

# Semi-Annual Financial Report

for the period ended June 30, 2011

TD FUNDSMART MANAGED  
PORTFOLIOS

TD FUNDSMART MANAGED INCOME  
PORTFOLIO

**TD Managed  
Assets Program**



# TD Managed Assets Program

SEMI-ANNUAL  
FINANCIAL REPORT

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August 11, 2011

Dear Investor,

Please find enclosed a copy of the Semi-Annual Financial Report for your TD Managed Assets Program<sup>1</sup>, for the period ended June 30, 2011. This report includes financial statements as well as notes to financial statements and information about all series of the Portfolio.

Should you have any questions about the TD Managed Assets Program, please contact any TD Canada Trust branch, TD Waterhouse<sup>2</sup> or your Financial Advisor. Or call us toll-free at 1-800-386-3757 (English), 1-800-409-7125 (French) or 1-800-288-1177 (Chinese). You can also e-mail us at [td.mutualfunds@td.com](mailto:td.mutualfunds@td.com) or visit [www.tdassetmanagement.com](http://www.tdassetmanagement.com).

Thank you for investing with us.

Sincerely,



Thomas J. Dyck  
President, TD Mutual Funds  
TD Asset Management Inc.

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

<sup>1</sup> TD Mutual Funds and TD Managed Assets Program are managed by TD Asset Management Inc., a wholly-owned subsidiary of The Toronto-Dominion Bank.

<sup>2</sup> TD Waterhouse Canada Inc. is a subsidiary of The Toronto-Dominion Bank.  
TD Waterhouse Canada Inc. is a member of the Canadian Investor Protection Fund.

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## TD FUNDSMART MANAGED INCOME PORTFOLIO (THE "PORTFOLIO")

### Management's Responsibility for Financial Reporting

The accompanying unaudited interim financial statements have been prepared by TD Asset Management Inc. as Manager of the Portfolio. The Manager is responsible for the integrity, objectivity and reliability of the data presented. This responsibility includes selecting appropriate accounting principles and making judgments and estimates consistent with Canadian generally accepted accounting principles. The Manager is also responsible for the development of internal controls over the financial reporting process which are designed to provide reasonable assurance that relevant and reliable financial information is produced and the safeguarding of all assets of the Portfolio.

The Board of Directors of TD Asset Management Inc. is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities.

On behalf of TD Asset Management Inc.,

Manager of the Portfolio



Thomas J. Dyck  
Director and President, TD Mutual Funds  
August 11, 2011



Francesca Shaw  
Director and Chief Financial Officer  
August 11, 2011

## TD FUNDSMART MANAGED INCOME PORTFOLIO

Statements of Net Assets (in 000s except per unit amounts and number of units)  
as at June 30, 2011 and December 31, 2010 (Unaudited)

	2011	2010
<b>Assets</b>		
Investments at Fair Value (Note 2)	\$ 243,191	\$ 247,003
Short-Term Investments	400	0
Cash	120	573
Subscriptions Receivable	258	539
Receivable for Investment Sales	454	0
	<u>244,423</u>	<u>248,115</u>
<b>Liabilities</b>		
Accrued Liabilities	508	529
Redemptions Payable	231	512
Distributions Payable	15	30
	<u>754</u>	<u>1,071</u>
<b>Net Assets</b> (Note 2)	<u>\$ 243,669</u>	<u>\$ 247,044</u>
<b>Net Assets Representing Unitholders' Equity</b> (Note 3)		
Investor Series	\$ 215,836	\$ 220,687
Premium Series	\$ 18,668	\$ 18,039
H-Series	\$ 1,290	\$ 1,086
K-Series	\$ 1,422	\$ 629
Advisor Series	\$ 4,780	\$ 4,803
T-Series	\$ 1,673	\$ 1,800
	<u>\$ 243,669</u>	<u>\$ 247,044</u>
<b>Number of Units Outstanding</b>		
Investor Series	20,444,864	21,056,643
Premium Series	1,878,180	1,828,239
H-Series	98,776	81,897
K-Series	104,264	45,580
Advisor Series	452,084	457,645
T-Series	127,198	134,741
<b>Net Assets Per Unit</b> (Note 2)		
Investor Series	\$ 10.56	\$ 10.48
Premium Series	\$ 9.94	\$ 9.87
H-Series	\$ 13.06	\$ 13.26
K-Series	\$ 13.64	\$ 13.81
Advisor Series	\$ 10.57	\$ 10.50
T-Series	\$ 13.16	\$ 13.35

The accompanying notes are an integral part of these financial statements.

