**Rohan Bhargava, CFA**
Vice President, Retail Client Portfolio Management,
TD Asset Management Inc.

**Sayada Nabi**
Associate, Retail Client Portfolio Management,
TD Asset Management Inc.

# The best of both worlds

## Getting all the benefits of a bond in an ETF

### At a glance

- **Inflation appears to be generally moderating and the expectation for 2024 is that central banks will be moving rate hikes to rate cuts.**
- **Fixed income is currently providing investors with income not seen in more than a decade. This, along with the potential for capital appreciation if rates fall, can provide a very attractive total return opportunity.**
- **To take advantage of the opportunities present in todays fixed income market, TD Asset Management Inc. (TDAM) just launched the TD Target Maturity Bond ETFs - a new suite of one-ticket fixed income investment solutions designed to act like an individual bond while providing liquidity, diversification, and professional oversight benefits of TDAM's Fixed Income Investment Team.**

If recent years have illustrated anything, it is that markets can be volatile and unpredictable. Now that inflation seems to be generally moderating, markets are looking to move from central bank rate hikes to rate cuts for 2024. The bond market began 2024 pricing in five or six rate cuts from the U.S. Federal Reserve ("the Fed"), with the expectation that inflation may come down to 2% by the summer. While we do believe that the interest rate hiking cycle has likely come to an end and that rate cuts may happen, we are likely to see a more conservative rate cutting scenario unfold.

Central banks will have to consider near-term risks in 2024, including sticky inflation, tight labour markets in both Canada and the U.S. and potential disruption in shipping routes for goods. Likewise, geopolitical risks will likely remain strong in 2024. Conflicts that began in previous years are yet to be resolved and we see some potential political risk with nearly half of world's population (including the U.S., Mexico and India) heading into elections. Overall, we expect volatility to persist in bond markets but have a positive outlook for fixed income and continue to see opportunity in the coming year for bonds. As we transition to rate cuts, we expect the drop in yields to generate price gains and bolster bond returns.

## Why fixed income and why now?

Despite the appeal of short-term bonds paying high yields, investors with a long-term time horizon should remain focused on building a diversified portfolio designed to generate competitive returns over time. With that, it may be time to take money that has accumulated on the sidelines in guaranteed investment certificates (GICs) and money market funds to assets with better long-term potential. The two key benefits that can materialize for fixed income investors in the near term include attractive returns and diversification.

