



TD U.S. Small and Mid-Cap Equity Solutions

Finding the Sweet Spot in an Overlooked World of Opportunities

We believe U.S. small and mid-capitalization (“SMID-cap”, or “SMID”) equities offer essential exposure to smaller companies that are the lifeblood of the U.S. economy and may be the incubator for tomorrow’s biggest corporations.

While they don’t get the same sort of media exposure, they warrant a strong consideration for allocations within a diversified portfolio. There are a variety of U.S. SMID-cap funds out there. However, not all funds are created equal and there are some key differences.

At a glance

- **Return potential:** Adding U.S. SMID-cap funds to a diversified portfolio can lead to increased risk-adjusted return potential. U.S. SMID funds offered by TD Asset Management Inc. (TDAM) seek to exploit market inefficiencies by selecting high-quality, undervalued companies with high upside potential.
- **Diversification:** An allocation to U.S. SMID-cap funds can enhance portfolio diversification and participation in secular growth themes, helping portfolios weather different market conditions
- **Choice:** TDAM offers a range of SMID-cap funds with a robust allocation to U.S. equities, catering to investors’ unique goals

Why Invest in U.S. SMID Equities

Companies can be categorized according to market capitalization, or market cap. This is the total market value of a company’s shares outstanding. For instance, if a company has issued 10 million shares, and its share price is \$25, its market cap is \$250 million. Large-cap companies typically have a market cap of \$10 billion or more, mid-cap companies are typically between \$2 billion and \$10 billion and small-cap companies are typically between \$250 million and \$2 billion.


Adding an allocation of U.S. SMID-cap funds to a diversified portfolio can help to improve risk-adjusted returns, rewarding investors for the additional risk taken relative to an allocation in U.S. large caps. U.S. SMID-cap companies cover a wide variety of sectors and industries, are smaller in size and are rooted in the resilient and growing U.S. economy.

SMID-cap equities offer investors a dynamic opportunity set of companies that range from emerging small-cap stocks to former large-cap stocks that have stumbled back to mid-cap land. The SMID market also offers investors access to a larger set of companies with specialized products or services. With a focus in niche areas, SMID companies can benefit from less competition in the marketplace when compared to the large cap space.

SMID companies are also often attractive acquisition targets and can receive a boost in valuation when a competitor is acquired. Smaller companies are also more likely to generate their revenues domestically and be less impacted by currency and geopolitical

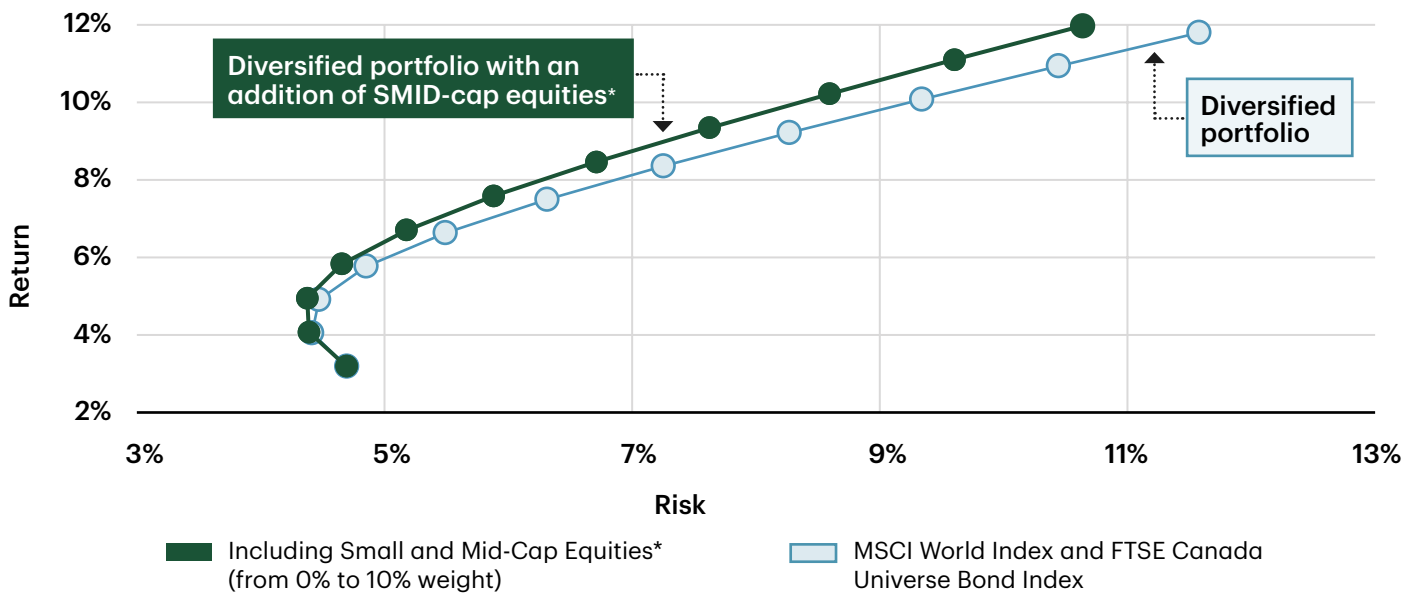
risks, compared to larger companies which rely on international markets for growth.