## TD FUNDSMART MANAGED INCOME PORTFOLIO

### Statements of Investment Operations *(in 000s except per unit amounts)*

*for the periods ended June 30, 2011 and 2010 (Unaudited)*

	2011	2010
<b>Investment Income</b>		
Income Distributions Received from Underlying Funds	\$ 3,796	\$ 3,701
Interest	1	0
Less: Withholding Taxes	(1)	(0)
	<u>3,796</u>	<u>3,701</u>
<b>Expenses (Note 4)</b>		
Management Fees	3,087	2,676
Independent Review Committee Fees	1	1
	<u>3,088</u>	<u>2,677</u>
Less: Waived Expenses	(1)	(1)
	<u>3,087</u>	<u>2,676</u>
Net Investment Income (Loss)	709	1,025
Net Realized Gain (Loss) on Sale of Investments	44	(934)
Net Change in Unrealized		
Appreciation/Depreciation of Investments	1,755	235
Net Gain (Loss) on Investments	<u>1,799</u>	<u>(699)</u>
<b>Increase (Decrease) in Net Assets from Investment Operations*</b>	<u>\$ 2,508</u>	<u>\$ 326</u>
<b>*Increase (Decrease) in Net Assets from Investment Operations</b>		
Investor Series	\$ 2,178	\$ 239
Premium Series	\$ 241	\$ 82
H-Series	\$ 12	\$ 0
K-Series	\$ 13	\$ 1
Advisor Series	\$ 46	\$ 3
T-Series	\$ 18	\$ 1
	<u>\$ 2,508</u>	<u>\$ 326</u>
<b>Increase (Decrease) in Net Assets from Investment Operations - Per Unit</b>		
Investor Series	\$ 0.10	\$ 0.01
Premium Series	\$ 0.13	\$ 0.05
H-Series	\$ 0.13	\$ 0.00
K-Series	\$ 0.18	\$ 0.10
Advisor Series	\$ 0.10	\$ 0.01
T-Series	\$ 0.14	\$ 0.01

*The accompanying notes are an integral part of these financial statements.*

## TD FUNDSMART MANAGED INCOME PORTFOLIO

### Statements of Changes in Net Assets *(in 000s except number of units)*

*for the periods ended June 30, 2011 and 2010 (Unaudited)*

	Investor Series	
	2011	2010
Net Assets, Beginning of the Period	\$ 220,687	\$ 212,588
Increase (Decrease) in Net Assets from Investment Operations	2,178	239
Capital Unit Transactions*		
Proceeds from Sale of Units	14,313	19,154
Reinvestments of Distributions	578	878
Early Redemption Fees	1	2
Amounts Paid on Redemptions	(21,339)	(17,255)
	(6,447)	2,779
Distributions to Unitholders	(582)	(886)
Increase (Decrease) in Net Assets for the Period	(4,851)	2,132
<b>Net Assets, End of the Period</b>	<b>\$ 215,836</b>	<b>\$ 214,720</b>

#### \*Capital Unit Transactions

Units Outstanding, Beginning of the Period	21,056,643	21,029,658
Units Issued	1,358,973	1,889,368
Units Issued on Reinvestments	54,779	86,717
Units Redeemed	(2,025,531)	(1,703,386)
<b>Units Outstanding, End of the Period</b>	<b>20,444,864</b>	<b>21,302,357</b>

	Advisor Series	
	2011	2010
Net Assets, Beginning of the Period	\$ 4,803	\$ 3,521
Increase (Decrease) in Net Assets from Investment Operations	46	3
Capital Unit Transactions*		
Proceeds from Sale of Units	447	1,220
Reinvestments of Distributions	11	16
Early Redemption Fees	0	0
Amounts Paid on Redemptions	(516)	(376)
	(58)	860
Distributions to Unitholders	(11)	(16)
Increase (Decrease) in Net Assets for the Period	(23)	847
<b>Net Assets, End of the Period</b>	<b>\$ 4,780</b>	<b>\$ 4,368</b>

