

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, reaching towards a clear blue sky. The perspective creates a sense of height and architectural grandeur.

## Beyond Legacy Thinking: How Alternatives Might Future-Proof Endowments and Foundations

**Endowments and Foundations (E&Fs) sit at the heart of communities by funding research, education and vital social and cultural programs. Yet, they face rising challenges in Canada. Contributions are unpredictable, operating costs are climbing, and market volatility threatens both today's spending and tomorrow's capital base.**

The last five years have proved one thing: the classic stock-bond portfolio may not be enough anymore for today's new realities. Since 2020, investors have endured a pandemic shock, two bear markets and two bull markets. Bonds once provided portfolios with a shock absorber when growth fears dominated, but in 2022 inflation fears drove stocks and bonds down together, breaking the diversification that portfolios had long relied on.

That's why E&Fs appear to be rethinking their playbooks by broadening their toolkit. By adding

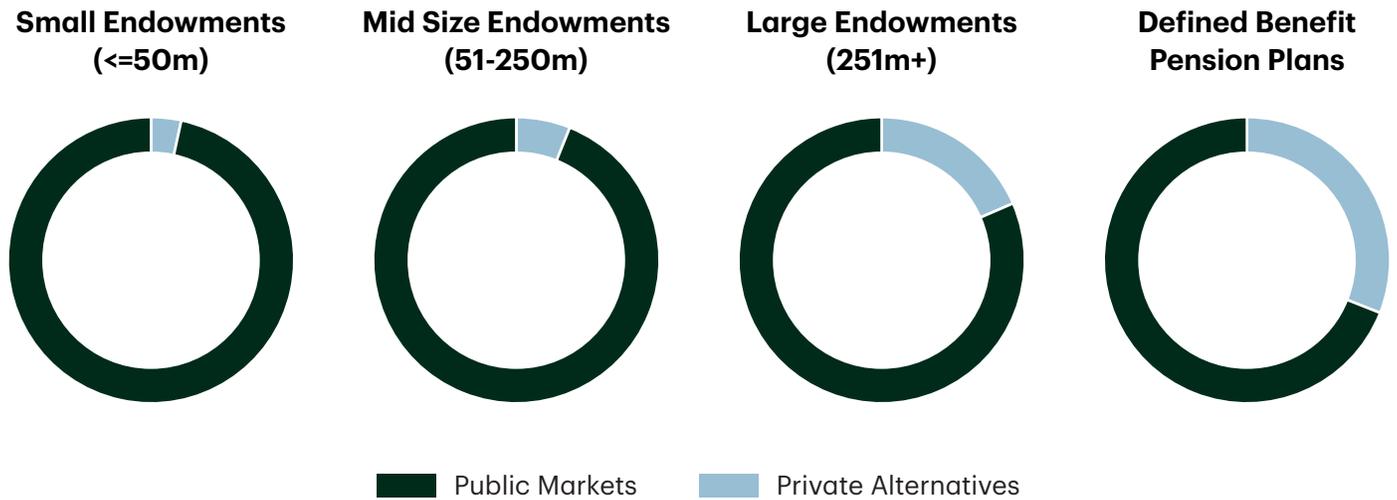
income-oriented private alternatives – such as real estate, infrastructure and private credit – E&Fs can harvest the benefits from contractual cash flows that are often inflation-linked, diversification and stable long-term growth. For investors seeking resilience, private alternatives are becoming an essential part of the asset mix.

This paper explores today's investment reality, how private alternatives can help and how institutional investors of all sizes can now access opportunities once reserved for the largest institutional investors.

# Who Is Allocating to Private Alternatives?

In Canada, large pension funds, insurance companies and sovereign wealth funds have been shifting towards private alternatives for decades. As **Figure 1** demonstrates, the median Canadian defined benefit plan now holds a 31% allocation to private alternatives, whereas endowments, particularly small to medium size, have much lower allocations. Within private alternatives, allocations to infrastructure and real assets were the most prominent across all endowment sizes.

**Figure 1: Small and mid-size endowments have less private alternative exposure**



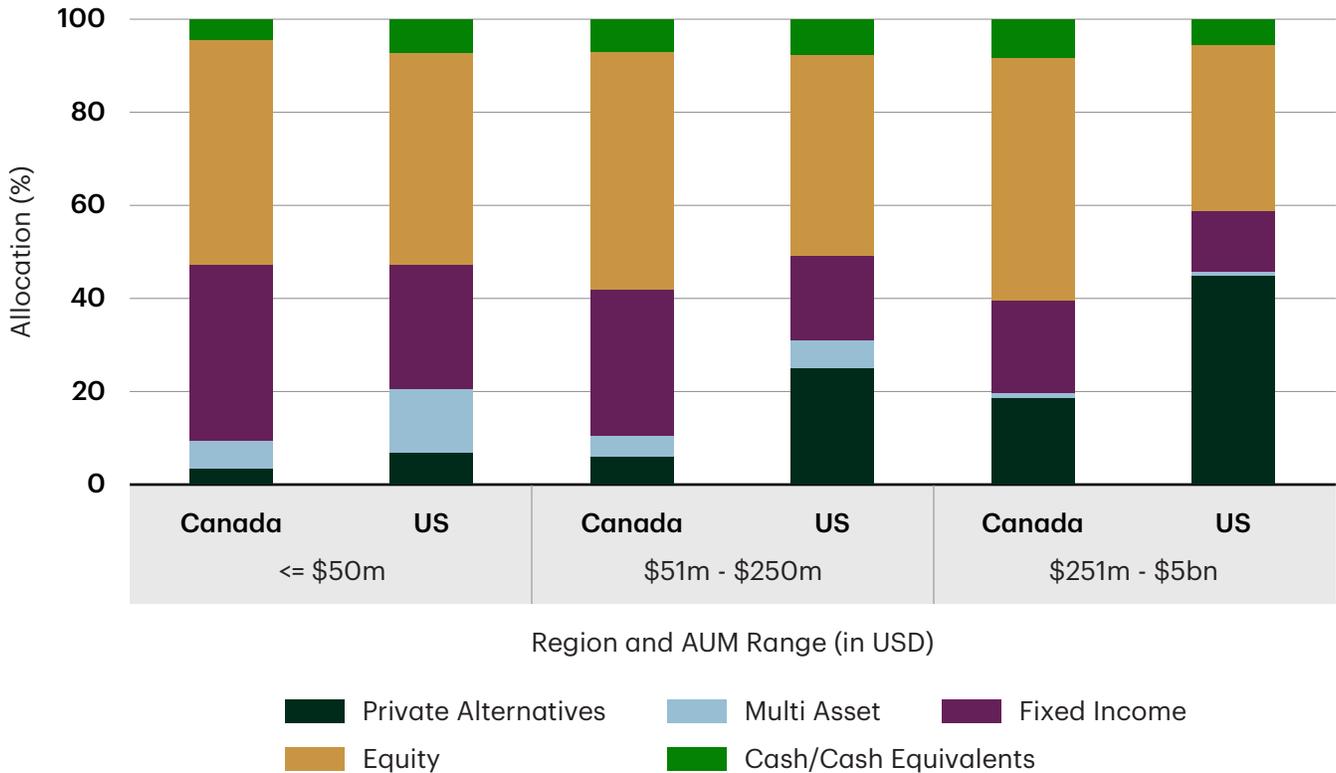
Source: Endowment data – With Intelligence LTD. and Money Market Directories (MMD). As of December 31, 2024. Pension Investment Association of Canada – 2023 Asset Mix Report.

