



Presentation to

**FEI Conference**  
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# Agenda

- The Storm
- The Markets
- Money Markets
- Implications
- Summary

## The Storm

- Liquidity
- Leverage
- Loan-Liability Mismatch
- Lending

Multiple sources of excess

## The Storm - Liquidity

- The Problem:



Funding  
Institutional Specific

Market  
Asset Specific

- The Solution:

Central Banks

Traditional = Interest Rates

Practical = New liquidity facilities

Avoiding the liquidity spiral

## The Storm- Leverage

- Banks
- Investment banks
- Hedge funds
- Corporations

Basel capital requirements spur leverage

## The Storm – Loan Liability Mismatch

Lend long, fund short

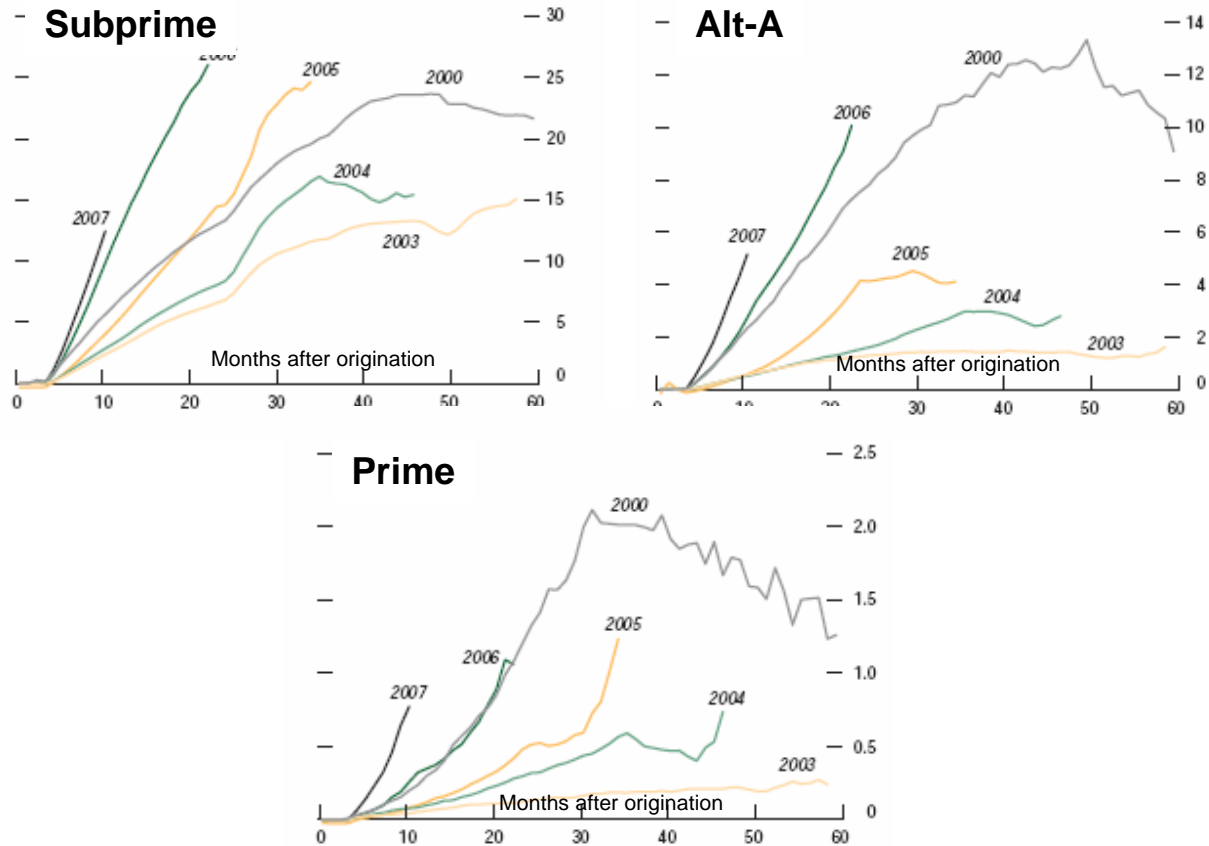
- SIV = ~\$350bn
- ARS = ~\$330bn
- ABCP = ~\$30bn Canada, ~\$300bn US
- CDO = ~\$500bn