#### \*Capital Unit Transactions

Units Outstanding, Beginning of the Period	457,645	347,982
Units Issued	42,374	120,280
Units Issued on Reinvestments	1,036	1,605
Units Redeemed	(48,971)	(37,091)
<b>Units Outstanding, End of the Period</b>	<b>452,084</b>	<b>432,776</b>

*The accompanying notes are an integral part of these financial statements.*

Premium Series		H-Series		K-Series	
2011	2010	2011	2010	2011	2010
\$ 18,039	\$ 18,647	\$ 1,086	\$ 455	\$ 629	\$ 0
241	82	12	0	13	1
3,094	1,902	244	341	805	250
100	111	14	8	1	0
0	0	0	0	0	0
(2,704)	(3,952)	(35)	(14)	(1)	0
490	(1,939)	223	335	805	250
(102)	(114)	(31)	(16)	(25)	(5)
629	(1,971)	204	319	793	246
\$ 18,668	\$ 16,676	\$ 1,290	\$ 774	\$ 1,422	\$ 246

1,828,239	1,964,803	81,897	34,175	45,580	7
311,845	199,717	18,406	25,807	58,678	18,315
10,040	11,615	1,074	613	86	0
(271,944)	(413,593)	(2,601)	(1,006)	(80)	0
1,878,180	1,762,542	98,776	59,589	104,264	18,322

T-Series		TOTAL	
2011	2010	2011	2010
\$ 1,800	\$ 1,369	\$ 247,044	\$ 236,580
18	1	2,508	326
132	422	19,035	23,289
27	27	731	1,040
0	0	1	2
(259)	(281)	(24,854)	(21,878)
(100)	168	(5,087)	2,453
(45)	(42)	(796)	(1,079)
(127)	127	(3,375)	1,700
\$ 1,673	\$ 1,496	\$ 243,669	\$ 238,280

134,741	102,036
9,904	31,489
2,034	2,037
(19,481)	(21,291)
127,198	114,271

The accompanying notes are an integral part of these financial statements.

## TD FUNDSMART MANAGED INCOME PORTFOLIO

### Statement of Investment Portfolio

as at June 30, 2011 (Unaudited)

NO. OF UNITS	DESCRIPTION	COST	FAIR VALUE	% OF TOTAL NET ASSETS
FIXED INCOME FUNDS				
<b>CANADIAN SHORT TERM BOND</b>				
5,694,645	TD Short Term Bond Fund, O-Series	\$ 57,211,288	\$ 58,427,054	24.0
<b>CANADIAN BOND</b>				
8,238,160	TD Canadian Bond Fund, O-Series	83,132,136	86,500,684	35.5
<b>GLOBAL BOND</b>				
1,445,318	TD Income Opportunities Pool, O-Series	15,085,473	15,594,980	6.4
<b>HIGH YIELD BOND</b>				
1,024,576	TD High Yield Bond Fund, O-Series	10,647,786	10,235,513	4.2
	Total Fixed Income Funds	166,076,683	170,758,231	70.1
EQUITY FUNDS				
<b>CANADIAN EQUITY</b>				
539,151	Beutel Goodman Canadian Equity Fund, Class "I"	13,909,197	14,894,229	
313,917	Fidelity True North® Fund, Series "O"	9,476,617	10,733,185	
		23,385,814	25,627,414	10.5
<b>U.S. EQUITY</b>				
827,539	TD U.S. Blue Chip Equity Fund, O-Series	8,973,760	9,359,470	
932,217	TD U.S. Large-Cap Value Fund, O-Series	10,473,918	9,750,991	
		19,447,678	19,110,461	7.8
<b>INTERNATIONAL EQUITY</b>				
886,558	TD International Growth Fund, O-Series	10,703,040	9,432,975	
493,592	Templeton International Stock Fund, Series "O"	10,109,691	9,787,936	
		20,812,731	19,220,911	7.9
<b>GLOBAL EQUITY</b>				
811,679	TD Opportunities Pool, O-Series	8,549,455	8,473,931	3.5
	Total Equity Funds	72,195,678	72,432,717	29.7
	TOTAL INVESTMENT PORTFOLIO	238,272,361	243,190,948	99.8
	Short-Term Investments	400,000	400,000	0.2
	Other Net Assets	77,580	77,580	0.0
	TOTAL NET ASSETS	\$ 238,749,941	\$ 243,668,528	100.0

The accompanying notes are an integral part of these financial statements.