The **chart 1** below shows the efficient frontier for a portfolio consisting of varying weights of the FTSE Canada Universe Bond Index and the MSCI World Index. Adding in an allocation of SMID stocks to this portfolio leads to higher returns and lower risk. For instance, a portfolio consisting of 50% FTSE Canada Universe Bond Index and 50% MSCI World Index has a 15-year annualized return of 7.5% and an annualized standard deviation of 6.3%. Adding in a 5% weight of SMID-cap stocks increases the return to 7.6% and decreases the risk to 5.9%.



Adding SMID-cap equities to a diversified portfolio can lead to higher returns and lower risk

Chart 1: Risk/Return and the Efficient Frontier



Source: Bloomberg Finance L.P. Data as of December 31, 2023.

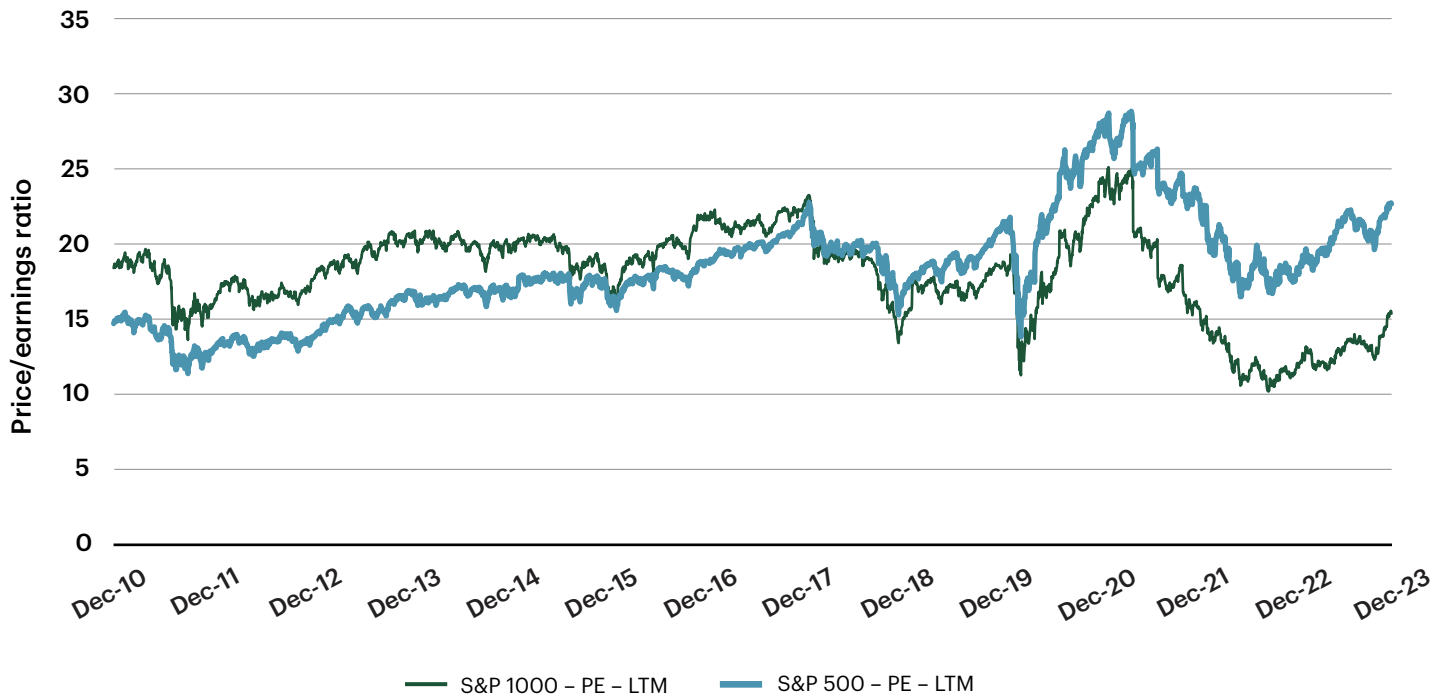
* 50% S&P MidCap 400 Index (Total Return), 50% S&P SmallCap 600 Index (Total Return).

