

# Quarterly Fund Commentary | Q3 2018

## Epoch U.S. Small-Mid Cap Equity Fund Institutional Class



<b>Symbol:</b> TDUSX	<b>Asset Class:</b> U.S. Equity	<b>Style:</b> Active Fundamental	<b>Inception:</b> 05/30/2013	<b>CUSIP:</b> 87237U477
-------------------------	------------------------------------	-------------------------------------	---------------------------------	----------------------------

### Fund Commentary<sup>1</sup>

As of September 30, 2018

Stocks had a strong quarter, touching all-time highs, shrugging off trade tensions and benefitting from exceptional profit growth. Corporate profits jumped 16% year-over-year, helped by tax cuts and a robust domestic economy. There were, however, notable stumbles. Information technology stocks generally experienced an increase in volatility in an environment of heightened regulatory scrutiny. Specific companies hurt by tariffs also made headlines. Large-cap stocks beat small caps. Health care, industrials, information technology and telecommunications services had strong returns. Consumer staples declined. Energy also lagged despite Brent crude edging over \$80 per barrel, a four-year high. The 10-year U.S. Treasury yield closed the quarter above 3%.

Over the quarter, the portfolio underperformed the benchmark. While security selection was positive in the consumer staples and health care sectors, selection in other sectors more than offset that advantage. Certain holdings within the consumer discretionary, financials, materials, and real estate sectors detracted from relative results among others. Ten of eleven sectors posted positive returns for the period. Two underlying factors that are related have contributed to the strategy's underperformance for both the quarter and YTD period: the strong performance of unprofitable or "low quality" companies within the index and the market's preference for high revenue growth over stable profit growth.

While the portfolio had been positioned to do well in a positive economic environment, this factor has been more than offset by an environment favoring unprofitable or speculative companies. We believe the portfolio is superior to the index on several measures including cash generation, valuation, return on equity, and balance sheet strength. We cannot predict when unprofitable companies will be out of favor, but that outcome represents a compelling opportunity for the U.S. SMID Cap strategy moving forward.

### Investment Overview

**Investment Objective:** The Epoch U.S. Small-Mid Cap Equity Fund ("Fund") seeks to provide long-term capital appreciation.

### Portfolio Management:

**Epoch Investment Partners Inc.**

David N. Pearl  
*Executive Vice President, Co-CIO*  
Industry Experience: 34 years

Michael A. Welhoelter, CFA  
*Managing Director*  
Industry Experience: 32 years

### Historical performance (%)

	1 mos.	3 mos.	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since Inception
Fund	-3.10	0.67	7.82	11.12	8.40	-	9.12
Benchmark <sup>2</sup>	-1.52	4.70	16.19	16.13	11.37	-	12.00

### Calendar year returns (%)

	YTD	2017	2016	2015	2014
Fund	0.60	16.27	16.02	-4.72	6.63
Benchmark <sup>2</sup>	10.41	16.81	17.59	-2.90	7.07

**Benchmark:** Russell 2500 Total Return Index

**Gross Expense Ratio<sup>3</sup>:** 1.15%

**Net Expense Ratio<sup>3,4</sup>:** 1.00%

Actual Expense Ratio<sup>3</sup>: 1.00%

*Performance information represents past performance and does not guarantee future results. Current performance may be higher or lower than the performance data cited. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. For performance information current to the most recent month end, please visit [www.tdamusa.com](http://www.tdamusa.com). Performance greater than one year is annualized.*

*Before investing you should carefully read the prospectus and/or the summary prospectus and carefully consider the investment objectives, risks, charges and expenses of the Fund. The prospectus and the summary prospectus contain this and other information about the Fund and may be obtained by calling 1-866-416-4031.*

SECURITIES AND INVESTMENTS		
NOT FDIC INSURED	NO BANK GUARANTEE	MAY LOSE VALUE

# Quarterly Fund Commentary | Q3 2018

## Epoch U.S. Small-Mid Cap Equity Fund

### Institutional Class



#### Important Information

1. All information provided within this document is current as of the date indicated on the first page unless otherwise specified and is subject to change. Source: TD Asset Management.
2. Benchmark performance is not impacted by fees. There are no fees for the benchmark as one cannot invest in an index.
3. Gross Expense and Net Expense Ratios are taken from the most recent prospectus. Actual Expense Ratio is historical and annualized based on the six-month period ending July 31, 2018 as calculated in the most recent semi-annual or annual report. The Net Expense Ratio represents the amount that will be paid by the investor.
4. The Adviser has contractually agreed to waive fees and reimburse expenses at least through May 31, 2019.

TDAM USA Inc. is a Delaware corporation registered as an investment adviser with the U.S. Securities and Exchange Commission (SEC). In providing investment management services and advice, TDAM USA Inc. has available to it, and draws on, the personnel, resources and experience of TD Asset Management Inc. TD Asset Management Inc. is not registered in the United States as an investment adviser with the SEC and does not offer its services within the United States. TD Asset Management operates through TD Asset Management Inc. in Canada and through TDAM USA Inc. in the United States. Both are wholly owned subsidiaries of The Toronto-Dominion Bank.

The Fund is a series of TD Asset Management USA Funds Inc. SEI Investments Distribution Co., which is not affiliated with TD Asset Management or any of its affiliates, acts as distributor of shares of the Fund.

This material does not provide individual, financial, legal, tax or investment advice and is for information purposes only. Particular investment, trading or tax strategies should be evaluated relative to each individual's objectives and risk tolerance. Past performance is no guarantee of future results, and graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any security.

The information does not provide individual financial, legal, tax or investment advice and is for information purposes only.

Commentary provided herein reflects the authors' opinion as of the date of this document, and is subject to change without notice. There is no guarantee that any forecast or opinion in this material will be realized. The statements contained herein are based on material believed to be reliable but cannot be guaranteed. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete.

Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, and the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable and may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS. TD Asset Management may not update any FLS.

#### Investment Risks

Investments in mid-size and smaller companies typically exhibit higher volatility. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. Not FDIC Insured • May Lose Value • No Bank Guarantee.

Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

©The TD logo and other trademarks are the property of The Toronto-Dominion Bank. All trademarks are the property of their respective owners.