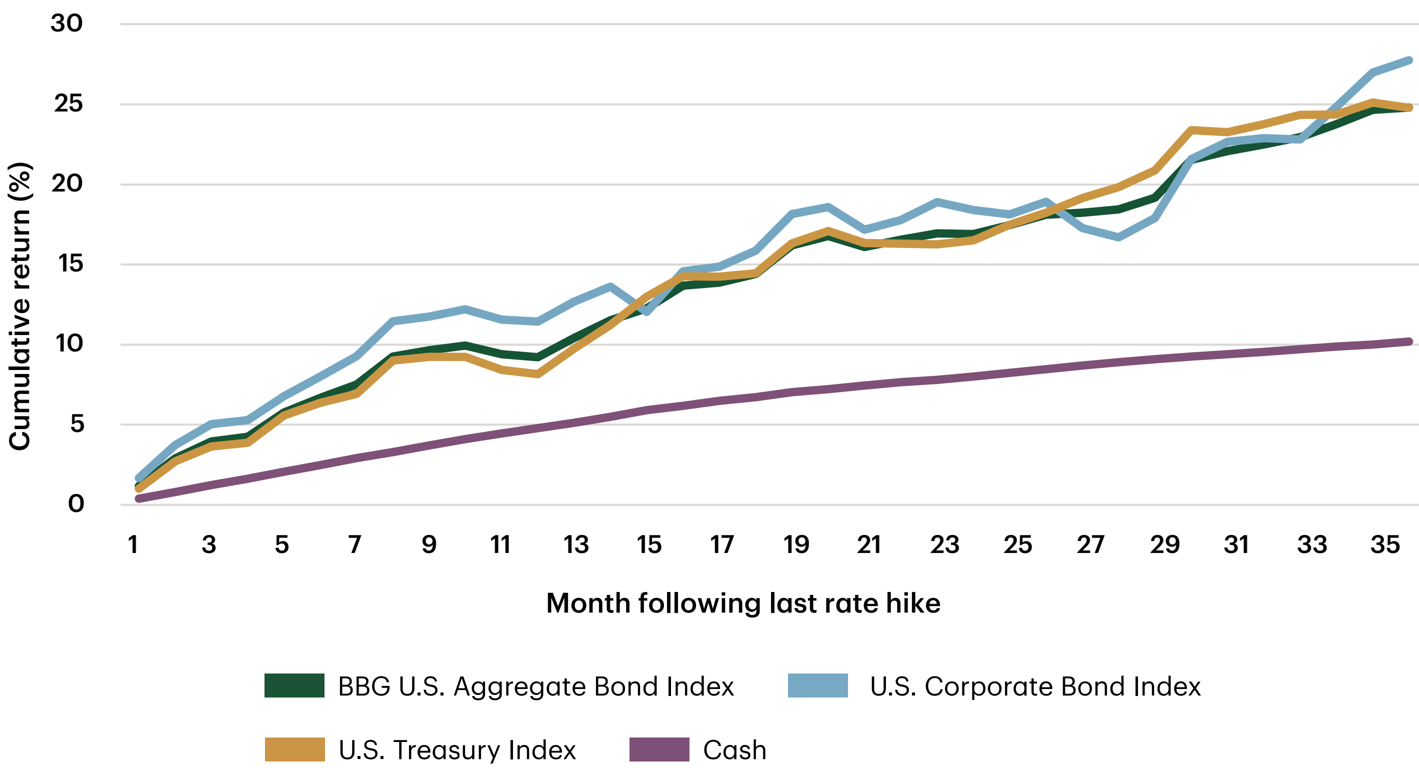
### Attractive returns

Fixed income is currently providing investors with income not seen in more than a decade. This, along with the potential for capital appreciation if rates fall, can provide a very attractive total return opportunity (illustrated in the chart below). This is because bond prices have an inverse relationship with interest rates. This means that, typically, when interest rates go up, bond prices go down and when interest rates go down, bond prices go up.

### Diversification

Fixed income helps to diversify a portfolio and reduce portfolio volatility, preserve capital, and reduce risk. In the volatile times that we are in today, fixed income becomes a stabilizer for any investment portfolio.

### Cumulative Average Total Returns From Last U.S. Federal Reserve Rate Hike




Source: Bloomberg Finance L.P, TD Asset Management Inc. Data as of end Feb. 29, 2024.

# New solutions designed to "target" the current investing environment

To take advantage of the opportunities present in today's fixed income market, TDAM offers a suite of target maturity bond exchange-traded funds (ETFs). Target maturity bond ETFs have been amongst the best-selling products across the industry. These ETFs have a compelling structure that combines the maturity profile of a bond with the diversification benefits of a managed product. Target maturity bond ETFs typically hold a portfolio of individual bonds that provide regular income and distribute a final payout on a pre-set termination date. Like traditional bonds, they offer an element of stability and predictability in cash flows with the added benefit of being able to buy or sell them at any time. In a nutshell, target maturity bond ETFs are a simple and low-cost way to add targeted fixed income exposure to any portfolio.

The TD Target Maturity Bond ETFs invest in a portfolio of investment-grade corporate bonds which are hand-picked by TDAM's Fixed Income Investment Team, offering increased diversification and the chance to generate higher yields when compared to other fixed income products. Each ETF matures in successive years from 2025 to 2027 and is offered in both Canadian and U.S. dollar versions. The suite includes the six following ETFs:

<table>
<tr><th></th><th></th><th></th><th></th><th>Anticipated Termination Date</th></tr>
<tr><td rowspan="3">CAD</td><td>TBCE</td><td>TD Target 2025 Investment Grade Bond ETF</td><td rowspan="3">Each of the TD Target Date Canadian Bond ETFs seek to provide regular income and preserve capital by investing primarily in a portfolio of investment-grade Canadian corporate bonds denominated in Canadian dollars each maturing in the maturity year of the respective ETF.</td><td>Nov. 30, 2025</td></tr>
<tr><td>TBCF</td><td>TD Target 2026 Investment Grade Bond ETF</td><td>Nov. 30, 2026</td></tr>
<tr><td>TBCG</td><td>TD Target 2027 Investment Grade Bond ETF</td><td>Nov. 30, 2027</td></tr>
<tr><td rowspan="3">USD</td><td>TBUE.U</td><td>TD Target 2025 U.S. Investment Grade Bond ETF</td><td rowspan="3">Each of the TD Target Date U.S. Bond ETFs seek to provide regular income and preserve capital by investing primarily in a portfolio of investment-grade U.S. corporate bonds denominated in U.S. dollars each maturing in the maturity year of the respective ETF.</td><td>Nov. 30, 2025</td></tr>
<tr><td>TBUF.U</td><td>TD Target 2026 U.S. Investment Grade Bond ETF</td><td>Nov. 30, 2026</td></tr>
<tr><td>TBUG.U</td><td>TD Target 2027 U.S. Investment Grade Bond ETF</td><td>Nov. 30, 2027</td></tr>
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# Key considerations and benefits of the TD Target Maturity Bond ETFs

