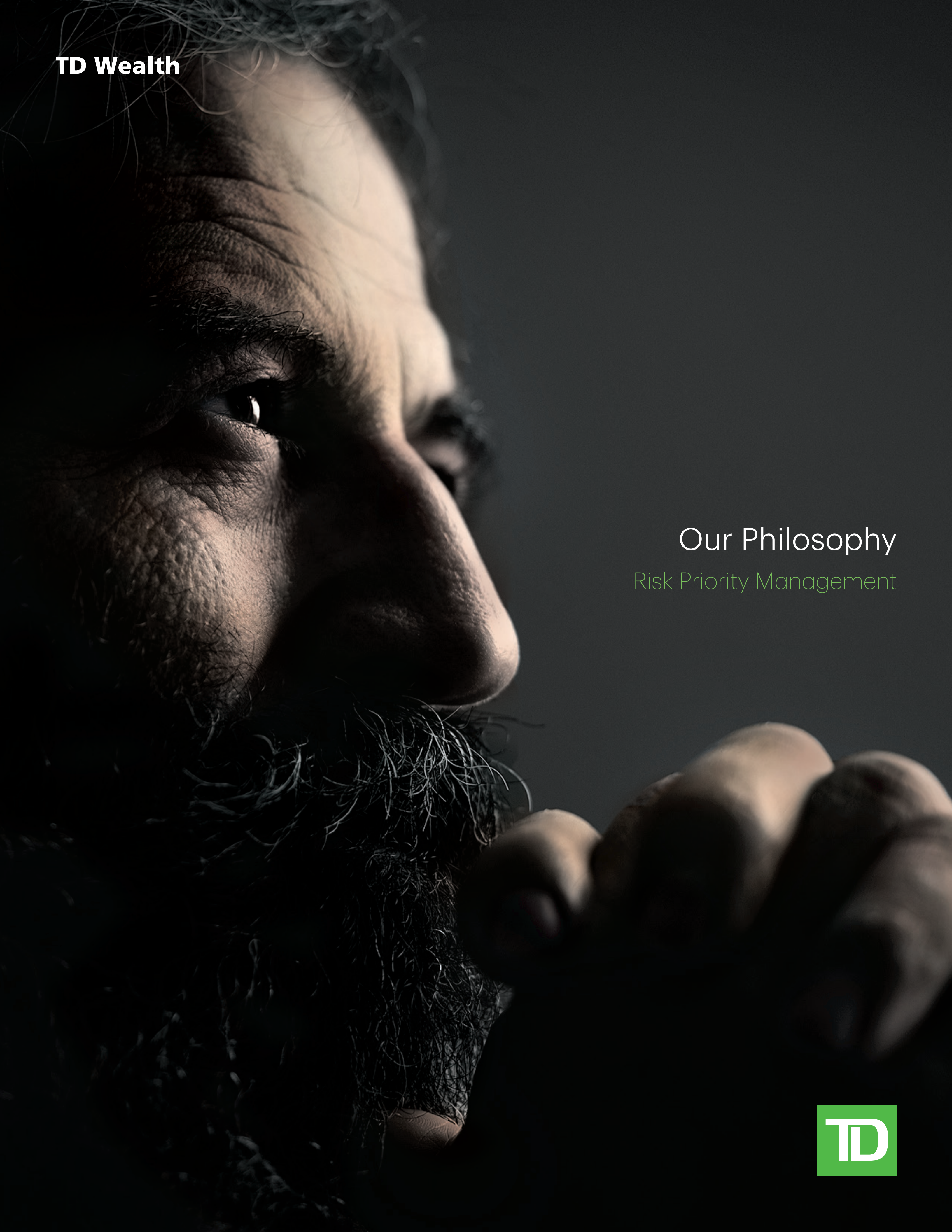
TD Wealth



Our Philosophy

Risk Priority Management

A commitment to a strategy aligned with an investment philosophy is key to the successful selection of investments for your portfolio. Failing to have a core set of principles can result in an endless cycle of switching from one poor product solution to another. The potential net result: a collection of reactionary ideas that seemed good at the time, instead of a well-tailored portfolio that aims to deliver at all times.