## TD FUNDSMART MANAGED INCOME PORTFOLIO

### Statement of Investment Portfolio (cont'd)

as at June 30, 2011 (Unaudited)

#### Financial Instruments by the Level in the Fair Value Hierarchy (in 000s) (Note 8)

The table below illustrates the classification of the Portfolio's financial instruments within the fair value hierarchy as at June 30, 2011 and December 31, 2010:

	Level 1	Level 2	Level 3	Total
June 30, 2011				
Short-Term Investments	\$ 0	\$ 400	\$ 0	\$ 400
Underlying Funds	243,191	0	0	243,191
	\$ 243,191	\$ 400	\$ 0	\$ 243,591
December 31, 2010				
Underlying Funds	\$ 247,003	\$ 0	\$ 0	\$ 247,003

During the periods, transfers between Level 1 and Level 2 were nil.

#### Contractual Maturities Analysis for Financial Liabilities (in 000s) (Note 8)

The table below summarizes cash flows associated with the maturities of the Portfolio's financial liabilities as at June 30, 2011 and December 31, 2010:

	Less than 3 months	
	2011	2010
Accounts payable and other liabilities	\$ 754	\$ 1,071

The accompanying notes are an integral part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

June 30, 2011 (Unaudited)

## 1. The Portfolio

The TD FundSmart Managed Income Portfolio (the "Portfolio") is an open-ended mutual fund trust established under the laws of Ontario and is governed by an Amended, Consolidated and Restated Declaration of Trust dated October 26, 2007 ("Declaration of Trust"). The Portfolio invests primarily in specified mutual fund trusts ("Underlying Funds").

TD Asset Management Inc. ("TDAM") is the manager, portfolio adviser and trustee of the Portfolio. TD Investment Services Inc. ("TDIS") is the principal distributor of the Investor Series and Premium Series units of the Portfolio. Both TDAM and TDIS are wholly-owned subsidiaries of The Toronto-Dominion Bank (the "Bank").

The Portfolio is authorized to issue an unlimited number of units of multiple series that rank equally and are available for sale under two separate simplified prospectuses, one for the Investor Series, Premium Series, H-Series and K-Series, and one for the Advisor Series and T-Series. The various series offered by the Portfolio are as described below.

Investor Series: offered to investors on a no-load basis.

Premium Series: offered on a no-load basis to large investors and others who make the required minimum investment, as determined by TDAM from time to time.

H-Series: offered on a no-load basis to investors who wish to receive a regular monthly cash flow from the Portfolio. Distributions will consist of net income, net realized capital gains, and/or a return of capital monthly.

K-Series: offered on a no-load basis to large investors and others who make the required minimum investment, as determined by TDAM from time to time, and who wish to receive a regular monthly cash flow from the Portfolio. Distributions will consist of net income, net realized capital gains, and/or a return of capital monthly.

Advisor Series: offered to investors through registered brokers and dealers with either a front-end, back-end or low-load purchase option.

T-Series: offered to investors through registered brokers and dealers with either a front-end, back-end or low-load purchase option who wish to receive a regular monthly cash flow from the Portfolio. Distributions will consist of net income, net realized capital gains, and/or a return of capital monthly.

Each series of units is sold under differing purchase options and may have different management fees. The management fee rates for each series of the Portfolio are provided in Note 4.

The Investor Series of the Portfolio was established on November 12, 1998, the Advisor Series was established on November 1, 2004, and the Premium Series was established on November 1, 2005. The H, K and T-Series were established on November 5, 2007.

"Period" represents the six months ended June 30, 2011 and June 30, 2010.