Opportunity

How are SMID-cap valuations today compared to historical trends?

Valuations for SMID-cap equities tend to be attractive. Historically, SMID-cap equities traded at a premium to large-cap equities reflecting their higher risk/return profile. However, since 2017 the large-cap index has become more expensive and the gap in valuations between large-cap equities and smaller cap stocks has been increasing (**chart 2** below), indicating that smaller stocks are attractively valued compared to their larger peers. Moreover, SMID-cap stocks are trading cheaper than their own historical multiples.

Chart 2: S&P 500 Index vs S&P 1000 Index Price/Earnings Ratio



Source: TD Asset Management Inc., Factset. Data as of December 31, 2023.



The TDAM Advantage

TDAM's SMID-cap strategy aims to optimize exposure to SMID stocks that are expected to outperform the overall market while factoring in implementation costs and seeking to avoid uncompensated risks.

- **TD Q U.S. Small-Mid-Cap Equity ETF (TQSM)** seeks to provide exposure to a diversified portfolio of SMID-cap U.S. companies. TQSM aims to provide strong performance by using a quantitative multi-factor approach, which strives to optimize exposure to stocks that are expected to outperform the market.
- **TD U.S. Small-Cap Equity Fund** seeks to achieve long-term capital growth by investing primarily in equity securities of small or medium sized issuers in the United States. The Fund is managed by one of the largest small and mid-cap research teams in the industry. The Fund aims to deliver superior returns relative to the investment risk involved.
- **TD U.S. Mid-Cap Growth Fund** seeks to achieve long-term capital growth by investing primarily in equity securities of medium sized issuers in the United States. The Fund provides investors with the opportunity to gain exposure to U.S. medium-sized companies with above-average earnings growth rates and aims to deliver superior returns relative to the investment risk involved.

The Power of SMID-Cap Equities

SMID-cap indices are much more diversified than the large-cap S&P 500 Index. The weight of the largest 1% of companies within the S&P 500 Index is about 22%, which dwarfs the benchmarks used by TD's SMID-cap funds. Investors may not take comfort in knowing that the S&P 500 Index went from a reasonably diversified portfolio, during the mid-2000s, to one that was excessively concentrated, and therefore volatile, during the peak of the market concentration in mid-2020. The S&P 500 Index had more than 30% of its volatility explained by only five of its highest risk contributors. In contrast, the S&P 1000 Index, which is viewed as being reasonably riskier, had 3.6% of its total risk explained by its five largest risk contributors¹.