Brad Simpson, Chief Wealth Strategist, TD Wealth the big idea

Time changes everything

Over the past decade, the financial environment has created a challenging landscape for investors. Many of the investment strategies that have worked so well for the past thirty years are less likely to be effective going forward.

The key risk is that portfolio returns fall short of investors' requirements. Interest rates have fallen to historic lows, equity markets have become increasingly volatile, and global financial issues have become highly interconnected. In this new environment, traditional 60/40 portfolios and benchmark indices are becoming less relevant as most investors' objectives involve absolute return requirements, while ignoring relative performance.

> To prosper in the new environment, investors need a new way to manage their portfolios. They need a well thought out wealth plan and a contemporary portfolio approach with true diversification, balancing broad asset allocation and risk-factor diversification with a deep understanding of financial behaviour.

True Diversification

Philosophy	Portfolio management begins and ends with a well-defined investment philosophy, a determined portfolio construction process and a robust commitment to risk management.
Asset Class	We employ a greater spectrum of asset classes including: equity, fixed income, absolute return and private capital.
Risk Factors	Just like biological organisms, investment portfolios have a kind of DNA, composed of numerous risk factors. Equity, income, volatility, liquidity, real asset and foreign exchange are some of the most important ones, and provide a new way to think about portfolio diversification.
Behaviour	How investors make decisions is a key determinant of long-term performance. We are rational, but sometimes we rationalize. We are overconfident with things that are familiar and overcautious with things that are not. We call these behaviours, and many others, "blind spots" and we use discovery tools to help investors make better decisions by better understanding themselves.

Our profession is remarkably simple

We listen to our clients, discover their wants and needs and hold precious their trust as we perform our responsibility as the steward of their wealth.

We listen

Clients do not want one-size-fits-all products that fail to meet their unique needs and objectives. We listen to our clients, discover their wants and needs and hold precious their trust as we perform our responsibility as the steward of their wealth.

At TD Wealth, we believe that clients are looking for investment portfolios, not products. Overwhelmingly, clients want investment portfolios that:

Criteria

- are managed to help meet personal goals and future needs
- are designed to achieve individual outcomes and target returns
- provide income without chasing yield
- afford returns that are taxable but not taxing
- deliver a better balance between risk and return
- reduce the impact of market volatility by better managing risk
- offer new sources of return that are less reliant on the direction of equity markets

Approach

- adheres to a proven investment philosophy and allocation methodology
- leverages diverse thought leadership from TD Wealth and external wealth management partners
- recognizes the strengths and flaws of the traditional 60/40 portfolio
- is inspired by best practices from pensions, endowments and family offices

Philosophy

Portfolio management begins and ends with a well-defined investment philosophy. It is how we balance investors' desire for capital growth with their fear of capital loss. It is how we harness the best investment practices of pensions, endowments and individuals to provide institutional-grade risk protection and real return portfolios. It is how we aim to meet your needs.

Risk Priority Management I **Principles**

1 Innovate and look forward

A critical component to investment success is the relentless pursuit of being prepared for what comes next. Grand distortions caused by recent years of unorthodox monetary policy may mean that the era of simply gathering data and using it to calibrate future allocations is over. We believe investors are better served by directing their efforts to what they can control: building a robust portfolio that can weather the inevitable volatility and unknown elements of financial markets.

2 Invest like an owner

The era of big data, low trading costs and massive product proliferation has created an environment where, far too often, client investment portfolios have more in common with casino-like statistical strategies than they do with a well-constructed foundation for wealth. A banker's methodology towards credit, a prudent stance to fiscal policy and a visionary approach to products and services — these elements comprise the foundation of why, how, and with whom, we deploy capital.

