



# FRANKLIN TEMPLETON INVESTMENTS

## Franklin High Income Fund

December 31, 2018

### Product Profile

#### Product Details<sup>1,2</sup>

Fund Assets	\$19,654,701.10
Fund Inception Date	02/17/2003
Number of Holdings	133
Base Currency	CAD
Morningstar Category™	High Yield Fixed Income
Distribution Frequency	Monthly

#### Risk Classification<sup>3</sup>

Low	<b>Low to Medium</b>	Medium	Medium to High	High
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#### Fund Description

The Fund seeks high current income and some long-term capital appreciation by investing primarily in high-yield, lower-rated debt securities issued in the United States and throughout the world.

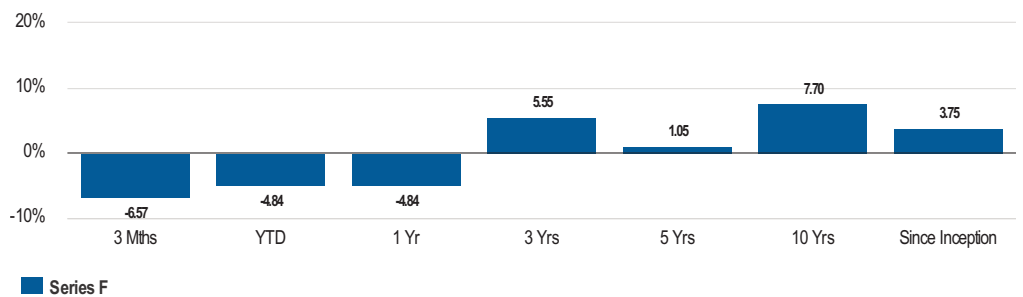
#### Performance Data<sup>4</sup>

##### Average Annual Total Returns<sup>5</sup> (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (02/17/2003)
Series F	-6.57	-4.84	-4.84	5.55	1.05	7.70	3.75

##### Management Expense Ratio (as 06/30/2018 incl. HST)—1.07%

The indicated rates of return are the historical annual compounded total returns including changes in share or unit value and reinvestment of all distributions 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 call Franklin Templeton Client Services at 1.800.387.0830 or visit [www.franklintempleton.ca](http://www.franklintempleton.ca) for the most recent month-end performance.



#### Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Series F	-4.84	5.09	17.60	-10.59	0.19	8.70	15.26	4.05	11.87	36.67

1. 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.

2. All holdings are subject to change.

3. Each fund is assigned an investment risk rating in one of the following categories: low, low to medium, medium, medium to high or high risk. The risk ratings were determined using a methodology that assesses a fund's historical volatility risk as measured by the standard deviation of fund performance. However, just as a fund's historical performance may not be indicative of its future returns, a fund's historical volatility may not be indicative of its future volatility. In addition, other types of risk may exist that can affect a fund's returns. Please read the prospectus for more information on fund risk ratings.

4. The fund offers other series subject to different fees and expenses, which will affect their performance.

5. Periods shorter than one year are shown as cumulative total returns.

Portfolio Manager Insight<sup>6</sup>

## Performance Review

## QUARTERLY KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Wireless	Overweight in packaging	Energy	Yield-curve positioning
	Metals and mining	Underweight in wireline provider	Finance	—
	Consumer products	Overweight in utility	Wireless	—
HURT	Energy	Underweight in gaming	Packaging	—
	Paper	Underweight in media cable	Metals and mining	—
	Finance	Underweight in supermarkets	Building	—

- During the quarter, the fund's security selection within the energy industry was a detractor from relative results, as energy prices experienced significant downward pressure.
- Our ratings-quality tilt in the packaging, metals and mining and building industries also detracted from relative performance in a volatile quarter for financial markets.
- Amidst continuing market challenges for the telecommunications industry, our underweight allocation to wireline providers contributed to relative performance.

