From the Desk Of The **Quantitative Equities Team**

TD Q Dividend ETFs as at February 29, 2024

FEB 2024

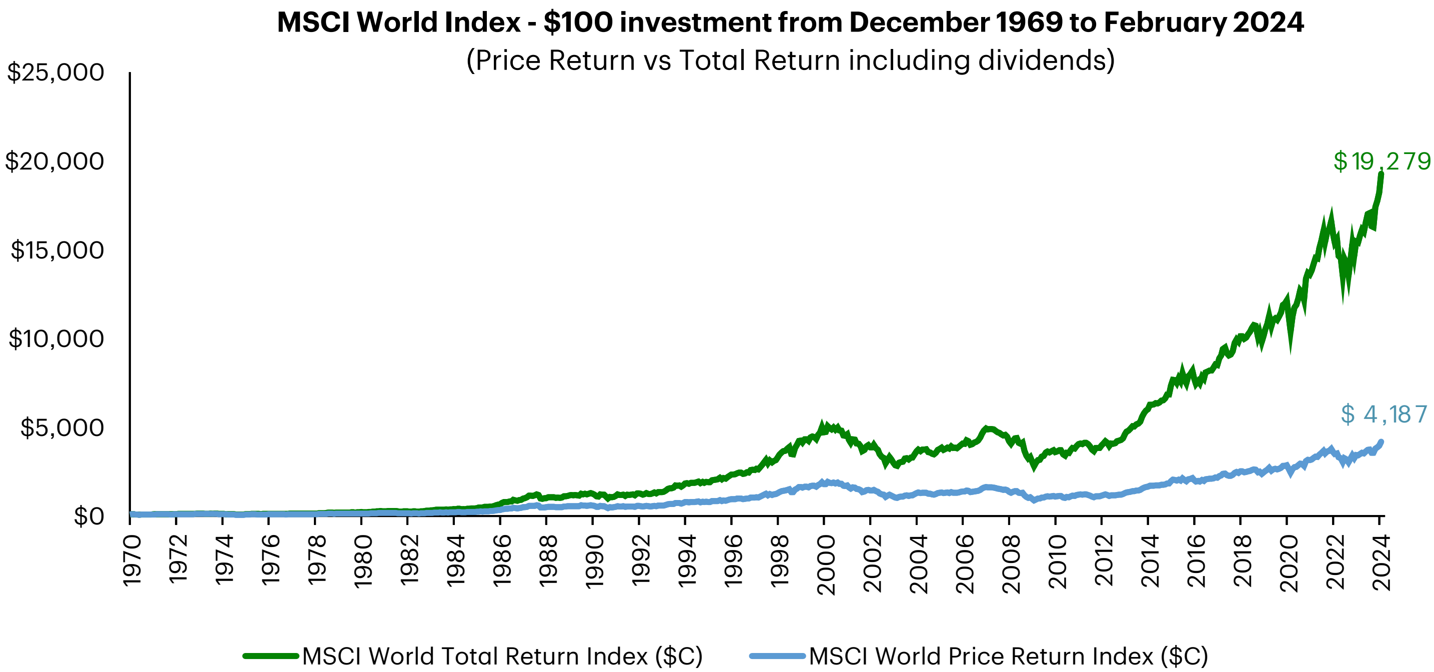
Stock markets ended 2023 on a very strong note with the MSCI World Index (C$) market up nearly 9% through November and December, as market sentiment turned positive on the belief that the United States (which is 70% of the MSCI World Index) could achieve a soft landing where inflation was controlled, the U.S. Federal Reserve's (the Fed's) funds rates are reduced and the U.S. economy continues to grow, rather than falling into a recession. Economic data has continued to show that the U.S. economy and labour market remain very robust despite high rates.

Given the expectation that many central banks, including the Fed and the Bank of Canada, will start lowering rates this year, investors could start to see the yields they get on guaranteed investment certificates (GICs) and other forms of fixed income instruments decline as well. Equity income investments such as the TD Q Global Dividend ETF (TQGD) and TD Q Canadian Dividend ETF (TQCD) could be an attractive addition to a balanced portfolio as 1) unlike GICs and other fixed income securities, the yields they offer are not tied to central bank policy rates, 2) the companies within these ETFs have the potential to increase their dividends, even in a falling rate environment and 3) in the case of TQCD, taxable investors could even benefit from the dividend tax credit.