Note: Endowment private alternatives include hedge funds, private equity, infrastructure, private debt, real assets and “other” private alternatives. Pension Plan private alternatives include median allocation to private fixed income, private equity, infrastructure, real estate and farmland/timberland.



U.S. endowments' private alternative allocations are significantly higher than Canada's. Similarly, however, allocations to private alternatives are increasing as endowment size increases in the U.S. (see **Figure 2**).

**Figure 2: Asset allocation comparison: Canada vs. U.S.**



Source: Endowment data – With Intelligence LTD. As of December 31, 2024.

Note: Endowment private alternatives include hedge funds, private equity, infrastructure, private debt, real assets and “other” private alternatives.

Smaller endowments have historically been under-represented in private markets due to barriers such as high minimum investment thresholds, operational complexity surrounding capital calls, and the liquidity management required for rebalancing total assets.

But barriers to entry are falling. Investors no longer need billion-dollar scale to access institutional-grade private markets. Innovations in open-end fund structures now give small and mid-sized E&Fs access to strategies that were once out of reach.

Strategy

# The New Reality: Public Market Volatility Is Back

The decade following the Great Financial Crisis (GFC) offered investors an unusually calm environment – a rare Goldilocks mix of low inflation and low economic volatility. This Goldilocks macro mix was fertile ground for one of the longest economic expansions and coincidentally one of the longest bull markets in history.

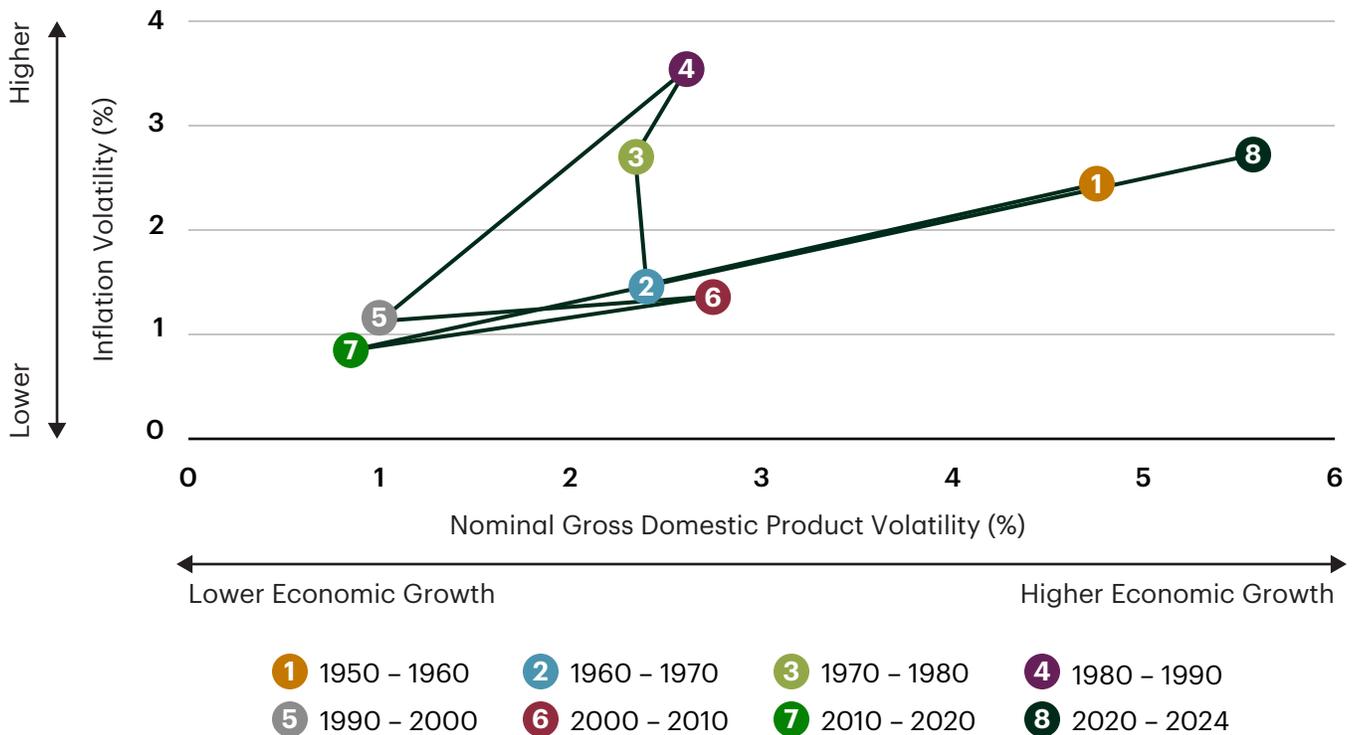
## That era ended in 2020.

Today’s environment is more volatile. The five-year period from 2019 to 2024 was marked by violent swings – a pandemic-driven recession followed

by a spectacular recovery, two bull markets and two bear markets.

Now the question is: what will the future look like? The past illustrated in **Figure 3** can provide a clue. Each point on the chart plots a decade through the lens of inflation volatility and economic volatility. The chart shows that inflation and economic volatility trended lower, culminating in the exceptionally calm post-GFC world from 2010 to 2020 (**Point #7**). After that period, powerful policy responses unleashed a massive fiscal and monetary tidal wave which sent inflation and economic volatility soaring (**Point #8**).