## 2. Summary of Significant Accounting Policies

These interim financial statements have been prepared on a consistent basis with the annual financial statements. The interim financial statements, together with the notes to financial statements, should be read in conjunction with the most recent annual financial statements. Certain disclosures that are required under Canadian generally accepted accounting principles ("GAAP") in the notes to the annual financial statements have been omitted here.

**Basis of presentation:** These financial statements, prepared in accordance with Canadian GAAP, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, investment income, expenses and gains and losses during the reporting period. Actual results may differ from these estimates.

The following is a summary of significant accounting policies followed by the Portfolio in determining net assets for purposes of these financial statements.

**(i) Valuation of Investments** Investments are deemed to be held for trading and therefore are recorded at fair value determined as the Series' net asset value ("NAV") per unit of the Underlying Funds.

The change in net excess (shortfall) of the fair value of investments (including unrealized gains and losses on foreign exchange) over (under) the total average cost of the investments is included as Net Change in Unrealized Appreciation/Depreciation of Investments in the Statements of Investment Operations.

**(ii) Investment Transactions, Income, Expenses and Transaction Costs** The cost of investments represents the amount paid for each security, and is determined on an average cost basis. Investment transactions are accounted for as of the trade date. Realized and unrealized gains and losses from investment transactions are calculated on an average cost basis. Interest income and expenses are accrued daily, and expenses are accrued separately to each series, while income, gains and losses are allocated to each series based on their respective NAV.

The Portfolio invests in Underlying Funds and therefore does not incur transaction costs. However, the Underlying Funds held by the Portfolio may be subject to transaction costs and therefore the Portfolio may indirectly incur these transaction costs.

**(iii) Distributions from Underlying Funds**

Distributions received from Underlying Funds out of interest, foreign income and related withholding taxes, Canadian dividends and net realized capital gains are recognized when declared.

**(iv) Other Assets and Liabilities**

Subscriptions receivable, receivable for investment sales and other assets are designated as loans and receivables and recorded at cost or amortized cost. Similarly, accrued liabilities, redemptions payable, distributions payable, payable for investment purchases, and other liabilities are designated as other financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short term nature.

**(v) Translation of Foreign Currencies**

The fair value of investments and other assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange which is current on the Valuation Date (as defined below).

The Underlying Funds' investment portfolios may consist of securities that are traded in foreign markets. The proceeds on the sale of such securities will be realized in the respective currency. Unhedged foreign currency positions are subject to gains and losses due to fluctuations in the respective exchange rates.

Purchases and sales of investments in foreign currencies and foreign currency dividend and interest income are translated into Canadian dollars at the rate of exchange on the respective date of the transaction.

**(vi) Valuation of the Portfolio Unit**

TDAM usually calculates the NAV per series unit for the Portfolio as at 4 p.m. (Eastern time) on each day that the Toronto Stock Exchange is open for trading, but in some circumstances, it may be calculated at another time. Each day on which a NAV is calculated is referred to as a Valuation Date ("Valuation Date").

A separate NAV is calculated for each series of units of the Portfolio by taking the series' proportionate share of the Portfolio's common assets less that series' proportionate share of the Portfolio's common liabilities and deducting from this amount all liabilities that relate solely to that specific series. The NAV per series unit is determined by dividing the NAV of each series of the Portfolio by the total number of units of that series outstanding.

**(vii) Increase (Decrease) in Net Assets from Investment Operations Per Unit**

The Increase (Decrease) in Net Assets from Investment Operations Per Unit reported in the Statements of Investment Operations for the period is calculated by aggregating each valuation day's Increase (Decrease) in Net Assets from Investment Operations attributed to the series of units divided by the number of such units outstanding on that date.

**(viii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

The Portfolio's own credit risk (in the case of financial liabilities) and a counter-party's credit risk (in the case of financial assets) are considered, where applicable, in determining the fair value of financial assets and financial liabilities, including derivative instruments.

**Future Accounting Change – Transition to International Financial Reporting Standards ("IFRS")**

The Portfolio will adopt IFRS for the fiscal period beginning January 1, 2013 and will issue its initial financial statements in accordance with IFRS, including comparative financial information, for the interim period ending June 30, 2013, as currently required by the Canadian Accounting Standards Board for investment companies.

