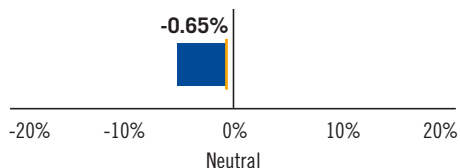


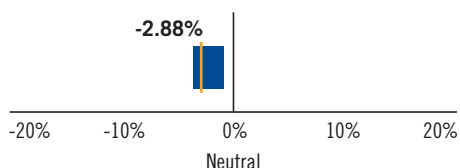
The following commentary is based on Franklin Quotential Balanced Growth Portfolio.¹

TACTICAL POSITIONING

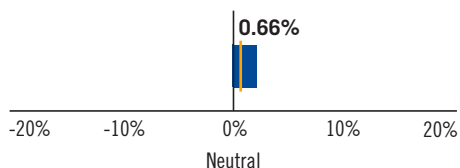
DOMESTIC FIXED INCOME



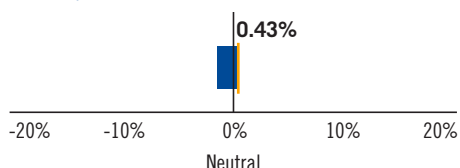
FOREIGN FIXED INCOME



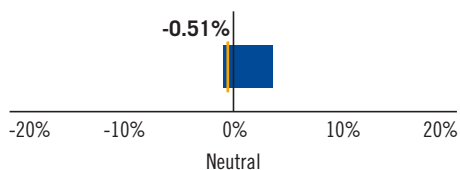
CANADIAN EQUITY



US EQUITY



INTERNATIONAL/GLOBAL EQUITY*



MARKET REVIEW

- Global equity markets experienced a widespread rout and heightened volatility in October 2018. They were weighed down by persisting trade tensions, US-dollar strength and higher interest rates that contributed to rising US bond yields.
- Following a largely uneventful third quarter of 2018, spreads widened meaningfully amongst many fixed income sectors in October.
- The Bank of Canada raised its key interest rate 25 basis points, in line with consensus expectations, and indicated further hikes will likely be needed to keep inflation near its 2% target over the long term.

FORWARD-LOOKING INVESTMENT STRATEGY: OUR FOCUS REMAINS ON THE BUSINESS CYCLE AND ECONOMIC DATA, NOT DAILY NOISE

- With the return of heightened stock market volatility in October and several equity indices falling into correction territory, news headlines have taken a more dramatic tone. We believe it is important to filter out the daily “noise” from market prognosticators. Instead, we remain focused on the business cycle and key investment inputs (such as technical indicators). By vigilantly monitoring core short-, medium- and long-term indicators, we can fully assess fundamentals and valuations.
- We remain slightly cautious towards Canadian bonds. The uncertainty around trade agreements had previously been cited by the Bank of Canada. With the uncertainty removed following the Canada–United States Free Trade Agreement, we expect the Bank of Canada will continue to raise interest rates.

TRADES

- In fixed income, we increased our allocation to a global aggregate bond index exchange-traded fund (ETF) and exited an active bond fund to further diversify yield-curve exposure and improve overall credit quality.
- We reduced tracking differences in US equity by increasing exposure to two broad US ETFs, including one that is passively managed.

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

- We remained underweight in fixed income in October, and this exposure detracted from relative returns as fixed income performed significantly better than equity. Less dovish central banks, low term premiums and signs of inflation recovering contribute to our view.
- However, fund selection in the asset class supported relative results. One of the underlying global bonds funds benefitted from underweighted positions in the euro and the Australian dollar, as well as a lack of exposure to the British pound.
- A modest cash position buoyed relative performance during a month characterised by meaningful drawdowns in financial markets.
- The fund partially hedged Japanese yen and US dollar exposure back into the Canadian dollar, which detracted from relative returns. Our favourable view of the Canadian dollar reflects solid economic growth and rising interest rates in the country.

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 October 2018 are: Diversified Income–Series T, 1 year -2.70%, 3 years 1.12%, 5 years 2.41%, 10 years 5.03% and 4.41% since inception (Feb. 17/03); Balanced Income–Series A, 1 year -3.12%, 3 years 1.49%, 5 years 3.43%, 10 years 5.64% and 4.38% since inception (Aug. 19/02); Balanced Growth–Series A, 1 year -3.70%, 3 years 1.84%, 5 years 4.04%, 10 years 6.33% and 4.68% since inception (Aug. 19/02); Growth–Series A, 1 year -4.09%, 3 years 2.10%, 5 years 4.68%, 10 years 6.67% and 4.35% since inception (Aug. 19/02); Diversified Equity–Series A, 1 year -4.03%, 3 years 2.45%, 5 years 5.65%, 10 years 7.42% and 5.24% 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.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus and fund facts documents before investing. 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 securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.



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