**Figure 3: Inflation and economic volatility through the decades**



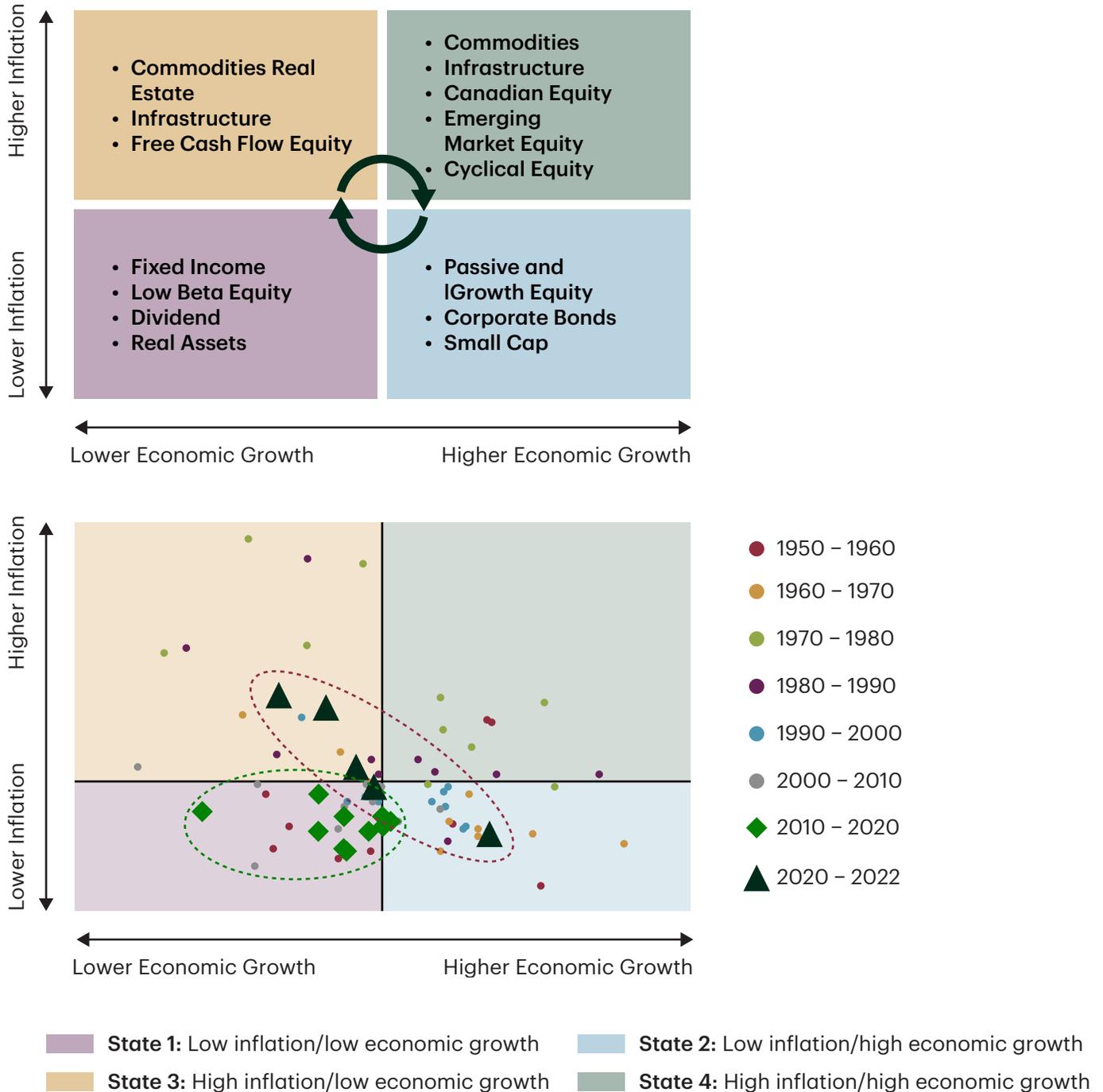
Source: LSEG Datastream. As of December 31, 2024.

While conditions are not expected to remain permanently elevated, it is prudent to prepare for a future that more closely resembles the long-term historical norm – one characterized by higher inflation risk, more economic volatility and a wider range of possible macro environments.

# Expanding the Traditional Toolbox for Today's Environment

The global economy is no longer one-dimensional. Future portfolios need tools that can work across multiple macro environments, where inflation and growth create four possible states for the world (**Figure 4**).

**Figure 4 : Different economic regimes need different strategies**



Source: Bloomberg Finance L.P., TD Asset Management Inc. As of December 31, 2024.

A well-constructed portfolio should include exposures that can perform across these environments. History shows that all four states have occurred at various points, often within the same decade. **Figure 4** illustrates that this is not a theoretical exercise. Each point on the chart plots every year in every decade through the lens of inflation and economic growth.

The post-GFC Goldilocks period characterized by low inflation and stable economic growth is clustered in the bottom-left quadrant.

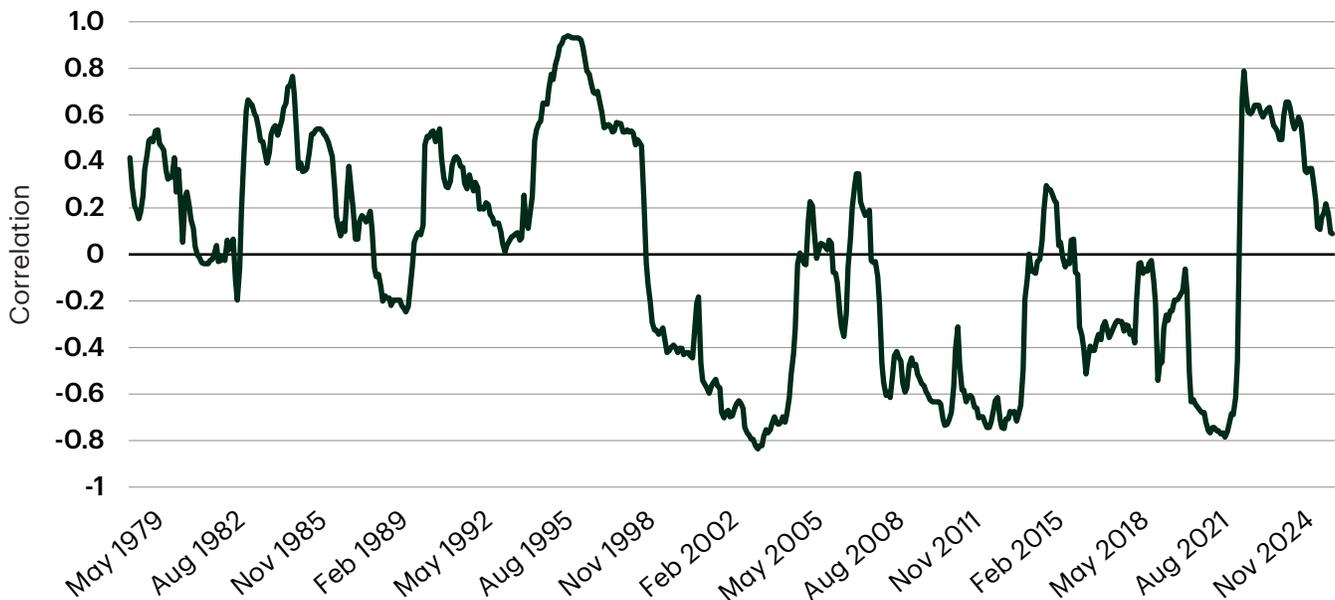
It is now 2026, only halfway through this decade, and three of the four possible macro environments have already occurred, as the circled triangles illustrate.

