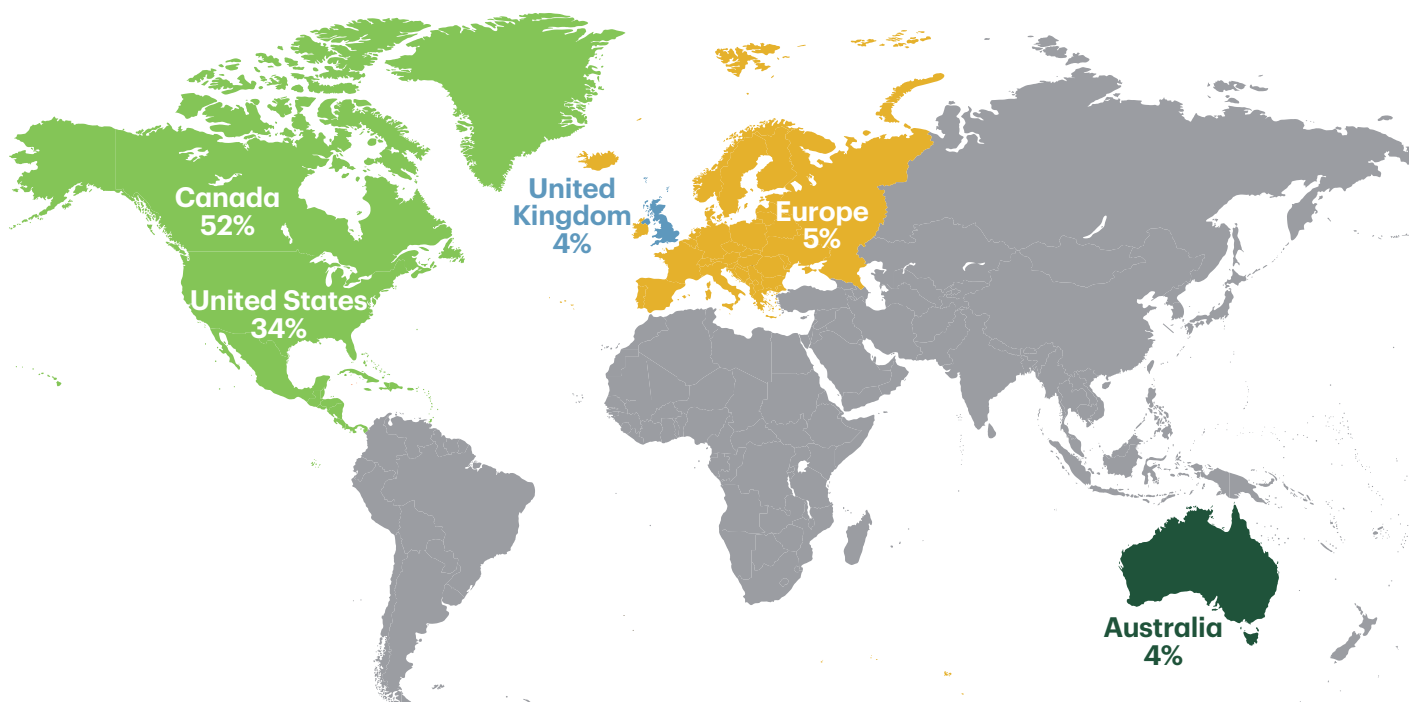
TD *Emerald* Private Debt PFT vs. FTSE Canada All Corporate Bond Index: Sector Concentration



Source: TDAM as at September 30, 2021.

FIGURE 6:

All foreign cash flows and interest rate exposure are fully hedged to Canadian dollars



Note: Percentages reflect geographic asset location, by market value %, for the TD *Emerald* Private Debt PFT as of September 30, 2021.
Source: TDAM as at September 30, 2021.

