TD Asset Management

TD 1-3 Year Treasury Bond Ladder Managed Account

as of June 30, 2022

Q2 2022

Market Recap[4]

The Federal Reserve (Fed) increased the federal funds rate by 1.25% during the quarter (0.50% in May, 0.75% in June). The current target range is 1.50%-1.75%. The reduction in the Fed's balance sheet began in June with a more aggressive runoff than the prior tightening cycle as it transitions to a more neutral policy framework. In addition to the Fed, the Bank of England, the Bank of Canada, as well as other major central banks, continue raising their respective policy rates as the need for policy accommodation wanes. Elevated inflation readings and a strong U.S. labor market are driving expectations for higher short-term rates over the next 8-10 months.

Real GDP decreased 1.6% in Q1 2022 (Q4 2021 growth was 6.9%). Household consumption slowed but remained positive while business investment improved on a sequential basis. Domestic demand showed quarterly improvement as well. Inflation remains at a historically high level. Economic data indicate a slowing U.S. economic expansion. Below trend growth is forecast this year with an increased likelihood of a recession in 2023.

U.S. Treasury yields increased during the quarter due to more positive economic reports, including a strong labor market, and persistently elevated inflation data. This has caused investors to adjust their expectations on the timing, magnitude, and several additional Federal Open Market Committee (FOMC) rate hikes. The inflation rate remains well above the Fed's 2% target. Interest rates increased across the curve: 2-year: 2.96% (+62 bps), 5-year: 3.04% (+58 bps), 10-year: 3.02% (+68 bps), 30-year: 3.19% (+74 bps). The Bloomberg U.S. Aggregate Bond Index returned -4.69% for the quarter, -10.29% for the last 12 months. The index ended the quarter with an average yield of 3.72%, +80 bps for the quarter.

During the quarter the spread on the Bloomberg U.S. Credit Index increased 35 bps to 143 bps as high inflation, a more hawkish FOMC, a rapidly slowing growth outlook, and geopolitical events negatively impacted valuations within the U.S. credit market. The rise in U.S. credit spreads reduced bond returns relative to U.S. Treasuries. AAA-rated issuers outperformed their lower-rated peers as the risk-off trade benefitted higher-rated issuers. On an excess return basis, non-corporate sectors such as supranational, foreign agencies, and foreign local governments performed best.

Source: TD Asset Management, TD Economics & Bloomberg Financial L.P.

Investment Professionals

Glenn Davis, CFA
Managing Director
Industry experience: 43 years

Dennis Woessner, CFA
Vice President & Director
Industry Experience: 35 years

Investment Overview

Minimum Investment:
$100,000

Inception Date:
January 21, 2020

Asset Class:
Fixed Income

Management Style:
Passive

Benchmark[2]:
Bloomberg Barclays U.S. Treasury: 1-3 Years Total Return Index

Base Currency:
USD

U.S. Availability:
Unified Managed Account (UMA)

Investment Objective

The TD 1-3 Year Treasury Bond Ladder Managed Account model seeks predictable income and capital preservation from U.S. Treasury securities. The portfolio is constructed with the goal of maintaining principal protection with predictable cash flows even in volatile interest rate environments.

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Performance Summary[4]

The intermediate segment of the Treasury yield curve steepened 6 bps as the two-year yield increased 62 bps, to 2.96% whilst the ten-year yield increased 68 bps, to 3.02% during the quarter. The benchmark 5-year Treasury, at 3.04%, rose 58 bps during the period.

We expect U.S. growth (real GDP) to be below trend this year with an increased likelihood of a recession in 2023 as the FOMC tightens financial conditions (increasing interest rates and reducing its balance sheet), consumer demand wanes and business investment declines as corporate profits fall. The Fed remains committed to price stability and a strong labor market. Strong inflation data will pressure yields higher. Our preference is for the additional income generated from high-quality corporate bonds over government bonds.

Historical Performance[1]

	3m	1Y	3Y	5Y
Managed Account (gross)	-0.48%	-3.35%	-	-
Managed Account (net)	-0.75%	-4.41%	-	-
Benchmark[2,3]	-0.52%	-3.51%	-	-

Managed Account performance results reflect the performance history of the TD 1-3 Year Treasury Bond Ladder Managed. Past performance is not a guarantee of future results. For more information, please refer to the Important Information located at the end of this document.

Sector Weights (%)[4]

	Model	Benchmark[2]
U.S. Government	99.0	100.0
Cash	1.0	0.0

Investment Approach

TD applies a consistent philosophy across all of its investment strategies, both active and passive. This philosophy is based on extensive independent analysis, a deep understanding of yield curves and strategic portfolio construction.

All models will be passively managed, employing a "buy and hold" investment strategy. Fixed income instruments will be purchased for client portfolios following the models and held until maturity, at which time the proceeds of matured fixed income securities will be re-invested into the longest maturity bucket to maintain the models' laddered structures. Selected securities will generally be equally weighted in each maturity bucket of the ladder.

TD Asset Management

TD Asset Management offers a wide range of solutions with a long track record of helping clients meet their goals. Our demonstrated macroeconomic expertise, extensive independent credit research and highly-disciplined process enable us to potentially deliver optimal risk-adjusted outcomes.

