TD Recommended Funds

QUARTERLY UPDATE
Autumn 2016

TD Direct Investing
International

WELCOME TO THE QUARTERLY UPDATE

Autumn 2016

Life after the Referendum vote has turned out to be fairly smooth, with the UK market steadily climbing higher on the back of a weaker pound and the economy returning to normal day-to-day life.

Across the Atlantic we are watching one of the most bizarre US elections yet; the polls seem broadly split and Trump is definitely considered a maverick and a loose cannon. Whatever happens to politics in the US, it will take on a new phase by the year end.

Hold your nerve and maintain a balanced portfolio.

We are in the third longest bull market in history. People are right to be cautious, and the markets may wobble a bit. As we know markets never go up (or down) in straight lines and as investors we must prepare ourselves to hold our nerve in these times. We advocate maintaining a balanced portfolio, ensuring it has a good spread of investment styles – growth and value – and is globally diversified. Depending how active you are you may wish to trim some of your profits.

In our Autumn Investment Outlook we look at what happened over the quarter, what funds you have been buying and the opportunities and challenges of the next few months.

Michelle McGrade, Chief Investment Officer, TD Direct Investing

Inside this issue:

The following information is accurate as at 30.09.2016.

LONG-TERM PERFORMANCE SUMMARY

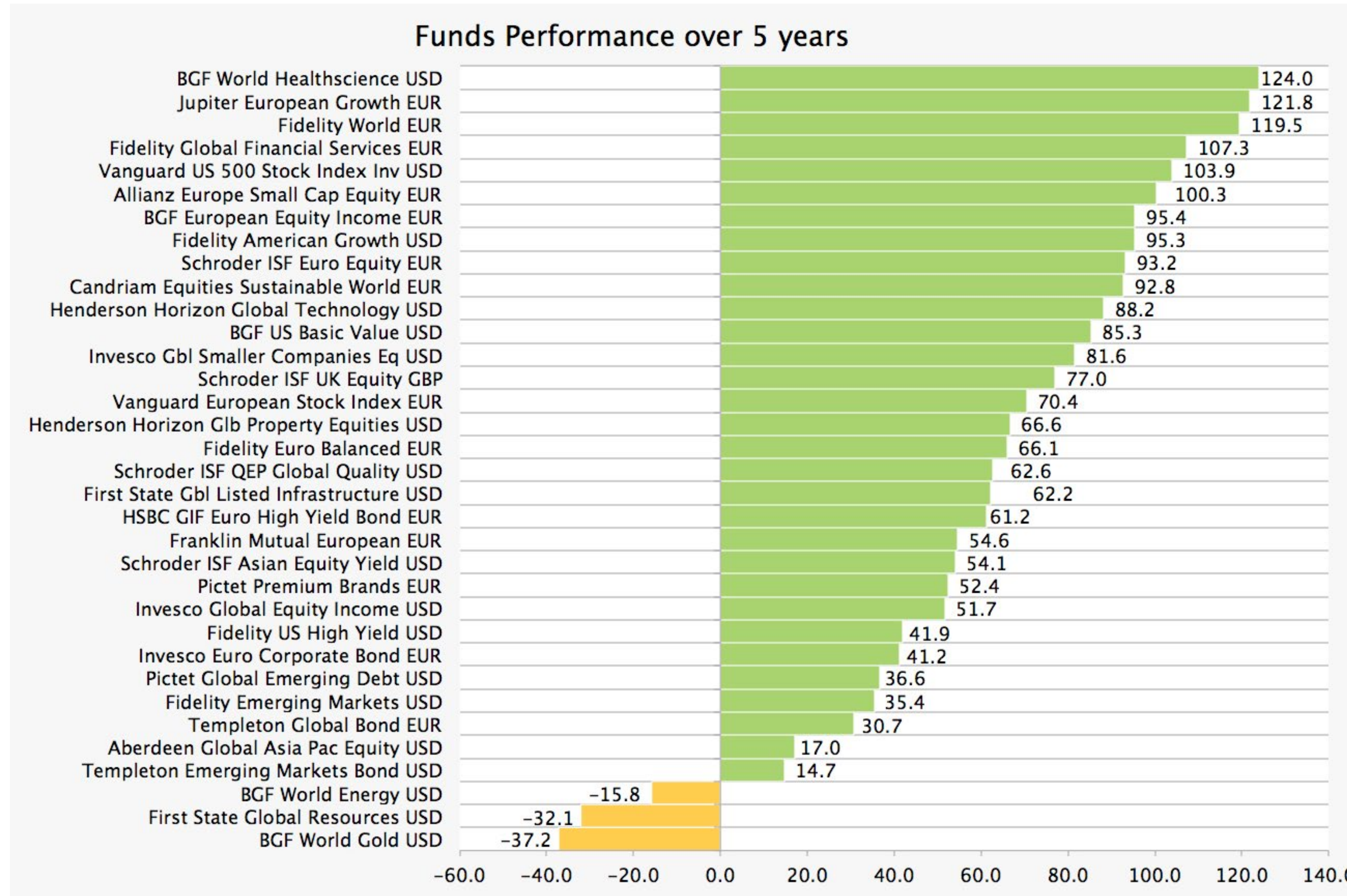
31 of the 34 funds in our Recommended Funds list with a five-year track record delivered a positive return over that period. Over the same time frame the MSCI World index returned 78.3% in US dollar terms – a figure which was beaten by 11 of these funds, which cover a broad range of asset classes and geographies and demonstrates the power of diversification.

