

# TD Asset Management

## TD *Emerald* Canadian Bond Index Fund

525652  
(03/20)

### TD *Emerald* Funds Annual Management Report of Fund Performance

for the year ended December 31, 2019

This Annual Management Report of Fund Performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, at no cost, by calling 1-888-834-6339, by writing to us at TD Asset Management Inc., TD Canada Trust Tower, 34th Floor, 161 Bay Street, Toronto, Ontario, M5J 2T2, by e-mail to [inst.info@tdam.com](mailto:inst.info@tdam.com), or by visiting our website at [www.tdaminstitutional.com](http://www.tdaminstitutional.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com)



Securityholders may also contact us or visit our website to get a copy of the investment fund's interim financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure at no cost.

### Management Discussion of Fund Performance

#### Investment Objectives and Strategies

The investment objective of TD Emerald Canadian Bond Index Fund (the "Fund") is to seek to track the performance of the FTSE Canada Universe Bond Index (the "Universe Index"). In seeking to achieve this objective, the Fund invests primarily in a group of bonds included in the Universe Index that are selected and weighted mathematically to approximate the overall return and risk characteristics of the Universe Index.

#### Risk

The risks of investing in the Fund remain as outlined in the simplified prospectus.

#### Results of Operations

The Class B units of the Fund returned 6.7% for the year ended December 31, 2019 ("Reporting Period"), versus 6.9% for the Fund's product benchmark and general market index, the Universe Index. Unlike the product benchmark and general market index, the Fund's return is quoted after the deduction of fees and expenses.

#### Market Update

Canadian economic growth, as measured by gross domestic product, was relatively strong over the Reporting Period, particularly in the second quarter. This was largely in response to a significant rise in exports. While economic growth slowed in the third quarter, it remained fairly robust, largely as a result of strong consumer spending, business investment and real estate investment.

Inflation was steady over the Reporting Period and in line with the Bank of Canada's ("BoC") target range. While the labour market was generally stable, the unemployment rate experienced a notable increase to 5.9% near the end of the Reporting Period as a result of job losses. At its latest meeting, the BoC held its benchmark interest rate steady at 1.75% and noted it would closely monitor global economic strength when making any adjustments to the benchmark interest rate in Canada.

Canadian bond prices rose over much of the Reporting Period, as yields fell amid slowing economic growth both domestically and globally. In the fourth quarter of the Reporting Period, the U.S. and China reached a preliminary trade agreement that improved the economic and inflationary outlook. This bolstered market sentiment and caused investors to move into higher-risk assets, such as equities. In response, mid- to long-term Government of Canada bond yields moved higher, while short-term yields were little changed. This resulted in the yield curve moving out of its previously inverted state (where short-term yields are higher than longer-term yields). Furthermore, credit spreads (the difference in yields between corporate bonds and government bonds with similar maturities) narrowed to their lowest levels of the Reporting Period.

Canadian bonds delivered strong returns across all sectors, with corporate bonds posting the largest gains. In terms of maturity, long-term bonds posted strong gains, as yields fell over the Reporting Period.

#### Key Contributors/Detractors

The Portfolio Adviser continued to manage the Fund with the objective of seeking to track the performance of its product benchmark. The Fund's return is influenced by the same factors that affect the Canadian fixed income market.

#### Recent Developments

Looking ahead, the Portfolio Adviser continues to monitor a variety of macroeconomic factors that could impact financial markets. Heading into 2020, global central banks tempered optimism about the global economy, lowering growth forecasts accordingly. In the Portfolio Adviser's view, Brexit uncertainty and weak industrial production are hampering economic growth in Europe. Over the first few months of 2020, policy makers became concerned about the economic effects of the COVID-19 outbreak. Monetary policy is broadly expected to remain accommodative as central banks seek to insulate the global economy from decreased demand and a disruption of supply chains in the wake of the COVID-19. The Portfolio Adviser expects the Bank of Canada and the U.S. Federal Reserve Board to implement further accommodative policy action in the near term. Inflation is expected to remain tepid while labour market strength will be tested. The Portfolio Adviser expects a continued low interest rate environment in the coming year.

The Portfolio Adviser anticipates that the lower-for-longer interest rate environment should continue for a prolonged period. The Portfolio Adviser expects earnings growth to slow but remain broadly positive. In a historical context, market valuations for riskier assets appear to be at fair value. As such, the Portfolio Adviser is cautiously optimistic. The Portfolio Adviser continues to monitor all of the factors that could influence the Fund's investment portfolio.

