

# FRANKLIN QUOTENTIAL PORTFOLIOS

Quarterly Review

DECEMBER 31, 2018



**FRANKLIN TEMPLETON  
INVESTMENTS**

## QUARTERLY ACTIVE MANAGEMENT REVIEW

Renewed global growth worries, simmering trade tensions and slumping commodity prices trounced global stocks in the fourth quarter of 2018, leaving few areas immune to the sell-off. The quarter was characterised by volatile trading patterns and bruising selloffs that put several major equity indices on the brink of a bear market. Yields on the benchmark 10-year US Treasury note declined in the fourth quarter amidst a flight to safety.

The US Federal Reserve's move away from accommodative monetary policies created uncertainty over how aggressive it might be in hiking interest rates in 2019 (following four such moves in 2018), while little progress in US-China trade talks muddied the market outlook despite both countries agreeing to end further escalation. Amidst weakening oil prices, Canada's annual inflation rate slowed in November, which followed nine consecutive months during which the gauge was higher than the central bank's target of 2.0%. In Europe, though tensions eased between the European Union and Italy regarding the country's budget plans, continued Brexit uncertainty, concerns about the pace of US interest-rate increases and mixed corporate earnings affected investor outlooks. Elsewhere, economic news from China suggested the trade dispute was already affecting the economy.



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## PORTFOLIO PERFORMANCE RESULTS

Returns as of December 31, 2018 (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	0.58	0.22	0.12	--	--	--	0.77
Franklin Quotential Diversified Income Portfolio, Series FT	17-Feb-03	-1.63	-1.89	-1.89	1.78	3.14	5.97	5.32
Franklin Quotential Balanced Income Portfolio, Series F	19-Aug-02	-3.56	-3.56	-2.88	2.02	3.98	6.80	5.42
Franklin Quotential Balanced Growth Portfolio, Series F	19-Aug-02	-5.73	-5.52	-4.45	2.02	4.14	7.58	5.65
Franklin Quotential Growth Portfolio, Series F	19-Aug-02	-7.89	-7.45	-5.86	1.83	4.39	8.07	5.24
Franklin Quotential Diversified Equity Portfolio, Series F	9-Jun-03	-9.19	-8.63	-6.31	1.86	5.01	8.41	6.07

\*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

The portfolio was underweight fixed income, and this weakened relative results, as did fund selection in equity. The fund partially hedged US dollar exposure back into the Canadian dollar, which also detracted from returns. In contrast, a modest cash position buoyed relative performance as meaningful drawdowns in financial markets occurred in the latter part of 2018. On a regional level, fund selection in Canadian fixed income impaired results. Conversely, global fixed income positioning supported relative returns.

The portfolio was underweight fixed income and overweight equities relative to the benchmark index. However, we find shorter-term concerns have tempered our enthusiasm for non-US stocks. Specifically, a return to long-run levels of market volatility suggest to us the presence of a new volatility regime. We tilted towards a more cautious outlook entering 2019. We continue to monitor developments and look to revise our outlook accordingly.

From our perspective, growth fundamentals in the United States generally remained positive in the fourth quarter, with tax reforms still providing a tailwind for earnings and profit margins. Furthermore, lower valuations following recent market drawdowns could support performance potential. We increased our US equity allocation during the period and reduced exposure to European stocks. The European Central Bank does not yet appear close to embarking on a rate hiking cycle and populism remains a concern in Italy. Economic activity in the region has generally disappointed, contributing to negative investor sentiment.

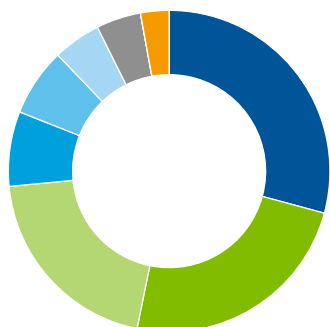
In fixed income, we increased our allocation to a global aggregate bond index exchange-traded fund to further diversify yield-curve exposure and improve overall credit quality. We also exited our allocation to a global bond fund with meaningful exposure to high-yield bonds with the same rationale. Investor concerns have extended to high-yield corporate bonds and other, less liquid parts of the credit market.

