Franklin Quotential Growth Portfolio

Series A
Series F
September 30, 2020

Fund Commentary

Performance Review

- The US Federal Reserve (Fed) and the Bank of Canada kept interest rates unchanged throughout the third quarter of 2020, reinforcing steep cuts implemented earlier in the year. The Canadian sovereign yield curve steepened, while credit spreads narrowed as market sentiment remained largely positive. Global equity prices rose, led by emerging markets (EMs), which benefitted from the strength of Asian stocks, while North America led developed markets gains, influenced by large-capitalisation technology stocks. The Canadian dollar strengthened against the US dollar, helped by the stabilisation of oil prices following volatility during the prior quarter.
- For the quarter, the fund's Series F shares returned 4.71%, and its benchmark, the Custom Franklin Quotential Growth Benchmark, returned 4.69%.

QUARTERLY KEY PERFORMANCE DRIVERS

HELPED	Cross-asset allocation contributed to relative performance, benefitting from an overweight to equities and a corresponding underweight to fixed income during a "risk-on" period.
	An underweight allocation to international equities boosted relative results, as this region underperformed global markets during the third quarter.
	Fund selection within Canadian equities added relative value, particularly Franklin Bissett Canadian Equity Fund, which benefitted from selection within the energy sector.
HURT	US equity fund selection detracted from relative performance, held back by Franklin US Core Equity Fund, which suffered from an overweight to energy stocks and selection within the information technology sector.
	Franklin Emerging Markets Core Equity Fund proved a drag on relative results, hurt by an underweight to the consumer discretionary sector and selection among materials and consumer stocks.
	A global bond fund posted marginally positive absolute returns in the third quarter, in US dollar terms, but detracted from relative results due to Canadian dollar appreciation.

Outlook & Strategy

- We remain cautious on global equities, given increasingly stretched valuations and the intensity of political uncertainty in the US. A new package of fiscal stimulus is likely to be approved by the US Congress, but its timing is clouded by the upcoming election, while the factors that initially informed our reduced conviction remain. We retain longer-term optimism towards equities, although greater certainty and clarity is needed around the global economic recovery before increasing our exposure.
- Regionally, we retain a preference for US stocks but will likely lessen exposure as the global recovery progresses, while we prefer China over other EMs with less policy flexibility. We have moderated our cautious stance on Canadian equities as commodities headwinds abate, while we are also more positive on the eurozone and Japan, influenced by improving global trade.
- We believe ongoing economic headwinds will continue to dampen inflation, despite dovish policy from the Fed. Rising government debt and market liquidity are contributors to an inflationary environment, but this is currently insufficient to offset high unemployment, in our view. Long-duration US Treasuries are becoming more attractive to us as the yield curve steepens and short-term rates remain at very low levels, while inflation-linked bonds and commodities continue to offer a slight tail-risk hedge should inflation increase.
- We are defensively positioned in credit markets with a neutral view on investment-grade issues and a more bearish outlook on high-yield bonds. We prefer higher-quality issues, since yield spreads are not wide enough, in our view, to balance the risk that is still evident in this asset class. We believe the long-term impacts of the global economic slowdown are still to be felt in high-yield credit, suggesting more defaults. Non-yielding assets such as cash and gold are proving to be useful diversifiers in a market where yield is difficult to find.

Fund Details

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

Fund Description

Long-term capital appreciation by investing primarily in a diversified mix of equity mutual funds, with additional stability derived from investing in income mutual funds.

Performance Data

Performance (%) as of 09/30/2020

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception	Inception Date
Series A	-0.83	4.43	2.45	5.71	4.03	4.44	5.49	4.59	08/19/2002
Series F	-0.74	4.71	3.28	6.86	5.20	5.62	6.66	5.73	08/19/2002
Custom Franklin Quotential Growth Benchmark	-0.82	4.69	3.62	8.08	7.70	8.58	8.43	6.60	-
Custom Franklin Quotential Growth Benchmark (non-time-linked)	-0.82	4.69	3.62	8.27	7.83	8.53	8.99	6.97	-
S&P/TSX Composite Index	-2.06	4.73	-3.09	-0.03	4.26	7.16	5.80	7.91	-

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 – 45%, Present – 55%), S&P/TSX Composite Index (Past – 35%, Present – 25%), FTSE TMX Canada Universe Bond Index (Past – 15%, Present – 15%), Bloomberg Barclays Multiverse Hedged Index (Past – 5%, Present – 5%). 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 34

Michael Greenberg, CFA
Years with Firm 14
Years Experience 17

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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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