

# FRANKLIN QUOTENTIAL PORTFOLIOS

Quarterly Review

SEPTEMBER 30, 2019



**FRANKLIN  
TEMPLETON**

## QUARTERLY ACTIVE MANAGEMENT REVIEW

Global stock markets experienced a volatile third quarter of 2019. Equities found some support, as key central banks in developed and emerging markets (EMs) cut interest rates or indicated a readiness to do so if needed to sustain economic growth.

US and Canadian equities produced modest third-quarter 2019 gains despite a midsummer selloff and heightened investor anxiety. Yields on the benchmark 10-year US Treasury note declined, ending the period 34 basis points lower compared to prior quarter-end levels. Within US credit markets, longer-term issues led their shorter-dated counterparts as interest rates fell. The high-yield market, as measured by the Credit Suisse High Yield Index, trailed its US Treasury and investment-grade peers.

EM equities were mostly down for the period and sold off across the board in August. Worries about global economic growth and trade tensions clouded investor outlooks. Trade concerns and uninspiring economic data also affected outlooks for European equities.



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## PORTFOLIO PERFORMANCE RESULTS

Returns as of September 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	0.90	3.09	6.94	--	--	--	2.73
Franklin Quotential Diversified Income Portfolio, Series FT	17-Feb-03	0.74	2.85	6.08	3.14	3.64	5.15	5.52
Franklin Quotential Balanced Income Portfolio, Series F	19-Aug-02	0.89	2.81	4.93	3.93	4.44	5.85	5.70
Franklin Quotential Balanced Growth Portfolio, Series F	19-Aug-02	0.94	2.68	3.67	4.55	4.78	6.42	5.99
Franklin Quotential Growth Portfolio, Series F	19-Aug-02	1.01	2.54	2.52	5.17	5.25	6.90	5.67
Franklin Quotential Diversified Equity Portfolio, Series F	9-Jun-03	0.71	2.09	2.39	6.39	6.32	7.90	6.57

\*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 fund underperformed the benchmark during the quarter. Top-down allocation decisions detracted marginally from relative returns, while equity and fixed income selection also held back performance. On a regional basis, fund selection in US and international equities weakened relative returns, particularly US growth stocks. One of the key detractors from relative performance was a global bond fund, primarily due to interest-rate strategies. The global bond fund held underweighted duration exposure in the United States, and overweighted duration exposure in Argentina.

Our allocation to fixed income was overweight relative to the benchmark during the third quarter, with a preference for Canadian bonds, while our equity exposure remained slightly underweight. This reflected a more conservative approach due to valuation concerns.

We made portfolio adjustments within our US equity holdings, designed to improve overall performance predictability and consistency via reliance on core exposures. We liquidated our allocation to Franklin Select U.S. Equity Fund and invested the proceeds elsewhere. We allocated further to Franklin U.S. Core Equity Fund and introduced a new position in Franklin U.S. Opportunities Fund.

Within international developed-market equities, we reallocated some of our core equity exposure to a passive fund.

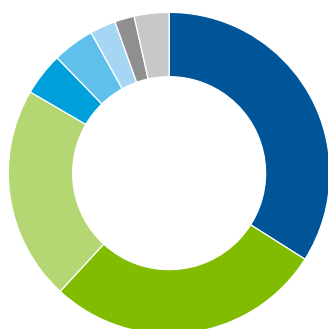
We trimmed our allocation to short-duration bonds during the quarter, with the aim of increasing overall sensitivity to interest rates and quality within the fixed income portfolio. We used the proceeds to increase exposure to longer-duration Canadian government bonds.

# 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.

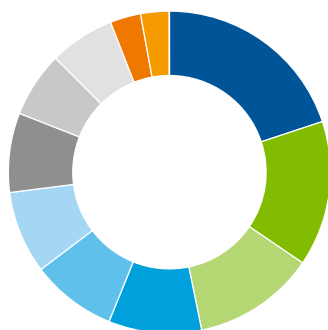
## ASSET CLASS



Canadian Equity	33.99%
Canadian Fixed Income	27.87%
U.S. Equity	21.56%
U.S. Fixed Income	4.31%
International Equity	4.20%
International Fixed Income	2.60%
Emerging Markets Equity	1.98%
Cash & Other Assets	3.49%