## Outlook &amp; Strategy

- During December, although high-yield (HY) credits suffered one of the weakest monthly results of the last decade, the sector still performed relatively better than equity markets in 2018. So far, the current weakness in the leveraged loan market has not translated into issuers tapping into the HY market for additional issuance. There remains a possibility this could change, however, should weakness in the leveraged loan market continue.
- We maintain our view that HY fundamentals should remain supportive overall—the default rate remains subdued and the sentiment-driven risk-off environment experienced during the month is not reflective of the real economy. Amidst the current challenges facing the HY market, the sector has become more attractively priced, in our view.
- As the economic cycle has progressed to the latter stages, we have maintained our risk mitigation measures, such as reducing our exposure to CCC rated credits that we believe are more prone to defaults in an economic downturn. Furthermore, we remain committed to our credit selection discipline, including passing on deals we believe do not offer adequate investor protection.
- We believe, however, that it is too early to adopt a purely defensive posture in our portfolio positioning as the current market sell-off is more sentiment driven (as previously mentioned), versus a fundamental shift in US economic outlook. We believe the current risk-off sentiment has been exacerbated by year-end risk aversion as investors were reluctant to take on additional risks so close to calendar year-end.
- As we look forward, we maintain our view that the HY sector offers relatively attractive value—the American economy has so far maintained its strength as consumer spending remains strong, supported by low unemployment numbers. If the path of interest-rate hikes begins to slow, it could provide a more supportive backdrop for consumer spending and housing prices, which could prolong the economic cycle.

Portfolio Characteristics<sup>7,8</sup>

	Portfolio
Average Duration	4.22 Yrs
Average Weighted Maturity	5.82 Yrs

6. The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

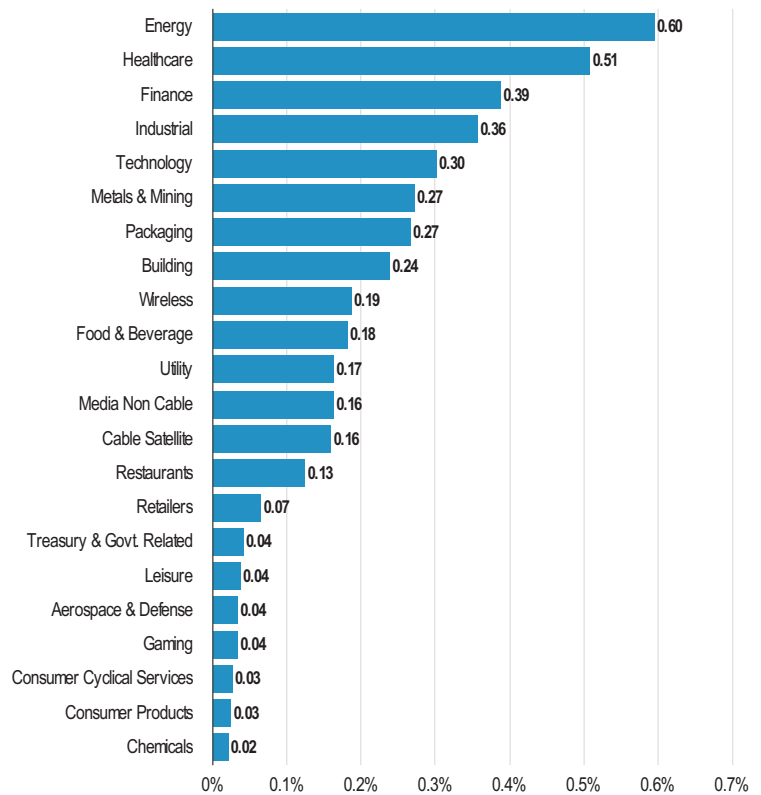
Portfolio Diversification<sup>7,9</sup>Top Ten Holdings<sup>10</sup>

Percent of Total

Top Holdings	%
VALEANT PHARMACEUTICALS INT	2.48
SPRINT COMMUNICATIONS INC	2.08
NAVIENT CORP	2.00
T-MOBILE USA INC	1.47
LINCOLN FINANCE LTD	1.43
CHENIERE CORPUS CHRISTI HOLDIN	1.43
CLEAR CHANNEL WORLDWIDE HOLDIN	1.41
HCA INC	1.40
ASCEND LEARNING LLC	1.38
MPT OPERATING PARTNERSHIP LP	1.37
/	

