

# FRANKLIN QUOTENTIAL PORTFOLIOS

Quarterly Review

MARCH 31, 2018



**FRANKLIN TEMPLETON  
INVESTMENTS**

# QUARTERLY ACTIVE MANAGEMENT REVIEW

*The information in this report is based on the Franklin Quotential Balanced Growth Portfolio unless stated otherwise.*

Despite strong January performance, global equity markets generally shed value in US-dollar terms for the first quarter of 2018. Concerns arose that strong economic growth and rising inflation in some parts of the world, particularly the United States, would lead central banks to increase interest rates sooner than expected. A selloff in technology firms amidst worries about consumer data privacy and potentially tighter regulatory controls in the sector affected many developed markets. Sentiment was also dampened by fears that a trade war could develop following protectionist moves by the Trump administration.

The US economy expanded at slightly slower pace in the fourth quarter of 2017 than in the third quarter. The US Federal Reserve (Fed) raised its benchmark interest rate in March. It also lifted its 2018 US growth forecast but maintained its projection of three rate hikes this year. In mid-January, the Bank of Canada raised its key interest rate by 25 basis points. Europe's 2017 gross domestic product (GDP) grew strongly in the euro area. The February 2018 unemployment rate in the euro area edged down to the lowest reading since December 2008. Elsewhere, Japan's revised fourth-quarter GDP marked the eighth consecutive quarter of growth and the longest period of expansion since 1989.



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## PORTFOLIO PERFORMANCE RESULTS

Returns as of March 31, 2018 (CAD\$)

	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	0.30%	1.41%	0.70%	—	—	—	1.33%
Franklin Quotential Diversified Income Portfolio, Series FT	17-Feb-03	-0.51%	1.41%	1.94%	1.72%	4.25%	5.16%	5.69%
Franklin Quotential Balanced Income Portfolio, Series F	19-Aug-02	-0.12%	2.63%	3.24%	2.41%	6.14%	5.17%	5.88%
Franklin Quotential Balanced Growth Portfolio, Series F	19-Aug-02	-0.31%	3.05%	4.02%	2.74%	7.34%	5.34%	6.22%
Franklin Quotential Growth Portfolio, Series F	19-Aug-02	-0.11%	3.88%	5.14%	3.19%	8.58%	5.38%	5.90%
Franklin Quotential Diversified Equity Portfolio, Series F	9-Jun-03	0.54%	5.22%	7.01%	3.85%	10.49%	5.84%	6.70%

\*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

Fixed income strengthened relative returns on the back of fund selection in global bonds. Templeton Global Bond Fund a key contributor, as interest-rate strategies and underweighted duration exposure contributed to relative results. Conversely, the fund hedged some of its US-dollar exposure back to the Canadian dollar, and this hindered relative performance. The hedging effect also weighed on BMO MSCI Europe High Quality Hedged CAD Index ETF. An overall overweight in equity was a detractor, although relative performance was strengthened by the fund's overweights in Japanese and European ex United Kingdom stocks.

The fund was modestly overweight equity due to synchronised global economic growth, modest though rising inflation and supportive sentiment. Within the asset class, we favoured emerging markets. We believe domestic consumers will support broader regional growth, with consumer sentiment rising, retail sales increasing and demand for loans increasing. In fixed income, the fund was underweight US Treasuries. Although market expectations for Fed interest-rate hikes in 2018 have increased steadily over the past few months, the Federal Open Market Committee dot plot still reflected a more aggressive interest-rate path than market expectations.

We shifted some of our equity exposure from Canada to emerging markets in the first quarter. With Canada's economy running near capacity, investors may have more muted reactions to potential earnings surprises.

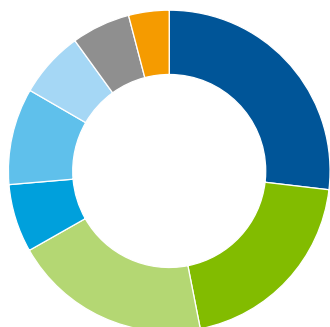
Within Canadian fixed income, we reduced exposure to the corporate bond sector by lowering our allocation to Franklin Bissett Core Plus Bond Fund and increasing our allocation to Franklin Bissett Canadian Government Bond Fund. We found valuations relatively high for investment-grade bonds, and the sector may be more susceptible to rising interest rates.

