



FRANKLIN TEMPLETON
INVESTMENTS

June 30, 2017

Semi-Annual Management Report of Fund Performance



This semi-annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the investment fund. If you have not received a copy of the semi-annual financial statements with this report, you can get a copy of the semi-annual financial statements at your request, and at no cost, by calling 1.800.387.0830, by writing to us at 5000 Yonge Street, Suite 900, Toronto ON M2N 0A7, or by visiting our website at www.franklintempleton.ca or SEDAR at www.sedar.com. Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT REPORT OF FUND PERFORMANCE

Dear Investor,

We are pleased to provide you with the Semi-Annual Management Report of Fund Performance (MRFP) for the six-month period ended June 30, 2017.

The MRFP includes:

- Commentary on funds' or portfolios' investments and performances;
- Recent trends that could affect future performance;
- Summary information on your funds' or portfolios' holdings;
- Financial highlights for your funds or portfolios.

You and your investment advisor can use the information contained in the MRFP to assess how your investments in the funds or portfolios align with your overall financial plan. You can also view the MRFP and other Franklin Templeton Investments reports online at www.franklintempleton.ca. If you have any questions or concerns, please feel free to contact our Client Relations team at 1.800.387.0830.

Thank you for your continued support.

Sincerely,



Duane Green

President and Chief Executive Officer
Franklin Templeton Investments Corp.

Co-Lead Manager

Thomas O’Gorman, MBA, CFA

Franklin Bissett Investment Management, part of Franklin Templeton Investments Corp.

Industry Experience: 27 years

Location: Calgary, AB

Co-Lead Manager

Darcy Briggs, CFA, CGA

Franklin Bissett Investment Management, part of Franklin Templeton Investments Corp.

Industry Experience: 24 years

Location: Calgary, AB

RESULTS OF OPERATIONS

As at June 30, 2017, total net asset value of the Fund was \$389.3 million, an increase of 108.0% from December 31, 2016. This was primarily driven by \$194.4 million in net subscriptions and an \$8.7 million increase in net assets from operations. The Fund paid out \$939,000 in cash distributions to unitholders.

During the past six months, the Fund’s Series O units generated total returns of 2.8%. Over the same time period, the Fund’s benchmark, the FTSE TMX Canada All Government Bond Index (the “Index”), returned 2.2%. The performance of the Fund’s other series is substantially similar to that of its Series O units, except for differences in expense structure. For the return of the Fund’s other series (if applicable), please refer to the “Past Performance” section.

Asset allocation was the primary driver of the Fund’s outperformance over the past six months, contributing 58 basis points (bps) to relative performance. This was led by an underweighted position in federal non-agency bonds and an overweighted exposure to provincial credits, especially New Brunswick and Newfoundland. Security selection detracted four bps from relative performance, driven by exposure to shorter-dated Ontario positions.

Yield curve and duration positioning contributed six bps to relative performance over the six-month period. The Fund’s shorter-than-Index duration positioning, with an underweighted exposure to the short end of the curve, contributed to performance, as yields rose and the curve flattened. Pricing detracted two bps from relative performance.

RECENT DEVELOPMENTS

There is a likelihood that global geopolitics will elevate in importance with respect to markets during the second half of 2017, although the extent to which this will happen is difficult to forecast with certainty. Central bank liquidity continues to support financial markets and suppress volatility worldwide, but these policies appear to be falling out of favour, given a change in tone observed from many central banks. Risk markets remain hopeful that positive impacts will result from US President Donald Trump’s policy promises (deregulation, tax cuts/reform and infrastructure/defence spending and repatriation of profits); fixed

income markets appear to be less sure of a potential reflation trade given the political uncertainty in the United States and ongoing investigations stalling any policy initiatives in that nation.

The portfolio managers continue to believe that inflation will remain a non-event for 2017, despite the issue being a focus of some attention during the first half of the year. Core inflation in both Canada and the United States has taken a distinct shift lower, as global disinflation remains a significant driver, largely reducing the urgency for more interest-rate adjustments by central banks. Still, the policy directions of most central banks appear to be leaning towards ensuring financial stability rather than worrying about inflation.

North American interest rates have turned higher given tightening biases at the US Federal Reserve (Fed) and, more recently, the Bank of Canada (BOC). Any positive surprises in US economic indicators or unexpected midyear rate action by the Fed could increase short-term pressure on US Treasury rates and, by extension, Canadian yields. The portfolio managers’ base-case scenario is that interest rates will largely remain in “wait-and-see” mode, possibly looking to a higher probability of risks of an economic upside over the short term.

