TD Asset Management

TD Short Government/Corporate (A Min) Bond Managed Account Institutional

as of June 30, 2022

Q2 2022

Market Recap[1]

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:
$250,000

Inception Date:
April 30, 2007

Asset Class:
Fixed Income

Management Style:
Active Fundamental

Benchmark[2]:
ICE BofAML 1-3 Year AAA-A U.S. Corporate/Government Bond Index

Base Currency:
USD

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

Investment Objective

The TD Short Government/Corporate (A min) Bond Managed Account Institutional seeks to provide a high level of income consistent with the preservation of capital and liquidity.

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Performance Summary[4]

During the quarter, the portfolio's capital preservation position – portfolio duration below benchmark duration, benefitted performance as interest rates increased. The portfolio's overweight allocation to corporate bonds detracted from performance as spreads widened. Within the credit sector, supranational performed best from an excess return perspective. AAA-rated issuers outperformed their lower-rated peers as the risk-off trade benefitted higher-rated issuers.

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

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Historical Performance[4]

	3m	1Y	3Y	5Y
Managed Account (gross)	-0.63%	-3.30%	0.39%	1.11%
Managed Account (net)	-0.91%	-4.36%	-0.70%	0.00%
Benchmark[2,3]	-0.57%	-3.36%	0.32%	1.05%

Calendar Year Returns[4]

	YTD	2021	2020	2019	2018
Managed Account (gross)	-2.90%	-0.44%	3.37%	3.85%	1.70%
Managed Account (net)	-3.44%	-1.52%	2.24%	2.72%	0.59%
Benchmark[2,3]	-2.91%	-0.49%	3.24%	3.83%	1.64%

SMA performance results reflect the performance history of a single representative account of the TD Short Government/Corporate (A Min) Bond Managed Account Institutional that TD Asset Management believes is representative of client accounts invested in the strategy. 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.

Investment Approach

The strategy invests in fixed income securities with maturities between 1 and 3 years. Investments may include Treasury and Agency securities, as well as corporate bonds, mortgage-backed securities and asset-backed securities. Overweight exposure to non-Treasury securities should produce a consistent yield premium to the benchmark and add value over the long term. The investment team also seeks to add value through security selection and sector rotation, with a focus on corporate credits with improving or stable fundamentals.

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[1,5,7]

		Maturity	Weight
1	United States Treasury Note/Bond	April 15, 2024	9.92
2	United States Treasury Note/Bond	September 15, 2023	9.41
3	United States Treasury Note/Bond	July 15, 2024	9.05
4	United States Treasury Note/Bond	January 31, 2024	8.42
5	United States Treasury Note/Bond	November 15, 2023	8.34
6	United States Treasury Note/Bond	October 15, 2024	8.00
7	United States Treasury Note/Bond	February 15, 2025	7.11
8	United States Treasury Note/Bond	April 15, 2025	6.46
9	United States Treasury Note/Bond	July 15, 2023	5.46
10	United States Treasury Note/Bond	December 31, 2024	4.61

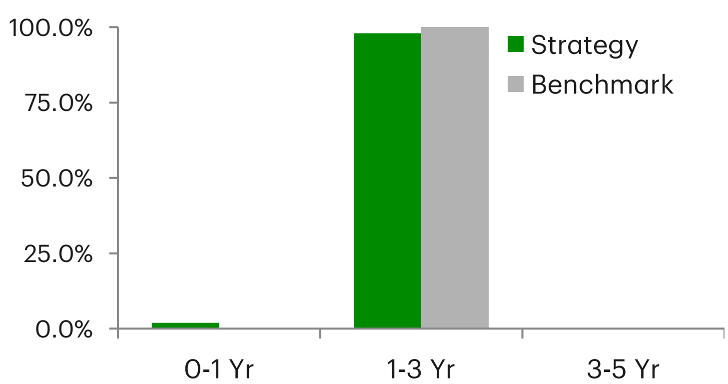
Statistics[1]

