

Performance Review

- The fourth quarter of 2018 handed investors in riskier assets some of the worst monthly returns in a decade or longer as financial market volatility returned with a vengeance, weighing on sentiment. Canadian economic growth moderated further, while US growth crested from a cycle peak of over 4% in bolstered by tax reform and very loose financial conditions. The US Federal Reserve (Fed) raised rates in December, while the Bank of Canada (BoC) held steady. Yields fell precipitously in the fourth quarter as inflation expectations collapsed, along with the trend in oil prices.
- For the quarter, the fund's Series F shares returned -0.78%, and its benchmark, the FTSE Canada All Corporate Bond Index, returned 0.86%.

QUARTERLY KEY PERFORMANCE DRIVERS

HELPED	<p>The fund's foreign currency allocation lifted performance as the US dollar strengthened against the Canadian dollar. Over the quarter, we took advantage of that strength to reduce US-dollar exposure to 6.1%. We also exited the position in British pounds and trimmed Australian-dollar exposure to 0.4%, down from 0.6% at the start of the quarter.</p> <p>Yield curve positioning was additive. As the yield curve flattened over the quarter, the fund benefitted from being underweight the short-term segment, overweight the mid-section and underweight long-term bonds. Both US carry and US curve positioning added to performance.</p> <p>Derivative hedges added to performance.</p>
HURT	<p>Security selection was the largest detractor over the review period. Weakness was evident in all credit sectors and accelerated in the fourth quarter, notably in the fund's investment-grade financial securities. We attribute the recent sharp weakness in credit to technical issues and increasing volatility rather than an abrupt change in corporate fundamentals, and are positioned for a return of normalized market liquidity.</p> <p>Asset allocation also detracted, mainly due to the fund's overweight positions in US-dollar denominated high yield bonds.</p>

Outlook & Strategy

- We expect both US and Canadian economic growth will continue to moderate given the impact from previous interest rate increases, and as late-cycle fiscal stimulus dissipates. Other financial uncertainties, combined with rising political and geopolitical risks following a period of remission, are additional potential weights on activity.
- We view credit spreads as more fairly valued given the sharp correction during the quarter. In recent years, the low-yield environment led to deterioration of corporate loan quality as investors have sought yield at any cost. Currently, our preference remains directed to higher-quality assets. As active fixed income managers, we continue to look for ways reduce risk and upgrade credit quality while capitalizing on trading opportunities presented by any changes in volatility.

Fund Details

Inception Date	09/30/1999
Benchmark	FTSE Canada All Corporate Bond Index

Fund Description

High current income and some long-term capital appreciation by investing primarily in bonds, debentures, notes, revenue bonds and asset backed and mortgage-backed securities of Canadian corporate entities.

Performance Data

Performance (%) as of 12/31/2018

	1 Month	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
Series A	0.41	-0.92	-1.59	-1.59	2.08	2.34	4.03	3.18
Series F	0.46	-0.78	-1.12	-1.12	2.67	2.94	4.63	3.76
FTSE Canada All Corporate Bond Index ¹	1.06	0.86	1.10	1.10	2.73	3.68	5.65	4.83

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

Adrienne Marvi Young, CFA

Years with Firm 4

Years Experience 24

Darcy Briggs, CFA

Years with Firm 13

Years Experience 25

Important Legal Information

The information presented is considered reliable at the present time; however, we do not represent that it is accurate or complete, or that it should be relied upon as such. Speculation or stated beliefs about future events, such as market or economic conditions, company or security performance, upcoming product offerings or other projections represent the beliefs of the speaker and do not necessarily represent the views of Franklin Templeton Investments Corp. General business, market, economic and political conditions could cause actual results to differ materially. The information presented is not a recommendation or solicitation to buy or sell securities.

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.

Franklin Templeton Investments Canada is a business name used by Franklin Templeton Investments Corp.

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

Important data provider notices and terms available at www.franklintempletondatasources.com.

1. Source: FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.



FRANKLIN TEMPLETON
INVESTMENTS

Franklin Templeton Investments Canada
200 King Street West, Suite 1500
Toronto, ON M5H 3T4
Tel: 800.387.0830
Fax: 866.850.8241
franklintempleton.ca