



## Optimize Your Cash

### Liquidity solutions to help meet your investment objectives

**In today's environment of higher and more volatile interest rates, persistent inflation and heightened global uncertainty, the opportunity cost of managing cash ineffectively can be steep.**

A robust liquidity and cash management framework is essential for organizations balancing the competing imperatives of supporting their day-to-day operations, investing in profitable business opportunities, and financing product and geographic expansions.

Liquidity is an organization's ability to fund its assets and meet its financial obligations. Effective management of an organization's liquidity requires short- and long-term decisions—decisions that can change during times of stress. Today, there are greater opportunities to make your cash work harder and combat inflation, which is important in all environments but particularly those in which purchasing power has been eroded.



**Management teams must regularly evaluate liquidity costs, benefits and risks as part of their overall strategic planning and budgeting process.**

# Cash in 2024 and Beyond

Recent central bank interest rate increases have brought cash investment returns to the highest levels seen in decades. As a result, cash can provide a competitive income stream relative to other investment options. Central banks have also signaled that they do not see a near-term need to return interest rates to their prior near-zero levels, and that the long-term neutral rate at which the economy is in equilibrium is higher than it has previously been.

At TD Asset Management Inc. (TDAM), we expect risk sentiment to remain elevated and interest rates to continue reacting strongly to new economic data. We have a suite of high-quality cash and cash alternative funds of varying duration that investors can use to help maximize income and returns for different segments of their cash portfolio, and we have a long track record of working with our clients to help them implement tailored liquidity solutions that best fit their needs.

## Why TDAM for Liquidity Management

### Expertise & Process

1

TDAM has been managing liquidity solutions for over 30 years. We have dedicated portfolio managers and traders, proprietary analytical systems, and an in-house credit research team that independently reviews and approves all investments for our funds.

### Scale

2

One of Canada's largest liquidity managers, TDAM currently has nearly \$20 billion in cash and cash alternative assets under management.<sup>1</sup> Our liquidity team is part of TDAM's broader fixed income team, which consists of over 70 investment professionals managing \$181 billion in assets.<sup>2</sup>

### Track Record

3

Through disciplined portfolio construction and adherence to our guiding principles, our liquidity funds have a demonstrated track record of adding value over multiple decades and through many economic cycles.



<sup>1</sup> Aggregate statistics as of June 30, 2024 for TD Asset Management Inc. and Epoch Investment Partners, Inc. Both entities are affiliates and are wholly-owned subsidiaries of The Toronto-Dominion Bank.

<sup>2</sup> Aggregate statistics as of June 30, 2024 for TD Asset Management Inc. and Epoch Investment Partners, Inc.





## Our Liquidity Management Process

At TDAM, all liquidity portfolios are managed according to our guiding principles of safety, liquidity and return:



### Safety

Capital preservation is paramount in liquidity management. We protect our clients' capital by investing in short-term, high-quality securities, with all issues reviewed and approved by our dedicated credit research group. Co-located in our Toronto and New York offices, this team provides the rigorous, independent credit research that underpins our broader active fixed income investment philosophy and process.



### Liquidity

Our portfolio construction process enables us to meet our clients' liquidity needs and satisfy regulatory liquidity requirements, as applicable.