	Model	Benchmark
Yield to Maturity	3.08%	3.08%
Average Maturity (yrs)	1.9	1.9
Duration (yrs)	1.8	1.9
Number of Holdings	26	1,509

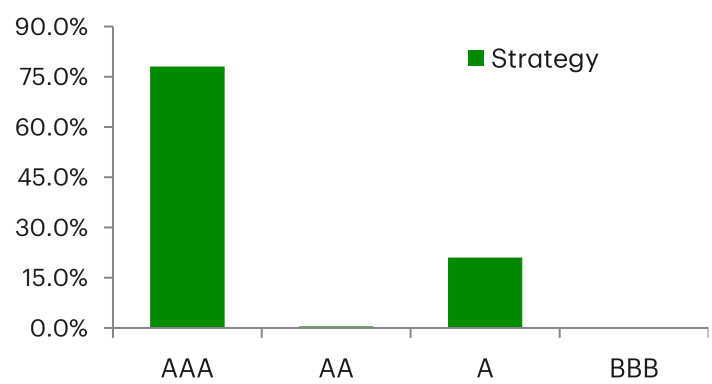
Sector Weights (%)[1]

	Model	Benchmark
U.S. Government	76.0	78.9
Corporate	23.0	13.9
Non-Corporate	0.0	7.2
Securitized	0.0	0.0
Cash	1.0	0.0

Term Profile (%)[1]



Credit Quality (%)[1,6]



Glossary of Terms

Duration: Duration is a measure of a security's price sensitivity to changes in interest rates. Duration considers a security's interest payments, the amount of time until the security matures, and maturity shortening features (e.g., demand features, interest rate resets, and call options). Generally, securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations.

Average Maturity: The average maturity is based on the dollar weighted average maturity of securities held in the SMA. Along with duration, average maturity can be used as a measure of sensitivity to changes in interest rates and markets. Generally, the longer the maturity, the greater the sensitivity to these changes.

For more information on data presented on this page, please refer to the Important Information located at the end of this document.

Important Information

1. 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.
2. The ICE BofAML 1-3 Year AAA-A U.S. Corporate/Government Bond Index includes publicly issued U.S. Treasury debt, U.S. government agency debt, taxable debt issued by U.S. states and territories and their political subdivisions, debt issued by U.S. and non-U.S. corporations, non-U.S. government debt and supranational debt.
3. 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. Information about indices allows for the comparison of an investment strategy's results to that of a widely recognized broad market index. There is no representation that such index is an appropriate benchmark for such comparison. Results for an index do not reflect trading commissions and costs. Index volatility may be materially different from a strategy's volatility and portfolio holdings may differ significantly from the securities comprising an index.
4. Representative account performance shown through August 2014 is the performance of the TD US Short/Intermediate Government/Corporate ("non-institutional") strategy that has substantially similar investment objectives and policies and is managed by the same team as this "Institutional" strategy. The performance after August 2014 reflects a representative account that invests in the TD US Short/Intermediate Government/Corporate Institutional strategy and is selected on the basis of objective, non-performance based criteria as stated above. While the two strategies are fundamentally the same, after August 2014, they differed in that this strategy may obtain exposure to corporate bonds, mortgage-backed and asset-backed securities through direct investment, whereas, the "non-institutional" strategy may obtain the same or similar exposure through the use of pooled vehicles. Other accounts in this strategy performed better or worse than the representative account, and this account's performance is no guarantee of future performance. 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. Please refer to the adviser's Form ADV Part 2A for a description of all fees and expenses. Further information is available upon request. Performance greater than one year is annualized. Past performance is not indicative of future results.
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).
7. No discussion with respect to specific holdings should be considered a recommendation to purchase of sell any particular security. The companies discussed do not represent all past investments. It should not be assumed that any of the investments discussed were or will be profitable, or that recommendations or decisions made in the future will be.

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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.