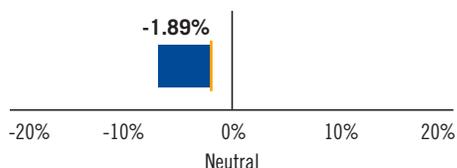


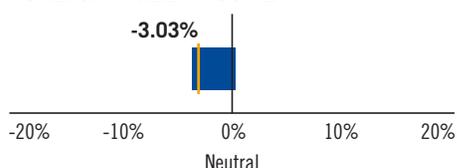
The following commentary is based on Franklin Quotential Balanced Growth Portfolio.¹

TACTICAL POSITIONING

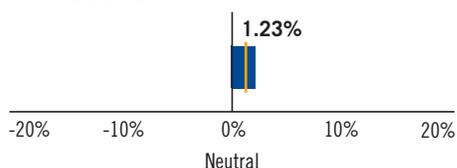
DOMESTIC FIXED INCOME



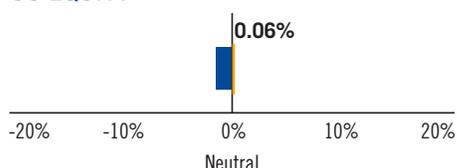
FOREIGN FIXED INCOME



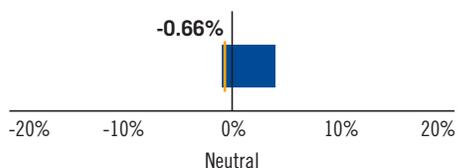
CANADIAN EQUITY



US EQUITY



INTERNATIONAL/GLOBAL EQUITY*



MARKET REVIEW

- Global equity markets overall closed August 2018 with a modest advance in Canadian-dollar terms, largely due to US stocks.
- US-China trade relations continued to worry investors, particularly in Asian markets, as did fears of contagion to emerging markets (EM) from economic troubles in Turkey and Argentina.
- Though some observers took cheer in a late August US-Mexico trade deal as a sign constructive agreements could be reached with the United States, talks between Canada and the US were still ongoing and weighed on the Canadian dollar.

FORWARD-LOOKING INVESTMENT STRATEGY: CHALLENGES IN EMERGING MARKETS APPEAR ISOLATED

- As we enter September, our analysis points to evidence that the most recent flare up in Turkey and Argentina is likely idiosyncratic, rather than an early symptom of broader EM weakness. One reason why we think country-specific factors are responsible is that both Turkey and Argentina appear as two of the more vulnerable EM countries, based on several fundamental metrics. We remained relatively even weight EM equity compared to the benchmark.
- We continue to hold a favourable view of Japanese equities, and the portfolio is meaningfully overweight. From our perspective, Japan provides a better value opportunity relative to many domestic peers, with book values in particular providing significant opportunities.
- We hold a cautious view on the investment-grade bond sector. Although corporate fundamentals appear strong to us, we see less supportive technical conditions, and a downside skew for potential downgrades relative to upgrades.

TRADES

- In fixed income, we continued to increase our allocation to Franklin Liberty Global Aggregate Bond ETF to further diversify fixed income curve exposure.
- We also reduced the overall credit exposure by adding to Bissett Canadian Government Bond Fund, and trimming our allocation to Franklin Strategic Income Fund and Franklin Bissett Core Plus Bond Fund.

1. Franklin Quotential Balanced Growth Portfolio's blended benchmark consists of: 30% FTSE TMX Canada Universe Index (fixed income), 10% Bloomberg Barclays Multiverse Hedged Index (fixed income), 20% S&P/TSX Composite TR Index (Canadian equity), and 40% MSCI AC World Index.

*Includes emerging markets. Reported changes in asset class weightings may be influenced by both buy/sell decisions as well as fluctuations in asset values. The percentage number and solid black line represent the current under/overweighting. Shaded area represents the over/underweighting minimum and maximum over the last 12 months.

RESULTS OF POSITIONING

- EM currencies were hit in August by the volatile geopolitical environment, the strength of the US dollar, trade negotiations and the impacts from Turkey and Argentina's economic situations. Within global fixed income, an underlying manager's relative performance was hampered by overweight positions in Latin America and emerging Asia.
- Our preference for value equities relative to growth detracted from results, particularly in Europe. In contrast, the portfolio's diversified exposure within growth-oriented securities strengthened relative returns.
- In EM, our regional preference is for Asia relative to Latin America and Europe. Asia EM meaningfully outperformed their regional peers, benefitting the portfolio's largest EM equity allocation, Templeton Asian Growth Fund.

Regional equity/bond returns are based on the following indices: S&P/TSX Composite, S&P 500, MSCI Emerging Markets, MSCI AC World ex. USA, Credit Suisse High Yield, Barclays Multiverse–Hedged and FTSE TMX Canada Universe. All Portfolio commentary herein is based on Franklin Quotential Balanced Growth Portfolio, used as a proxy for the entire Programme. Over/underweights and portfolio outperformance are based on Franklin Quotential Balanced Growth Portfolio's blended benchmark, consisting of: 30% FTSE TMX Canada Universe Index (fixed income), 20% S&P/TSX Composite Total Return Index (Canadian equity), 40% MSCI All Country World Index (10.4% International/Global equity, and 13.6% US equity), and 10% Barclays Multiverse Hedged Index. Reported changes in asset class weightings may be influenced by both buy/sell decisions as well as fluctuations in asset values. The historical annualised rates of return for the Franklin Quotential Portfolios, as at 31 August 2018 are: Diversified Income–Series T, 1 year 1.42%, 3 years 1.90%, 5 years 3.61%, 10 years 4.17% and 4.62% since inception (Feb. 17/03); Balanced Income–Series A, 1 year 3.77%, 3 years 2.80%, 5 years 5.12%, 10 years 4.27% and 4.67% since inception (Aug. 19/02); Balanced Growth–Series A, 1 year 5.89%, 3 years 3.59%, 5 years 6.25%, 10 years 4.63% and 5.07% since inception (Aug. 19/02); Growth–Series A, 1 year 8.04%, 3 years 4.40%, 5 years 7.42%, 10 years 4.78% and 4.81% since inception (Aug. 19/02); Diversified Equity–Series A, 1 year 10.40%, 3 years 5.32%, 5 years 8.90%, 10 years 5.58% and 5.82% since inception (Jun. 09/03).

The information presented herein 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 and economic conditions, company or security performance, upcoming product offerings or other projections represent the beliefs of the speaker/author and do not necessarily represent the views of Franklin Templeton Investments Canada. General business, market, economic and political conditions could cause actual results to differ materially from what the speaker presently anticipates or projects. The information presented is not a recommendation or solicitation to buy or sell any securities. Franklin Templeton Investments Canada is a business name used by Franklin Templeton Investments Corp.

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