Experienced Investment Team

A key driver of our ability to outperform is the individual and collective investment acumen of our portfolio managers.

Independent credit research

Our team of seasoned credit research analysts produces proprietary research and develops our internal credit ratings.

Risk management focus

Our risk management culture increases personal accountability and maintains the integrity of our processes.

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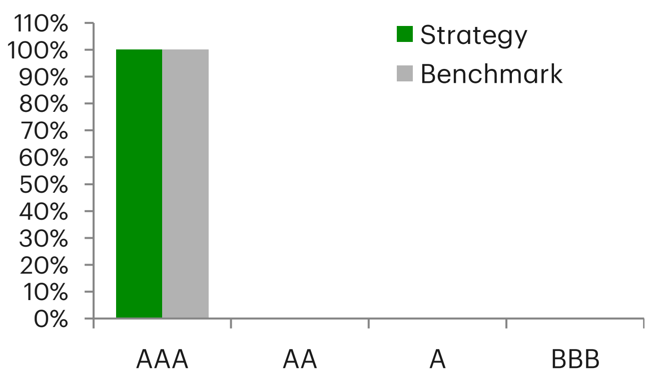
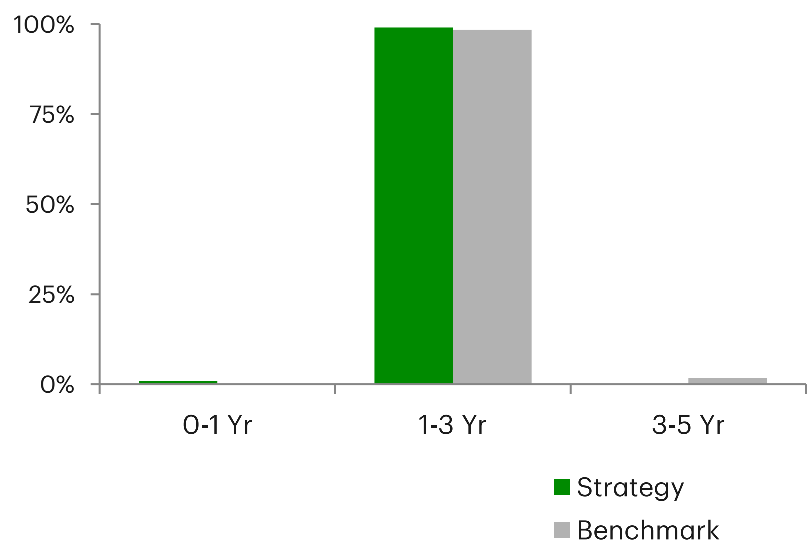
Top Holdings[4,5,7]

		Maturity	Weight (%)
1	United States Treasury Note/Bond	January 15, 2024	13.07
2	United States Treasury Note/Bond	April 15, 2024	13.04
3	United States Treasury Note/Bond	October 15, 2024	12.95
4	United States Treasury Note/Bond	April 15, 2025	12.53
5	United States Treasury Note/Bond	July 15, 2023	12.23
6	United States Treasury Note/Bond	October 15, 2023	12.14
7	United States Treasury Note/Bond	January 15, 2025	12.08
8	United States Treasury Note/Bond	July 15, 2024	11.97

Credit Quality (%)[1,6]



Term Profile (%)[2,3,4]



Important Information

1. Performance results reflect the representative account of the TD 1-3 Year Treasury Bond Ladder Managed. Performance reflects the reinvestment of interest income. Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance includes the deduction of a 1.23% annual wrap fee, which is the maximum anticipated wrap fee for fixed income SMAs. The annual wrap fee includes advisory and investment management services as well as custody and execution services. Actual fees may vary. Investors should not rely on this performance data as an indication of future returns. The benchmark, which is unmanaged and shown for comparison purposes only, may have greater or less volatility than the strategy. Performance greater than one year is annualized. Past performance is not indicative of future results.
2. The Bloomberg Barclays US Treasury: 1-3 Year Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 1-2.999 years to maturity. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. Benchmark performance is not impacted by fees. It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns.
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4. All information provided within this document is current as of the date indicated on the first page unless otherwise specified and is subject to change.
5. Top Holdings exclude cash and include top securities only.
6. Credit ratings are not recommendations to purchase, sell or hold a financial obligation in as much as they do not comment on market price or suitability for a particular investor. Ratings are subject to revision or withdrawal at any time by the rating organization. Credit-quality rating for each issue uses the middle rating of Standard & Poor's (S&P), Moody's Investors Service (Moody's) and Fitch Ratings Inc. (Fitch). When a rating from only two agencies is available, the lower rating is used. Likewise, if only one of the designated agencies rates a bond, the composite rating is based on that one rating. All ratings are converted to the equivalent S&P major rating category for purposes of the category shown. Ratings and portfolio credit quality may change over time. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).
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Important Information

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Fixed Income Investment Risks

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk, prepayment risk, and inflation risk. Corporate debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to factors such as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. High yield, lower-rated securities are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Interest on municipal bonds is generally exempt from federal tax. However, some bonds may be subject to the alternative minimum tax and/or state or local taxes. Please refer to Epoch's Form ADV Part 2A for more information on investment risks.