Investment Update

December 2013

Fixed Income and the Client Experience

Over the last 12 months, investors have experienced greater volatility from their fixed income holdings than they may have expected. Much of this volatility was triggered in the spring when the U.S. Federal Reserve (the Fed) Board's Chairman Ben Bernanke indicated that if the U.S. economy continues to gain momentum, the Fed may begin to taper its quantitative easing policies by later this year. While the eventual end to the Quantitative Easing (QE) program is seen as inevitable at some point, the announcement triggered a run up in bond yields. In the months that followed, yields have remained somewhat volatile as market participants continue to assess the strength of the economy and pending central bank actions.

As a result of this bond market volatility, performance on some fixed income funds has been negative over varying periods. In some instances, as far out as 1 year. This type of experience can be disconcerting for clients who were not anticipating this type of outcome from their more conservative investments. As a result, there are significant redemptions from fixed income funds. In some cases, clients are moving to floating rate funds, thereby reducing interest rate sensitivity of their fixed income exposure. However, investors should exercise due diligence when investing in these products. While they may have money market-like interest rate sensitivities, they often include significant exposure to non-investment grade securities. As such, they are susceptible to credit spread widening similar to a comparable fixed coupon security with a similar maturity and can decline significantly in value when credit spreads increase. This is particularly evident in floating rate loans, where the risk of default can be much higher.

In other cases, we see clients moving to more conservative GICs and High Interest Savings Accounts. For more risk averse investors, this may be appropriate in order to align their investments to their risk tolerance. However, some clients may be moving their savings to more conservative investment products without fully understanding the loss of opportunity of such a shift.

A Quick Bond Primer

When considering recent bond market activity, it's important to remember some of the key mechanics behind bond fund performance. First and foremost, bond prices and bond yields move in opposite directions. That means that when yields in the market are rising, the price of the bonds fall in the short term. However, provided investors don't sell when prices decline, and continue to hold the bonds to maturity, these losses are not actually realized. In addition, the new higher yields in the market gives the portfolio management team the opportunity to reinvest coupons and bond maturities at higher rates, potentially improving the outlook for the portfolio.

As such, it is imperative for investors to keep their longer term goals in mind, ensuring they have the appropriate time horizon to maximize the potential benefit of their fixed income holdings. Once a move in yields has occurred, investors who sell their fixed income investments after the fact are simply locking in those negative returns. This is not to say there will not be fixed income volatility in the months ahead. However, with yields now higher relative to earlier this year, clients who remain invested are benefitting from reinvestment at these levels.

As an example, the table below shows the yield to maturity of the TD Short Term Bond Fund, TD Canadian Bond Fund and TD Canadian Core Plus Bond Fund[1].

Fund Name	Yield To Maturity	
	April 30, 2013	Nov. 30, 2013
TD Short Term Bond Fund	1.5%	1.8%
TD Canadian Bond Fund	2.2%	2.7%
TD Canadian Core Plus Bond Fund	2.5%	2.9%

Source: TD Asset Management

Relative to fund positioning in the spring, yield to maturity on these strategies are now higher, improving the overall potential benefits to your clients.