Regarding the recent COVID-19 outbreak, the Portfolio Adviser is aware of the negative economic consequences and continues to closely monitor the impact to markets. While there is no definitive way to estimate the degree of the economic damage as different governments and central banks may have different abilities to respond, the Portfolio Adviser believes the U.S. economy could be relatively resilient to a global downturn given strong corporate health, low unemployment, a relatively high savings rate and strong consumer spending. The Portfolio Adviser continues to monitor the risk and will adjust positioning when warranted.

**Related Party Transactions**

Affiliates of TD Asset Management Inc. (“TDAM”) may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as in connection with banking, custody, brokerage and derivatives transactions.

*Manager, Trustee and Portfolio Adviser:*

TDAM, a wholly-owned subsidiary of The Toronto-Dominion Bank (“TD”), is the manager, trustee and portfolio adviser of the Fund. TDAM is paid directly by the unitholders an annual management fee for providing management services.

The Fund pays TDAM an annual administration fee in consideration for TDAM paying certain operating expenses of the Fund. The tiered administration fee is calculated based on the net asset value of the Fund, and is accrued daily and paid to TDAM monthly.

	<i>(expressed as a %)</i>
First \$200 Million of Net Asset Value	0.03
Next \$300 Million of Net Asset Value	0.02
Balance Over \$500 Million of Net Asset Value	0.01

*Distributor:*

Units of the Fund are generally intended for sale to institutional investors subject to certain restrictions and can be obtained directly from a TDAM representative in any province or territory where TDAM is or may become qualified to receive orders for units of the Fund.

*Registrar and Transfer Agent:*

TD is the registrar and transfer agent of the Fund, and as such maintains all unitholder records, processes purchase, switch, conversion and redemption orders, issues investor statements and prepares annual tax reporting information on behalf of the Fund.

*Administration and Securityholder Services:*

The Fund also maintains bank accounts and overdraft provisions with TD for which TD earns a fee.

*Buying and Selling Securities:*

TDAM has established an independent review committee (“IRC”) which acts as an impartial and independent committee to review and provide recommendations or, if appropriate, approvals respecting any conflict of interest matters referred to it by TDAM. The IRC prepares, at least annually, a report of its activities for securityholders of the Fund. The report is available on the TDAM website at [www.tdaminstitutional.com](http://www.tdaminstitutional.com) or at the securityholder’s request at no cost by contacting TDAM (see front cover).

The Fund relied on standing instructions from the IRC in respect of one or more of the following transactions:

- (a) trades in securities of TD or any affiliate or associate thereof;
- (b) investments in the securities of an issuer where TD Securities Inc., TD Waterhouse Canada Inc., or any other affiliate of TDAM (a “Related Dealer”) acted as an underwriter during the distribution of such securities and the 60-day period following the completion of the distribution of the underwritten securities;
- (c) purchases or sales of securities of an issuer from or to another investment fund or discretionary managed account managed by TDAM; and
- (d) purchases of securities from or sales of securities to a Related Dealer, where it acted as principal.

The IRC of the Fund has approved standing instructions to permit the Fund to engage in *in specie* transactions with related mutual funds and discretionary managed accounts managed by TDAM.

The relevant standing instructions require that securities transactions with related parties conducted by TDAM (i) are free from any influence by an entity related to TDAM and without taking into account any consideration relevant to an entity related to TDAM; (ii) represent the business judgment of TDAM uninfluenced by considerations other than the best interests of the Fund; (iii) comply with the applicable policies and procedures of TDAM; and (iv) achieve a fair and reasonable result for the Fund.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five fiscal years, as applicable.

### Net Assets per Unit (\$) <sup>1</sup>

CLASS B	2019	2018	2017	2016	2015
<b>Net Assets, Beginning of Year</b>	12.54	12.75	12.84	13.08	13.06
<b>Increase (Decrease) from Operations:</b>					
Total Revenue	0.38	0.39	0.39	0.42	0.44
Total Expenses (excluding distributions)	0.00	0.00	0.00	0.00	0.00
Realized Gains (Losses) for the Period	0.03	(0.05)	0.00	0.08	0.12
Unrealized Gains (Losses) for the Period	0.43	(0.18)	(0.08)	(0.30)	(0.10)
<b>Total Increase (Decrease) from Operations <sup>2</sup></b>	0.84	0.16	0.31	0.20	0.46
<b>Distributions:</b>					
From Net Investment Income (excluding dividends)	(0.38)	(0.39)	(0.39)	(0.41)	(0.44)
From Dividends	0.00	0.00	0.00	0.00	0.00
From Capital Gains	0.00	0.00	0.00	(0.03)	0.00
Return of Capital	0.00	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>3</sup></b>	(0.38)	(0.39)	(0.39)	(0.44)	(0.44)
<b>Net Assets at December 31</b>	12.99	12.54	12.75	12.84	13.08