3 Embrace human behaviour

Traditional finance assumes that all investors are rational and well-informed, and that the economic environment in which they operate has a very mechanical business cycle that follows understood patterns. In practice, human beings learn and adapt as they go along, and so the financial environment in which they function changes accordingly. We believe it is wiser to think of the investment world as a complex adaptive system, and to pursue returns and manage risk based on this view.

4 Mitigate outside and inside risks

On the outside, fixed-income and equity investments appear very different. But inside, at their core, similar to human DNA, their similarities are greater than their traditional categorizations imply. We call these similarities "risk factors," and while there are many, we deem the following six as the most important to the management of risk and returns: Equity Risk, Volatility Risk, Real Asset Risk, Income Risk, Liquidity Risk and Foreign Exchange Risk. We believe an approach that takes risk factors into account provides better diversification than the traditional 60/40 portfolio, enabling us to achieve balance across a greater spectrum of asset classes, as well as the underlying sources of risk and returns.

(Continued on next page)

Our philosophy sets our core principles and provides the foundation of what we do at TD Wealth

Risk Priority Management I **Principles** (continued)

5 Pursue real returns

Instead of simply using traditional benchmarks to measure performance, we focus on attaining positive returns over time, regardless of financial market conditions. We measure investment success in absolute terms centred on client-based behaviours around risk and desired outcomes. Grounded by the knowledge that investing comes with ups and downs, we strive to minimize the pain that comes with investing, which is measured by the depth, duration and frequency of losses. As a result, we consider the potential depth of a portfolio's decline, the frequency of its possible losses and the amount of time that an investor's capital could conceivably be less than their original invested capital.

6 Do well and good

Taking into account Environmental, Social and Governance (ESG) considerations should result in better long-term performance. Companies with higher ESG scores have better controls in place and are less susceptible to the kinds of scandals that destroy shareholder value and stall growth. They also benefit from access to less expensive capital and lower earnings per share volatility. When investors align their investments with their values and buy, or lend to companies that are doing good in the world, their portfolios tend to have lower risk and higher, sustainable, long term returns.

7 Provide for lifetimes over market cycles

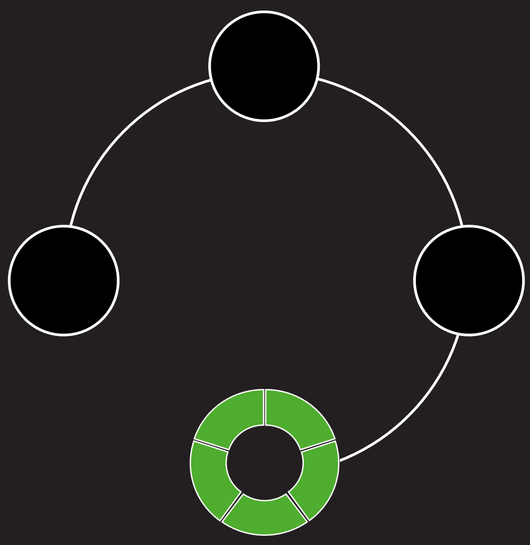
Rarely are goals only about maximizing the value of investments over a single period of time. For example, a goal might be to maintain the same standard of living or save for retirement or, in the case of entrepreneurs, to prepare for the sale of their business. Another goal may be the purchase of personal-use real estate or the funding of a child's education. Passing on a proportion of wealth, setting up a philanthropic foundation, and being able to cover unexpected financial needs may all be goals, and each will likely make up a specific portfolio and require a strategy based on an asset-balanced and risk-factor-diversified portfolio approach.

8 Expect value

Fees impact returns. Getting value, in terms of risk and returns, for the right price is critical. Far too often, the value debate turns into one about active versus passive management — one that, in the end, sacrifices safety of principal for a lower fee. We believe this is a sacrifice that must be avoided at all costs. Value is derived from consistent performance, uncompromising risk management and effective cost controls.

Strategy

Our strategy is built on a disciplined process that leverages a diversified group of industry experts from across TD Asset Management and TD Wealth to harness the thought leadership of the Wealth Asset Allocation Committee, Wealth Implementation Committee and the TDAM Asset Allocation Team.