Last year's obsession with the so-called Magnificent 7 has morphed into the Magnificent 4 as just four companies (NVIDIA Corp., Meta Platforms Inc., Microsoft Corp., and Amazon.com Inc.) have accounted for almost 34% of the MSCI World Index's returns year-to-date. On February 1, Meta Platforms Inc. surprised investors by announcing they will start paying a dividend in 2024 and the stock was up 20% on the news. The jump in Meta's stock price may encourage other non-dividend-paying technology stocks to follow suit and initiate their own dividends.

Notwithstanding the current mania over artificial intelligence (AI) and the elevated returns of some non-dividend-paying technology companies which are believed to be beneficiaries of AI, dividends have historically been an important part of overall stock market returns. Chart 1 shows the difference between $100 hypothetically invested in the total return variant of the MSCI World Index (C$) (which includes dividends, and the price return variant of the index, which does not include dividends, from December 1969 until February 2024. While the price return index growth from $100 to $4,187 represents a 7% cumulative annual growth rate (CAGR), the total return (including dividends) growth to $19,279 represents a higher 10% CAGR.

Chart 1: Price Return vs Total Return - MSCI World Index ("MSCI World")



Source: TD Asset Management, FactSet. Date range: December 31, 1969 – February 29, 2024

Dividend-paying companies are often larger, stable, more mature businesses with a long-term sustainable competitive advantage. The executives of these companies know they need to manage these businesses efficiently and profitably to grow their operations and increase their cash flows which enables dividend-paying companies to continue paying, and often increasing, their dividends over time. The TD Q Dividend ETFs (consisting of the TD Q Global Dividend ETF and the TD Q Canadian Dividend ETF) seek to invest in dividend-paying companies that 1) are generating cash to pay their dividends, 2) are showing increasing levels of profitability over time and 3) are increasing their dividends. During portfolio construction, we also target an overall portfolio yield significantly higher than their benchmark. The table below shows how these ETFs compare to their benchmarks on dividend growth rate, profitability growth and cash flow generation.

Table 1: TQGD and TQCD Characteristics vs. Benchmarks

	2-Year Dividend Growth Rate	5-Year Return on Equity Growth Rate	Cash Flow / Invested Capital	Dividend Yield
TD Q Global Dividend ETF (TQGD)	32.7%	1.7%	29.9%	4.6%
MSCI World Index	10.8%	1.1%	21.0%	1.8%
TD Q Canadian Dividend ETF (TQCD)	49.1%	1.6%	10.6%	4.4%
S&P/TSX Composite Index	15.8%	0.5%	4.6%	3.1%

Source: TD Asset Management, FactSet, Standard & Poors As of February 29, 2024

As shown above, the dividend growth rate of TQGD's holdings is 3.0 times higher than the 10.8% growth rate of the MSCI World Index while TQCD's dividend growth rate is 3.1 times higher than the S&P/TSX Composite Index's dividend growth rate of 15.8%. The 4.6% and 4.4% dividend yield of TQGD and TQCD may also be very attractive for income seeking investors and we also see a strong potential for capital appreciation given our focus on companies which generate lots of cash and are increasingly profitable.

For further information about these ETFs please contact your TDAM representative

Performance as at February 29, 2024	3 months	YTD	1 year	2 years	3 years	Since Inception[1]
TD Q Global Dividend ETF (TQGD)	9.1%	5.2%	16.3%	11.2%	12.3%	8.4%
MSCI World Index (C$)	10.7%	8.5%	24.5%	11.3%	11.2%	11.6%
TD Q Canadian Dividend ETF (TQCD)	7.5%	2.7%	7.4%	6.6%	12.9%	6.9
S&P/TSX Composite Index	6.4%	2.4%	9.2%	3.9%	9.0%	8.8%

Source: TD Asset Management. As of February 29, 2024. [1]November 20, 2019