No lender of last resort



# The Storm - Lending

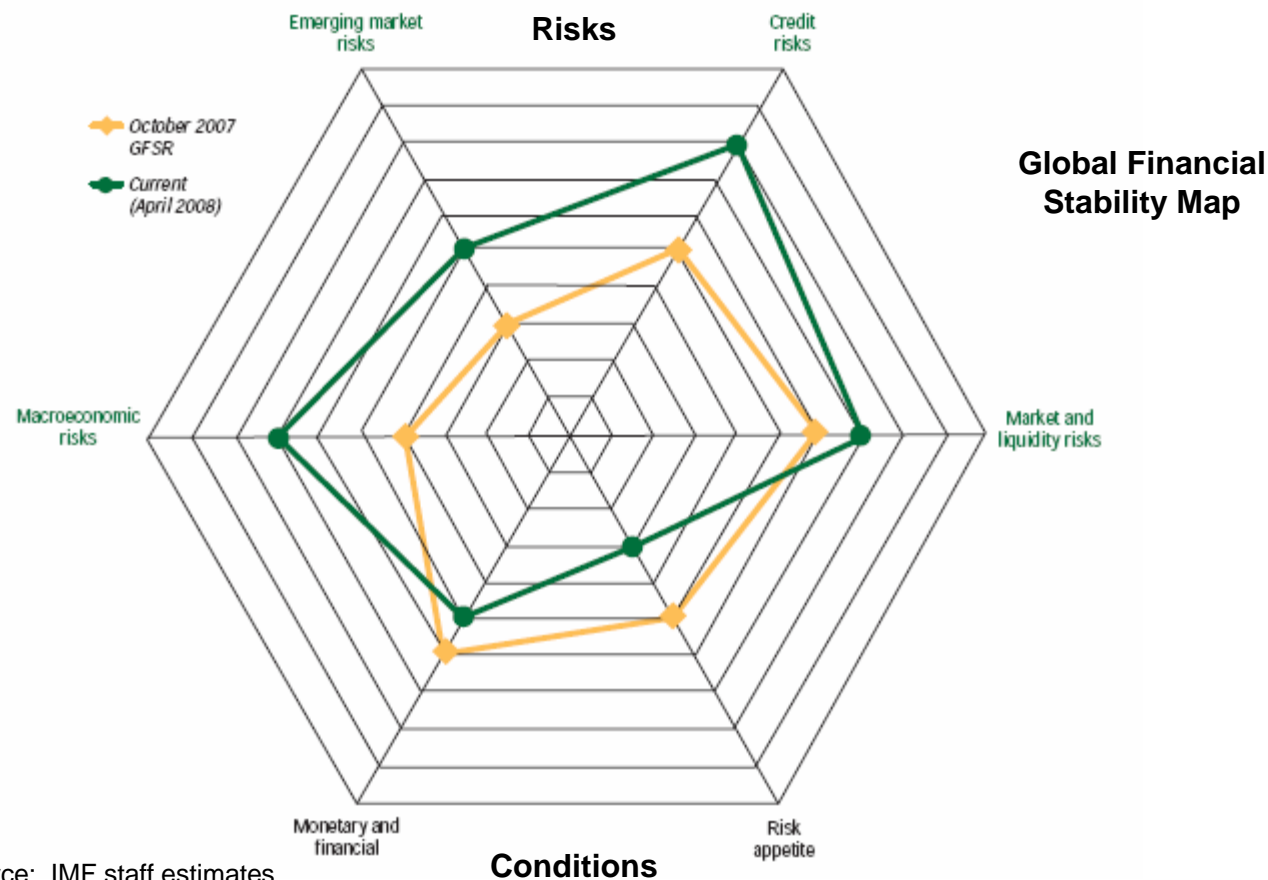
Mortgage Delinquencies by Vintage Year (60+ day delinquencies, in % of balance)