## EQUITY SECTOR

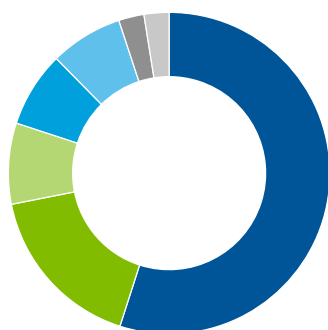
As a % of Total Equity



Financials	19.91%	Consumer Staples	7.97%
Information Technology	14.61%	Materials	6.55%
Industrials	12.27%	Communication Services	6.54%
Consumer Discretionary	9.33%	Real Estate	3.08%
Energy	8.57%	Utilities	2.87%
Health Care	8.29%	Unassigned	0.01%

## FIXED INCOME CATEGORY

As a % of Total Fixed Income



Canadian Provincial	54.95%	Sovereign Emerging	7.31%
Corporate Investment Grade	16.95%	Corporate High Yield	2.55%
Canadian Federal	8.15%	Other Fixed Income	2.51%
Sovereign Developed	7.59%		

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 September 30, 2019. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com).

# HOLDINGS

UNDERLYING INVESTMENT POOL ALLOCATIONS	Sept-19	Jun-19	Mar-19	Dec-18
<b>Canadian Equity Funds (%)</b>	<b>19.31</b>	<b>19.25</b>	<b>20.69</b>	<b>20.28</b>
Franklin Activequant Canadian Fund	0.00	0.00	4.17	4.05
Franklin Bissett Canadian Equity Fund	5.61	5.45	5.80	5.65
Franklin Bissett Small Cap Fund	0.00	0.00	1.40	1.54
Franklin Canadian Core Equity Fund	5.48	5.47	0.00	0.00
Franklin FTSE Canada All Cap Index ETF	4.74	4.64	4.89	0.00
Franklin Templeton Canadian Large Cap Fund	3.47	3.69	4.43	4.06
iShares S&P/TSX 60 Index ETF	0.00	0.00	0.00	4.97
<b>US Equity Funds (%)</b>	<b>23.38</b>	<b>23.85</b>	<b>24.25</b>	<b>23.99</b>
Financial Select Sector SPDR Fund	0.00	0.00	1.75	1.82
Franklin FTSE U.S. Index ETF	4.54	4.60	5.46	0.00
Franklin LibertyQT U.S. Equity Index ETF	3.27	3.53	5.09	5.14
Franklin Select U.S. Equity Fund	0.00	3.50	3.64	3.95
Franklin U.S. Core Equity Fund	7.28	4.34	0.00	0.00
Franklin U.S. Opportunities Fund	3.93	3.53	3.45	3.61
Franklin U.S. Rising Dividends Fund	4.37	4.35	4.86	5.01
iShares Core S&P 500 ETF	0.00	0.00	0.00	4.47
<b>EAFE (%)</b>	<b>9.83</b>	<b>9.41</b>	<b>8.01</b>	<b>11.32</b>
Franklin FTSE Europe Ex U.K. Index ETF	2.31	2.25	2.50	0.00
Franklin International Core Equity Fund	3.90	4.20	0.00	0.00
Franklin Mutual European Fund	0.00	0.00	1.79	2.33
FTIF SICAV - Franklin Japan Fund Capitalisation -I (Acc)-	0.00	0.00	0.74	2.24
FTIF-Templeton Euroland Fund	0.00	0.00	1.21	1.63
iShares Core MSCI EAFE ETF	3.62	2.96	0.00	0.00
iShares MSCI Japan ETF	0.00	0.00	1.78	2.25
Vanguard FTSE Europe ETF	0.00	0.00	0.00	2.87
<b>Emerging Markets Equity Funds (%)</b>	<b>4.74</b>	<b>4.94</b>	<b>5.62</b>	<b>4.81</b>
Franklin Emerging Market Core Equity Fund	1.08	1.05	0.00	0.00
FTIF-Templeton Emerging Markets Smaller Companies Fund	0.00	0.00	0.84	0.94
iShares Core MSCI Emerging Markets ETF	2.62	2.79	3.42	1.84
Templeton Asian Growth Fund	1.04	1.10	1.36	1.69
Templeton Frontier Markets Fund	0.00	0.00	0.00	0.35
<b>Canadian Fixed Income Funds (%)</b>	<b>33.00</b>	<b>32.36</b>	<b>30.86</b>	<b>29.21</b>
Franklin Bissett Canadian Government Bond Fund	14.66	13.78	12.56	10.97
Franklin Bissett Core Plus Bond Fund	14.21	13.56	13.11	13.28
Franklin Bissett Short Duration Bond Fund	4.14	5.02	5.19	4.96
<b>Global Fixed Income Funds (%)</b>	<b>8.25</b>	<b>8.04</b>	<b>7.47</b>	<b>7.52</b>
Franklin Liberty Global Aggregate Bond ETF (CAD Hedged)	4.95	4.60	4.07	4.04
Franklin Strategic Income Fund Canada	0.00	0.00	0.00	0.00
Templeton Global Bond Fund	3.30	3.44	3.41	3.48
<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>1.50</b>	<b>2.14</b>	<b>3.09</b>	<b>2.86</b>