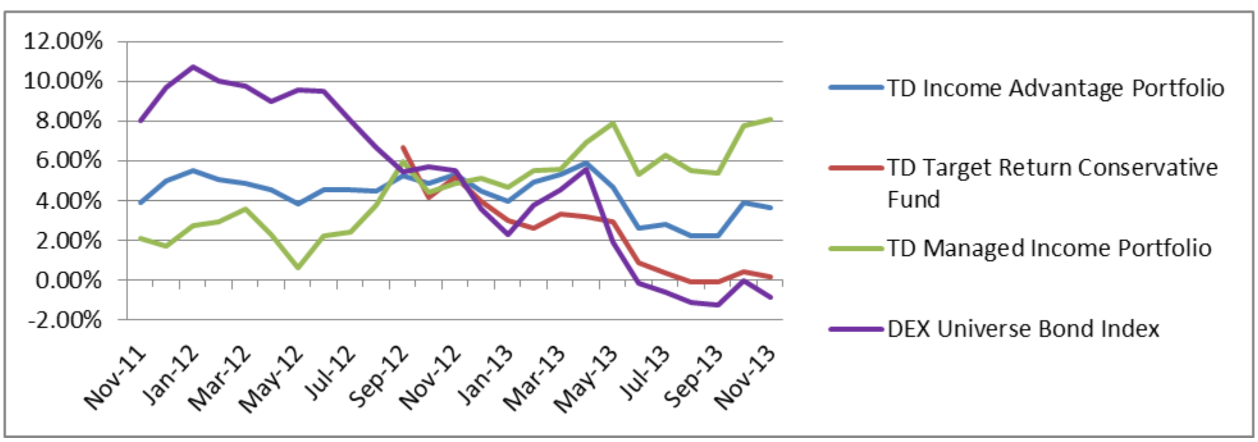
At TD Asset Management Inc. ("TDAM"), we continue to believe that short term interest rates will remain low for an extended period of time. However, as the economy finds itself on more sure footing, longer term rates may rise further. For your clients with the appropriate time horizon, it is important not to react to this shorter term volatility.

TDAM Fixed Income Thesis

At TDAM, we have been consistent in our message that the role fixed income plays in a client's portfolio is changing. Instead of enjoying both capital gains and regular income from bonds, as they have in the past, investors are now faced with the reality that over the near term, the real return on bonds will likely be in the low single digits. We believe that bonds can still play an important role in a diversified portfolio, providing safety, diversification benefits and some income. However, as we have communicated consistently, some investors may want to consider increasing their exposure to high quality dividend paying equities in order to help them to reach their goals.

Consider the graph below, which highlights the rolling one-year performance of some of the strategies we previously communicated, and continue to believe, could be used as appropriate substitutes for pure fixed income exposure for some investors. The DEX Universe Bond Index is used as a broad measure of the Canadian investment-grade fixed income market.

CHART 1: ROLLING 1 YEAR PERFORMANCE

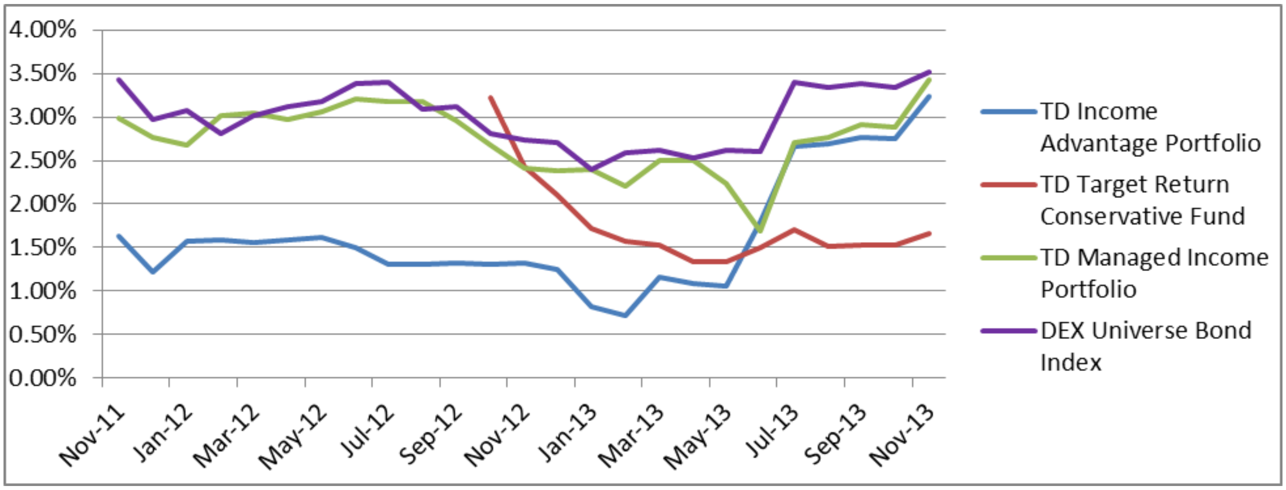


Source: TD Asset Management. Data to Nov 30, 2013

Chart 1 demonstrates that investors who were able to complement TDAM's fixed income expertise with high quality, dividend paying equities outperformed markedly over the last 12 months. In addition, those who invested in the more flexible TD Target Return Conservative Fund have experienced top quartile performance, in comparison to all funds within the