Management has been monitoring developments in the IFRS conversion program and has been assessing the likely impacts on implementation decisions, internal controls, information systems and training.

Based on management's current assessment of the differences between Canadian GAAP and IFRS, it is not expected that there would be any impact on the Portfolio's NAV per series unit or net assets per series unit. Management has presently determined that the impact of IFRS to the financial statements would be limited to additional note disclosures and modifications to presentation including unitholders' interests. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

**3. Unitholders' Equity**

Units of the Portfolio, which are redeemable at the option of the unitholders in accordance with the provisions of the Declaration of Trust, do not have any nominal or par value and the number of units which may be issued is unlimited. Units are issued or redeemed on a daily basis at the NAV per series unit next determined after the purchase order or redemption request, respectively, is received by TDAM. Purchases and redemptions include units exchanged from one series to another series within the Portfolio.

Units issued and outstanding represent the capital of the Portfolio. The Portfolio does not have any specific capital requirements on the subscription and redemption of units, other than minimum subscription requirements. Changes in the Portfolio's capital during the period are reflected in the Statements of Changes in Net Assets. TDAM is responsible for managing the capital of the Portfolio in accordance with its investment objectives and in managing its liquidity in order to meet redemption requests as discussed in Note 8.

#### 4. Management Fees and Other Expenses

The Portfolio pays TDAM a management fee for the investment management and portfolio administration provided to the Portfolio. The management fee is a variable fee dependent upon the amount of all other fees and expenses including applicable goods and services taxes and harmonized sales taxes that are paid by the Portfolio. The Portfolio also holds series of units of other funds managed by TDAM for which TDAM is paid a fee.

The Management Expense Ratios ("MER") of the Portfolio are capped such that the MER of the Investor Series and H-Series cannot exceed 2.60 percent, the MER of the Premium Series and K-Series cannot exceed 2.05 percent, and the MER of the Advisor Series and T-Series cannot exceed 2.70 percent. The maximum management fee is the amount that would be necessary to reach the cap, when combined with all expenses of the Portfolio and its share of the Underlying Funds' expenses.

##### Management Fees For Periods Ended June 30 (%)\*

Series	Year	Portfolio	Underlying	Total
Investor Series	2011	2.30	0.00	2.30
	2010	2.19	0.18	2.37
Premium Series	2011	1.80	0.00	1.80
	2010	1.71	0.18	1.89
H-Series	2011	2.30	0.00	2.30
	2010	2.21	0.18	2.39
K-Series	2011	1.81	0.00	1.81
	2010	1.75	0.18	1.93
Advisor Series	2011	2.37	0.00	2.37
	2010	2.19	0.18	2.37
T-Series	2011	2.37	0.00	2.37
	2010	2.19	0.18	2.37

\*Annualized

All operating expenses of the Portfolio are paid for by TDAM, including cost of the portfolio's record keeping and communication costs, custodial, legal, filing and audit fees, bank charges, borrowing costs and all taxes.

While the Portfolio pays its proportionate share of all reasonable costs and expenses associated with the Independent Review Committee ("IRC") from its assets, TDAM will reimburse the Portfolio for such costs and expenses.

#### 5. Other Related Party Transactions

TDAM is responsible for management of the Portfolio's investment portfolio, including the making of decisions relating to the investment of the Portfolio's assets. TDAM has established an IRC in respect of the Portfolio and the Underlying Funds managed by TDAM. The IRC acts as an impartial and independent committee to review and provide approvals respecting certain transactions in which the Portfolio and the Underlying Funds managed by TDAM have conflicts of interest. The IRC has approved standing instructions to permit the Portfolio and/or Underlying Funds managed by TDAM to enter into the following securities transactions:

- (a) trades in securities of the Bank or any affiliate or associate thereof;
- (b) investments in the securities of an issuer where TD Securities Inc., TD Waterhouse Canada Inc., or any other affiliate of TDAM ("Related Dealer") acted as an underwriter during the distribution of such securities and the 60-day period following the completion of the distribution of the underwritten securities;
- (c) purchases or sales of securities of an issuer from or to another investment fund or discretionary managed account managed by TDAM; and
- (d) purchases of securities from or sales of securities to a Related Dealer, where it acted as principal.

