

The benefits of diversification

TD Asset Management Inc. (TDAM) believes that investing in a diversified portfolio may help provide an investor with more stable returns during times of market volatility compared to investing solely in a single asset class. History also shows that chasing the best performing asset class of the previous year does not guarantee success in the current year. The table below illustrates how a diversified portfolio (in green)¹ has often delivered a steadier performance over the last 10 years, while other single asset classes² have experienced larger fluctuations.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
High	23.9% U.S. Equities	26.9% Low Volatility Equities	21.1% Canadian Equities	28.7% Emerging Markets Equities	7.5% Low Volatility Equities	24.8% U.S. Equities	16.6% Emerging Markets Equities	27.6% U.S. Equities	-2.7% Low Volatility Equities	22.9% U.S. Equities
	22.2% Low Volatility Equities	21.6% U.S. Equities	13.4% High Yield Bonds	15.2% International Equities	6.5% High Yield Bonds	22.9% Canadian Equities	16.3% U.S. Equities	25.1% Canadian Equities	-4.8% High Yield Bonds	21.4% International Equities
	15.2% International Equities	20.7% International Equities	8.1% U.S. Equities	13.8% U.S. Equities	4.2% U.S. Equities	21.9% International Equities	14.8% International Equities	21.2% International Equities	-5.8% Canadian Equities	13.5% Diversified Portfolio
	11.7% High Yield Bonds	14.4% High Yield Bonds	7.7% Emerging Markets Equities	10.3% Low Volatility Equities	1.4% Canadian Bonds	17.7% Low Volatility Equities	11.0% Diversified Portfolio	13.9% Low Volatility Equities	-10.5% Diversified Portfolio	11.8% Canadian Equities
Return	11.7% Diversified Portfolio	7.7% Diversified Portfolio	6.4% Diversified Portfolio	9.1% Canadian Equities	0.4% International Equities	16.0% Diversified Portfolio	8.7% Canadian Bonds	11.9% Diversified Portfolio	-11.7% Canadian Bonds	10.4% High Yield Bonds
	10.6% Canadian Equities	3.5% Canadian Bonds	4.4% Low Volatility Equities	8.9% Diversified Portfolio	-1.0% Diversified Portfolio	12.9% Emerging Markets Equities	5.6% Canadian Equities	4.5% High Yield Bonds	-12.0% International Equities	7.3% Emerging Markets Equities
	8.8% Canadian Bonds	2.4% Emerging Markets Equities	3.9% International Equities	2.5% Canadian Bonds	-6.5% Emerging Markets Equities	8.6% High Yield Bonds	4.3% High Yield Bonds	-2.5% Canadian Bonds	-12.2% U.S. Equities	6.7% Canadian Bonds
Low	7.0% Emerging Markets Equities	-8.3% Canadian Equities	1.7% Canadian Bonds	0.4% High Yield Bonds	-8.9% Canadian Equities	6.9% Canadian Bonds	1.4% Low Volatility Equities	-3.1% Emerging Markets Equities	-13.9% Emerging Markets Equities	5.2% Low Volatility Equities

Source: TD Asset Management Inc., Morningstar®, December 29, 2023.

¹The Diversified Portfolio is made up of 40% FTSE Canada Universe Bond Index, 20% S&P/TSX Composite Total Return Index, and 40% MSCI World ex Canada Index GD - C\$. FTSE Canada Universe Bond Index measures the performance of fixed-rate, investment grade domestic government and corporate bonds denominated in Canadian dollars with a minimum time to maturity of one year. Coupons are reinvested and the index is rebalanced daily. S&P/TSX Composite Total Return Index is the principal broad market measure for Canadian equity markets, while MSCI World ex Canada Index GD - C\$ captures large, mid and small cap representation across global equities outside of Canada including developed and emerging markets. For these equity indexes, dividends are reinvested daily back into the indexes rather than individual securities, and the indexes aim to rebalance quarterly. The returns stated above do not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower.