Source: Merrill Lynch; and LoanPerformance

The surprise is the time to delinquency

# The Storm - Lending



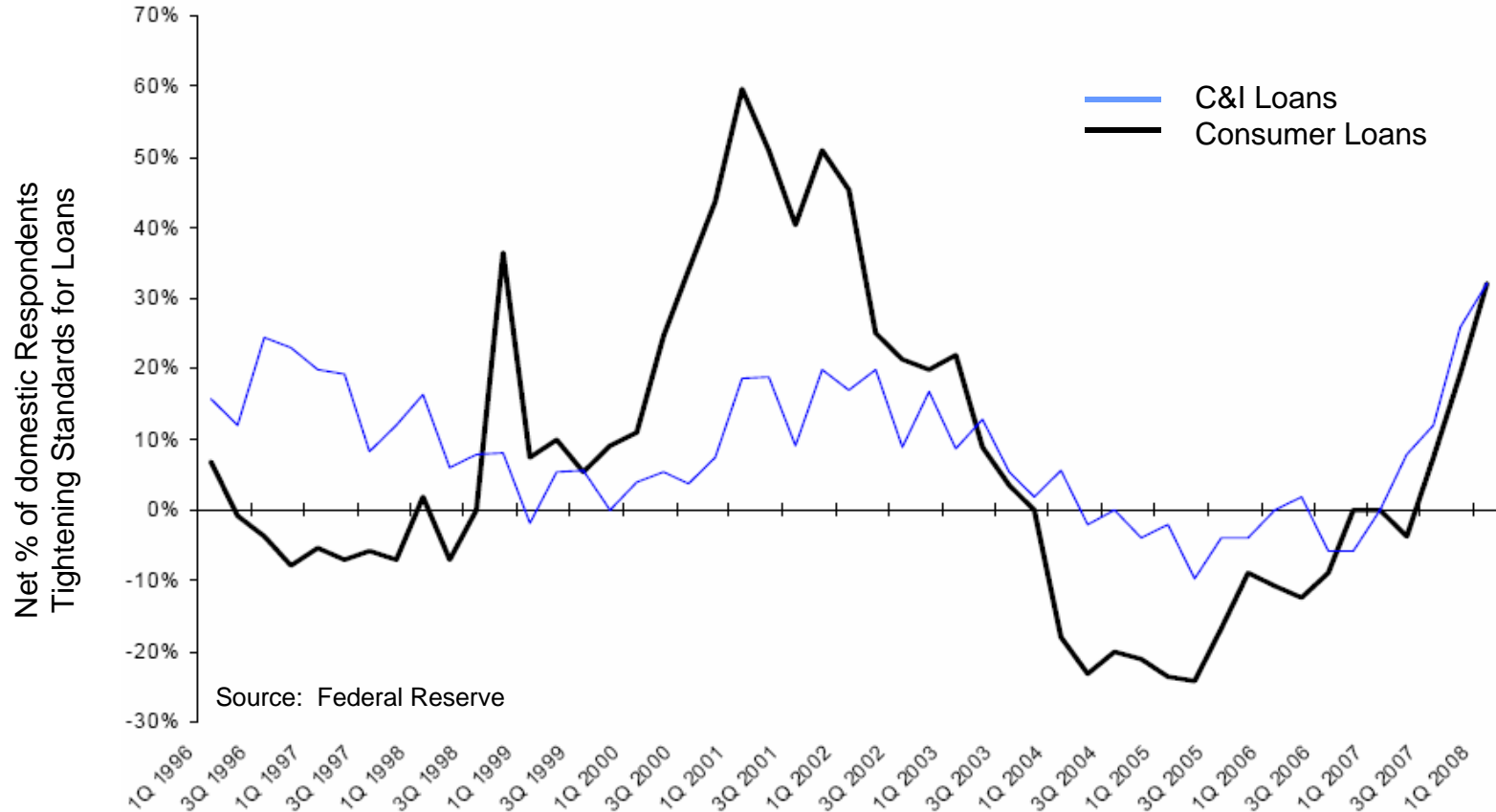
Source: IMF staff estimates