The best performing fund over five years to 30 September 2016 remains **BGF World Healthscience,** which is up 124% over the period.

Other funds which have performed strongly over five years are **Fidelity World, Fidelity Global Financial Services, Vanguard US 500 Stock Index** and **Allianz Europe Small Cap Equity,** all of which would have more than doubled your investment over the period.

Fidelity World, the second best performer, is a global equity fund with 60% invested in US companies, as well as significant allocations to the Eurozone, Japan and the UK. At a sector level the largest positions are in technology, healthcare and financial services.

Two funds which are added to the Recommended Funds list this quarter, **Schroder ISF Euro Equity** and **Candriam Equities L Sustainable World,** have also performed very well over the last five years, both returning in excess of 90%.

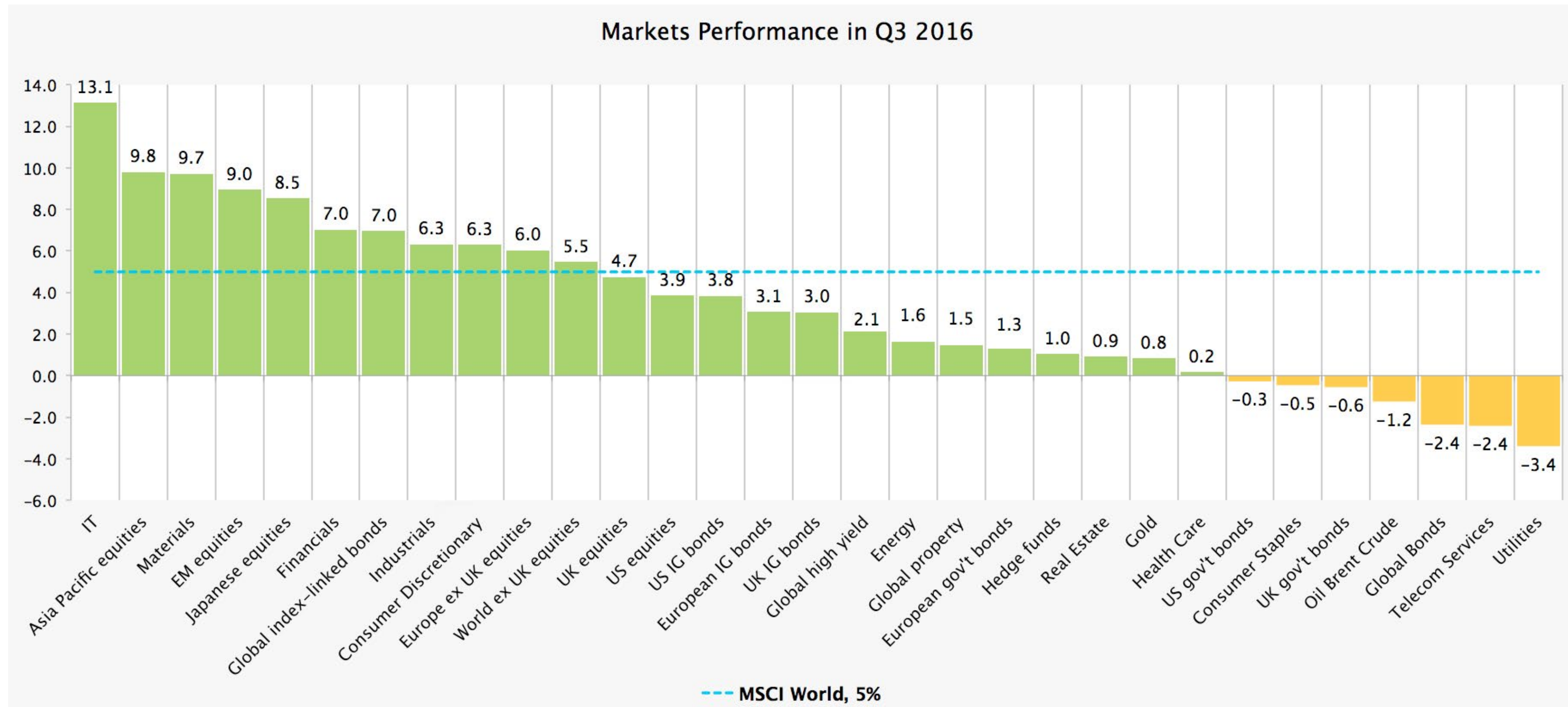


The three funds with a negative return over the five years, **BGF World Energy, First State Global Resources** and **BGF World Gold** are the top three performers year-to-date, showing just how much the gold and energy sectors have bounced back after a period in the doldrums.

Past performance is not a reliable indicator of future results
Source: Morningstar Direct as at 30 September 2016. Total returns in base currency.

WHAT HAPPENED OVER THE QUARTER?

- Global stock markets performed well over the quarter, with the MSCI World index rising 5.0% in US dollar terms
- The US economy is showing signs of strength and the US dollar continues to appreciate
- Federal Reserve chair Janet Yellen said the probability of a US interest rate rise before the end of the year has increased
- The UK stock market has been driven higher, mainly due to sterling weakness



- Sterling fell 2.5% versus the US dollar and 3.7% against the euro. Year-to-date sterling is down 12% against the dollar and 15% versus the euro
- Asia and emerging markets rebounded after being ignored for more than a year
- The technology sector, where disruptive growth is playing a key role, is strong along with consumer discretionary. Returns from these two sectors are often closely correlated