<sup>1</sup> This information is derived from the Fund's audited annual financial statements prepared in accordance with International Financial Reporting Standards. The Fund measures fair value of its investments based on close market prices, where the close market price falls within the bid-ask spread or based on quotations from recognized dealers. As such, the Fund's accounting policies for measuring the fair value of investments in the financial statements are substantively consistent with those used in measuring the net asset value ("NAV") for transactions with unitholders.

<sup>2</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial periods. This table is not intended to be a reconciliation of the net assets per unit.

<sup>3</sup> Distributions were paid in cash or reinvested in additional units of the Fund, or both.

### Ratios and Supplemental Data

CLASS B	2019	2018	2017	2016	2015
Total Net Asset Value (\$000s) <sup>1</sup>	4,201,637	4,155,289	4,560,818	4,800,578	4,767,051
Number of Units Outstanding (000s) <sup>1</sup>	323,442	331,423	357,607	373,993	364,399
Management Expense Ratio (%) <sup>2</sup>	0.01	0.01	0.01	0.01	0.01
Management Expense Ratio Before Waivers or Absorptions (%)	0.01	0.01	0.01	0.01	0.01
Trading Expense Ratio (%) <sup>3</sup>	0.00	0.00	0.00	0.00	0.00
Portfolio Turnover Rate (%) <sup>4</sup>	37.74	29.55	35.50	42.35	38.75
Net Asset Value per Unit (\$)	12.99	12.54	12.75	12.84	13.08

<sup>1</sup> This information is provided as at December 31 of the past five fiscal years, as applicable.

<sup>2</sup> Management expense ratio ("MER") is based on total expenses (excluding distributions, commissions and other portfolio transaction costs) net of any waivers or absorptions for the stated period and is expressed as an annualized percentage of daily average NAV during the period. Any waivers or absorptions may be discontinued at any time by TDAM at its discretion without notice.

<sup>3</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average NAV during the stated period.

<sup>4</sup> The Fund's portfolio turnover rate ("PTR") indicates how actively the Fund's portfolio adviser manages its investments. A PTR of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the stated period. The higher a fund's PTR, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the fiscal year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

### Management Fees

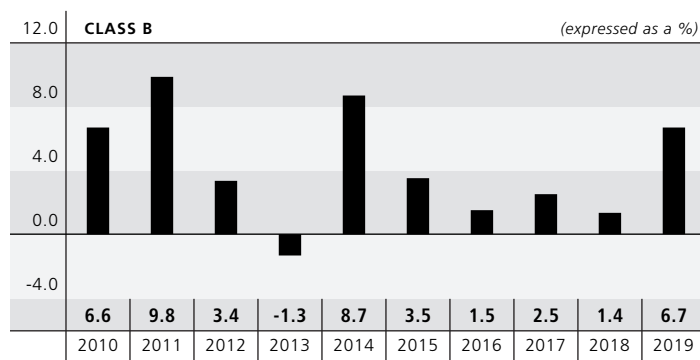
The Fund's Class B units do not pay a management fee to TDAM. Instead, such fees are negotiated separately and paid directly by unitholders.

### Past Performance

The following chart shows how the Fund has performed in the past, and can help you understand the risks of investing in the Fund. These returns include the reinvestment of all distributions and would be lower if an investor did not reinvest distributions. They do not include deduction of sales, switch, redemption, or other optional charges (which dealers may charge) or income taxes payable, and these returns would be lower if they did. The Fund’s past performance does not necessarily indicate how it will perform in the future.

### Year-by-year returns

The bar chart shows how the Fund’s performance has varied from year to year for each of the years shown. It shows in percentage terms how an investment made on January 1 would have increased or decreased by December 31.



### Annual Compound Returns

The following table shows the annual compound total returns of the Fund for each of the periods indicated ended on December 31, 2019, compared with the following benchmarks:

- Product Benchmark:
  - Universe Index – This index is comprised of Canadian investment-grade bonds which mature in more than one year.
- General Market Index:
  - Universe Index.

(expressed as a %)	Past year	Past 3 years	Past 5 years	Past 10 years	Since inception
Class B	6.7	3.5	3.1	4.2	N/A
Product Benchmark	6.9	3.6	3.2	4.3	N/A
General Market Index	6.9	3.6	3.2	4.3	N/A

A discussion of the Fund’s performance compared to the product benchmark and general market index can be found in the Results of Operations section.