Morningstar Fixed Income Funds category. However, what is even more important is demonstrated in Chart 2 below.

CHART 2: ROLLING 1 YEAR STANDARD DEVIATION



Source: TD Asset Management. Data to Nov 30, 2013

Not only are these strategies outperforming the broader fixed income index since the increased volatility in bonds since early summer, but they have been able to accomplish this with less volatility. While this is a relatively short period of time to measure portfolio volatility, it demonstrates the potential benefits of diversifying your fixed income exposure with these types of solutions.

SUMMARY

For clients looking for a low risk solution that has greater flexibility relative to more traditional fixed income funds, the TD Target Return Conservative Fund may be a solution to consider. For those investors comfortable complementing their fixed income exposure with equities, solutions such as the TD Income Advantage Portfolio and TD Managed Income Portfolio should be considered.

Ultimately, TDAM has a full breadth of solutions to meet the needs of clients with varying risk tolerance, interest rate sensitivity and time horizon. We look forward to continue working with you to help your clients achieve their long-term goals.

Standard Performance Data for Period Ending Nov 30, 2013 (Investor Series)

	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
TD Short Term Bond Fund	1.08%	2.04%	3.18%	3.30%	5.32%	Jan 23, 1989
TD Canadian Bond Fund	-1.57%	3.45%	5.58%	4.80%	7.28%	June 29, 1988
TD Canadian Core Plus Bond Fund	-0.81%	3.99%	6.91%	n/a	5.42%	Sept 4, 2007
TD Income Advantage Portfolio	3.61%	4.26%	7.03%	4.74%	4.76%	Oct 31, 2003
TD Managed Income Portfolio	8.10%	4.99%	7.03%	3.96%	3.82%	Nov 12, 1998
TD Target Return Conservative Fund	0.14%	n/a	n/a	n/a	2.42	Sept 7, 2011

DISCLAIMER

[1]Portfolio Statistics, which are taken prior to the deduction of all Fund fees and expenses, are accurate as at the indicated measurement date. They will change over time as the portfolio holdings change and are NOT a projection or indicator of each Fund's performance.

The statements contained herein are based on material believed to be reliable. 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. The Investment Update does not provide individual financial, legal, tax or investment advice and is for information purposes only. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any fund. Particular investment or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. TD Asset Management Inc. ("TDAM"), The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus, which contains detailed investment information, before investing. The indicated rates of return are the historical annual compounded total returns for the period indicated including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed or insured, their values change frequently and past performance may not be repeated.

The index returns are shown for comparative purposes only. Indexes are unmanaged and their returns do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index.

Standard 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 been very wide, indicating that there is a greater potential for volatility than those with low standard deviations.

Quartile rankings are compiled by sorting the funds by returns and range from 1 to 4 for all time periods covered and can change monthly. The top performing 25% of funds in each fund category are assigned a ranking of 1, the next 25% a 2, etc.

Mutual funds, unlike GICs, are not insured by the Canada Deposit Insurance Corporation (CDIC) or any other deposit insurer nor guaranteed by any entity.

TD Mutual Funds are managed by TDAM, a wholly-owned subsidiary of The Toronto-Dominion Bank, and are available through authorized dealers. 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/or 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, the general business environment, assuming no changes to tax and/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 or may be incorrect. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied. Reliance on any FLS should be avoided. TDAM may not update any FLS contained herein.