# 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

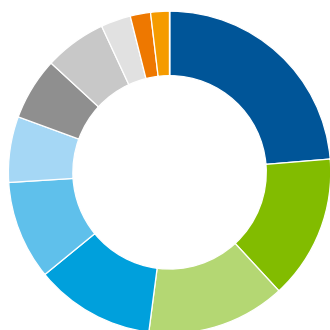


Canadian Fixed Income	26.86%
U.S. Equity	20.04%
Canadian Equity	19.88%
International Fixed Income	6.86%
European Equity	9.70%

Emerging Markets Equity	6.68%
Japanese Equity	5.90%
Pacific Ex Japan Equity	—
Alternatives	—
Cash & Other Assets	4.07%

## EQUITY SECTOR

As a % of Total Equity

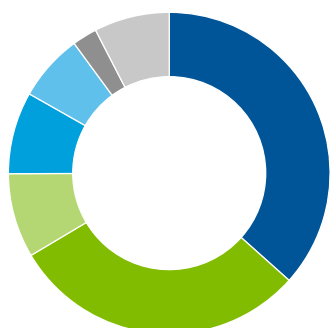


Financials	23.68%
Information Technology	14.46%
Industrials	13.92%
Consumer Discretionary	12.02%
Energy	9.92%
Health Care	6.60%

Consumer Staples	6.26%
Materials	6.22%
Telecommunication Services	3.00%
Utilities	2.04%
Real Estate	1.89%
Unassigned	0.00%

## FIXED INCOME CATEGORY

As a % of Total Fixed Income



Canadian Provincial	36.61%
Corporate Investment Grade	29.84%
Canadian Federal	8.49%
Corporate High Yield	8.26%

Sovereign Emerging	6.73%
Sovereign Developed	2.50%
Other Fixed Income	7.57%

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

# HOLDINGS

## UNDERLYING INVESTMENT POOL ALLOCATIONS

	Mar-18	Dec-17	Sept-17	Jun-17
<b>Canadian Equity Funds (%)</b>	<b>19.94</b>	<b>20.95</b>	<b>20.43</b>	<b>18.38</b>
Franklin Bissett Canadian Equity Fund	6.56	6.91	6.97	6.08
Franklin Activequant Canadian Fund	4.58	5.01	5.12	4.67
Franklin Templeton Canadian Large Cap Fund	4.73	4.24	4.24	3.89
Franklin Bissett Small Cap Fund	1.78	1.87	2.07	2.13
iShares S&P/TSX 60 Index ETF	2.29	2.90	2.04	1.61
<b>US Equity Funds (%)</b>	<b>20.10</b>	<b>19.54</b>	<b>19.90</b>	<b>21.48</b>
Franklin U.S. Rising Dividends Fund	5.71	5.51	5.82	5.82
Franklin U.S. Core Equity Fund	5.03	5.66	6.57	7.10
Franklin U.S. Opportunities Fund	4.06	3.88	3.96	4.76
iShares Core S&P 500 ETF	N/A	1.54	N/A	N/A
iShares Russell 1000 Value ETF	N/A	N/A	3.56	3.81
Franklin LibertyQT US Equity Index ETF	3.45	2.94	N/A	N/A
Financial Select Sector SPDR Fund	1.84	N/A	N/A	N/A
<b>European Equity Funds Ex-UK (%)</b>	<b>9.73</b>	<b>12.08</b>	<b>11.27</b>	<b>9.90</b>
Franklin Mutual European Fund	4.39	6.06	5.85	4.92
BMO MSCI Europe High Quality Hedged to CAD Index ETF	N/A	2.99	3.38	2.28
SPDR EURO STOXX 50 ETF	2.65	3.03	2.04	1.52
FTIF Franklin European Small-Mid Cap Growth Fund*	N/A	N/A	N/A	1.18
FTIF-Templeton Euroland Fund	2.69	N/A	N/A	N/A
<b>Emerging Markets Equity Funds (%)</b>	<b>6.70</b>	<b>5.72</b>	<b>5.99</b>	<b>6.26</b>
Templeton Asian Growth Fund	2.67	2.46	3.10	3.23
FTIF Templeton Emerging Markets Smaller Companies Fund*	1.36	1.14	1.26	1.34
iShares Core MSCI Emerging Markets ETF	2.09	1.53	0.95	0.99
Templeton Frontier Markets Fund	0.58	0.59	0.68	0.70
<b>Japanese Equity Funds (%)</b>	<b>5.92</b>	<b>5.03</b>	<b>4.99</b>	<b>6.21</b>
FTIF Franklin Japan Fund*	3.09	2.54	3.02	3.72
iShares MSCI Japan ETF	2.83	2.50	1.97	2.49
<b>Canadian Fixed Income Funds (%)</b>	<b>26.94</b>	<b>23.37</b>	<b>23.22</b>	<b>23.10</b>
Franklin Bissett Core Plus Bond Fund	15.31	18.32	18.37	18.50
Franklin Bissett Canadian Government Bond Fund	7.70	3.40	3.13	3.01
Franklin Bissett Canadian Short Term Bond Fund	3.93	1.66	1.72	1.59
<b>Global Fixed Income Funds</b>	<b>6.88</b>	<b>10.24</b>	<b>10.80</b>	<b>10.83</b>
Franklin Strategic Income Fund	3.60	4.69	4.78	4.99
Franklin U.S. Low Duration Fund	N/A	2.02	2.12	2.14
Templeton Global Bond Fund	3.29	3.54	3.90	3.70
<b>Alternatives</b>	<b>N/A</b>	<b>N/A</b>	<b>0.98</b>	<b>0.99</b>
SPDR Gold Trust	N/A	N/A	0.98	0.99
<b>Cash &amp; Other Assets (%)</b>	<b>3.78</b>	<b>3.06</b>	<b>2.42</b>	<b>2.85</b>