## Summary of Investment Portfolio

as at December 31, 2019

	% of Net Asset Value
<b>ASSET ALLOCATION</b>	
Canadian Bonds	99.2
Cash (Bank Overdraft)	0.1
U.S. Bonds	0.1
Global Bonds	0.0
Other Net Assets (Liabilities)	0.6
<b>PORTFOLIO ALLOCATION</b>	
Provincial Bonds & Guarantees	34.1
Federal Bonds & Guarantees	33.9
Corporate Bonds	28.7
Municipal Bonds	2.6
Cash (Bank Overdraft)	0.1
Other Net Assets (Liabilities)	0.6
<b>FIXED INCOME CREDIT RATINGS<sup>§</sup></b>	
AAA	37.9
AA	37.2
A	24.2
BBB	0.0
<b>TOTAL NET ASSET VALUE (000s)</b>	
	\$ 4,201,637

<sup>§</sup> Credit Ratings are obtained from S&PGR, Moody's or DBRS Ltd. rating agencies.

	% of Net Asset Value
<b>TOP 25 INVESTMENTS</b>	
Government of Canada 0.750% due March 1, 2021	1.3
Government of Canada 0.750% due September 1, 2021	1.2
Government of Canada 1.000% due June 1, 2027	1.2
Government of Canada 1.000% due September 1, 2022	1.2
Government of Canada 2.750% due December 1, 2048	1.1
Government of Canada 3.250% due June 1, 2021	1.1
Canada Housing Trust No. 1 2.900% due June 15, 2024	1.0
Government of Canada 2.500% due June 1, 2024	1.0
Government of Canada 4.000% due June 1, 2041	1.0
Government of Canada 0.500% due March 1, 2022	1.0
Province of Ontario 3.450% due June 2, 2045	1.0
Government of Canada 5.750% due June 1, 2033	1.0
Province of Ontario 2.850% due June 2, 2023	1.0
Province of Ontario 2.900% due December 2, 2046	1.0
Government of Canada 1.750% due March 1, 2023	1.0
Government of Canada 5.750% due June 1, 2029	0.9
Government of Canada 3.500% due December 1, 2045	0.9
Government of Canada 5.000% due June 1, 2037	0.9
Canada Housing Trust No. 1 2.400% due December 15, 2022	0.9
Province of Ontario 2.900% due June 2, 2049	0.8
Government of Canada 1.500% due September 1, 2024	0.8
Province of Ontario 3.500% due June 2, 2043	0.8
Canada Housing Trust No. 1 1.750% due June 15, 2022	0.8
Government of Canada 2.750% due June 1, 2022	0.8
Province of Quebec 3.500% due December 1, 2048	0.7
Total % of Net Asset Value represented by these holdings	24.4

Note: Totals may not add due to rounding to one decimal place of individual figures.

The TD *Emerald* Canadian Bond Index Fund has been developed solely by TD Asset Management Inc. ("TDAM"). The Fund is not in any way connected to or sponsored, endorsed, sold or promoted by the London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). FTSE Russell is a trading name of certain of the LSE Group companies.

All rights in the FTSE Canada Universe Bond Index (the "Index") vest in the relevant LSE Group company which owns the Index. "FTSE®" is a trade mark of the relevant LSE Group company and is used by any other LSE Group company under license.

The Index is calculated by or on behalf of FTSE International Limited or its affiliate, agent or partner. The LSE Group does not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the Index or (b) investment in or operation of the Fund. The LSE Group makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purpose to which it is being put by TDAM.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. Updates are available quarterly. You may obtain the most current quarterly information by contacting TD Asset Management Inc. at 1-888-834-6339, by writing to us at TD Asset Management Inc., TD Canada Trust Tower, 34th Floor, 161 Bay Street, Toronto, Ontario, M5J 2T2, or by e-mail to [inst.info@tdam.com](mailto:inst.info@tdam.com)

## Caution regarding forward-looking statements

Certain portions of this report, including, but not limited to, “Results of Operations” and “Recent Developments”, may contain forward-looking statements including, but not limited to, statements about the Fund, its strategy, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” and similar forward-looking expressions or negative versions thereof.

In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and relevant market factors in North America and internationally, interest and foreign exchange rates, equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events.

The above mentioned list of important factors is not exhaustive. You are encouraged to consider these and other factors carefully before making any investment decisions and you are urged to avoid placing any undue reliance on forward-looking statements. Further, there is no specific intention of updating any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

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