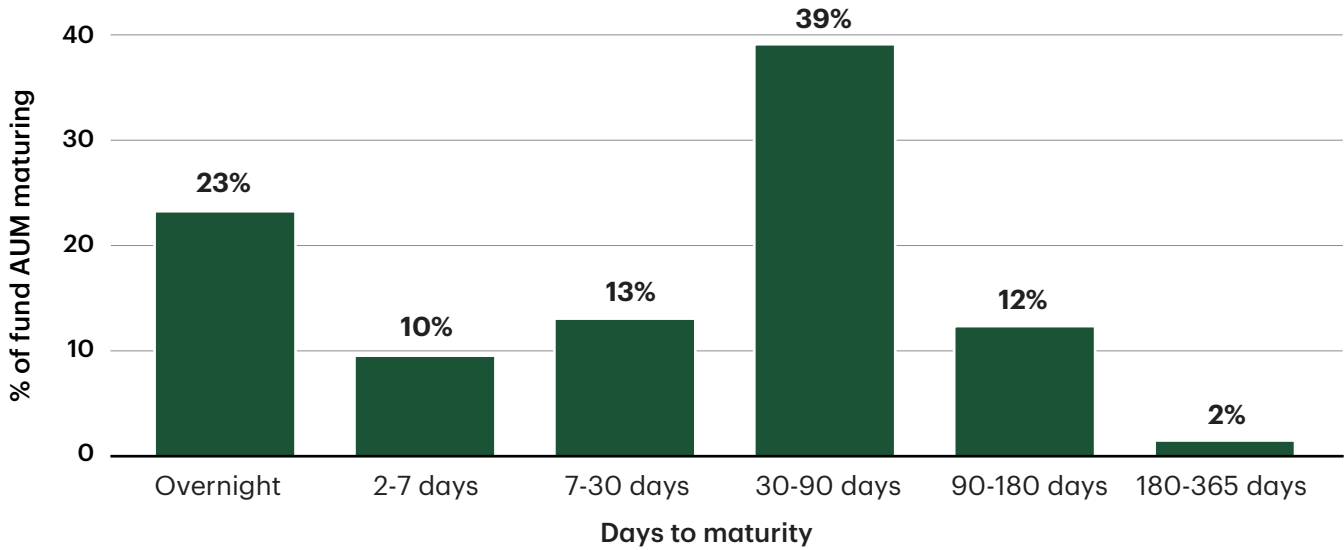
### Return

An outcome of our process, return is the added value earned versus the defined benchmark after meeting our clients' safety and liquidity needs.

# A Typical Liquidity Solution

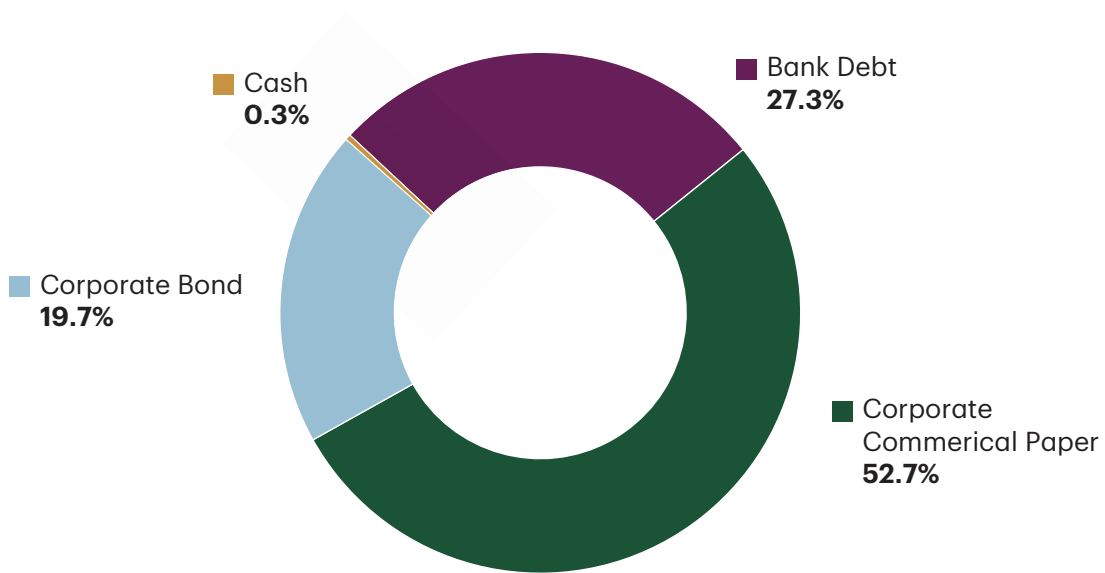
Liquidity solutions typically hold a highly diversified portfolio of high-quality short-term debt from a range of issuers, including federal governments, provincial governments, financial institutions, corporations and trusts. Security types include treasury bills, promissory notes, asset-backed commercial paper, commercial paper and other forms of indebtedness. The term-to-maturity of investments varies with mandate type.

**Figure 1: Good Liquidity, High Daily and Weekly Liquidity, and a Strong Ladder of Maturities**



Source: TD Asset Management Inc. For illustrative purposes only.

**Figure 2: Good Diversification Across Issuers, Instruments and Maturities**



Source: TD Asset Management Inc. For illustrative purposes only.

# How to Segment Your Cash

At TDAM, we recognize that no two investors have exactly the same liquidity needs. We work closely with our clients to identify the liquidity solution – or solutions – that best meet their cash and investment objectives.