The US yield curve flattened close to the halfway point of 2017, and the portfolio managers expect this to continue, given the likelihood of central banks making tightening decisions even without being compelled to by inflation or growth data. Canadian rates also traded in a narrow range, shadowing the US yield curve, until a surprise change in tone from the Bank of Canada in late June, from an easing bias to a tightening bias. The increase in Canadian interest rates in June took yields back to levels reflecting the time before the declines in oil prices, and appears to take into account removal of the 2015 emergency stimulus. The portfolio managers believe the likelihood is high that the BOC will increase rates twice in the second half of 2017, which would continue to flatten the yield curve.

The portfolio managers will seek to capitalize on trading opportunities should market volatility increase, with an investment bias to shorter-than-Index duration positioning. The portfolio managers will also look for opportunities to upgrade the Fund’s overall credit quality, given the duration and magnitude of the current credit rally. Given current valuations and trading liquidity, the portfolio managers also favour provincial debt.

FORWARD-LOOKING STATEMENTS

Investors should take note that certain statements in this report about a fund, including its strategy and expected future performance, are forward-looking. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “intend,” “plan,” “believe,” or “estimate” or other similar expressions. Any statement that is made concerning future strategies or performance is also a forward-looking statement. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the forward-looking statements.

The forward-looking statements are by their nature based on numerous assumptions, which include, amongst other things, that (i) the Fund can attract and maintain investors and has sufficient capital under management to effect its investment strategies, (ii) the investment strategies will produce the results intended by the portfolio manager, and (iii) the markets will react and perform in a manner consistent with the investment strategies. Although the forward-looking statements contained herein are based upon what the portfolio manager believes to be reasonable assumptions, the portfolio manager cannot assure that actual results will be consistent with these forward-looking statements.

Forward-looking statements are not guarantees of future performance. Any number of factors could contribute to differing results, including, among other things, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings and catastrophic events. This list of factors is not exhaustive. Investors should not place undue reliance on forward-looking information and should be aware that the Fund may not update any forward-looking statements, whether as a result of new information, future events or otherwise.

RELATED PARTY TRANSACTIONS

The Manager is an indirect wholly-owned subsidiary of Franklin Resources, Inc., a global investment management organization known as Franklin Templeton Investments. The Manager is the manager, registrar and transfer agent and a principal distributor of the Fund. The Manager provides or arranges for the provision of these services for day-to-day Fund operations, including the marketing, promotion and distribution of the Fund and portfolio advisory services. In consideration of these management and portfolio advisory services, the Fund pays the Manager a monthly management fee based on the average net asset value of each series of the Fund (except Series O and OT, as applicable), calculated daily, as set out under Management Fees below.

Franklin Templeton Services, LLC (FTS) provides the Manager with fund accounting and portfolio valuation services in connection with the Fund, and provides certain back office administration services to the Manager. The Administration Fee, as discussed below, covers the cost of the services provided by FTS.

The Manager pays the operating expenses of the Fund, other than certain fund costs—which include, but are not limited to, the cost of compliance with new governmental and regulatory requirements, fees and expenses of the Fund's Independent Review Committee (IRC), borrowing and interest costs and investor meeting costs (as permitted by Canadian securities regulation)—in exchange for the payment by the Fund of an annual fixed-rate administration fee of 0.10% applied against the average daily net assets of the Fund ("Administration Fee"), except Series O and OT, which have no annual Administration Fee. The Manager will pay all operating expenses of Series O and OT, as applicable, as part of its agreement with each investor. The Manager may, at its discretion, waive a portion of a series' Administration Fee or absorb certain fund costs.

As at June 30, 2017, Franklin Quotential Diversified Income Portfolio, Franklin Quotential Diversified Income Corporate Class Portfolio, Franklin Quotential Balanced Growth Portfolio, and Franklin Quotential Balanced Income Portfolio, held 23%, 21%, 20% and 14% of the Fund, respectively.

Portfolio Advisor

Franklin Bissett Investment Management (the "Portfolio Advisor"), part of the Manager, provides investment analysis and recommendations and executes or arranges for brokers to execute portfolio transactions.

Principal Distributor

As a principal distributor of the Fund, the Manager markets the Fund and arranges for the sale of the Fund through dealers across Canada. The Manager may retain companies to assist in the sale of certain series of units of the Fund.