Sector Allocation<sup>11</sup>

Market Value—Percent of Total

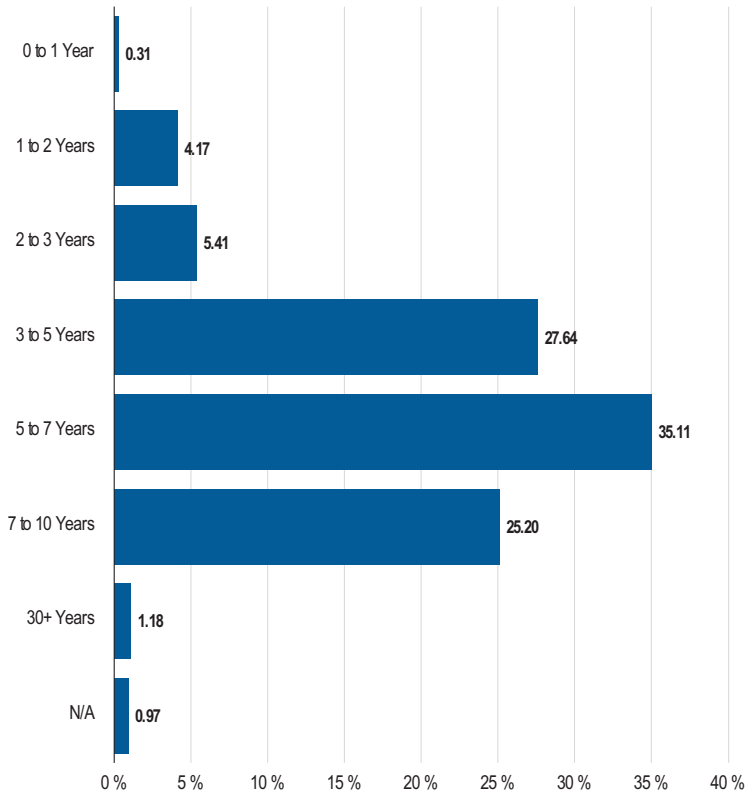


9. Please note that the definition of cash in this document may not match the definition of “cash and cash equivalents” listed in the fund facts or management reports of fund performance for the fund, which includes bonds that have a remaining term to maturity of 365 days or less that are issued by certain governments, supranational agencies or financial institutions and have a “designated rating” (as defined in Canadian securities law). As such, the cash amounts listed may differ.

10. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The securities identified do not represent the fund’s entire holdings and in the aggregate may represent only a small percentage of such holdings. There is no assurance that securities purchased will remain in the fund, or that securities sold will not be repurchased. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included.

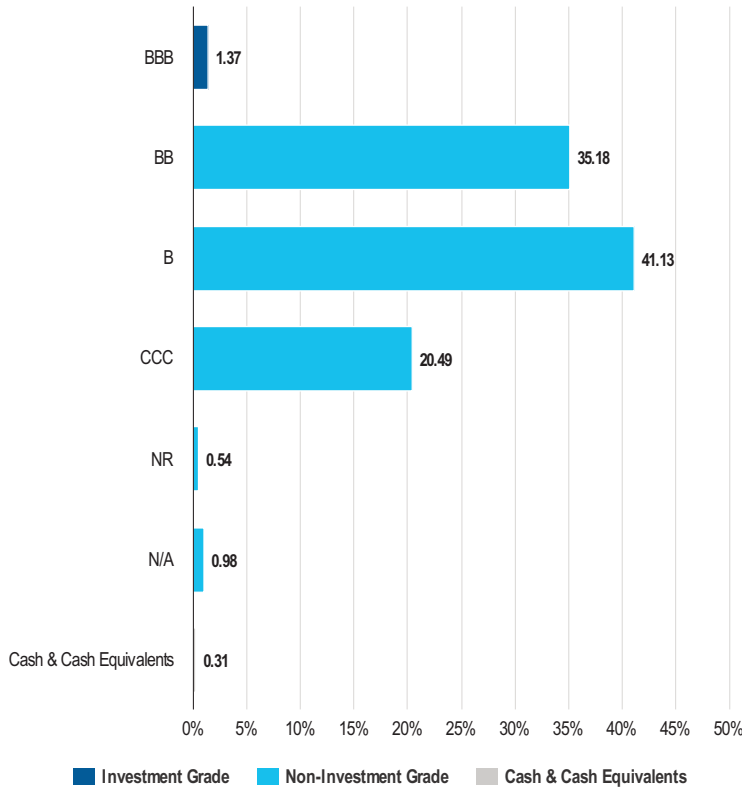
**Maturity Allocation<sup>11</sup>**

Market Value—Percent of Fixed Income



**Credit Quality Allocation<sup>11,12</sup>**

Market Value—Percent of Total



**Investment Philosophy**

We believe that superior high-yield returns are best sought through the disciplined application of a research-based approach that capitalises on inefficiencies across the high-yield market. Through diligent bottom-up research, we seek to identify compelling total return opportunities with the potential to add value over a three- to five-year horizon.