## Rethinking Diversification: Why Stocks and Bonds Aren't Enough

**Figure 5** illustrates that the relationship between stocks and bonds—the cornerstone of traditional diversification—is not static. Bonds work as a portfolio's shock absorbers against economic growth shocks, but in inflationary environments (particularly amid stagflation), bonds can sell off dramatically at the same time when equity markets sell off, which can cause risk in a portfolio to spike higher. This breakdown was evident in 2022, when conservative

investors with high bond allocations experienced portfolio volatility that was materially higher than in previous decades. The takeaway here is that managing investment risk when you layer in inflation is going to be harder with just stocks and bonds, because unstable correlations can diminish the diversification benefits from bonds when you need them the most.

**Figure 5: Equity-bond correlations have increased**



Source: Bloomberg Finance L.P., TD Asset Management Inc. Rolling 12-month correlation of S&P 500 and Bloomberg U.S. Aggregate TR Index. As of February 28, 2023. The indices are for information purposes only and are not necessarily correlated to any investment strategy.

Another factor which can augment the toolbox concerns the types of securities investors employ to create their diversifying ballast in difficult environments. For example, diversified types of private credit will provide investors with exposures to non-traded fixed-income strategies: direct lending, infrastructure lending, specialty finance/asset-backed lending and real estate lending. As **Figure 6** shows,

when publicly traded stock-bond correlations fail, a deeper utilization of private credit markets can potentially provide the lower correlations investors seek. For example, while public fixed income lost its equity diversification benefits in 2022 and 2023, recent correlations of private direct lending against public asset classes tell a different story.

**Figure 6: Correlation of private direct lending vs. other asset classes**

<b>U.S. Leveraged Loans</b>	0.89	<b>Corp HY</b>	0.78
<b>U.S. Agg</b>	-0.03	<b>U.S. Equities</b>	0.68
<b>Muni</b>	0.14	<b>Global Equities</b>	0.69
<b>Corp IG</b>	0.33		

Source: Bloomberg Finance L.P. As of December 31, 2024.

Note: Direct lending is represented by the Cliffwater Direct Lending Index. U.S. leveraged loans are represented by the S&P/LSTA U.S. Leveraged Loan Index. U.S. Agg is represented by the Bloomberg U.S. Aggregate Bond Index. Muni is represented by the Bloomberg U.S. Municipal Index. Corp IG is represented by the Bloomberg U.S. Corporate Bond Index. Corp HY is represented by the Bloomberg U.S. Corporate High Yield Index. U.S. equities are represented by the S&P 500 Index. Global equities are represented by the MSCI World Index.

The indices are for information purposes only and are not necessarily correlated to any investment strategy.

## The Cost of Volatility: Forced to Spend After Losses

Excessive volatility and reduced diversification can erode an endowment portfolio's value over time, especially when there is need for cashflow requirements on spending. Sourcing income to fund operations during periods of negative performance forces endowments to lock in losses and it can seriously impair the long-term viability of capital.

Private alternatives have the potential to mitigate volatility and enhance diversification without

sacrificing expected returns. Private real estate and infrastructure and private credit may offer predictable income streams, stable long-term returns with low volatility and correlation to traditional asset classes, as well as a hedge against inflation.

Integrating private alternatives into a mix that contains only equities and fixed income can potentially help reduce risks while enhancing the overall rewards. The next section will provide more detail on this.

# Endowments

# Private Alternative Investments: Key Attributes for E&Fs

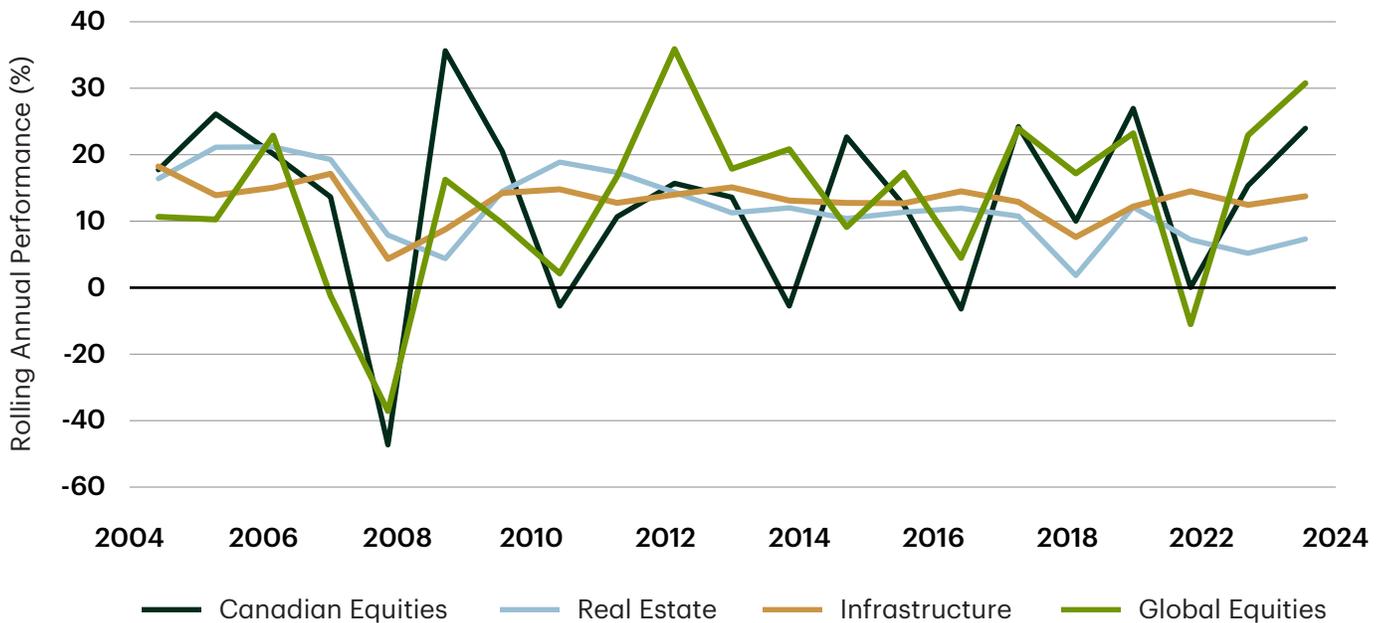
## Commercial Real Estate and Infrastructure