The Manager's affiliate, FTC Investor Services Inc. ("FTC ISI"), also acts as a principal distributor for Series F, O, OT, FT, PF and PF (Hedged) units of the Fund, as applicable.

For acting as a principal distributor of the applicable series, FTC ISI receives an inter-company service fee of 0.20% of the assets under management of the applicable series from the Manager with respect to those series of units.

Registrar and Transfer Agent

In addition to management and portfolio advisory services, the Manager acts as the registrar and transfer agent of the Fund. These services are in the normal course of operations and are covered by the Administration Fee paid by the Fund to the Manager.

Standing Instructions from the Independent Review Committee

The Manager relied on standing instructions from the IRC with respect to the allocation of any operating expenses not covered by the Administration Fee. The Manager relied, or may rely, on standing instructions from the IRC in respect of securities trades amongst mutual funds, investment funds or managed accounts managed by the Manager or an affiliate of the Manager. In both cases, the standing instructions require the Manager to comply with the policies and procedures presented to the IRC with respect to the above matters and to provide periodic reports to the IRC in accordance with NI 81-107.

MANAGEMENT FEES

A portion of the management fee paid by the Fund to the Manager is for trail fees and sales commissions the Manager pays to dealers ("Dealer Compensation"). The trail fees are a percentage of the daily average net asset value of each series of the Fund, which is held by the dealer's clients. The remaining portion of the management fee is used to pay for portfolio advisory and administrative services related to the provision of portfolio advisory services. The table below outlines the Fund's annual

FRANKLIN BISSETT CANADIAN GOVERNMENT BOND FUND
MANAGEMENT REPORT OF FUND PERFORMANCE

management fee, as well as the portion of the management fee used to pay for Dealer Compensation and for portfolio advisory services as an approximate percentage of the management fee for each series:

Series	Management Fee (%)	Dealer Compensation (%)*	Investment management, investment management expenses, and other (%)
F	0.50	–	100.00
PF	0.40	–	100.00

*Dealer compensation may include other fees related to distribution, which are not payable directly to dealers.

The management and administration fees for Series O and OT are paid for by the unitholder directly to the Manager as follows:

- First C\$200,000 to under \$2.5 million—0.50%
- Next C\$2.5 million to under \$5 million—0.40%
- C\$5 million and over—0.30%

Certain institutional investors may negotiate the management and administration fees by written agreement with Franklin Templeton Investments.

MANAGEMENT REPORT OF FUND PERFORMANCE

Summary of Investment Portfolio (AS AT JUNE 30, 2017)

REGIONAL WEIGHTINGS (%)*

North America

99.86

ASSET CLASS WEIGHTINGS (%)

Government Bonds - Fixed Rate	86.56
Government Bonds - Floaters	12.81
Government Strip Bonds	0.49
Short-term securities and all other assets, net	0.14

TOP 25 HOLDINGS (%)

Province of Ontario, Floating Rate Note, 6/27/2022	7.12
Canada Housing Trust, Secured Bond, 3.80%, 6/15/2021	5.50
Canada Housing Trust, Second Lien, 2.35%, 6/15/2027	3.93
Province of Ontario, 3.15%, 6/2/2022	3.83
Province of Ontario, 2.10%, 9/8/2018	3.66
Province of Ontario, 3.45%, 6/2/2045	3.43
Province of Quebec, Floating Rate Note, 10/13/2024	2.79
Province of Ontario, Senior Bond, 2.40%, 6/2/2026	2.45
PSP Capital Inc., Senior Note, 2.09%, 11/22/2023	2.40
Government of Saskatchewan, 4.75%, 6/1/2040	2.34
Province of Alberta, 3.45%, 12/1/2043	2.14
Province of Alberta, 3.90%, 12/1/2033	2.13
Province of Ontario, 4.20%, 6/2/2020	1.97
Province of Manitoba, 4.60%, 3/5/2038	1.96
Province of Ontario, 4.40%, 6/2/2019	1.96
Canada Housing Trust, Secured Note, 1.95%, 6/15/2019	1.96
Province of Ontario, 4.00%, 6/2/2021	1.94
Province of Ontario, 5.60%, 6/2/2035	1.90
Province of New Brunswick, 2.85%, 6/2/2023	1.78
Province of Manitoba, 4.40%, 9/5/2025	1.72
Province of Quebec, 5.75%, 12/1/2036	1.69
Province of New Brunswick, Senior Bond, 3.65%, 6/3/2024	1.69
Province of New Brunswick, 5.50%, 1/27/2034	1.64
Province of Ontario, 2.80%, 6/2/2048	1.52
Province of Manitoba, 6.30%, 3/5/2031	1.49

TOTAL NET ASSET VALUE: \$389,327,000

* Excluding short-term securities and all other assets, net.