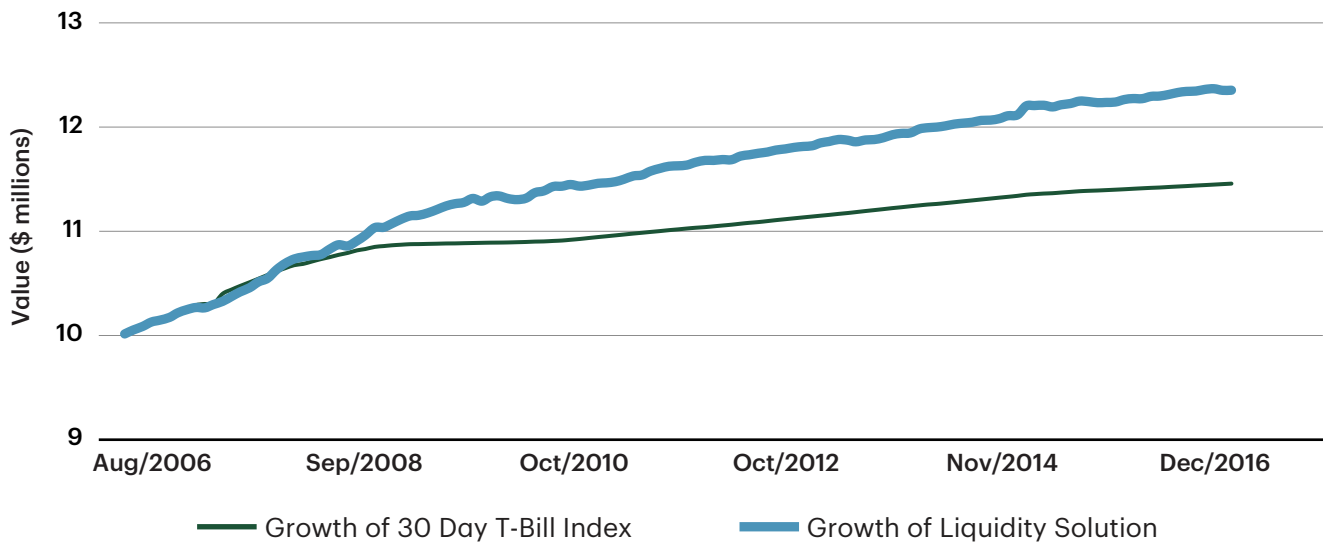
In our view, cash forecasting is the cornerstone of effective liquidity management. Many organizations have embraced this philosophy and classify cash balances according to their purpose and use. By grouping cash into three segments – operating, core/reserve and strategic – companies can analyze their liquidity needs at a more granular level and identify cash balances that can be invested to garner extra yield.

## The difference cash segmentation can make

Instead of holding all of their cash in a money market fund or overnight account, companies that segment their cash can implement strategies tailored to their investment objectives and risk appetite for each bucket, emphasizing safety and liquidity where this is critical, and ensuring that cash not required for immediate use seeks to earn a higher yield and protect purchasing power. To illustrate, below

(Figure 3) is a graph depicting the growth of \$10 million CAD from 2006 to 2016 – the last time Canada experienced a similar rate cut cycle – invested in two portfolios: an overnight account, represented by the 1-month Canadian T-Bill Index, and a blended liquidity solution comprised of 70% cash vehicle for operating liquidity needs and 30% short bond fund for strategic liquidity needs.

**Figure 3: Growth of \$10 Million: Blended Liquidity Solutions vs. T-Bill Index**



Source: TD Asset Management Inc. For illustrative purposes only.

This performance demonstrates that a thoughtfully constructed total liquidity solution can potentially produce higher returns. The liquidity premium is partially represented by the advantage in total return of the liquidity solution over the T-bill; the rest is attributed to credit risk.

It is worth noting that the time period shown (2006-2016) spanned many interest rate cycles. The results indicate that, on a monthly basis, negative total return periods are infrequent and not prolonged, and there have been no negative years.

# TDAM Cash and Liquidity Solutions

At TDAM, our experience in managing short-term investment solutions spans over 30 years, and today encompasses a range of pooled fund and customized, segregated mandates of varying sizes. **We have a demonstrated track record of helping clients meet their dual objectives of preserving capital and maximizing yield across these products.**



## Money Market Strategies

Our money market strategies seek to meet institutional investors' most conservative cash management needs. The funds also meet the regulatory definition of a Money Market Fund and offer varying liquidity (same day vs. next day), credit and duration exposure.

## Short Duration

Our short duration funds offer an actively-managed portfolio of high-quality investments, along with a modest amount of interest rate sensitivity. The latter allows the funds to augment interest income with capital gains, and therefore also includes the potential for capital losses. These funds are intended for longer-term cash allocations and are not suitable for investors sensitive to gains/losses.