The standing instructions require that securities transactions with related parties conducted by TDAM (i) are free from any influence by an entity related to TDAM and without taking into account any consideration relevant to an entity related to TDAM; (ii) represent the business judgment of TDAM uninfluenced by considerations other than the best interests of the Portfolio and/or Underlying Funds; (iii) comply with the applicable policies and procedures of TDAM; and (iv) achieve a fair and reasonable result for the Portfolio and Underlying Funds.

#### 6. Brokerage Commissions and Soft Dollars

The Portfolio did not incur any brokerage commissions during the periods ended June 30, 2011 and 2010 to execute transactions in the Underlying Funds, and accordingly did not receive any investment or research services from brokers in exchange for commissions paid by the Portfolio.

Certain of the Underlying Funds have incurred brokerage commissions, a portion of which may have been received by the Underlying Funds' investment advisers in the form of investment or research services ("soft dollars"). Amounts for each Underlying Fund are disclosed in the Underlying Funds' annual financial statements, where ascertainable.

#### 7. Tax Status

The Portfolio qualifies as a mutual fund trust under the *Income Tax Act* (Canada).

All or substantially all of the net income for tax purposes and net taxable capital gains realized in any year are distributed to unitholders such that no income tax is payable by the Portfolio.

## 8. Financial Risk Management

### (A) Financial Risk Factors

The Portfolio is exposed to a variety of financial risks: market risk (including interest rate risk, currency risk, and other price risk), credit risk and liquidity risk. TDAM seeks to reduce these risks by diversifying investments across the three main asset classes: money market investments for safety, bonds for income and equity investments for growth. Since different types of investments tend to move independently from one another, positive performance in one asset class can help offset negative performance in another, thereby reducing volatility and overall risk in the long-term.

The Portfolio is managed in accordance with its investment objectives, generally within specific asset class ranges as set out in the Portfolio's simplified prospectus.

The Portfolio follows a long-term strategic asset allocation plan, which involves setting an asset allocation policy, selecting investments for each asset class, and periodically rebalancing the asset allocation of the Portfolio in accordance with its investment objectives.

**Asset Allocation:** This first step involves diversifying portfolio investments among several different investment categories or asset classes with the aim to optimally match the investment objectives and risk tolerances of the Portfolio with reasonable expectations for capital market behaviour. The Portfolio uses strategic asset allocation where the time horizon of an investment in the Portfolio is assumed to be long-term in nature. As a result, asset mix changes are infrequent and are usually in response to: changes in the risk profile or return objective; altered long-term expectations about one or several asset classes; or the emergence of a new class of assets not previously included. TDAM portfolio advisers aim to conduct a comprehensive analysis of the long-term risk and return relationships for the key asset categories - broadly defined as equity, fixed income and cash or cash equivalents. They then aim to determine the optimal mix of these categories in order to try to maximize the potential returns given the risk tolerance of the Portfolio.

**Fund Selection:** The Underlying Funds are selected based on the strategic asset allocation decisions made in the asset allocation phase. Underlying Funds are evaluated using both quantitative and qualitative processes. On the quantitative side, the TDAM portfolio advisers look for performance consistency and attractive risk-adjusted returns. This is complemented with qualitative analysis where TDAM portfolio advisers look for consistent and credible investment processes performed by quality management teams.

**Portfolio Review:** The Portfolio is adjusted or rebalanced on a regular basis to keep its asset mix in line with its investment objectives. In addition, the TDAM portfolio advisers regularly monitor the markets and economic conditions, existing asset allocation, and the individual

Underlying Funds in the Portfolio. Although the Portfolio may be subject to short-term market volatility, the Portfolio is designed for long-term investment. A long-term focus prevents revisions to the Portfolio's asset allocation in reaction to short-term market fluctuations. However, when required, the selection of individual Underlying Funds and the weightings of the Underlying Funds within the Portfolio will be adjusted with the aim to increase potential returns and/or reduce risk.