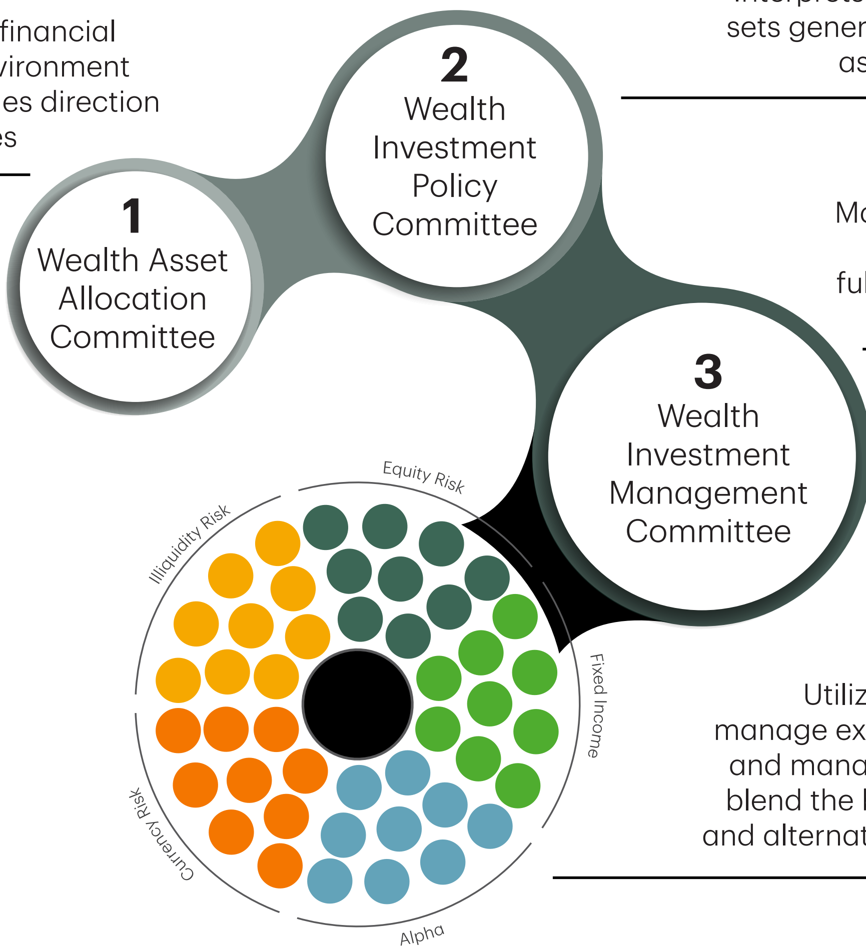


Disciplined Process

Investment is a very human endeavour. Our people make the difference. With a deep commitment to understanding the global economy, the function and behaviour of financial markets, and the art, and science, behind what makes them work, we manage goals-based portfolios and we've built a distinct track record of success.

Considers financial market environment and provides direction and themes

Interprets WAAC views and sets general investor profile asset class weights

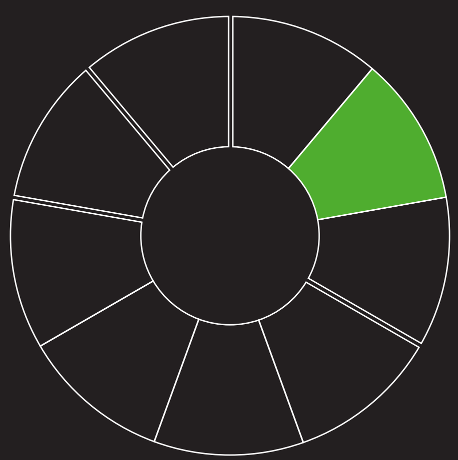


Manages strategies and mandates to fulfill specific factor and asset mix

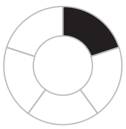
Utilizing risk factors to manage exposures, we build and manage portfolios that blend the best of traditional and alternative asset classes.

