

FRANKLIN QUOTENTIAL PORTFOLIOS

Quarterly Review

JUNE 30, 2019



**FRANKLIN
TEMPLETON**

QUARTERLY ACTIVE MANAGEMENT REVIEW

Global stock markets collectively gained in the second quarter of 2019. Indications that several key central banks may be prepared to lower interest rates if the economic outlook worsens boosted equities. Although trade relations drove heightened market volatility throughout the period and contributed to a sell-off in May, new signs that the United States and China could resolve their trade dispute helped markets in late-June. However, concerns that escalating tariffs already were dampening global economic growth checked investor sentiment. Developed-market bond yields fell across the period, influenced by ongoing economic uncertainty.



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PORTFOLIO PERFORMANCE RESULTS

Returns as of June 30, 2019 (CDN\$)

	Inception Date	3 Mths	6 Mths	1 Yr	3 Yrs*	5 Yrs*	10 Yrs*	Since Inception*
Franklin Quotential Fixed Income Portfolio, Series F**	7-Nov-16	2.17	5.38	5.61	--	--	--	2.65
Franklin Quotential Diversified Income Portfolio, Series FT	17-Feb-03	2.10	7.05	5.03	3.81	3.69	6.04	5.59
Franklin Quotential Balanced Income Portfolio, Series F	19-Aug-02	1.90	7.84	4.01	4.84	4.55	6.56	5.73
Franklin Quotential Balanced Growth Portfolio, Series F	19-Aug-02	1.72	8.95	2.93	5.68	4.91	7.25	6.02
Franklin Quotential Growth Portfolio, Series F	19-Aug-02	1.51	10.18	1.97	6.51	5.38	7.85	5.69
Franklin Quotential Diversified Equity Portfolio, Series F	9-Jun-03	1.38	11.96	2.30	8.38	6.61	8.88	6.63

*Annualized Returns.

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**Series F is available to investors participating in programs that do not require Franklin Templeton to incur distribution costs in the form of trailing commissions to dealers. As a consequence, the management fee on Series F is lower than on Series A.

CURRENT THEMES AND ASSET MIX DECISIONS

Underlying Canadian equity funds hindered relative returns in equity, primarily funds focused on value and small-cap stocks. A global fixed income fund also weighed on relative returns, in part due to low duration positioning in an underlying fund. Cash exposure weakened relative performance during a generally risk-on three-month period. Conversely, fund selection in United States and international equity contributed to relative returns. Currency hedges reducing US dollar exposure in favour of the Canadian dollar also added value.

While we recognise that global equities remain supported by corporate earnings, during the second quarter we reduced our equity exposure. Against a backdrop of slower growth, and concerns that profit margins are peaking, global equities as a whole do not appear cheap to us. We also gradually increased exposure to fixed income in the period, reflecting the balance we see between reasons for optimism and valuation concerns.

We sought to increase the overall rate sensitivity, and to improve the overall quality, within our fixed income allocations. In Canada, we lowered our allocation to a low duration fund. We invested the proceeds in a fund focused on Canadian government bonds. We also lowered exposure to emerging-market bonds.

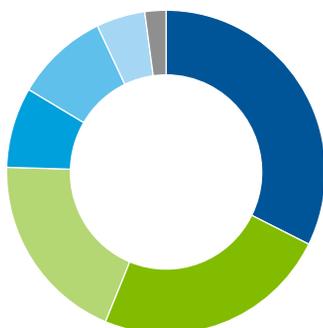
Within equity, we made portfolio adjustments in an effort to improve overall performance consistency and outcomes. For example, we liquidated our allocations to several Canadian equity funds, including ones focused on small-cap stocks and a quantitative strategy and allocated the proceeds to a core Canadian equity strategy. We also exited regional funds invested in Europe and Japan, and invested the proceeds in a core international equity strategy. In the United States, we liquidated our allocations to a fund focused on the financials sector, and invested in a core US equity strategy.

PORTFOLIO DIVERSIFICATION UPDATE

To achieve the investment objective of the Portfolio, the Franklin Quotential investment team has the following multi-level diversification in place to help alleviate concentration risks and to provide maximum exposure to present and evolving opportunities.

The weighting below represents the multi-level diversification within the Portfolio by asset class, economic sector and type of fixed income category.