- Materials, financials and industrials also performed well
- Utilities and telecoms, both of which are often referred to as safe haven (some might say boring) sectors were left behind
- All funds bar three in our Recommended Funds list showed a positive return: the leaders were Technology, UK, Resources, US and Asia funds
- In the UK the FTSE 100 broke through the 7000 barrier in early October. This is exciting, although after such a strong run it wouldn't be a surprise if the market paused for breath and we saw some profit taking

Past performance is not a reliable indicator of future results

Source: Morningstar Direct as at 30 September 2016. Total returns in USD.

HIGHEST & LOWEST RETURNING FUNDS

Highest returning funds last quarter

The top performing fund over the quarter was **Henderson Horizon Global Technology**, which benefited from IT being the highest returning sector and gained 13.7% over the period. The fund's manager says the global technology sector is benefiting from the growing dominance of cloud infrastructure; it has the potential to be one of the most disruptive trends in technology over the next 20 years and is one of the investment themes being followed within the fund.

The return from **Schroder ISF UK Equity** reflects the strong performance of the UK stock market. The fund, which invests predominantly in large, blue-chip companies, was up 10.0% over the quarter.

Other funds which performed well over the quarter came from a diverse array of asset classes and include **First State Global Resources, BGF US Growth, Schroder ISF Asian Equity Yield, Allianz Europe Small Cap Equity, Invesco Global Smaller Companies Equit**y and **Fidelity Global Financial Services**.

Franklin Mutual European bounced back after it was the worst performer in the previous quarter. The fund's deep value approach to identifying undervalued European companies with a focus on the ongoing integration of the EU had led to it suffering in the wake of the UK's vote to leave, however it has benefited from a recovery in the share price of many of its holdings.