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\* 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 Dividend Fund: TELUS Corporation

TELUS is one of the largest telecommunications providers in Canada. The company operates a national wireless franchise servicing 9.2 million subscribers and provides wireline services including internet and television, as well as managed information technology and cloud-based services within its incumbent Western Canada territory. The company has a well-established operating track record underpinned by management's diligent focus on core operations and efforts to fortify its competitive position while taking a disciplined approach to capital allocation. In our assessment, the company is positioned to benefit from continued growth in data consumption as technological advances enable faster speeds and better connectivity on its network.

### Franklin U.S. Rising Dividends Fund: Air Products and Chemicals, Inc.

Air Products provides industrial gases and related equipment to dozens of industries and is the world's leading supplier of liquefied natural gas process technology and equipment. Shares of the company rose following a solid quarterly earnings report and upbeat guidance. We believe the overall fundamentals for the industrial gases industry look robust. The industry has consolidated, competitive pressures remain stable, pricing power has improved and project backlogs look to be increasing. Moreover, we believe Air Products has a significant long-term opportunity in gasification projects. The company has increased its dividend for 36 consecutive years.

### Franklin Global Growth CC: Umicore SA

Umicore SA, a Belgium-based clean technology materials company, generates the majority of its revenues and dedicates most of its research and development efforts to clean technologies, such as emission control catalysts, materials for rechargeable batteries and recycling. The company's first-half earnings release eased concerns about recent pressure on its business from reduced Chinese electric vehicle subsidies. Most recently, the company signed a major cathode materials supply agreement with a South Korean firm, further bolstering sentiment. The agreement reflects the growing penetration of electric vehicles globally.

### Franklin U.S. Opportunities Fund: ServiceNow, Inc.

ServiceNow, a provider of cloud-based services that allow companies to become more automated and efficient, recently reported strong third-quarter earnings growth led by a 29% increase in subscription revenues. The company continues to execute well in its large, addressable market. A leader in enabling digital transformation, the company is becoming a multi-platform growth business with a strong product line, in our view. Recently the company entered into an agreement to acquire the cognitive search capabilities of an AI-powered answers and insights platform.

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

## INVESTMENT OUTLOOK††

The global economy continues to show downward momentum, although the United States and Canada remain better placed than some major European countries. Corporate fundamentals have remained relatively strong, particularly in the US, with labour markets tight in both economies.

Global equities are not attractively priced, in our analysis, given the backdrop of slower growth. They are still supported by corporate earnings, but we are carefully monitoring the potential for renewed market volatility and have moved to reflect these concerns in a more cautious stance. As a result, we have started to scale back our conviction in riskier assets, although we do not see a high probability of recession.

We see modest opportunities in Canada, with earnings growth expectations providing some room for positive surprises. Canadian banks remain burdened by domestic housing concerns and low net interest margins.

A recent decline in bond yields has intensified market expectations for further easing measures from major central banks through year-end. Increasingly, it looks like the Fed is being pushed towards a succession of rate cuts that may be difficult to justify, given its dual mandate of stable prices and maximum employment. This dynamic recently drove an inversion of the US Treasury yield curve, as the 10-year note's yield fell below that of Treasury bills.

We maintain a neutral view of bonds, at the asset allocation level, reflecting the balance between reasons for optimism and valuation concerns. Some widening of corporate bond spreads is likely as growth slows and financial conditions tighten. We have taken a more constructive stance on Canadian bonds, reflecting those reasons for optimism.



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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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