Note: Closer to center signifies less risk or tighter conditions

Higher market risk plus risk aversion = increased economic risk



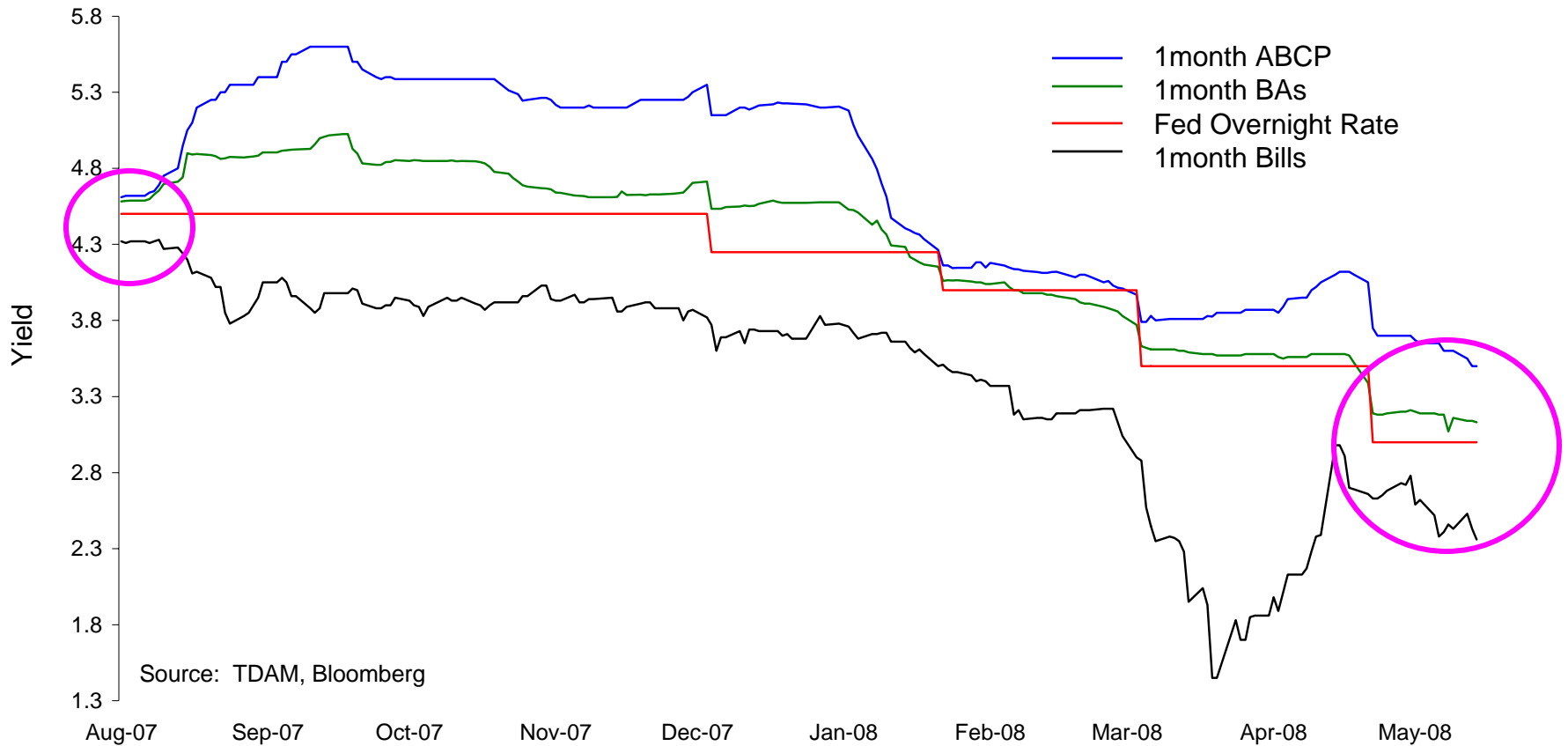
# Credit Standards for C&I and Consumer Loans