Values may not total 100% due to rounding. Source: FactSet as of March 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 Bissett Canadian Equity Fund: Dollarama Inc.

Dollarama is a leading dollar store chain in Canada. Since its 2009 initial public offering, the company has steadily strengthened its highly recognizable brand and expanded its store network, resulting in a substantial competitive advantage over its peers and sizeable market share gains. The company's significant scale, direct procurement capabilities and product assortment flexibility, combined with low capital requirements, have supported strong free cash flow generation and returns on invested capital. Given management's rigorous focus on operational execution and disciplined capital allocation, Dollarama has delivered exceptional profitability and grown the value of the underlying business over time. This strong financial position is expected to support the company's growth plans.

### Franklin U.S. Rising Dividends Fund: Roper Technologies, Inc..

Roper Technologies is a US-based diversified industrial company that produces engineered products for global niche markets. The company has enjoyed solid stock price performance on strong revenue and earnings growth, as well as healthy cash flow generation. Roper Technologies expects to continue to generate strong operating results during 2018, including mid-single-digit organic growth across all segments and strong profitability. The company has grown its dividend for 25 consecutive years

### Templeton Emerging Markets Smaller Companies Fund : Baozun Inc.

Baozun is a China-based e-commerce solutions provider. It helps brands execute their e-commerce strategies in China by selling their goods directly to consumers online or by supporting their digital operations. Baozun's services cover the entire e-commerce value chain, ranging from online store construction to digital marketing, customer care, warehousing and delivery, and it counts global brands such as Nike and Microsoft among its clients. We believe that Baozun, with its integrated e-commerce capabilities, is an attractive partner for brands looking to capture the growth of e-commerce in China.

### Templeton Asian Growth Fund : Alibaba Group

Alibaba is a China-based e-commerce company and is one of the world's largest retailers by sales. It operates online marketplaces such as Taobao and Alibaba.com. It also has businesses in cloud computing, digital media and entertainment, logistics and financial services. We expect Alibaba's e-commerce business to continue growing, and the company is poised to extend its dominance to the offline retail market as it invests in physical stores. Its fast-growing cloud computing business also has the potential to be a meaningful earnings driver in the future.

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



## INVESTMENT OUTLOOK††

Despite higher global equity market volatility in the first quarter, our views and key themes across asset classes and regions remain intact. Volatility resurfaced in 2018 following a long period of dormancy. From our perspective, a reversion from unprecedented low levels of volatility was to be expected, and reflects the resumption of a normal market experience. We caution against mistaking a rise in market volatility with changes in corporate fundamentals or economic strength.

Although we lowered our allocation to the investment-grade bond sector, we believe corporate fundamentals remain stable. The global economic outlook and growth remain supportive of the bond sector, although we see a few signs the credit cycle may be further along than previously thought. The sector has more duration risk compared to other bond sectors—however, technical factors and proposed fiscal measures were supportive of corporate bonds, in our opinion.



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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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