Above is an outline of the investments held in the Fund as a percentage of the Fund's net assets. Due to ongoing portfolio transactions, the investments and percentages may have changed by the time you purchase units of the Fund. The top 25 holdings are made available quarterly, 60 days after the quarter-end. To obtain a copy, please contact a member of our client services team at 1.800.387.0830 or visit www.franklintempleton.ca.

FRANKLIN BISSETT CANADIAN GOVERNMENT BOND FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series F (AS AT JUNE 30, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal period ended June 30, 2017, and for the fiscal periods ended December 31.

Net assets per unit (1)	Jun. 30, 2017	2016
Net assets – beginning of period	\$9.77	\$10.00
Increase (decrease) from operations:		
Total revenue	0.14	0.04
Total expenses	(0.03)	(0.01)
Realized gains (losses) for the period	0.03	–
Unrealized gains (losses) for the period	0.16	(0.23)
Total increase (decrease) from operations (2)	0.30	(0.20)
Distributions:		
From income (excluding dividends)	(0.11)	(0.03)
From dividends	–	–
From capital gains	–	–
Returns of capital	–	–
Total annual distributions (3)	(0.11)	(0.03)
Net assets – end of period	\$9.90	\$9.77
Ratios and supplemental data:	Jun. 30, 2017	2016
Total net asset value (\$ millions) (1)	\$0.03	\$–
Number of units outstanding	3,299	500
Management expense ratio (2)	0.68%	0.68%
Management expense ratio before waivers or absorptions	0.68%	0.68%
Portfolio turnover rate (3)	65.20%	67.09%
Net asset value per unit	\$9.90	\$9.77

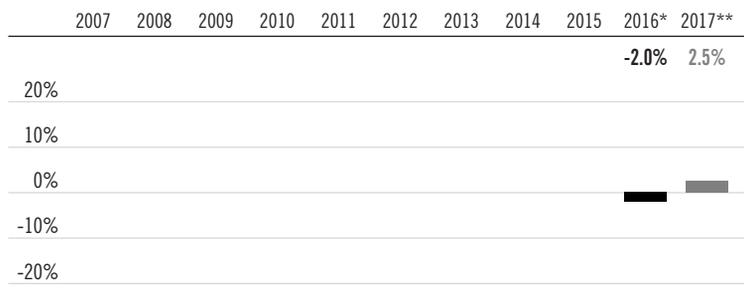
For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

PAST PERFORMANCE

The following information assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's performance for the six-month period ended June 30, 2017, and for each of the previous 12-month periods ended December 31. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the end of the period.



* 2016 Series F return: November 14 to December 31

** For the period January 1 to June 30, 2017

FRANKLIN BISSETT CANADIAN GOVERNMENT BOND FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series 0 (AS AT JUNE 30, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal period ended June 30, 2017, and for the fiscal periods ended December 31.

Net assets per unit (1)	Jun. 30, 2017	2016
Net assets – beginning of period	\$9.78	\$10.00
Increase (decrease) from operations:		
Total revenue	0.14	0.04
Total expenses	–	–
Realized gains (losses) for the period	0.02	–
Unrealized gains (losses) for the period	0.11	(0.08)
Total increase (decrease) from operations (2)	0.27	(0.04)
Distributions:		
From income (excluding dividends)	(0.11)	(0.03)
From dividends	–	–
From capital gains	–	–
Returns of capital	–	–
Total annual distributions (3)	(0.11)	(0.03)
Net assets – end of period	\$9.94	\$9.78
Ratios and supplemental data:	Jun. 30, 2017	2016
Total net asset value (\$ millions) (1)	\$389.29	\$187.16
Number of units outstanding	39,146,833	19,141,452
Management expense ratio (2)	–	–
Management expense ratio before waivers or absorptions	–	–
Portfolio turnover rate (3)	65.20%	67.09%
Net asset value per unit	\$9.94	\$9.78