Asset Allocation

The evidence to support the use of a risk-factor diversification is rich and compelling. The most significant challenge to overcome in incorporating this solution is some managers' reluctance to change. Despite its long list of shortcomings, portfolio managers continue to cling to traditional allocation processes.

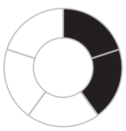


Shift to risk-based allocation



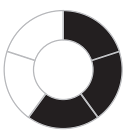
Modern portfolio management

In an increasingly complex and open financial system, the usefulness of Capital Asset Pricing Models and Mean Variance Optimization is limited. These theoretical portfolio-management tools were devised half a century ago and are, remarkably, still driving much of the investment industry.



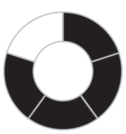
Correlation

Advancements in the understanding of what impacts the risk and return of a portfolio, combined with a once-in-a-generation shift in interest-rate policy by central banks, calls for an approach that goes beyond the use of historical correlation when constructing a well-diversified portfolio. Portfolio risk may be better managed directly through risk-factor adjustments, rather than by using asset-class correlation management alone.



Portfolio risk

Risk priority over parity. Much can be learned from the first wave of risk-parity research and providers, but risk parity, due to its backward-looking nature, should be seen as a starting point, not an end.



Endowment and risk factor models

Today we see a fusion between two of the most compelling investment philosophies: the Endowment Model, with its broader range of asset classes, and the Risk Factor Model, built on carefully considering the risk elements found inside of portfolios, regardless of asset class.

Risk-based asset allocation

Our analysis suggests that risk-based allocations are preferable in almost all contexts (both multi-asset and equities). Risk allocation can outperform traditional asset-allocation benchmarks with higher Sharpe ratios, lower downside risk, better diversification, and less tail dependence.

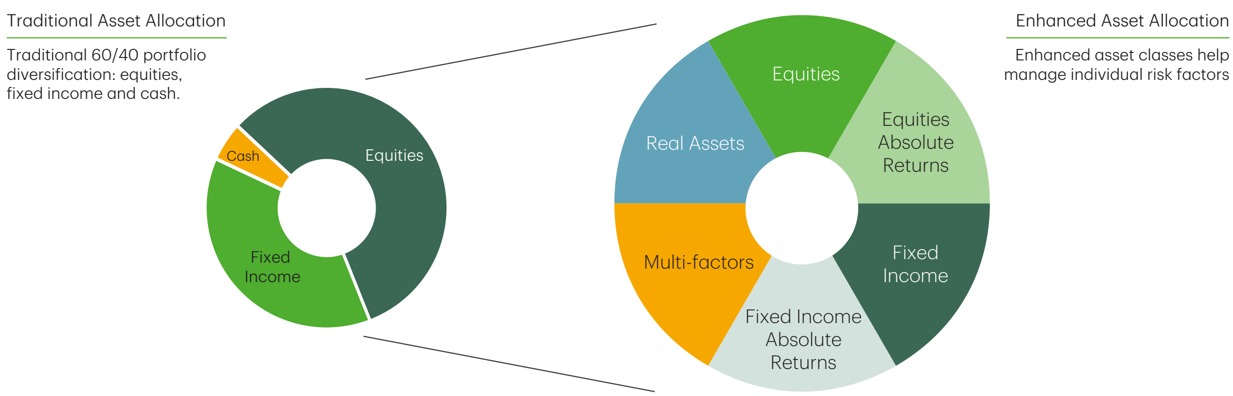
Point of interest

The Canadian Pension Plan Investment Board calls the mixture of asset-class and risk-factor diversification the "Total Portfolio Approach." They do not allocate assets through conventional labels, such as "real estate" or "equities." Instead, they rigorously delve into the more independent, fundamental return-risk factors that underlie each asset class, strategy and type of investment. This allows them to better understand and quantify the various return-risk characteristics of each investment program. With this understanding, they can more effectively combine investments into a truly diversified total portfolio that is designed to maximize expected returns at a targeted level of risk.