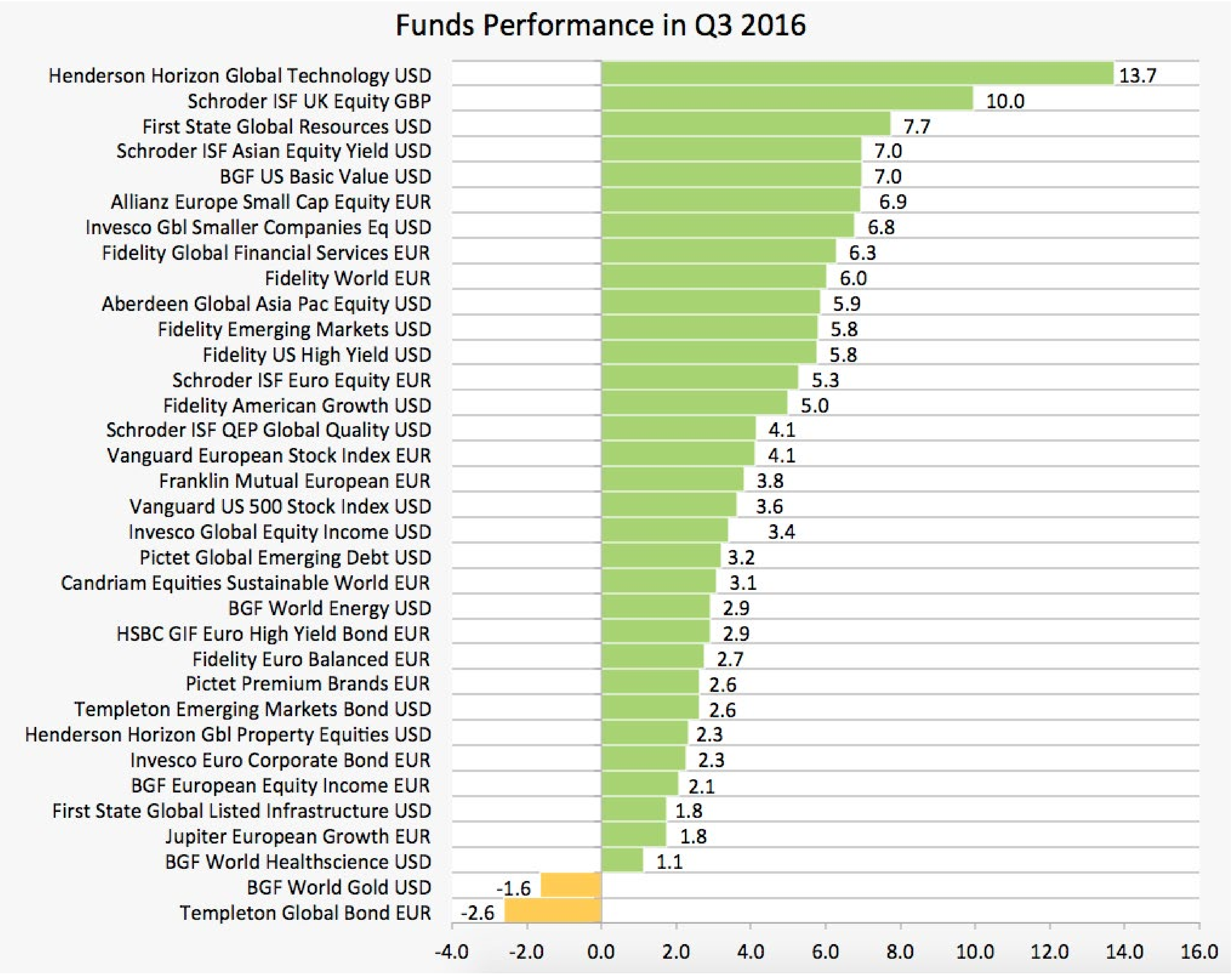
Lowest returning funds last quarter

Templeton Global Bond was the worst performer over the quarter, returning -2.6% and reflecting the fact Global Bonds was the weakest performing sector. The fund searches the world for investment opportunities in government bonds, currencies and interest rates that offer a combination of potential returns and additional portfolio diversification.

Only one other fund delivered negative performance over the period: **BGF World Gold**.

BGF World Healthscience was also one of the weakest performers. Despite this BGF World Gold remains the top performer year-to-date and BGF World Healthscience is the best performing fund over five years.

HIGHEST & LOWEST RETURNING FUNDS



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Source: Morningstar Direct as at 30 September 2016. Total returns in base currency.

WHAT FUNDS ARE YOU BUYING?