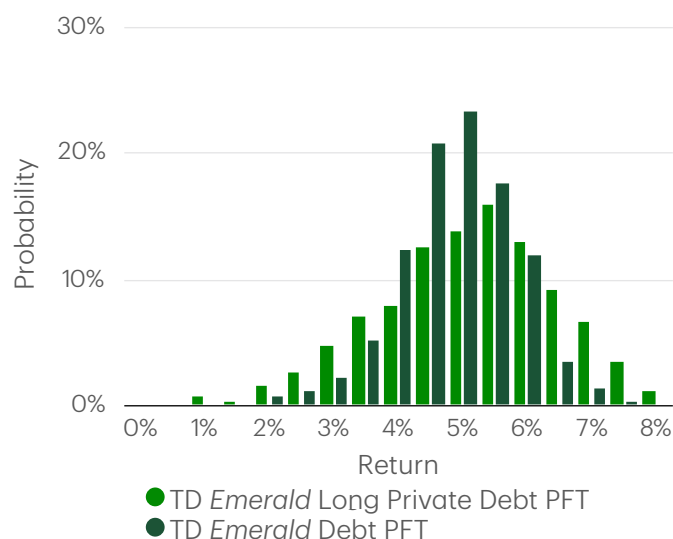
Within the TD Private Debt Funds, each non-Canadian dollar bond is systematically converted into a domestic issue thereby eliminating foreign exchange and interest rate exposures associated with each cash flow. The result is predictable Canadian dollar cash flows for the entire term of the underlying investment.

Private Debt as a Long-Term Ballast

Current geopolitical uncertainties have markets anticipating expressions of volatility in inflation, interest rates and ultimately equity markets. TDAM's internal contingency modeling sees investment grade private debt as a portfolio ballast by providing investors with diversification benefits during periods of poor equity returns.

Under the conditions of long-term poor equity market performance³, the Funds should provide an average return of approximately 5% over the longer term, potentially offering good protection against a sustained period of lower equity returns. Figure 7 shows TDAM's modelled expectations for the Funds' returns under these conditions.

FIGURE 7: Distribution of Private Debt Returns when 10-year Equity Returns < 2%



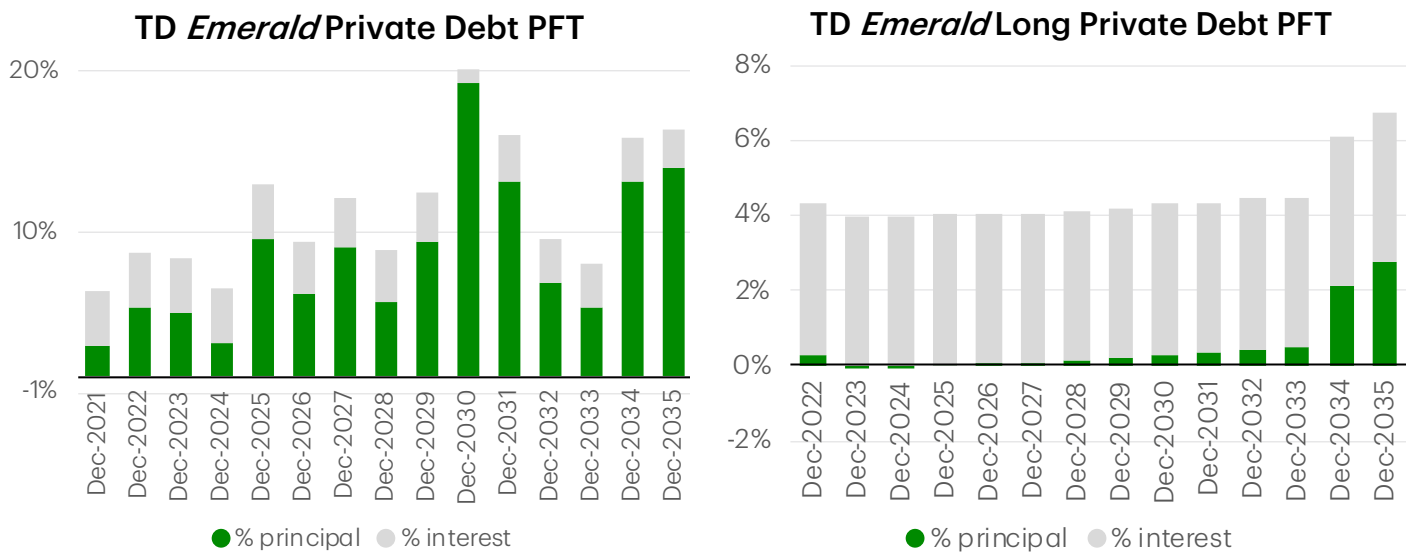
Source: TDAM as at September 30, 2021.