These are physical assets that are essential to a growing economy. Commercial real estate and infrastructure provide vital services to society, and owners of these assets are compensated through contractual income streams. Unlike stocks and bonds, which are bought and sold on third-party exchanges, private real estate and infrastructure strategies acquire, build, own and operate these assets directly. In this case, alternative strategy

managers have boots on the ground. They underwrite each transaction and operate each asset with the goal of maximizing its income generation and long-term value.

The contractual income from real estate and infrastructure reflects the vital services these assets provide. This income may protect performance from public market volatility, as shown in **Figure 7**.

**Figure 7: Real assets might offer a stable return profile**



Source: Rolling annual performance ending on December 31, 2024. S&P/TSX Composite Index, MSCI World Index C\$, MSCI/REALPAC Canada Annual Property Index – All Assets, Mercer MPA Median Australian Infrastructure Manager.

The indices are for information purposes only and are not necessarily correlated to any investment strategy.

Real estate owners are in the essential profession of keeping the lights on for businesses and households. As a result, leasing contracts are typically one of the last expenses to be cut. Income growth is provided through annual increases in rent within commercial properties, while multi-unit residential properties (apartments) often have annual increases linked to the Consumer Price Index to hedge inflation.

New leases or lease renewals can also provide income growth when market rent increases. Market rent is primarily dictated by real estate supply and demand and, to a much lesser extent, the general business or equity market cycle.

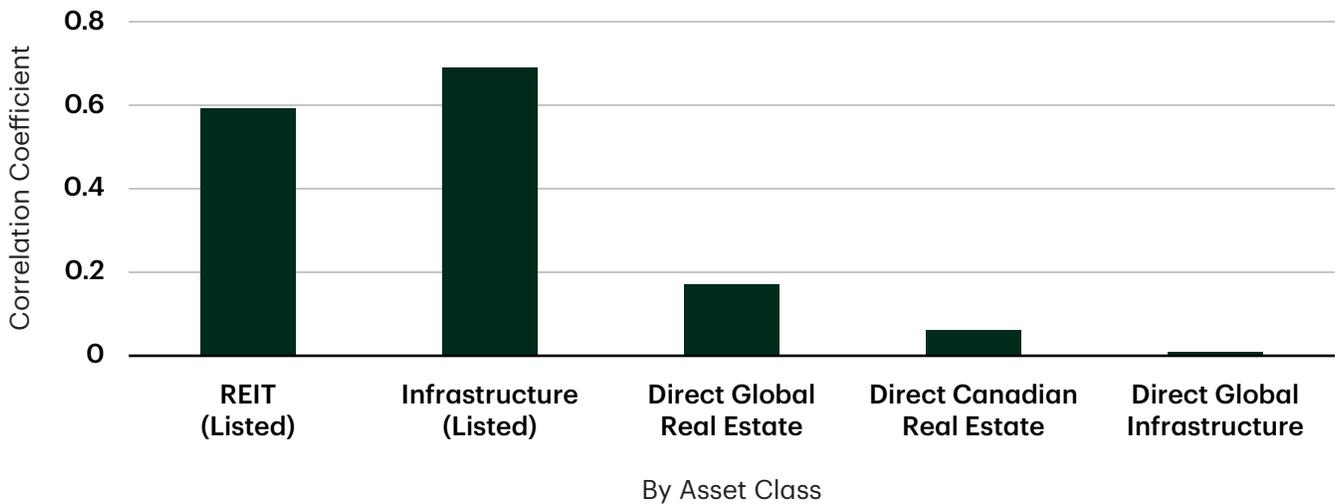
New real estate supply is heavily influenced by the cost to construct, so when inflation is persistent, new supply becomes limited due to elevated construction costs. As a result, high inflation can reduce supply, which causes occupancy and market rents of existing real estate to rise, creating a natural long-term hedge against inflation risk.

Infrastructure assets are typically essential to a region's economic productivity, often exhibit competitive monopolistic traits and usually benefit from high barriers to entry based on financial, contractual, regulatory, environmental and

geographical hurdles. The contracted nature of the cash flows helps to protect portfolio returns from broader economic impacts, as these contracts include the ability to pass on heightened costs to the end user. For instance, a power plant's revenue stream is a function of the price of the commodity, electricity in this case, which is a fundamental component of inflation.

**Figure 8** illustrates that due to different risk-return drivers, and the contracted income resulting from their essential services, both infrastructure and real estate provide lower volatility and lower correlation with global stocks. Again, this can potentially help endowments reduce the likelihood of locking in losses when they need to fund operations and grow the long-term value of their endowment, particularly amid persistent inflation.

**Figure 8: Direct real assets diversify return-seeking investments**



Source: MSCI World Index C\$, S&P Global REIT C\$, S&P Global Infrastructure Index C\$, MSCI/REALPAC Canada Annual Property Index – All Assets (auto-correlation corrected), Mercer Insight Median Australian Infrastructure Manager LCL \$ (auto-correlation corrected), TD Greystone Global Real Estate Composite (auto-correlation corrected). December 1999 - September 2024. The indices are for information purposes only and are not necessarily correlated to any investment strategy.

Note: The TD Greystone Global Real Estate Fund - whose inception date is July 31, 2019 - delivered a one-year return of 3.49%, a three-year return of -0.17%, a five-year return of 4.77% and a since-inception return of 4.35%, as of December 31, 2025. Past Performance: Any performance information referenced represents past performance and is not indicative of future returns. There is no guarantee that the investment objectives will be achieved.