TDDII customers continue to buy from our Recommended Funds list

Assets in our Recommended Funds list continue to grow, and the quarter saw high subscriptions volume. Our customers understand the need to focus on a long-term investment strategy across a diversified portfolio and how our Recommended Funds can help them achieve that.

TOP 10 MOST POPULAR FUNDS

1. Vanguard US 500 Stock Index
2. BlackRock Global Funds - World Healthscience
3. Vanguard European Stock Index
4. Fidelity Funds - Emerging Markets
5. First State Global Listed Infrastructure
6. Jupiter Global Fund European Growth
7. BlackRock Global Funds - European Equity Income
8. BlackRock Global Funds - World Gold
9. Schroder International Selection Fund UK Equity
10. Pictet Global Emerging Debt

Most Bought Funds

The most popular fund by assets over the second quarter was once again **Vanguard US 500 Stock Index**. The fund is a passive vehicle which tracks the S&P 500 index. It reflects the increasing move in the US, where the large-cap benchmark has proved difficult for active managers to outperform, from active to passive investment strategies. Periods of extreme market volatility have also encouraged investors to favour index funds.

BGF World Healthscience, the top performing fund in our Recommended Funds list over five years, was the second most bought fund, with other funds receiving a number of buys including **Vanguard European Stock Index, Fidelity Funds Emerging Markets, First State Global Listed Infrastructure, Jupiter European Growth, BGF European Equity Income, BGF World Gold, Schroder ISF UK Equity** and **Pictet-Global Emerging Debt**.

OUR OUTLOOK FOR FUNDS

Economically the world is in good shape. On the whole it is growing, although admittedly more slowly than expected. This slow, steady trend seems set to continue, with little threat of recession. Markets have been disaster free for some time – even the recent Deutsche Bank scare has been averted – and we are in the third longest bull market recorded although stock markets in Europe have failed to make headway this year. While economies may be predicted to continue steady as she goes, at the same time there is change afoot in the global political arena. This is because people are becoming restless for change; all over the world we are seeing people struggling with their identity and it appears globalisation has its limits.

THE OPPORTUNITIES

SUSTAINABILITY

Sustainability is a long-term, structural theme which we feel is attractive as an investment opportunity. It is becoming ever more important because companies which adopt a sustainable business model are demonstrably performing better than those which don't, and this is reflected in the funds which invest in them. Sustainable investing is all about seeking to make the world a better place while also benefiting from those investments.

DISRUPTION AND CHANGE IN THE UK

Not all change is bad. Apple demonstrates this well: any change it makes to the iPhone is well received because the company is always thinking about how users will benefit. The UK has been the fastest growing economy in the developed world, and employment is at a record low, but with Brexit on the horizon things will change.

1. Economic growth is expected to remain steady because it's business as usual for the next three years. After article 50 is triggered in March 2017 trading with Europe will continue as is. The good news is that the government is determined to work with Europe as a "friend" and is positioning the negotiations as a fresh opportunity to improve our working relationship.
2. The weakness of the pound, now at a 31 year low versus the US dollar, down 12% year-to-date, and down 15% versus the euro, will continue to help exporters. The UK has become the second most popular country (after the US) for foreign investment and M&A. UK companies are cheaper, with the weak currency together with a bit of Brexit concern discounting their value. Sterling is below its optimal value but could still be vulnerable going forward.
3. Fiscal vs monetary policy. One of the most welcoming comments in Mrs May's closing speech was the mention that "change has got to come to monetary policy". The country no longer needs emergency medicine and she acknowledged the harmful side effects of lower rates for savers. Following on from this it is unlikely that the Bank of England (BoE) will lower interest rates further and we should be looking forward to a stimulative Autumn Statement.

EUROPE

Mixed messages are coming out of Europe. A negative outlook for banks weighs on their share prices, partly due to concerns on Deutsche Bank's ills, but mainly due to the low and negative interest rate world hurting profitability. On the positive side we are seeing improved growth in manufacturing and renewed consumer spending, which could see Europe pulling through from the worst.

ASIA AND EMERGING MARKETS

This Investment Outlook provides an in depth review of this sector. Despite the recent strong flow into these asset classes, these regions remain strong diversifiers for your portfolio. Interestingly, no other region in the world has as many companies yielding above 2% as emerging markets.