## Exchange-Traded Funds (ETFs)

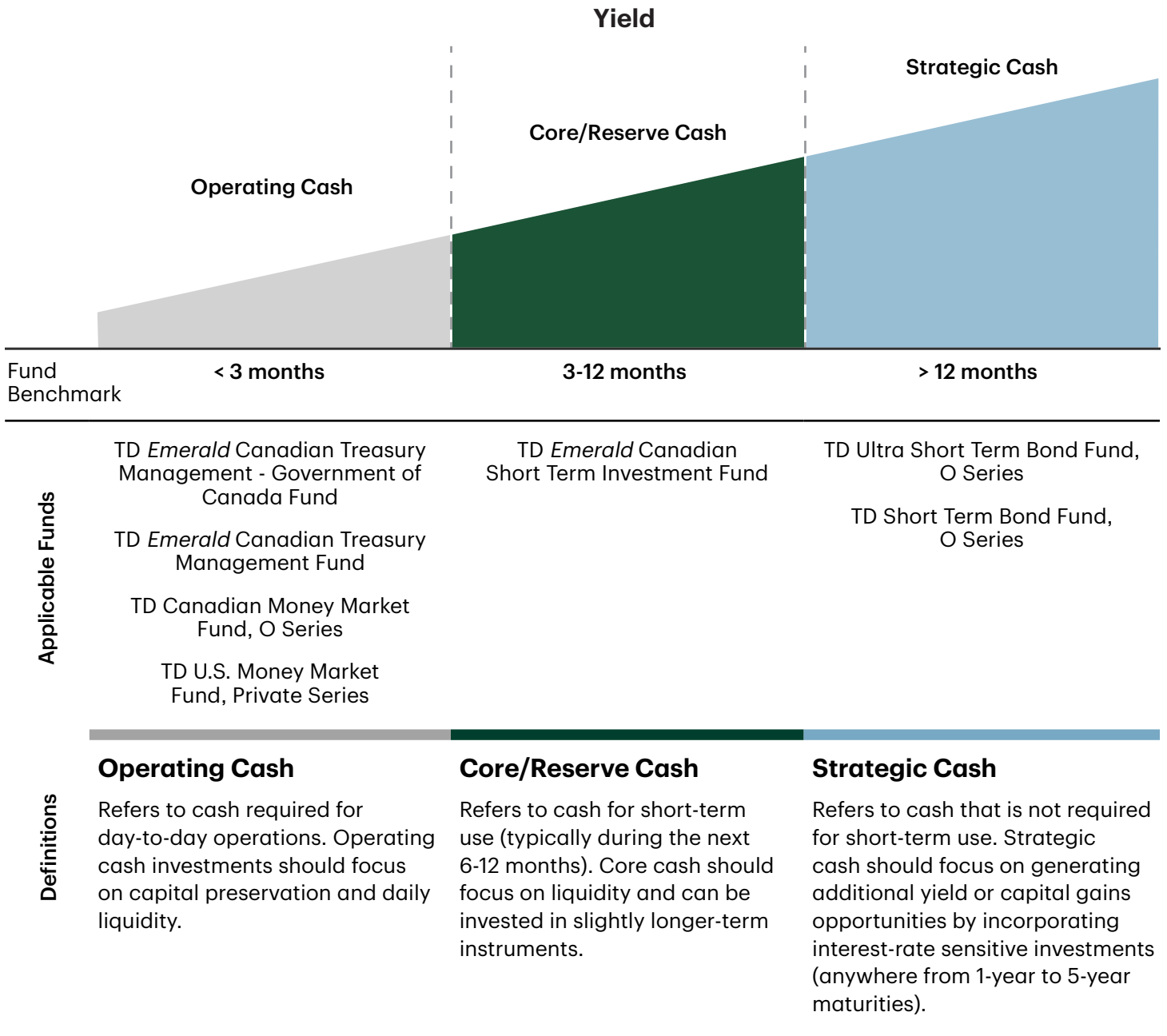
ETFs are an increasingly important part of the investment process for institutional and retail investors alike as they offer trading flexibility, and can provide portfolio diversification and may have lower costs. TDAM recently launched its inaugural CAD Cash ETF, which provides an attractive yield opportunity.

## Separately Managed Accounts

While our money market strategies are typically offered in a pooled fund format, given the operational efficiencies this affords clients, we also offer the strategies on a separately-managed, segregated basis. These segregated mandates consist of a single client's assets and have investment guidelines customized to that client's investment objectives, risk parameters and asset size.

# Strategy

**Figure 4: Liquidity Management Solutions**



Source: TD Asset Management Inc. For illustrative purposes only.

## Tailored Solutions to Help Meet Your Needs

Managing day-to-day and future cash requirements requires that organizations strike a fine balance between quality, maturity and yield objectives. With our long experience in the cash management space and our suite of flexible, high-quality strategies, we can work with you to identify and implement a sound liquidity management solution that can help meet your cash management needs. ■

# Optimize



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