Impairment of banks impair the economy



# CAN Money Market Short Term Interest Rates



Risk and liquidity premium stratification



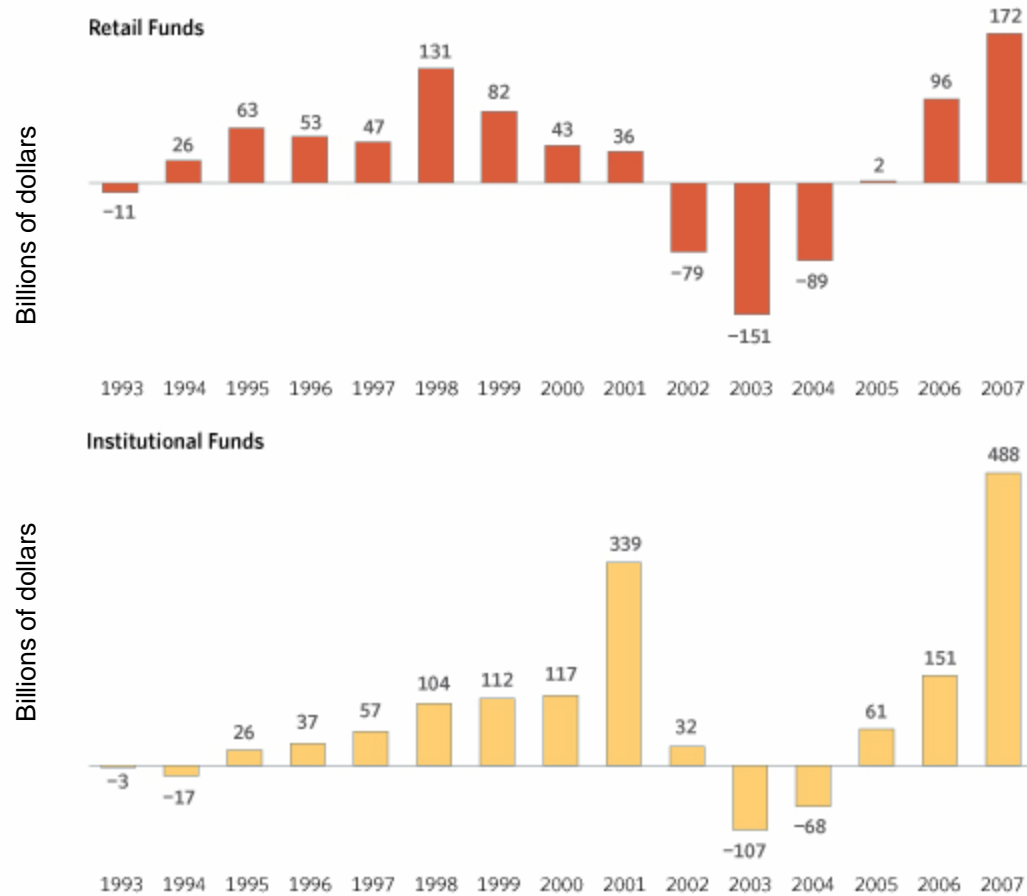
# US Money Market Short Term Interest Rates