EQUITIES

We favour equities over bonds. In the search for income higher yielding bonds have been snapped up and they are no longer cheap and are vulnerable to a rising interest rate environment. Within government bonds near zero yields have little attraction. Admittedly, equity valuations for strong, stable growth companies in the consumer and technology sectors are looking expensive with long term prospects priced in. However cheaper, lower growth companies have been left behind and remain attractive.

OUR OUTLOOK FOR FUNDS

THE CHALLENGES

US ELECTION

The polls, if we are to believe them, are pointing to a Clinton victory but the run up to the US Presidential Election may cause some turbulence in markets. However the US consumer, the backbone of its economy, is in robust shape. Consumer confidence recently hit a nine-year high and jobless claims are at record lows. Growth, though, is forecast to slow from 2.6% in 2015 to 1.6% in 2016 according to IMF figures. It's difficult to predict any outcome here and we, with you, will watch for the outcome with bated breath. It's fair to say that even if there is a Trump victory, his power and rhetoric is expected to be harnessed in by the political system but still he is a wild card.

INTEREST RATES AND INFLATION

Being the biggest and most influential country in the world, the actions of the US Federal Reserve (Fed) are centre stage right now. Fed chair Janet Yellen has indicated interest rates are likely to rise and if and when that happens markets may react negatively. The tone of the message will be important. If markets believe the next rise is part of an orderly plan to reduce central bank involvement in running the economy then the response will be more muted.

Inflation has been absent for a while in most developed countries, despite the huge amounts of quantitative easing. However input prices such as food, oil and other commodities are starting to tick up and a rising trend is now detectable. The trick will be to allow a healthy level of inflation to creep into the economy with it getting out of control.

BREXIT

While it will be business as usual, going forward there are still question marks about how the UK will trade with Europe. Companies such as Nissan, with its car manufacturing plant in Sunderland, are holding out on expansion plans until there is more clarity. The City also is questioning how to move forward. The weak pound is challenging for domestic companies which source their raw materials abroad; with stiff competition there is no room to raise prices.

OIL

The oil price has been on a rollercoaster ride this year. Back in February the price fell to $28 a barrel but its price has been seesawing upwards to close the quarter at around $50 a barrel. The industry widely agrees that $65-75 a barrel is needed for oil companies to break even, so the price needs to be higher.

JAPAN

Despite the Bank of Japan announcing more changes to extend its long running stimulus programme, already by far the largest in the world as a percentage of GDP, the stock market has gone nowhere over the past year. Foreign investors have benefited from the strong yen, but it's a market to be wary of for the time being.

FUND CHANGES

TD's investment experts have introduced two new funds to the Recommended list. These funds are intended to offer more variety in popular asset classes, as well as access to additional themes such as sustainability which deliver further diversification benefits.

Additions:
Candriam Equities Sustainable World
Schroder ISF Euro Equity
Franklin India

Removals:
Parvest Equity Best Selection Euro

ADDITIONS

Candriam Equities Sustainable World NEW

Login & Buy

Risk Rating	Morningstar Analyst Rating	YTD Return	5Y Return	TD Initial Charge	Ongoing Charge	Performance Fee
5	-	1.40%	92.8%	0%	1.85%	0%

Why Buy This Fund?

Sustainability will be increasingly important going forward. Candriam has been a pioneer in the sustainable space since the launch of its first SRI fund in 1996. The fund invests worldwide in companies which are best in class (top 50%) within their respective sector in terms of successfully integrating social, environmental and corporate governance concerns into their business models. Eligible portfolio holdings must act in accordance with the United Nations Global Compact's 10 principles and must not be involved in the arms industry. The managers adopt a unique investment approach which combines detailed quantitative analysis of company performance drivers with rigorous SRI analysis. The portfolio contains 200 to 300 high potential stocks.

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Performance as at 30 September 2016. Total returns in base currency.

ADDITIONS

Schroder ISF Euro Equity NEW

Login & Buy

Risk Rating	Morningstar Analyst Rating	YTD Return	5Y Return	TD Initial Charge	Ongoing Charge	Performance Fee
6	Silver™	-4.00%	93.2%	0%	1.91%	0%

Why Buy This Fund?