**(i) Interest Rate Risk** Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or the fair value of interest-bearing investments. The Portfolio is exposed to indirect interest rate risk to the extent of the interest-bearing financial instruments held by the Underlying Funds. Underlying Funds' exposure to interest rate risk is concentrated in their investments in debt securities (such as bonds and debentures) and interest rate derivative instruments, if any. Short-term investments, currencies, and other assets and liabilities held by the Portfolio and the Underlying Funds are short-term in nature and/or non-interest bearing and not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

**(ii) Currency Risk** Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than the Portfolio's functional currency, which is the Canadian dollar. The Portfolio's direct exposure to currency risk is minimal as the units of the Underlying Funds held are valued in Canadian dollars. The Portfolio may be exposed to indirect currency risk in the event that the Underlying Funds invest in financial instruments that are denominated in a currency other than the Canadian dollar.

**(iii) Other Price Risk** Other price risk is the risk that securities will fluctuate in value because of changes in market prices (other than those arising from interest rate risk or currency risk). All security investments present a risk of loss of capital. The maximum risk is determined by the fair value of the securities held by the Portfolio.

As at June 30, 2011 and December 31, 2010, had the benchmark of the Portfolio increased or decreased by 5 percent, with all other variables held constant, the net assets of the Portfolio would have increased or decreased by approximately:

Benchmark	Impact on Net Assets (\$000)		Impact on Net Assets (%)	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
70% DEX Universe Bond Index				
20% MSCI World Index Net Dividend (C\$)	4,057	4,113	1.67	1.67
10% S&P/TSX Composite Total Return Index				

#### LEGEND

MSCI – Morgan Stanley Capital International  
S&P/TSX – Standard & Poor's/Toronto Stock Exchange

In practice, the actual trading results may differ from the above sensitivity analysis amounts and the differences could be material.

**(iv) Credit Risk** Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Portfolio's main credit risk concentration is in debt securities and derivative instruments held by the Underlying Funds.

**(v) Liquidity Risk** Liquidity risk is defined as the risk that the Portfolio may not be able to settle or meet its obligations on time or at a reasonable price. The Portfolio is exposed to daily cash redemptions of redeemable units. Units are redeemable on demand at the then current NAV per series unit at the option of unitholders. Liquidity risk is the possibility that a portfolio will not be able to convert its investments to cash when it needs to. As required by applicable securities legislation, the Portfolio maintains at least 85 percent of its assets in liquid investments (i.e., investments that are traded in active markets and can be readily disposed of). The Underlying Funds invest the majority of their investments in instruments that are traded in an active market and can be readily disposed of. In addition, the Portfolio retains sufficient cash and cash equivalents to maintain liquidity, and has the ability to borrow up to 5 percent of its NAV for the purpose of funding redemptions. Where applicable, contractual maturities analysis for the Portfolio's financial liabilities is disclosed in the Portfolio's Statement of Investment Portfolio.

#### (B) Classification of Fair Value Measurement

The Portfolio classifies fair value measurements within a hierarchy that prioritizes the inputs to fair value measurement. The fair value hierarchy has the following three levels:

*Level 1* Quoted (unadjusted) prices in active markets for identical assets or liabilities;

*Level 2* Inputs other than quoted prices that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices); and

*Level 3* Inputs that are not based on observable market data (that is, unobservable inputs).

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Portfolio. The Portfolio considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The classification of each Portfolio's financial instruments within the fair value hierarchy as at June 30, 2011 and December 31, 2010 and any transfers between levels during the period as a result of changes in the lowest level input that is significant to the fair value measurement is disclosed in the Portfolio's Statement of Investment Portfolio.

#### 9. Other Reports

The most recent statements of the Underlying Funds are available, without charge, by writing to:

**TD Managed Assets Program**  
c/o TD Asset Management Inc.  
TD Canada Trust Tower, 35<sup>th</sup> Floor  
161 Bay Street  
Toronto, Ontario  
M5J 2T2

## **TD Asset Management Inc.**

How to contact us

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#### **IN PERSON**

Contact your Advisor

TD Mutual Funds and TD Managed Assets Program are managed by TD Asset Management Inc., a wholly-owned subsidiary of The Toronto-Dominion Bank.