Franklin Quotential Balanced Income Portfolio

Series A
Series F
March 31, 2021

Fund Commentary

Performance Review

- The US Federal Reserve and the Bank of Canada kept interest rates unchanged throughout the first quarter of 2021 and committed to maintaining asset purchases whilst allowing inflation to run above target levels. Dovish monetary policy, combined with ongoing fiscal stimulus and an economic recovery from the effects of COVID-19, served to push rates higher. Sovereign yield curves in both countries steepened sharply, as investors became concerned about rising inflation expectations and central bank buying held down shorter-term rates.
- The cyclical nature of the economic recovery helped energy, financial and industrials stocks to lead gains in the US, whilst growth stocks and bond proxies such as utilities suffered. Canadian stocks also made robust gains, outperforming US equities, as the market was boosted by rising oil prices, which traded at their highest levels since April 2019 amidst output restraint and firming demand.
- For the quarter, the fund's Series F shares returned -0.61%, and its benchmark, the Custom Franklin Quotential Balanced Income Benchmark, returned -0.80%.

QUARTERLY KEY PERFORMANCE DRIVERS

HELPED	Canadian fixed income fund selection contributed significantly to relative results, benefitting from exposure to short-duration bonds in a rising rates environment. Credit also added relative value, outperforming Federal bonds.
	Cross-asset allocation benefitted relative performance, helped by an overweight to equities and a corresponding underweight to fixed income during a "risk-on" period.
	Emerging market (EM) equity selection also boosted relative results, particularly Templeton Emerging Markets Fund, which benefitted from stock selection in the communication services and health care sectors.
HURT	US equity fund selection detracted from relative performance, held back by Franklin US Opportunities Fund, which suffered from selection within the information technology (IT) and industrials sectors.
	Global bond holdings were held back by rising yields in several major economies, particularly the US, whilst Templeton Global Bond Fund suffered from overweighted positions in the Japanese yen and Swedish krona.
	An underweight allocation to global bonds detracted from results, as they outperformed their Canadian counterparts.

Outlook & Strategy

- We will retain a "risk-on" posture into the second quarter, due to market expectations for sustained global growth amidst the receding threat of COVID-19. A cyclical rebound is now well established, and we expect fiscal stimulus to continue to support economic activity, outweighing any near-term concerns around the rate of recovery.
- As a result, we remain bullish on equities in comparison to bonds, despite elevated valuations, as corporate earnings improve. The extraordinary stimulus measures employed in the US lead us to remain optimistic on US stocks whilst we prefer the cyclical Japanese market to Europe, given political constraints on further stimulus in the region. We remain neutral on EM equities, given the Chinese government's intention to rebalance its economy at the expense of growth, which may include the withdrawal of fiscal stimulus.
- Despite a recent increase in inflation expectations, we believe any inflationary pressures will be transitory as surging post-pandemic demand drives prices higher. We expect monetary policy from major central banks to remain supportive as deflationary forces eventually take effect during the process of economic normalisation. Benchmark US Treasury yields may drift higher before stabilising, in our opinion, without any significant effect on equity markets. Canadian bond yields broadly match those in the United States but may be a bit more subdued for a while, as Canada is vulnerable to higher debt levels and a slower vaccine rollout.
- Within credit, we maintain a preference for high-yield bonds over investment-grade issues given improved risk appetite, whilst the lower duration risk inherent in high-yield bonds becomes more attractive as rates rise. Within alternative assets, we are constructive on commodities as global growth expands and we view US Treasury Inflation-Protected Securities (TIPS) as a hedge against the potential for rising inflation.

Fund Details

Inception Date	08/19/2002
Benchmark Name	Custom Franklin Quotential Balanced Income Benchmark, Custom Franklin Quotential Balanced Income Benchmark (non-time-linked), S&P/TSX Composite Index

Fund Description

A balance of current income and long-term capital appreciation by investing in a diversified mix of equity and income mutual funds, with a bias towards income.

Performance Data

Performance (%) as of 03/31/2021

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception	Inception Date
Series A	0.42	-0.88	-0.88	15.16	3.92	4.13	4.25	4.59	08/19/2002
Series F	0.51	-0.61	-0.61	16.43	5.05	5.30	5.43	5.74	08/19/2002
Custom Franklin Quotential Balanced Income Benchmark	0.29	-0.80	-0.80	15.38	6.84	6.55	6.26	6.35	-
Custom Franklin Quotential Balanced Income Benchmark (non-time-linked)	0.29	-0.80	-0.80	15.38	6.82	6.61	6.74	6.24	-
S&P/TSX Composite Index	3.87	8.05	8.05	44.25	10.19	10.05	6.00	8.64	-

The blended benchmark for the portfolio changed on December 31, 2016. For reference the benchmark changes are as follows: MSCI AC World Index CDN (Past – 20%, Present – 25%), S&P/TSX Composite Index (Past – 20%, Present – 15%), FTSE TMX Canada Universe Bond Index (Past – 45%, Present – 40%), Bloomberg Barclays Multiverse Hedged Index (Past – 15%, Present – 20%). Indicated rates of return include changes in unit or share value and reinvestment of all distributions and dividends 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. Please refer to the prospectus for further details. **For details on the respective series inception dates, please consult the Fund Facts or simplified prospectus for the fund.** Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. **Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.**

Investment Team

Ian M. Riach, CFA
Years with Firm 21
Years Experience 35

Michael Greenberg, CFA
Years with Firm 15
Years Experience 18

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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.

Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

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