Fund manager Martin Skanberg has nearly two decades' investment experience and has managed the fund since 2010. The manager typically looks for companies with sustainable profitable growth above market expectations or improving long-term returns, relying on fundamental analysis to identify the most important drivers of a business. He is flexible in his investment approach with no style bias. Skanberg receives strong support from Schroders' analyst team and this, coupled with his pragmatic approach to portfolio construction, has enable him to build an impressively consistent return profile. The fund was added as a replacement for Parvest Equity Best Selection Euro.

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ADDITIONS

Franklin India NEW

Login & Buy

Risk Rating	Morningstar Analyst Rating	YTD Return	5Y Return	TD Initial Charge	Ongoing Charge	Performance Fee
6	Silver	13.05%	52.56%	0%	1.89%	0%

Why Buy This Fund?

The fund offers core exposure to the Indian equity market, aiming to outperform the MSCI India index over the medium to long term. Stephen Dover and Sukumar Rajah's fundamental bottom-up stock research aims to identify high quality sustainable growth companies in India. The fund management team has a wealth of experience and sector knowledge of the Indian market. It likes companies with strong franchises, high returns on capital, revenue and free cash flow growth, as well as good quality management. Idea generation is based on the team's in depth industry knowledge and leads to a thorough quantitative and qualitative assessment of any potential new holding. Company visits are also key, including meeting with various company stakeholders to verify a firm's growth potential and competitive position. The fund has been a consistent performer since inception in November 2005.

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REMOVAL & DOWNGRADE

Removal

Parvest Equity Best Selection Euro

The fund was downgraded from a Morningstar Analyst Rating of Bronze to Neutral in August. It has experienced increased turnover within its management team and continued performance weakness over recent years, largely due to poor stock selection. This, combined with a fee structure that is less compelling relative to its peers, has led Morningstar to lose confidence in the fund. As a result we have removed it from our Recommended Funds list.

Downgrade

Franklin Mutual European Downgraded from Gold to Silver

While the fund remains a good option in its category, the higher level of risk displayed in recent years combined with less effective stock picking has led Morningstar to reduce its level of conviction and downgrade the fund from a Gold to a Silver Analyst Rating. The fund has underperformed its peers over the last three years, with limited exposure to defensive stocks for valuation reasons proving a headwind. Despite these concerns, over the long term fund manager Philippe Brugere-Trelat's time-tested approach has proved its worth. The portfolio's risk-adjusted results still look strong over the long haul.

TD RECOMMENDED FUNDS - AUTUMN 2016

TD Recommended Equity Funds

GLOBAL	Growth	Fidelity World
	Income	Invesco Global Equity Income
	Blend	Schroder QEP Global Quality
	Small Cap	Invesco Global Small Cap Equity
US	Growth	Fidelity American Growth
	Value	BlackRock Global Funds US Basic Value
	Blend	Vanguard US 500 Stock Index
EUROPE	Growth	Schroder ISF Euro Equity NEW
	Growth	Jupiter European Growth Class
	Value	Franklin Mutual European
	Income	BlackRock Global Funds European Equity Income
	Blend	Vanguard European Stock Index
	Small Cap	Allianz Europe Small Cap Equity
UK	Blend	Schroder UK Equity
ASIA	Growth	Aberdeen Global Asia Pacific Equity
	Income	Schroder ISF Asian Equity Yield
EMERGING MARKETS	Growth	Fidelity Emerging Markets
	Growth	Franklin India NEW

TD Recommended Fixed Income Funds

EUR	Corporate Bond	Invesco Euro Corporate Bond
	High Yield	HSBC GIF Euro High Yield Bond
USD	High Yield	Fidelity US High Yield
GLOBAL	Global Bond	Templeton Global Bond
	Global Emerging Markets Bond	Templeton Emerging Markets Bond
	Global Emerging Markets Bond	Pictet Global Emerging Debt

TD Recommended Specialist Funds

PROPERTY	Indirect	Henderson Horizon Global Property Equities
SECTOR	Technology	Henderson Horizon Global Technology
	Financial	Fidelity Global Financial Services
	Energy	BlackRock Global Funds World Energy
	Healthcare	BlackRock Global Funds World Health Science
	Luxury Brands	Pictet Premium Brands
	Infrastructure	First State Global Listed Infrastructure
	Natural Resources	First State Global Resources
	Gold	BlackRock Global Funds World Gold
	Ethical	Candriam Equities Sustainable World NEW
MULTI ASSET		Fidelity Euro Balanced

Click on the funds to invest

LEGAL DISCLOSURE

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