Similarly, from a sector point of view, the S&P 500 Index is more concentrated in a single sector than the SMID-cap benchmarks – the largest sector (Information Technology) within the S&P 500 Index makes up about 29% of the overall index. This number jumps to nearly 40% if we include the “magnificent seven” companies of 2023.

While the concentration of the S&P 500 Index in just a few companies tends to lead to strong performance when they do well (such as in 2023 with the “magnificent seven”), the index performance can also suffer when they underperform².

Note



The lifespan of large, successful companies has never been shorter.

In 2020, the average lifespan of a large-cap company on the S&P 500 Index was just over 21 years, compared with 32 years in 1965. There is a clear long-term trend of declining corporate longevity with regards to companies on the S&P 500 Index, with this expected to fall even further. This can be partially attributed to companies' rapid capitalization of market share, mergers and acquisitions – all pointing to higher valuation potential within the SMID-cap space.

¹ Source: TD Asset Management Inc. (TDAM), S&P Global Inc. As at March 31, 2024.

² Source: FactSet, Bloomberg Finance L.P. Data as of Dec 31, 2023.

The power of SMID-cap can be attributed to the attractive state of the small and mid-cap spaces, both from a valuation and a diversification standpoint, compared to the larger cap segment of the U.S. market.

At a time when the U.S. equity market is being led by only a handful of large-cap stocks, today may be an opportune time to consider adding U.S. SMID-cap stocks to your equity allocation for the benefits of diversification and an improved risk-adjusted return profile.

As of March 31, 2024	TD Q U.S. Small-Mid-Cap Equity ETF (TQSM) >	TD U.S. Small-Cap Equity Fund >	TD U.S. Mid-Cap Growth Fund >
Investment Approach	Active quantitative bottom-up approach utilizing value, quality, sentiment and size	Active, bottom-up stock selection approach that seeks to outperform the benchmark. Sub-advised by T. Rowe Price Associates, Inc.	Active, bottom-up stock selection approach that seeks to outperform the benchmark. Sub-advised by T. Rowe Price Associates, Inc.
Structure	Exchange-traded fund (ETF)	Mutual Fund	Mutual Fund
Focus Area	Broad Coverage: Small and Mid-Cap stocks	Companies with market capitalizations within or below the range of the Russell 2000 Index	Companies with market capitalizations between USD 5 billion and USD 50 billion, which is within the range of the Russell Midcap Growth Index
Benchmark	50% S&P Midcap 400 Index / 50% S&P Smallcap 600 Index	Russell 2000 Index C\$	Russell Midcap Growth Index C\$
Currency Hedge	No	No	No
U.S. Exposure	100%	*94.2%	*96.1%
Alpha Potential	High	High	High
Management Fee	0.40%	1.00% (F-Series)	1.00% (F-Series)
Current # Holdings	178	318	127
Current Portfolio Concentration (Top 10)	20.18%	9.46%	22.03%

*Non-US equity holdings for TD U.S. Small Cap Equity Fund is 5.81% and for the TD U.S. Mid-Cap Growth Fund is 3.88%.

Quick Hits



Growth & Diversification

Exposure to compelling growth opportunities with increased risk-adjusted returns in the U.S. Equity market, allowing portfolios to weather different market conditions.



Tactical Asset Allocation

TDAM's portfolios are tactically managed to leverage market opportunities as well as help protect against volatility in down markets.



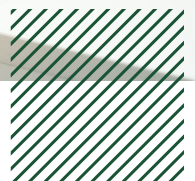
Deep Technical Skills

Take advantage of TDAM's meticulous approach to quantitative investing with the deep expertise of TDAM's broad portfolio management team.



Experience & Scale

TDAM has over 25 years of managing quantitative strategies and is one of the largest managers of quantitative equity strategies in Canada.³



³Source: Assets under management across all mandates managed by TDAM. As of March 31, 2024.