Contemporary Approach

During periods of extreme volatility, traditional asset classes tend to correlate, thereby nullifying their diversification benefits. We are committed to enhanced diversification, by building and managing portfolios that blend the best of traditional and alternative asset classes. We employ a broader spectrum of strategies including: fixed-income absolute return, equity absolute return, private capital and real assets.

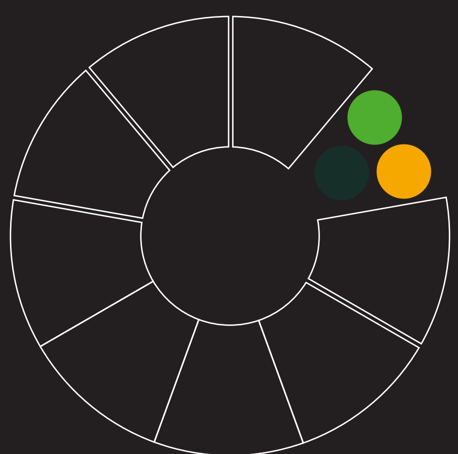
Figure 1: Broader Asset Allocation



The blend of traditional and alternative asset classes is key to achieving risk-factor diversification below the surface.

Risk Factors

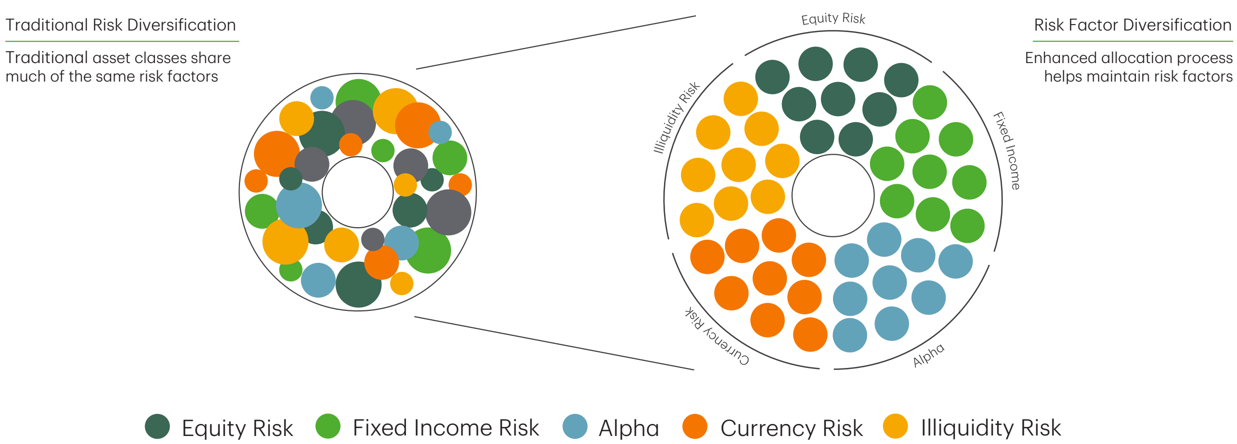
Our evolutionary asset allocation allows for revolutionary risk-factor diversification. Risk Priority Management provides enhanced asset allocation designed to manage the individual risk factors below the surface of a portfolio.



Factor diversification

Risk factors are the elements within each investment asset that impact gains and losses. Traditional portfolios are diversified by asset only, under the false assumption that asset classes are isolated from one another and exposed to different risks. We seek to build portfolios that diversify the individual risk factors below the surface and strive for above-average risk-adjusted returns.