Risk and liquidity premium stratification



# Flows to Money Market Funds



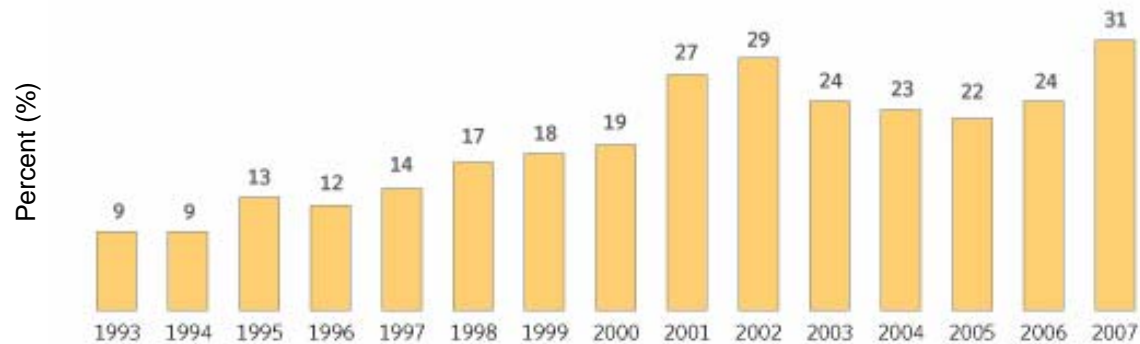
Source: ICI Research

Record levels in 2007



## % US Business' ST Assets in Money Market

- Money Market Mutual Funds managed 31% of US Business' short term assets in 2007