²U.S. Equities are represented by the S&P 500 Total Return Index C\$, Canadian Equities are represented by the S&P/TSX Composite Total Return Index, Low Volatility Equities are represented by the MSCI World Minimum Volatility Index C\$, International Equities are represented by the MSCI World ex Canada Index GD - C\$, Emerging Markets Equities are represented by the MSCI Emerging Markets Total Return Index Gross Dividend C\$, Canadian Bonds are represented by the FTSE Canada Universe Bond Index and the High Yield Bonds are represented by the ICE BofA Merrill Lynch U.S. High Yield Master II Index C\$.

Diversification in Action

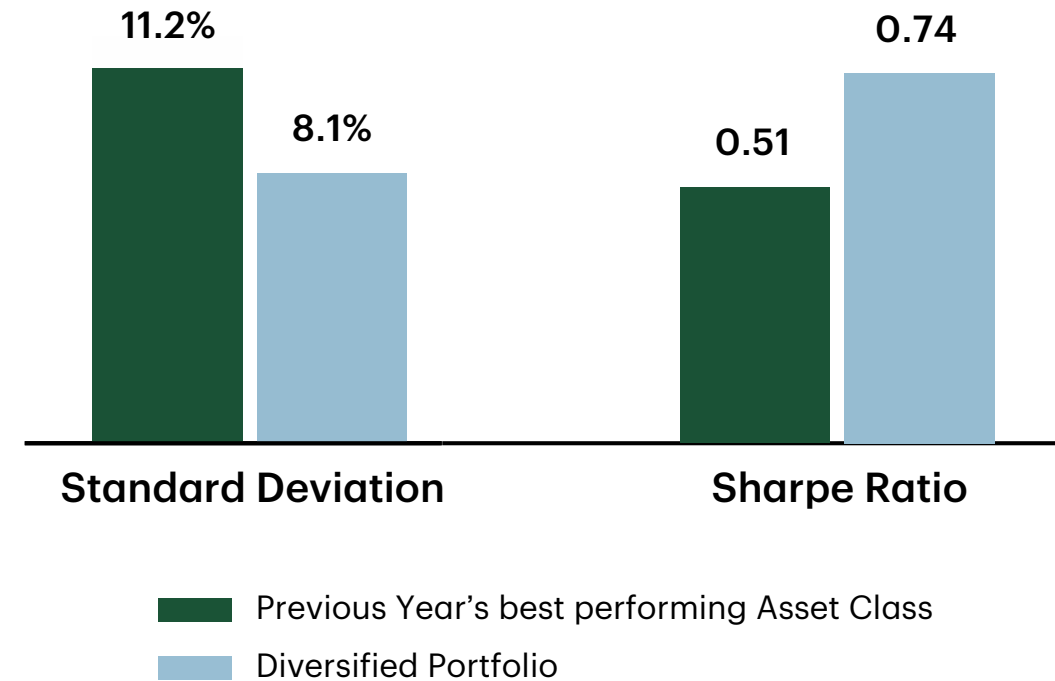
In the charts on the right, we compare the Standard Deviation³ and Sharpe Ratio⁴ of the previous year's best performing asset class, and a Diversified Portfolio over a 10-year time period.

Key Takeaways

- Spreading a portfolio across a number of asset classes and geographic regions can help reduce overall portfolio risk
- Diversification may also give your portfolio a built-in ability to potentially benefit from each year's best performers
- Finally, a diversified portfolio can provide lower levels of volatility and higher risk-adjusted rates of return

³Standard deviation is a statistical measure of the range of a fund's performance. When a fund has a high standard deviation, its range of performance has fluctuated over a broad range, indicating that there is a greater potential for volatility than those with low standard deviations. The best performing asset class for the previous year in review (2022) was Low Volatility Equities.

⁴Sharpe Measure is a ratio of returns generated by the portfolio, over and above the risk-free rate of return and the total risk associated with it and can change monthly. A high and positive ratio shows superior performance and a low and negative ratio is an indication of unfavourable performance.



Data Source: TD Asset Management Inc., Morningstar®, as of December 29, 2023. The Diversified Portfolio is made up of 40% FTSE Canada Universe Bond Index, 20% S&P TSX Composite Total Return Index, and 40% MSCI World Ex Canada Index GD - C\$.



For more information, please speak with a **Mutual Fund Representative**⁵.



⁵ Mutual Fund Representatives with TD Investment Services Inc. distribute mutual funds at TD Canada Trust.

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