## Expanding the Toolkit: Private Credit in Focus

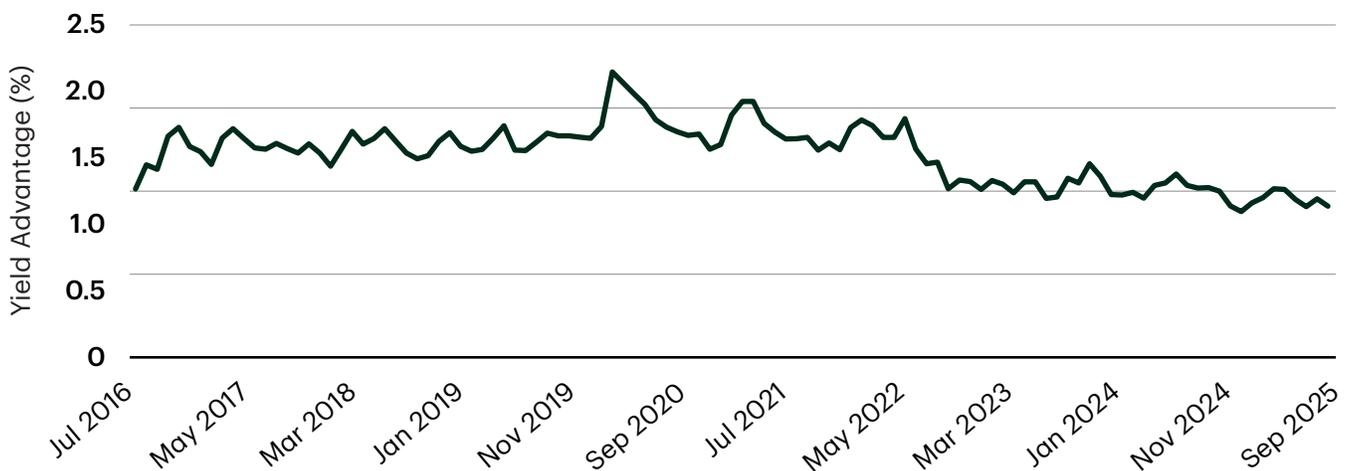
Private credit includes assets such as commercial mortgages, investment-grade private debt and sub-investment-grade direct lending. These are privately negotiated, buy-and-hold investments that can provide endowments with additional income, diversification and protection within their fixed income investments.

Rather than simply buying a loan/bond on a third-party exchange and relying on third-party credit rating agencies for the risk assessment, private credit strategies must (i) conduct considerable due diligence, (ii) underwrite loan risk and (iii) negotiate the loan (including structuring legal protections and covenants) with the borrower. As a result,

commercial mortgages and private debt command a yield premium, sometimes referred to as a uniqueness or liquidity premium.

The liquidity premium is compensation for the tailor-made loan for the borrower, plus a reward for the extensive due diligence the lender needs to conduct given that no independent credit report is publicly available. The liquidity premium is compensation for the private lender's inability to quickly turn the loan into cash before maturity. The added yield, shown in **Figures 9** and **10**, is even more attractive when you consider that these investments exhibit lower volatility than more traditional fixed income instruments.

**Figure 9: Yield advantage of private credit**

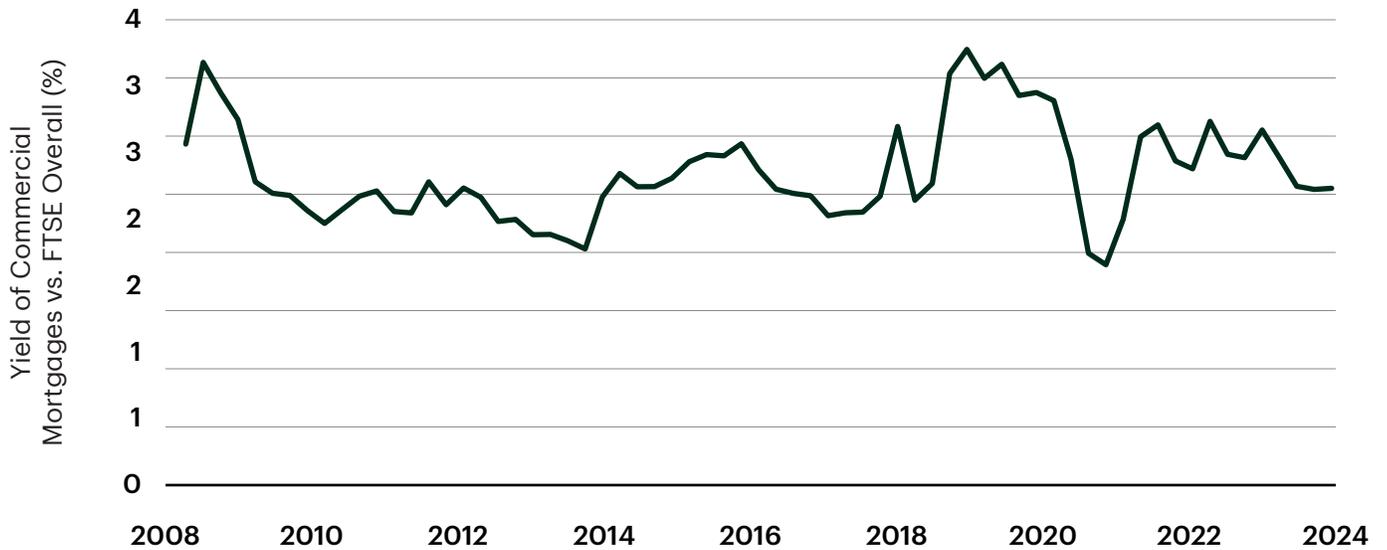


Source: TD Asset Management Inc. Advantage is TD Emerald Private Debt Pooled Fund Trust yield less FTSE Canada Overall Duration Matched yield. As of September 30, 2025.

The indices are for information purposes only and are not necessarily correlated to any investment strategy.

Note: The TD Emerald Private Debt Pooled Fund Trust - whose inception date is June 13, 2016 - delivered a one-year return of 4.06%, a three-year return of 7.18%, a five-year return of 1.95% and a since-inception return of 3.46%, as of December 31, 2025. Past Performance: Any performance information referenced represents past performance and is not indicative of future returns. There is no guarantee that the investment objectives will be achieved.

**Figure 10: Yield advantage of commercial mortgages**



Source: TD Asset Management Inc., FTSE Russell. As of September 30, 2025.

Note: Commercial Mortgage Yield Advantage is the TD Greystone Mortgage Fund yield less FTSE Canada Overall Duration Matched yield. The TD Greystone Mortgage Fund – whose inception date is September 30, 2007 – delivered a one-year return of 5.97%, a three-year return of 7.16%, a five-year return of 4.86% and a ten-year return of 4.82%, as of December 31, 2025. Past Performance: Any performance information referenced represents past performance and is not indicative of future returns. There is no guarantee that the investment objectives will be achieved.

The indices are for information purposes only and are not necessarily correlated to any investment strategy.