³ Defined as stochastic scenarios where global equities, modelled as a representation of the MSCI World Index, return less than 2% (compounded annually) over a period of 10 years.

TDAM innovates

The TD Private Debt Funds were initially created to solve the income and duration needs of pension and insurance clients, but there was no mechanism to extract cash flows from the Funds other than selling units. In February of 2021, TDAM launched the Cash Flow Series which closely replicates the experience of holding the underlying bonds. Through automatic quarterly repayment of principal and interest, the Cash Flow Series brings significant cash flow distributions to clients, effectively providing a natural downward rebalance over time for mature plans. The distribution ranges from 3-4% of the amount invested annually for the TD *Emerald* Long Private Debt PFT to 4-8% range for the TD *Emerald* Private Debt PFT:

FIGURE 8 & 9: Cash Flow Series: Percentage of Fund



Source: TDAM as at September 30, 2021.

Our commitment to ESG

TDAM is committed to including ESG factors in its credit analysis. Not only does every public and private investment-grade issuer on our Credit Committee approved list receive an internal credit rating, but they are also ascribed a risk score for each of the ESG factors that aggregate into a TDAM ESG Risk Score.

These scores are subject to peer review and Credit Committee vetting. ESG findings and scores are documented and stored in a database to ensure a robust and repeatable process of consistency for reporting and auditing purposes.

For example, whenever a transaction is secured by real property, one of the considerations is that soil

conditions must meet all relevant environmental laws. If contaminants are present and exceed the regulatory limits, TDAM will not advance loan proceeds unless the owner cleans up the site. The property must also be resilient to the projected long-term impacts of climate change: shifting flood plains, drought conditions, declining fossil fuel reliance, etc. The same logic applies to social and governance factors: we do not want to be tied to a borrower with little regard to labour laws or to a borrower who engages in anti-competitive practices. TDAM maintains a strong preference towards pursuing financings with low ESG risks, as illustrated below with the Ontario School Board Rooftop Solar Project case study.



Our Commitment in Action: Ontario School Board Rooftop Solar Project

- TDAM financed a portfolio of solar energy generation systems mounted on schoolboard rooftops in a large municipal region of Ontario. Power generated from the solar panels is fed into the local energy grid.
- TDAM utilized independent experts to analyze the long-term environmental impact of the project, including solar resource risk.
- The equity sponsors of the projects include a First Nations group.
- Each project has a 20-year contract with the Independent Electricity System Operator (“IESO”) of Ontario to provide predictable revenues over the life of the financing.
- This project combines operational simplicity, strong government contractual backing, and valuable environmental progress, making it a good fit for TDAM.

The integration of ESG risk analysis contributes to making TD Private Debt Funds more resilient to climate change, but also mitigates long-term credit impacts such as the potential for environmental liabilities that could extend beyond the maturity of an investment.

Creating solutions for the future

Our private debt assets under management have surpassed \$4.1 billion and closed almost 100 different transactions since the inception of the strategy in 2016. We are proud of what the team has achieved throughout these challenging times. This success of the Funds has attracted an expanding client base numbering 68 clients, including pensions, insurance companies, endowments, and high net worth/family offices.

We expect that the Funds will continue to diversify and deliver incremental income without increasing the level of risk of current fixed income allocations.

We are looking forward to continuing to create innovative solutions to help meet your evolving investment needs.

Fund Performance as of September 30, 2021	1 Year	3 Years	5 Years	10 Years	Since Inception
TD <i>Emerald</i> Private Debt Pooled Fund Trust	-0.47%	5.89%	3.92%	n/a	3.92%
TD <i>Emerald</i> Long Private Debt Pooled Fund Trust	-6.72%	4.24%	2.65%	n/a	3.53%

Connect with TD Asset Management



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