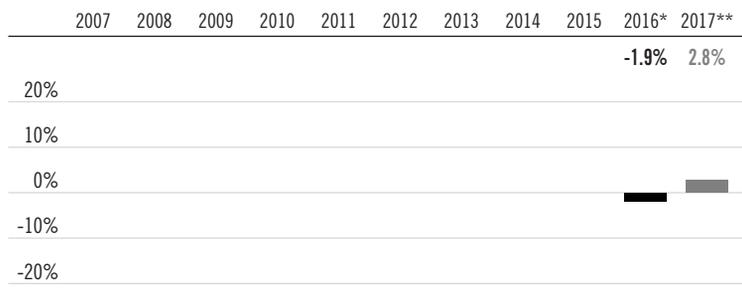
For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

PAST PERFORMANCE

The following information assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's performance for the six-month period ended June 30, 2017, and for each of the previous 12-month periods ended December 31. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the end of the period.



* 2016 Series 0 return: November 14 to December 31

** For the period January 1 to June 30, 2017

FRANKLIN BISSETT CANADIAN GOVERNMENT BOND FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
 Series PF (AS AT JUNE 30, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal period ended June 30, 2017, and for the fiscal periods ended December 31.

Net assets per unit (1)	Jun. 30, 2017	2016
Net assets – beginning of period	\$9.77	\$10.00
Increase (decrease) from operations:		
Total revenue	0.14	0.04
Total expenses	(0.03)	(0.01)
Realized gains (losses) for the period	0.01	–
Unrealized gains (losses) for the period	0.12	(0.23)
Total increase (decrease) from operations (2)	0.24	(0.20)
Distributions:		
From income (excluding dividends)	(0.11)	(0.03)
From dividends	–	–
From capital gains	–	–
Returns of capital	–	–
Total annual distributions (3)	(0.11)	(0.03)
Net assets – end of period	\$9.90	\$9.77
Ratios and supplemental data:	Jun. 30, 2017	2016
Total net asset value (\$ millions) (1)	\$0.01	\$–
Number of units outstanding	500	500
Management expense ratio (2)	0.57%	0.57%
Management expense ratio before waivers or absorptions	0.57%	0.57%
Portfolio turnover rate (3)	65.20%	67.09%
Net asset value per unit	\$9.90	\$9.77

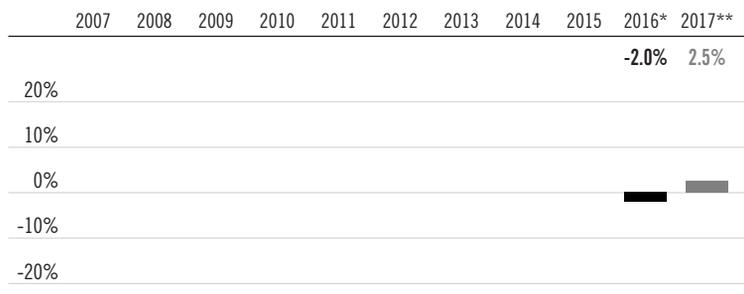
For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

PAST PERFORMANCE

The following information assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's performance for the six-month period ended June 30, 2017, and for each of the previous 12-month periods ended December 31. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the end of the period.



* 2016 Series PF return: November 14 to December 31

** For the period January 1 to June 30, 2017

NOTES TO FINANCIAL HIGHLIGHTS

Net Assets per Unit:

- (1) This information is derived from the Fund's unaudited interim financial statements and audited annual financial statements. In the period a fund or series is established, the financial information is provided from the date of inception to the end of the period. In cases where the net assets per unit presented in the financial statements differ from the net asset value calculated for Fund pricing purposes, an explanation of these differences can be found in the notes to the financial statements.
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease in net assets from operations is based on the weighted average number of units outstanding over the fiscal period. This table is not intended to be a reconciliation of opening and closing net assets per unit.
- (3) Distributions were paid in cash or reinvested in additional units of the Fund or both, and exclude distributions of management fee reductions to unitholders.

Ratios and Supplemental Data:

- (1) This information is provided as at the period-end of the year shown.
- (2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling each security in its portfolio once in the course of the relevant period. The higher the portfolio turnover rate in the period, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

OTHER FUND INFORMATION

Reported year-by-year returns for past years may be revised, based on the results of recalculations, audits and/or other historical review processes. Such revisions are considered immaterial to performance disclosure unless otherwise stated.