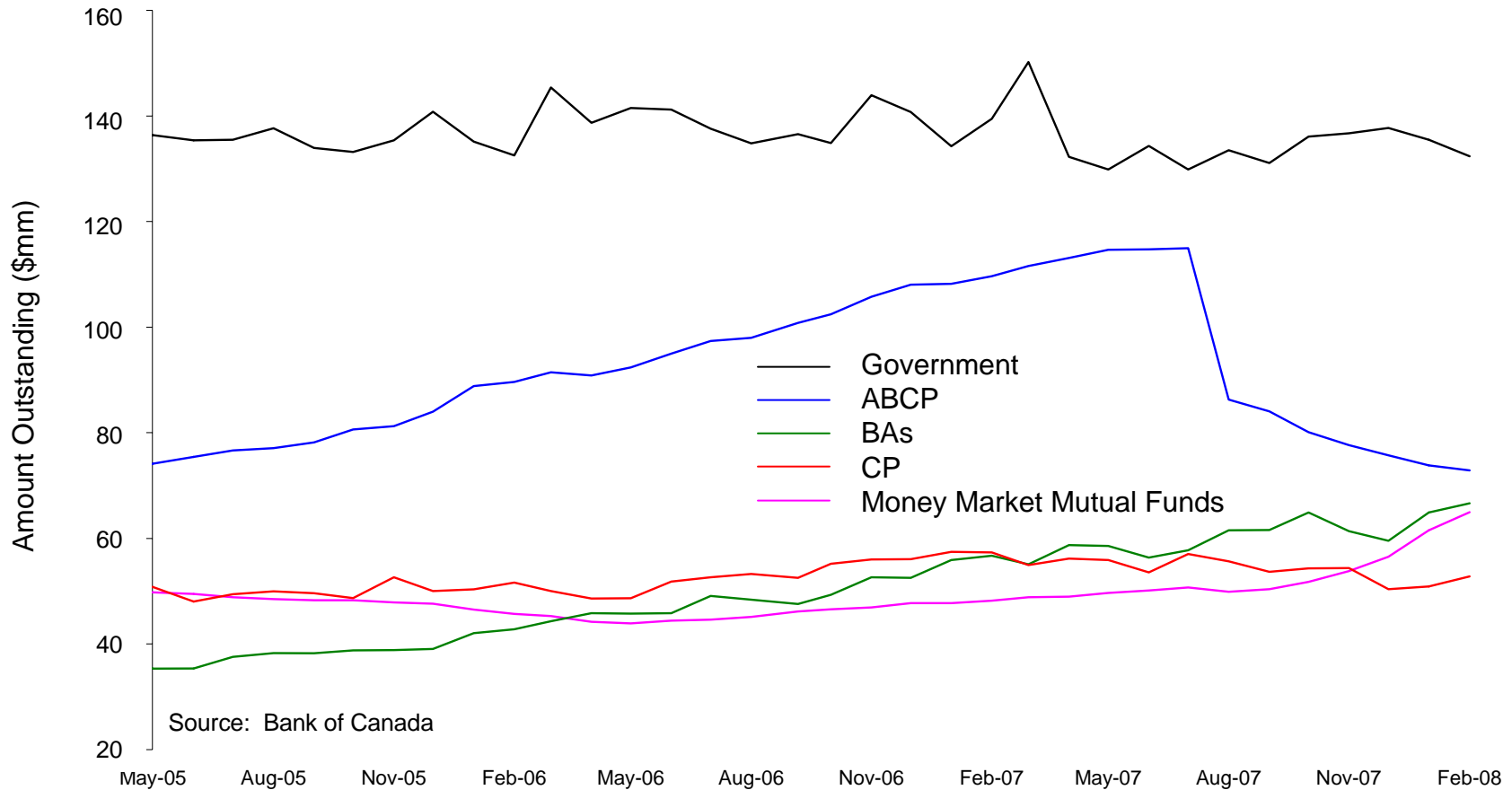


Source: ICI Research

Corporate risk aversion



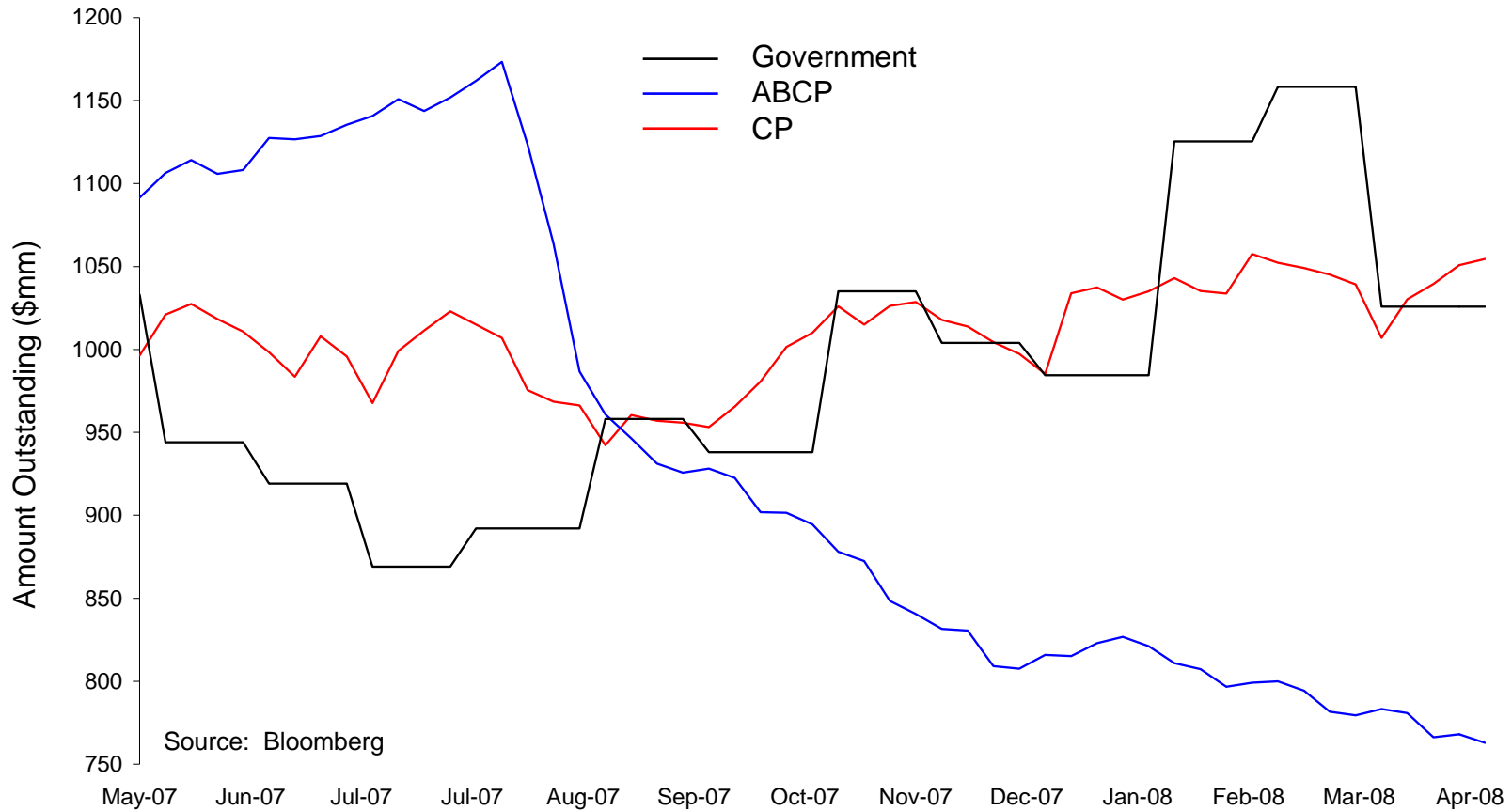
# CAN Money Market Securities Outstanding



