

# TD Epoch U.S. Quality Capital Reinvestment Strategy

As of March 31, 2023

Q1

## Strategy Key Features

- Portfolio holdings generate strong free cash flow and use their cash to reinvest in their business through internal projects and acquisitions
- Invests in companies with a persistently high spread between ROIC and weighted average cost of capital (WACC)
- Access to a portfolio of high-quality U.S. companies with attractive capital appreciation potential

## Investment Performance (%)



	QTR	1 Year	3 Year	5 Year	Since Incp.
Composite (Gross)	8.4	0.1	23.0	13.7	13.2
Composite (Net)	8.3	-0.4	22.5	13.1	12.7
Russell 3000	7.2	-8.6	18.5	10.5	9.8

	2022	2021	2020	2019	2018
Composite (Gross)	-18.9	29.3	32.8	33.9	-5.2
Composite (Net)	-19.3	28.8	32.2	33.1	-5.7
Russell 3000	-19.2	25.7	20.9	31.0	-5.2

## 5 Largest Holdings

	Rep.Acct. Weight%
Deckers Outdoor Corporation	1.9
Meta Platforms Inc. Class A	1.9
Alphabet Inc. Class A	1.8
O'Reilly Automotive, Inc.	1.8
Monster Beverage Corporation	1.8
<b>Total</b>	<b>9.2</b>

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## Portfolio Managers

**David Siino, CFA, CAIA (25)**

**Steve Bleiberg (39)**

**Mike Welhoelter, CFA (37)**

**Bill Priest, CFA (58)**

Supported by a team of analysts with an average of 20 years experience (denotes years of experience)

## Investment Overview

### Strategy AUM

US \$1,191.0 million

### Composite Inception Date

December 31, 2017

### Management Style

Fundamental Free Cash Flow  
Driven Equities

### Benchmark

Russell 3000

### Currency

USD

## About Us

The strategy is managed by Epoch Investment Partners, Inc. (TD Epoch). TD Global Investment Solutions (TDGIS) represents the institutional asset management businesses of TD Bank Group (TD) - TD Asset Management Inc. (TDAM) and TD Epoch. TDGIS brings together three decades of investment experience across alternative investments, equities and fixed income and we strive to work with our clients to better understand their needs and offer solutions to meet those needs.

# Strategy Snapshot

March 31, 2023

## Characteristics

	Rep. Acct.	Russell 3000
ROIC – WACC (%)	14.3	2.9
FCF Yield (ex-financials) (%)	3.90	3.81
Standard Deviation (3yr) (%)	20.8	19.3
Sharpe Ratio (3yr)	1.06	0.91
Weighted Avg Mkt Cap (\$M)	166,565	467,867
Weighted Med Mkt Cap (\$M)	41,310	121,419
Number of Equity Positions	86	2,928
12 Month Turnover (%)	29.2	

## Three Year Risk Metrics

	Rep. Acct. vs. Russell 3000
Info Ratio	0.80
Alpha	3.40
Beta	1.04
R <sup>2</sup>	0.93
Upside Capture	115.5
Downside Capture	101.7

## Sector Weights

	Rep. Acct. %	Russell 3000 %
Information Technology	31.0	27.6
Health Care	20.2	14.1
Industrials	14.9	9.5
Consumer Discretionary	14.6	10.7
Communication Services	9.5	7.5
Financials	4.0	10.9
Consumer Staples	3.3	6.2
Materials	1.5	3.0
Real Estate	0.5	3.1
Utilities	0.0	2.8
Energy	0.0	4.7

## Investment Philosophy and Approach

TD Epoch's investment philosophy is centered on the belief that the generation and allocation of free cash flow represents the best predictor of shareholder return. The U.S. Quality Capital Reinvestment strategy seeks to invest in companies that earn a superior ROIC relative to their weighted average cost of capital (WACC), are expected to be able to maintain that return premium, and have the opportunity to grow their business. The portfolio generally holds 75–100 U.S.-domiciled stocks and employs risk controls to diversify the sources of growth and reduce volatility.

The investment process starts by screening the investable universe to identify companies that have the ROIC, growth, and profit margin characteristics we seek. The screen reduces the universe from roughly 3,000 stocks to 200–300. We then use our Epoch Core Model (ECM) to rank each name that passes the screen against its global peers on 22 different factors, many of which are based on Epoch's free-cash-flow investment philosophy. For a stock to be included in our portfolio, it must pass the Capital Reinvestment screen and it must rank in the top two quintiles of the ECM. From there, we run a portfolio optimization on the stocks that have passed the screen, which results in a suggested portfolio that typically includes 10–12 buy and sell suggestions relative to the existing portfolio. We then perform rigorous fundamental research on each of the suggested names to determine whether the characteristics that allowed a company to pass the screen are likely to be maintained. Once we understand the source of a company's high ROIC, judge it to be sustainable, are comfortable with the risks to that high ROIC, and think that management's incentives are reasonably aligned with the interests of the shareholders, we may approve the stock for inclusion in the portfolio. Most of the strategy's trading takes place during the quarterly optimization process, but some trading does occur throughout the quarter in response to ongoing news.

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