Figure 2: Risk Factors at the Mandate Level

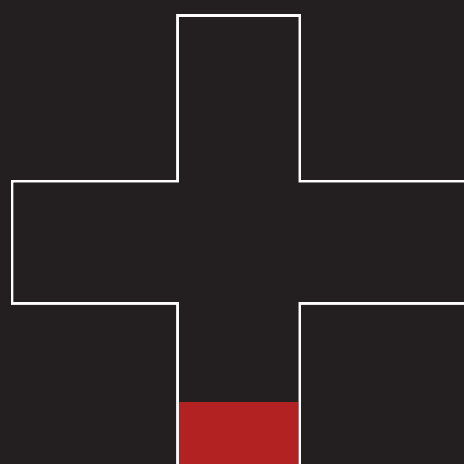


There are five primary risk factors that make up the biggest part of a portfolio's DNA: equity, fixed income, volatility, alpha, currency and illiquidity. We assess our holdings by evaluating not only the quality of the asset, but also the balance of underlying risk factors.

This approach is designed to help us better understand the key sources of long-term returns across asset classes. It also provides a better approach to portfolio diversification, empowering us to perceive diversification across the underlying sources of return.

Pain Relief

Losing money hurts. Although the injury is not physical, neuroscientific research has shown, using MRI technology, that the human brain experiences financial loss similarly to the way it experiences a physical attack. In very real terms: it causes pain. This fact is an essential component of Risk Priority Management, providing a critical catalyst as to why and how we manage risk.



Seeking to quantify more consistent, risk aware returns, with less downside.

Measuring risk (pain)

Today, one of the risk measures most widely used by portfolio managers is standard deviation. Derived from academia, this statistical measure considers risk in terms of volatility of returns (frequency of fluctuations). While helpful, we believe there may be a better, more meaningful measure that considers how investors experience pain of financial loss.

Key sources of pain

When it comes to money, many investors are ultimately concerned about the size of losses, how long they last and how often they occur. With this in mind, we use a risk-measurement tool known as the Pain Index, which quantifies the three key measures:

- the depth (how much)
- the duration (for how long), and
- the frequency of financial losses (how often)

By focusing on these three measures, we seek to reduce the amount of time and extent to which investors feel emotional angst due to losses. This can be a real form of pain relief.

How is this done?

A traditional balanced benchmark model derives much of its return from an allocation heavily reliant on equity and fixed-income risk factors. Risk Priority Management seeks returns with a greater balance in terms of risk factors. This is achieved with an enhanced asset allocation, which diversifies the risk factors in a portfolio and reduces the exposure to equity and fixed-income risk factors.

Investment success can't be understood with just a set of numbers

Our discovery process harnesses the cutting-edge field of behavioural finance, which we use to understand your Wealth Personality™ and what influences your wealth decisions, including your financial blind spots.

To learn more about the importance of investment behaviour, speak with your investment advisor about the TD Wealth Discovery Tool.

final thought

We believe risk-factor allocation will change the way the investment industry constructs diversified portfolios.

Portfolio management begins and ends with a well-defined investment philosophy, a determined portfolio-construction process and a robust commitment to risk management. Global pensions and endowments have been rapidly shifting their investment strategies away from a traditional 60/40 approach to broad asset allocation and a risk-based diversification approach. Risk-factor management is critical for building portfolios with a smoother return profile, fewer drawdowns and less downside volatility, while delivering potentially higher returns.

We want to manage portfolios with the following attributes:

Focused on your goals

Properly places investor goals and needs ahead of “benchmark” performance.

Reduced volatility

Reduces the reliance on interest-sensitive, low-return/high-risk investments to protect against expected volatility.

Consistent returns

Aims to deliver consistent returns with less pain: lower losses, less often, and for shorter periods of time.

Enhanced asset allocation

Enhances the traditional asset-allocation process, which is full of equity risk and rising correlations.

Proper diversification

Provides the foundation for a properly diversified portfolio

> The key to managing a contemporary portfolio lies in establishing an investment process that’s designed to adapt to the ever-changing environment. Let us help you establish yours.

important information

While Risk Priority Management defines our guiding principles, TD Wealth [Advisors/Planners] build portfolios that align to each individual customer's goals and objectives.

The information contained herein has been provided by TD Wealth and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

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06-20