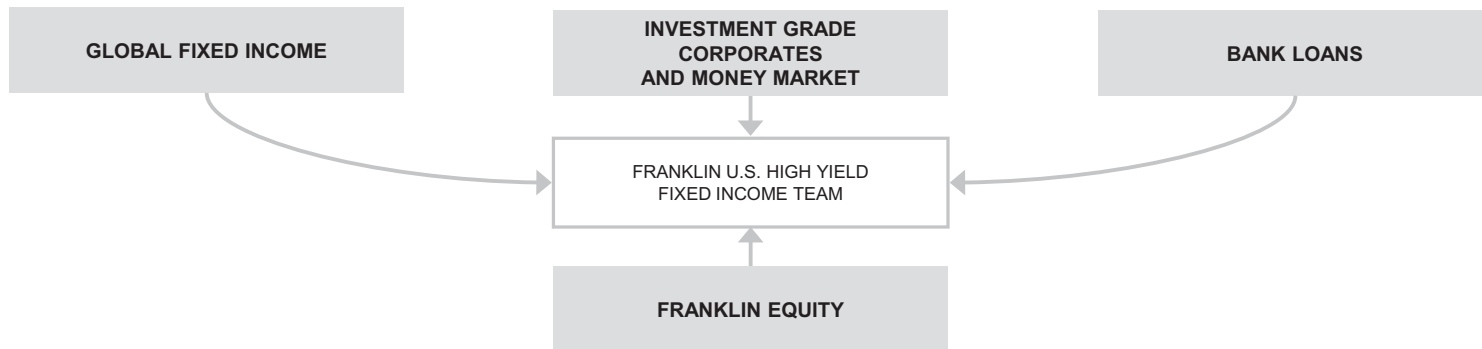
**Investment Process**

- **Fundamental Analysis:** Conduct independent, bottom-up analysis focusing on critical factors that affect a company’s long-term performance, such as financial structure, cash flow and earnings prospects, products, market share and strategic positioning, as well as material ESG factors
- **Long-Term Outlook:** Analyse securities whose projected return over three to five years may surpass the risk of adverse price movements or default
- **Seek Valuation Inefficiencies:** Opportunistically invest in companies in sectors that are infrequently followed or are out of favour with the marketplace
- **Disciplined Approach:** Adhere to long-term strategy through changing market environments, supported by separate in-house risk management and quantitative research groups

**Integrated Research Approach**

- High Yield Team leverages the insights of other fixed income and equity investment professionals throughout the firm.

12. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations (“NRSRO”), such as Standard & Poor’s, Moody’s and Fitch. The ratings are an indication of an issuer’s creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. The NR category consists of ratable securities that have not been rated by an NRSRO. The N/A category consists of nonratable securities (e.g., equities). Cash includes equivalents, which may be rated.



## Investment Team

Portfolio Manager	Years with Firm	Years Experience
Glenn Voyles, CFA, SVP/Director of Portfolio Management, Corporate Credit	25	26
Darcy Briggs, CFA, Senior Vice President, Portfolio Manager	13	25

## Glossary

**Average Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

**Average Weighted Maturity:** An estimate of the number of terms to maturity, taking the possibility of early payments into account, for the underlying holdings. Maturity is expressed as a number of years.

### Fund Codes<sup>13</sup>

	Series	
	CAD	USD
Series A Front	TML186	TML187
Series A DSC	TML188	TML189
Series A Low Load	TML190	TML191
Series F	TML228	TML262
Series F ADM	TML5218	TML5219
Series I	TML3380	TML3381
Series O	TML172	TML149
Series PA Front	TML5349	TML5352
Series PA DSC	TML5351	TML5354
Series PA Low Load	TML5350	TML5353
Series PF	TML3810	TML3811
Series PF ADM	TML5220	TML5220

Series I and V closed to new investors as of November 22, 2016.

Beginning in January 2017, investors switching between Corporate Class funds will trigger a capital gain or loss at the time of the switch due to certain changes in the income tax laws made by the federal government in 2016.

13. "ADM" refers to the Investment Advisory Services Fee purchase option for series F, FT, PF, PF(Hedged), and PFT. Please see the simplified prospectus for further details.

**Important Legal Information**

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*Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus or fund facts document before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.*

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

7. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

8. Average Duration and Average Weighted Maturity reflect certain derivatives held in the portfolio (or their underlying reference assets).

11. Market value figures reflect the trading value of the investments. Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.



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INVESTMENTS**

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