TD Q U.S. Small-Mid-Cap Equity ETF



Julien Palardy, CFA
Managing Director, TDAM

Julien is the Head of Quantitative and Passive Investing. He oversees the team responsible for the modelling, research and management of various Quantitative strategies, including Low Volatility Equities and Systematic Alpha Equities, in addition to the teams responsible for the management of Passive Equities and Passive Fixed Income. He previously headed the Quantitative Equity Team and, before that, was Lead Portfolio Manager for the firm's Systematic Alpha, Low Volatility and Low Volatility Plus funds. He has co-managed the firm's Institutional Asset Allocation mandates, designed forecasting models for strategic and tactical asset allocation, built quantitative equity strategies for North American and Global long-only and North American market neutral funds, and built quantitative fixed income strategies for Canadian and global bond funds. Julien holds a B.Sc. and an M.Sc. in Applied Financial Economics, both from HEC Montréal.



Laurie-Anne Davison, CFA, CAIA
Vice President & Director, TDAM

Laurie-Anne leads the integrated passive business and is the lead portfolio manager for all passive equity mandates. She previously co-managed Quantitative Equity portfolios and was the lead portfolio manager of the U.S. and Canadian mandates. She continues to help manage the various quantitative ETF mandates. Laurie-Anne previously provided risk oversight for Fund of Funds solutions. She gained experience in various research roles covering a variety of asset classes. Laurie-Anne holds a B.A. in Administrative and Commercial Studies, Finance and Economics from Western University and an M. Fin. from the Rotman School of Management at the University of Toronto.



Alex Sandercock, CFA
Vice President, TDAM

Alex is a Portfolio Manager on the Quantitative Team supporting Equity Exchange Traded Funds. He also co-leads the Passive Equity Funds. He previously served as an IT Analyst supporting the firm's Trading and Portfolio Management teams. He gained experience as a Business Systems Analyst at TD Securities. Alex holds a B. Math. from the University of Waterloo and a B.B.A. from Wilfrid Laurier University.

TD U.S. Mid-Cap Growth Fund



Brian Burghuis

Vice President, T. Rowe Price Group, Inc.

Brian W.H. Berghuis is the lead portfolio manager of the US Mid-Cap Growth Equity Strategy, including the Mid-Cap Growth Fund, at T. Rowe Price Investment Management. He is the chairman of the Mid-Cap Growth and Institutional Mid-Cap Equity Growth Investment Advisory Committees and a member of the T. Rowe Price Investment Management Investment Steering Committee. He is a vice president of T. Rowe Price Group, Inc.

Brian's investment experience began in 1981. He joined T. Rowe Price as an equity research analyst in 1985 and became the lead portfolio manager of the US Mid-Cap Growth Equity Strategy in 1992.

Brian earned an A.B., cum laude, from Princeton University, Woodrow Wilson School of Public and International Affairs, and an M.B.A. from Harvard Business School. He also has earned the Chartered Financial Analyst® designation and is a former president of the Baltimore Security Analysts Society. In 2004, Brian was named "Manager of the Year" by Morningstar. CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

TD U.S. Small-Cap Equity Fund

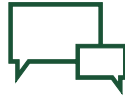


Alex Roik

Vice President, T. Rowe Price Group, Inc.

Alex Roik is the lead portfolio manager of the Small-Cap Stock Core Equity Strategy at T. Rowe Price Investment Management. He is the president, the chairman, and a member of the Small-Cap Stock and Institutional Small-Cap Stock Investment Advisory Committees and a vice president and member of the Small-Cap Value Investment Advisory Committee. Alex also is a vice president of T. Rowe Price Group, Inc.

Alex has been with T. Rowe Price since 2013, beginning in the T. Rowe Price Associates U.S. Equity Division as an investment analyst focusing on small- and mid-cap value components. Prior to this, Alex was a summer analyst at Goldman Sachs in New York. Alex earned a B.B.A., cum laude, in finance from the University of Notre Dame. He also has earned the Chartered Financial Analyst® designation. CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.



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investment professional.**

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