ASSET CLASS



Canadian Fixed Income	32.36%
U.S. Equity	23.85%
Canadian Equity	19.25%
International Fixed Income	8.04%
EAFE Equity	9.41%
Emerging Markets Equity	4.94%
Cash & Other Assets	2.14%

EQUITY SECTOR

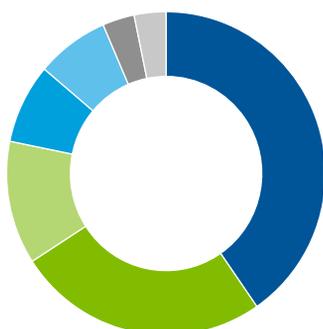
As a % of Total Equity



Financials	19.90%	Consumer Staples	7.52%
Information Technology	14.50%	Materials	6.77%
Industrials	12.04%	Communication Services	6.43%
Consumer Discretionary	9.36%	Real Estate	2.90%
Energy	9.22%	Utilities	2.83%
Health Care	8.52%	Cash & Other Assets	0.01%

FIXED INCOME CATEGORY

As a % of Total Fixed Income



Canadian Provincial	40.36%	Sovereign Emerging	7.37%
Corporate Investment Grade	25.51%	Corporate High Yield	3.23%
Canadian Federal	12.34%	Other Fixed Income	3.22%
Sovereign Developed	7.97%		

Values may not total 100% due to rounding. Other Assets: Non-security holdings including cash, cash equivalents and net receivables. High Yield: Includes ratings BB, B, CCC, CC, C, D.

Source: FactSet, as of June 30, 2019. Important data provider notices and terms available at www.franklintempletondatasources.com.

UNDERLYING INVESTMENT HIGHLIGHTS**

Franklin ActiveQuant Canadian Fund: Kirkland Lake Gold Ltd.

Kirkland Lake Gold is a growing Canadian gold producer with operations in Canada and Australia. The production profile of the company is anchored by two high-grade, low-cost operations, including the Macassa Mine located in Northern Ontario and the Fosterville Mine located in the state of Victoria, Australia. Kirkland Lake Gold's solid base of quality assets is complemented by district scale exploration potential and supported by a strong financial position with extensive management and operational expertise.

Franklin Select U.S. Equity Fund: Walt Disney Company

Shares of American media and entertainment colossus The Walt Disney Company shares advanced as the company presented plans to pivot to a new internet/TV model, set to launch in November. The breadth and depth of content, the price point, and the technology and user interface supporting it have increased optimism about the service. Market expectations for the service's growth and profitability rose significantly on the back of this event. We believe this new streaming service can help Disney not only survive the changing media landscape, but thrive as a key content provider.

Franklin Mutual European Fund: RSA Insurance Group PLC

UK-based RSA Insurance is a global commercial insurer that provides property, automobile, liability, and specialty insurance products. Shares rose after its chief executive officer announced that the company was on track to improve its underwriting after a difficult 2018. Management has successfully executed a turnaround, has exited business lines where it has no competitive advantage and remains focused on disciplined underwriting.

Franklin Japan Fund: Nippon Telegraph and Telephone Corporation

Shares of Japanese telecommunications giant Nippon Telegraph and Telephone rose on strong year-end results in a highly competitive industry. In addition to its existing businesses, the company is in the process of rolling out its 5G wireless network and creating new lines of business in smart energy, social infrastructure and health care management support through big data. The company recently reported share-buyback plans and a desire for steady dividend growth.

* FTIF (SICAV) Funds are not available for direct purchase in Canada. Société d'Investissement à Capital Variable (SICAV) is an open-end investment company governed by the laws of Luxembourg.

** Opinions and beliefs expressed are those of the fund managers as of June 30, 2019 and are subject to change without notice.

INVESTMENT OUTLOOK††

Slowing global growth remains a core concern. Growth in the major economies is starting to reflect the impact of trade uncertainties as investors' sentiment was hit due to hardened rhetoric at points in the second quarter, and an escalation towards a trade war between the United States and China that seemed more imminent. Trade relations between the United States and China are still characterised by uncertainty, which is likely to present a headwind for business investment intentions and growth in the next few quarters.

While we recognise that global equities remain supported by corporate earnings, we modestly lowered our conviction in the asset class. Several developed-market bourses reached new all-time highs in June. This ascension seems to us somewhat disconnected from protracted weakness in global trade, economic policy uncertainty, the return of market volatility, and optimistic assumptions by many investors surrounding interest-rate cuts from major central banks.

However, corporate fundamentals have remained relatively strong despite the moderation in global growth. We see modest opportunities in Canadian equities, with earnings growth expectations providing some room for positive surprises. What we view as a less supportive environment for commodities presents a headwind.

In fixed income, our views on growth and inflation are consistent with a move towards lower interest rates in the medium term. However, various markets and their participants appear to be discounting different degrees of monetary support. Many investors expect the Fed to sharply cut interest rates before year end. However, we believe US labour markets or a resolution to the global trade dispute could lead to a different course. We also remain concerned over sustained demand from global investors, low term premiums and supply dynamics.



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† Franklin Templeton Multi-Asset Solutions (FT Multi-Asset Solutions) is a world-wide team dedicated to global portfolio-based solutions and draws on the expertise of a number of Franklin Templeton affiliates. In Canada, the advisor to FT Multi-Asset Solutions mandates is Fiduciary Trust Company of Canada.

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Franklin Quotential® Portfolios

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Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus or fund facts document before investing. The indicated rates of return are historical annual compounded total returns 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 security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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