# 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

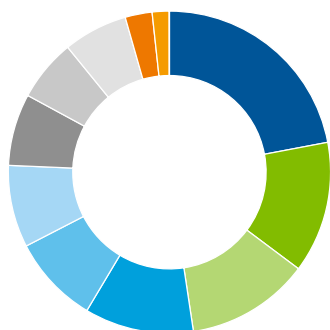


Canadian Fixed Income	29.21%
U.S. Equity	23.99%
Canadian Equity	20.28%
International Fixed Income	7.52%
European Equity	6.83%

Emerging Markets Equity	4.81%
Japanese Equity	4.49%
Pacific Ex Japan Equity	—
Alternatives	—
Cash & Other Assets	2.86%

## EQUITY SECTOR

As a % of Total Equity

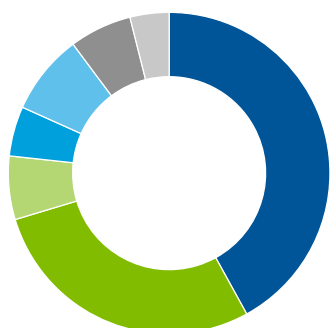


Financials	22.03%
Information Technology	13.20%
Industrials	12.39%
Consumer Discretionary	10.95%
Energy	8.87%
Health Care	8.25%

Consumer Staples	7.22%
Materials	6.22%
Telecommunication Services	6.45%
Utilities	2.70%
Real Estate	1.71%
Unassigned	0.02%

## FIXED INCOME CATEGORY

As a % of Total Fixed Income



Canadian Provincial	41.99%
Corporate Investment Grade	28.36%
Canadian Federal	6.38%
Corporate High Yield	5.00%

Sovereign Emerging	8.09%
Sovereign Developed	6.27%
Other Fixed Income	3.92%

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 December 31, 2018. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com).

# HOLDINGS

UNDERLYING INVESTMENT POOL ALLOCATIONS	Dec-18	Sept-18	Jun-18	Mar-18
<b>Canadian Equity Funds (%)</b>	<b>20.28</b>	<b>21.00</b>	<b>21.33</b>	<b>19.94</b>
Franklin Bissett Canadian Equity Fund	5.65	5.89	6.39	6.56
Franklin Activequant Canadian Fund	4.05	4.19	4.60	4.58
Franklin Templeton Canadian Large Cap Fund	4.06	4.20	4.81	4.73
Franklin Bissett Small Cap Fund	1.54	1.67	1.72	1.78
iShares S&P/TSX 60 Index ETF	4.97	5.05	3.80	2.29
<b>US Equity Funds (%)</b>	<b>23.99</b>	<b>22.28</b>	<b>21.23</b>	<b>20.10</b>
Franklin U.S. Rising Dividends Fund	5.01	5.36	6.06	5.71
Franklin Select U.S. Equity Fund	3.95	4.26	4.23	5.03
Franklin U.S. Opportunities Fund	3.61	3.60	4.23	4.06
iShares Core S&P 500 ETF	4.47	3.34	N/A	N/A
Franklin LibertyQT US Equity Index ETF	5.14	3.98	4.30	3.45
Financial Select Sector SPDR Fund	1.82	1.74	2.42	1.84
<b>European Equity Funds Ex-UK (%)</b>	<b>6.83</b>	<b>7.79</b>	<b>8.45</b>	<b>9.73</b>
Franklin Mutual European Fund	2.33	2.75	3.93	4.39
SPDR EURO STOXX 50 ETF	N/A	N/A	1.89	2.65
FTIF-Templeton Euroland Fund	1.63	1.95	2.62	2.69
Vanguard FTSE Europe ETF	2.87	3.09	N/A	N/A
<b>Emerging Markets Equity Funds (%)</b>	<b>4.81</b>	<b>4.58</b>	<b>5.43</b>	<b>6.70</b>
Templeton Asian Growth Fund	1.69	1.70	2.33	2.67
FTIF Templeton Emerging Markets Smaller Companies Fund*	0.94	0.91	1.19	1.36
iShares Core MSCI Emerging Markets ETF	1.84	1.61	1.41	2.09
Templeton Frontier Markets Fund	0.35	0.36	0.50	0.58
<b>Japanese Equity Funds (%)</b>	<b>4.49</b>	<b>4.67</b>	<b>4.69</b>	<b>5.92</b>
FTIF Franklin Japan Fund*	2.24	2.35	2.70	3.09
iShares MSCI Japan ETF	2.25	2.32	2.00	2.83
<b>Canadian Fixed Income Funds (%)</b>	<b>29.21</b>	<b>28.18</b>	<b>26.77</b>	<b>26.94</b>
Franklin Bissett Core Plus Bond Fund	13.28	13.19	13.64	15.31
Franklin Bissett Canadian Government Bond Fund	10.97	10.53	9.11	7.70
Franklin Bissett Canadian Short Term Bond Fund	4.96	4.46	4.02	3.93
<b>Global Fixed Income Funds</b>	<b>7.52</b>	<b>7.07</b>	<b>6.60</b>	<b>6.88</b>
Franklin Strategic Income Fund	N/A	1.51	2.06	3.60
Franklin Liberty Global Aggregate Bond ETF (CAD Hedged)	4.04	2.56	1.57	N/A
Templeton Global Bond Fund	3.48	2.99	2.96	3.29
<b>Alternatives</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Cash &amp; Other Assets (%)</b>	<b>2.86</b>	<b>4.43</b>	<b>5.51</b>	<b>3.78</b>