The TD Target Maturity Bond ETFs offer the best of both worlds where they not only provide the benefits of a traditional bond fund like diversification and regular income but also the benefits that come with an ETF like liquidity and transparency. In summary, the main benefits and considerations for investors include:

1

## Ease of execution

It's easier to purchase a portfolio of bonds with a known maturity as opposed to building out a portfolio one bond at a time through a broker which often requires large sums of cash. TD Target Maturity Bond ETFs can be easily purchased on the Toronto Stock Exchange with no minimum purchase amounts at a low-cost giving you the desired bond exposure.

2

## Improved liquidity

Unlike holding a basket of individual bonds that may be less liquid in the secondary market, an ETF structure allows investors to easily trade and adjust their bond exposure in response to changing market conditions or evolving investment objectives.

3

## Enhanced flexibility relative to Guaranteed Investment Certificates (GICs)

The current environment has led many individuals to 'lock in' with fixed term GICs, which can't be cashed in before maturity. TD Target Maturity Bond ETFs are a more flexible investment alternative as they provide daily liquidity through the exchange. Buy or sell when you want. Plus, they can offer competitive yields to GICs or other money market instruments.

4

## Potential for tax-efficiency

With many corporate bonds trading at a discount, a portion of the total return can be treated as capital gains as opposed to interest income which is taxed at higher rate.

5

## Aligning investment time horizons

Another key advantage of the TD Target Maturity Bond ETFs is the ability to match the time horizon of the investor with the maturity date of the ETF, which allows investors to save for specific financial goals or needs. This precise time horizon matching enhances the predictability of cash flows and provides a clear path for meeting future financial needs.

6

## Build better laddered portfolios

TD Target Maturity Bond ETFs are an efficient way to help build a laddered portfolio to manage interest rate and/or reinvestment risk. While a normal bond fund must buy and sell individual bonds to maintain an average maturity, a target maturity bond ETF has a fixed target date and when the fund closes, investors receive their principal just as they do with individual bonds at maturity.

Benefits

# What happens at maturity?

While traditional bond funds provide investors with comprehensive diversification, manager expertise, and regular income – they don't have a fixed maturity date, as the fund must buy and sell individual bonds to maintain an average maturity promised to investors. In a rising rate environment, it means the fund can suffer a loss if it must sell bonds when prices are down. Conversely, while falling rates can lift bond prices, they can be harmful if the fund must replace older bonds with new ones that pay less interest, reducing the fund's yield.

As the name suggests, target maturity bond ETFs purchase bonds that have a common maturity date. When the ETF's maturity date arrives, the fund closes, and investors receive their principal just as they do with individual bonds. The income received is relatively stable because the ETF typically doesn't need to replace holdings along the way.

## Comparing different types of fixed income offerings

| Quick Comparison | TD Target Maturity Bond ETFs | Individual Bonds | GICs | Traditional Bond Funds |
|---|---|---|---|---|
| Defined Maturity | ✓ | ✓ | ✓ | ✗ |
| Ability to Bulk Trade | ✓ | ✗ | ✗ | ✓ |
| Monthly Income | ✓ | ✗ | ✗ | ✓ |
| Ease of Execution | ✓ | ✗ | ✓ | ✓ |
| Diversification | ✓ | ✗ | ✗ | ✓ |
| Professional Management | ✓ | ✗ | ✗ | ✓ |

Maturity

For more information on the suite of TD Target Maturity Bond ETFs, please visit our **website >.**

**Connect with TD Asset Management**



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