ABCP outstanding falls by ~25%



# US Money Market Securities Outstanding



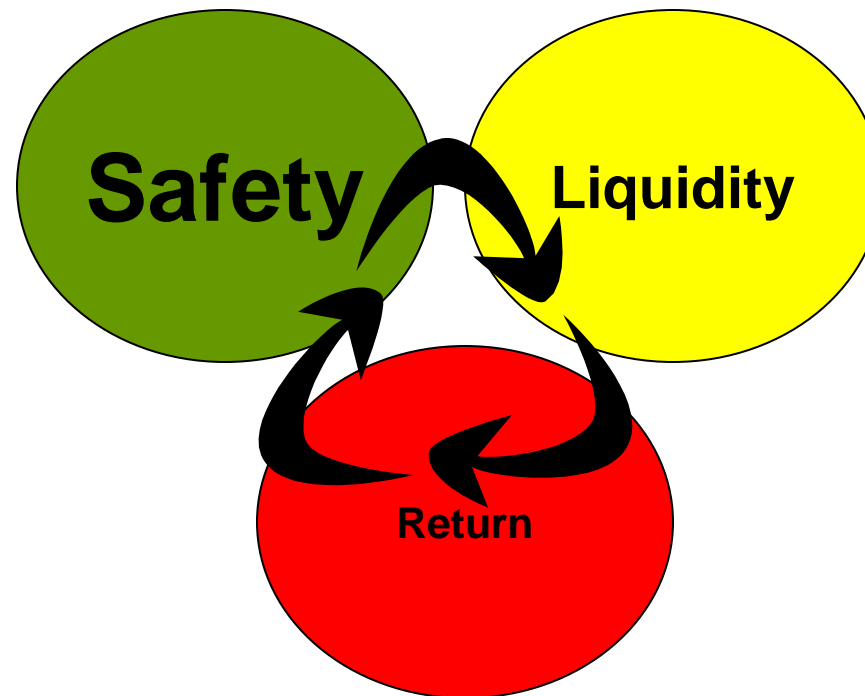
ABCP outstanding falls by ~25%

## Money Market Mandates

- The key hierarchy goals for these funds are:
  - i. Safety
  - ii. Liquidity
  - iii. Return

The order is key

## Money Market Mandate



The order is key - remember the mandate

## Implications

- Price and availability of credit
- Leverage
- Inflation
- Money market assets

A sea change

## Summary

- TANSTAAFL\*



\* R. A. Heinlen



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