Values may not total 100% due to rounding. Source: FactSet as of December 31, 2018. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com).

\* 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.

## UNDERLYING INVESTMENT HIGHLIGHTS\*\*

### Franklin Select U.S. Equity Fund: Lamb Weston

Idaho-based Lamb Weston is a leading supplier of frozen potato, sweet potato, appetizer and vegetable products to restaurants and retailers around the world. The company reported higher sales for its fiscal first quarter, which lifted its shares. In our view, the company's organic growth rate, driven by robust volume trends and strong pricing power, is unique in the packaged foods industry and should drive solid price realization in the coming fiscal year.

### FTIF Franklin Japan Fund: SECOM Group

SECOM is Japan's largest security services company, with a strong presence in both the commercial and private security markets. Demand for the company's advanced visual monitoring and analysis technology in offices, commercial sites, airports and other public spaces is expected to grow rapidly with business opportunities that include the upcoming 2020 Tokyo Olympic Games. In private security, the company is expanding into innovative new markets such as monitoring elderly people who live alone. We also expect the company's verification technology to benefit from evolving security requirements for Internet of Things (IoT) devices.

### Franklin Mutual European Fund: Enel S.p.A

Enel is an Italian multinational energy company active in the generation, distribution and sale of electricity and the distribution and sale of natural gas. In November, investors responded well to Enel's latest strategic plan for the period 2019-21. Enel provided positive targets that were above consensus expectations and the company extended its minimum dividend policy through 2021. The compromise agreement between Italy's populist government and the European Commission regarding the country's 2019 budget also boosted Italian stocks, including Enel.

### Franklin Bissett ActiveQuant Canadian Fund: OpenText Corporation

OpenText Corporation is a Waterloo-based enterprise information manager that provides on-site and cloud-based solutions for businesses worldwide. Since its establishment in 1991, the company has grown through a combination of acquisitions, organic initiatives and financial performance centred on annual recurring revenue and operating cash flows. Fiscal second-quarter financial results (for the period ended December 31, 2018) released in January noted positive momentum in the company's cloud operations. Recent acquisitions have included Liaison Technologies, Inc., a provider of cloud-based information integration and data management, and Catalyst Repository Systems, Inc., a provider of eDiscovery solutions for corporate legal departments and law firms.

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\*\* Opinions and beliefs expressed are those of the fund managers as of December 31, 2018 and are subject to change without notice.

## INVESTMENT OUTLOOK††

We see continued stock market volatility as the “new normal” for now after an extended period of muted volatility. On a macro level, we view stabilisation in growth momentum as a critical element in evaluating the global economy. From our perspective, this stabilisation is more of a process, rather than a result of a single data point.

We still see corporate earnings and profit margins lending support for global equities, particularly in the United States, although global economic growth may moderate somewhat in the next few quarters. Furthermore, key measures of the health of the US business cycle remained supportive. However, investor concerns and renewed stock market volatility leads us to a more cautious overall view for risk assets.

With regards to fixed income, we hold a negative outlook for government bonds and continue to underweight the bond sector. We remain concerned about decreased support from global central banks and supply-demand dynamics, which have restrained the amount of liquidity in markets. This has also been a contributor to increased levels of volatility.



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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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