Private credit also provides diversification benefits because it offers access to geographies and industries that complement what is available in public fixed income. Moreover, private credit underwriters have more control over what terms and conditions are included in the transaction and are secured by the underlying real asset. As a result, properly structured private credit can have additive protection compared to publicly traded bonds and commercial mortgage-backed securities, which are unsecured.

# Security

## E&F Perspective - ESG in Alternative Investments

E&Fs often seek to integrate Environmental, Social and Governance (ESG) principles into their investment strategies. They often design their portfolios to reflect and advance their mission—whether that mission focuses on education, health, community development or environmental stewardship. These missions frequently align with the environmental and social pillars of ESG, making sustainable investing one of the key dimensions of their investment strategies. By embedding ESG considerations, E&Fs can enable their capital to work toward minimizing reputational risk, ensure stronger investment due diligence and invest in sustainability themes.

Private investments enable differentiated approaches to sustainability. Due to the nature of private assets, they can potentially enhance a portfolio's sustainability profile. Private markets—especially when holding a majority stake—offer direct control and potential for meaningful impact.

The long-term nature and active management approach within alternatives allow ESG risks and opportunities to be addressed throughout the investment lifecycle, from acquisition and due diligence through ongoing operations and eventual exit. This supports portfolio resilience while contributing to stable, risk-adjusted returns.

Themes such as decarbonization, energy efficiency and climate adaptation are increasingly material to asset valuation and long-term performance. For real estate investments, direct operational control enables managers to address sustainability performance from the bottom up through measures such as building retrofits, electrification and renewable energy procurement. These initiatives respond to the rising global demand for green buildings, and they can enhance tenant satisfaction, improve asset value and reduce operating costs while delivering tangible environmental outcomes.<sup>1,2</sup>

Infrastructure assets offer exposure to sectors that are central to the energy transition, such as renewable energy, electricity transmission, energy storage and low-carbon transport. Consideration of ESG factors can enhance governance practices, stakeholder relations, operational efficiency and resilience to climate risks. Given the long-term nature of these assets, they align well with the investment horizons and stewardship responsibilities typical of endowment portfolios.

Private credit strategies, including investment-grade private debt and mortgage lending, provide opportunities to finance assets that address both environmental and social objectives through projects such as affordable housing, healthcare and energy-efficient developments. These investments seek to address environmental and social factors while protecting and enhancing long-term financial returns.

# Portfolio

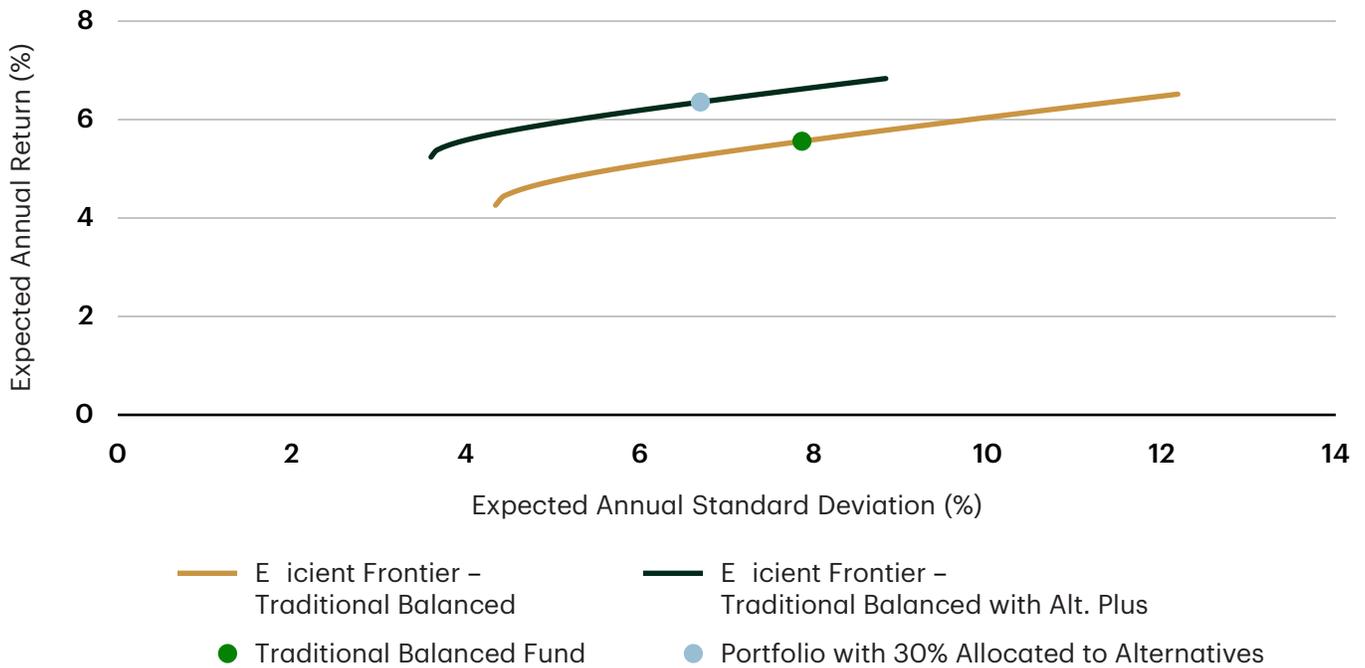
<sup>1</sup>Kisa Zehra, RICS sustainability report 2024, RICS, <https://www.rics.org/news-insights/current-topics-campaigns/sustainability/sustainability-report-2024>

<sup>2</sup>Benefits of Green Building, USGBC, <https://www.usgbc.org/press/benefits-of-green-building>

# Bringing It All Together: Enhancing Returns Per Unit of Risk

Private alternatives offer a combination that’s hard to replicate elsewhere: durable cash flow streams, diversification and protection against structural risks while establishing a tangible link between capital deployment and sustainability outcomes. Endowments can enhance risk-adjusted returns (as shown on **Figure 11**), grow their portfolio while meeting cashflow requirements, and demonstrate model stewardship of capital.

**Figure 11: Private alternatives can enhance risk-adjusted returns**



Hypothetical Outcomes	Traditional Balanced Fund	Traditional Balanced Portfolio with 30% Allocated to Alternatives
<b>Expected Return</b>	4.9	5.6
<b>Standard Deviation</b>	7.9	6.7

Source: TD Asset Management Inc. As of June 30, 2025.

# How Can E&Fs Access Private Alternatives Efficiently?

TD Asset Management Inc. (TDAM) believes that open-end fund structures work best in accessing private alternatives. Unlike closed-end funds that lock up capital for years, open-ended models allow for cash/capital inflows and outflows on an ongoing basis, making them better suited for E&Fs with ongoing spending needs. Endowments that want customized exposure to private alternatives can choose from the private alternative investment sleeves shown in **Figure 12**.

**Figure 12 : Established Private Alternatives platform**



Source: TD Asset Management Inc. As of June 30, 2025.

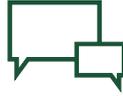
TDAM offers institutions versatile options with integrated exposure to private alternatives through both a turnkey solution and through a comprehensive private alternative solution. For details on the options below and guidance on selecting the solution that best fits your needs, please contact your **TDGIS Relationship Manager**.

## TD Greystone Balanced Plus Fund

This is a diversified, multi-asset pooled fund solution that integrates equities, fixed income and private alternatives. It is designed to meet institutional objectives through our best ideas approach, where the portfolio only holds the strategies which the manager believes bring the best risk-adjusted returns, while offering the liquidity and governance benefits of a pooled fund structure.

## TD Greystone Alternative Plus Fund

This is a comprehensive private alternative solution which allows endowments to access over 1,300 globally diversified underlying investments in commercial real estate, infrastructure and private credit. ■



**For standalone exposure to private alternatives,  
please view the funds below on our website at [tdgis.com](https://tdgis.com).**

- **TD Greystone Mortgage Fund**
- **TD Greystone Infrastructure Fund**
- **TD Greystone Real Estate Fund**
- **TD Greystone Global Real Estate Fund**
- **TD Emerald Private Debt Pooled Fund Trust**
- **TD Greystone Global Private Credit Fund**



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including changes in unit value and reinvestment of all distributions. Yields, investment returns, and unit values will fluctuate for all funds. All performance data represent past returns and are not necessarily indicative of future performance. Pooled fund units are not deposits as defined by the Canada Deposit Insurance Corporation or any other government deposit insurer and are not guaranteed by The Toronto-Dominion Bank. Investment strategies and current holdings are subject to change. TD Pooled Funds and TD Greystone Alternative Funds are managed by TD Asset Management Inc.

For clients who hold real estate: MSCI/REALpac returns are not immediately available at quarter-end; therefore, the prior quarter's index return is used in this report for benchmark calculation purposes. When the actual index is available, the benchmark return is then re-calculated.

The TD Greystone Global Real Estate Fund is comprised of the TD Greystone Global Real Estate Fund L.P. (the "Master Fund"), the TD Greystone Global Real Estate Fund (Canada Feeder) L.P. and is expected to include the TD Greystone Global Real Estate Fund (Cayman Feeder) L.P. once it is launched.

Each of the Feeder Funds act as a feeder fund in a master-feeder structure and invests all or substantially all of its assets in the Master Fund.

**Master:**

The Master Fund is priced daily in USD and includes any working capital within the Master Fund, as well as the current USD value of the most recent valuation of the underlying investments. Valuations of the investments held in the Master Fund are generally completed on a quarterly basis in the local currency of the investment. Interim valuations may be done as the result of specific situations. At each pricing period, the investment valuations are converted to USD at the rate in effect of the pricing date.

**Feeders:**

The Feeder Funds are priced daily in U.S. dollars. The Canadian feeder is reported to clients in CAD and non-Canadian feeders are reported in USD and include working capital held within the Feeder Funds as well as the updated value of the units held in the Master Fund. The value of the Feeder Funds investment in the Master Fund is determined based on the updated price of the Master Fund. Performance of the Canadian Feeder is reported to clients in Canadian dollars.

**TD Greystone Infrastructure Fund**

The TD Greystone Infrastructure Fund is comprised of the TD Greystone Infrastructure Fund (Global Master) SCSp, the TD Greystone Infrastructure Fund (Canada) L.P., the TD Greystone Infrastructure Fund (Canada) L.P. II, the TD Greystone Infrastructure Fund (Cayman Feeder) L.P. and the TD Greystone Infrastructure Fund (Luxembourg Feeder) SCSp.

Each of the Feeder Funds act as a feeder fund in a master-feeder structure and invests all or substantially all of its assets in the TD Greystone Infrastructure Fund (Global Master) SCSp.

**Master:**

The Master Fund is priced monthly in USD and includes any working capital within the Master Fund, as well as the current USD value of the most recent valuation of the underlying investments. Valuations of the investments held in the Master Fund are done on a quarterly basis in the local currency of the investment. Interim valuations may be done as the result of specific situations. At each monthly pricing period, the investment valuations are converted to USD at the rate in effect of the pricing date.

Effective February 1, 2024, the Master Fund redomiciled from the Cayman Islands to Luxembourg. Historical performance prior to that time reflects the performance of the TD Greystone Infrastructure Fund (Global Master) L.P. Thereafter, the performance reflects the TD Greystone Infrastructure Fund (Global Master) SCSp.

**Feeders:**

The Feeder Funds are priced monthly in U.S. dollars. The Canadian feeder is reported to clients in CAD and the non-Canadian feeders are reported to clients in USD and include working capital held within the Feeder Funds as well as the updated monthly value of the units held in the Master Fund. The value of the Feeder Funds investment in the Master Fund is determined based on the updated monthly price of the Master Fund.

TD Greystone Global Private Credit Fund is comprised of TD Greystone Global Private Credit Fund (Global Master) SCSp (the "Master Fund"), TD Greystone Global Private Credit Fund (Canada Feeder) L.P. (the "Canada Feeder Fund"), TD Greystone Global Private Credit Fund (US Feeder) L.P., TD Greystone Global Private Credit Fund (Luxembourg Feeder I) SCSp, and TD Greystone Global Private Credit Fund (Luxembourg Feeder II) SCSp.

Each of the Feeder Funds act as a feeder fund in a master-feeder structure and invests all or substantially all of its assets in the TD Greystone Global Private Credit Fund (Global Master) SCSp.

**Master Fund:**

The Master Fund is priced monthly in USD and includes any working capital within the Master Fund, as well as the current USD value of the most recent valuation of the underlying investments. Valuations of the investments held in the Master Fund are done monthly in the local currency of the investment. Interim valuations may be done as the result of specific situations. At each monthly pricing period, the investment valuations are converted to USD at the rate in effect of the pricing date.

**Feeder Funds:**

The Feeder Funds are priced monthly in USD and reported to clients in USD and include working capital held within the Feeder Funds as well as the updated monthly value of the units held in the Master Fund. The value of the Feeder Funds investment in the Master Fund is determined based on the updated monthly price of the Master Fund. The Canada Feeder Fund may be reported to clients in Canadian dollars.

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