THE CASE FOR FRANKLIN BISSETT DIVIDEND PORTFOLIOS

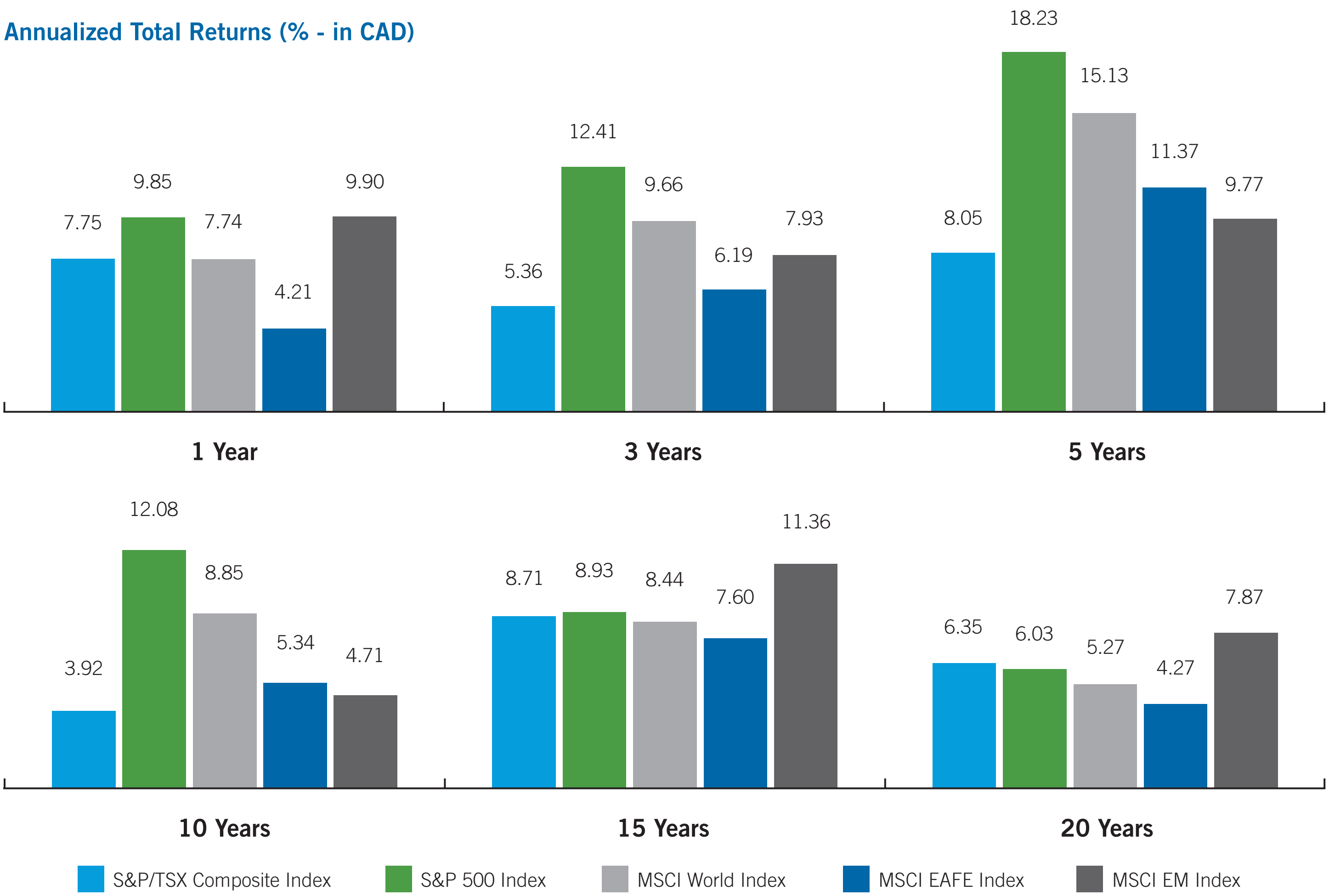
June 2018

The Market Dynamics

Over the past decade, the Canadian equity market has generally underperformed its US and global counterparts. During this period, the underperformance was further amplified by the weakness of the Canadian dollar. However, over longer time periods, the Canadian equity market has delivered returns in line with US and global indices (Chart 1).

Chart 1: Returns for Canadian Equities vs. Global Equities

Annualized Total Returns (% - in CAD)



Annualized Fluctutation (%)	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USD Appreciation/Depreciation vs. CAD	-4.01	1.33	4.55	2.69	-0.35	-0.58

Source: Morningstar Research Inc. and Bloomberg, as of May 31, 2018

In recent years, a number of market and economic factors played a role in the performance discrepancy between the Canadian and US equity markets, not the least of which was its very different sector composition (Table 1).

Table 1: Canadian underperformance partially attributable to sector differences.

GICS Sectors	Canadian			US		
	Weight (%) - May 2008	Weight (%) - May 2018	10-Yr Return	Weight (%) - May 2008	Weight (%) - May 2018	10-Yr Return
Consumer Staples	2.21	3.39	13.09	10.53	6.69	11.66
Consumer Discretionary	3.88	5.56	11.31	8.54	12.87	17.60
Industrials	5.42	10.26	10.91	11.74	9.91	11.58
Telecommunication Services	4.78	4.39	9.16	3.48	1.79	7.44
Real Estate	0.00	2.80	8.93	0.00	2.74	9.01
Financials	27.02	33.75	8.72	15.93	14.20	7.95
Utilities	1.51	3.46	4.65	3.69	2.80	9.14
Health Care	0.37	1.25	3.84	11.41	13.92	15.04
Energy	31.57	19.48	-2.18	14.34	6.26	3.85
Information Technology	5.08	3.97	-2.78	16.63	25.98	16.65
Materials	18.16	11.68	-2.93	3.72	2.84	7.91
Overall	**100.00**	**100.00**	**3.92**	**100.00**	**100.00**	**12.08**

Source: FactSet. Annualized Returns (%) as of May 31, 2018

The sector level performance was generally aligned between the Canadian and US markets. The major component driving the underperformance was the difference in the weights of these sectors within each country.

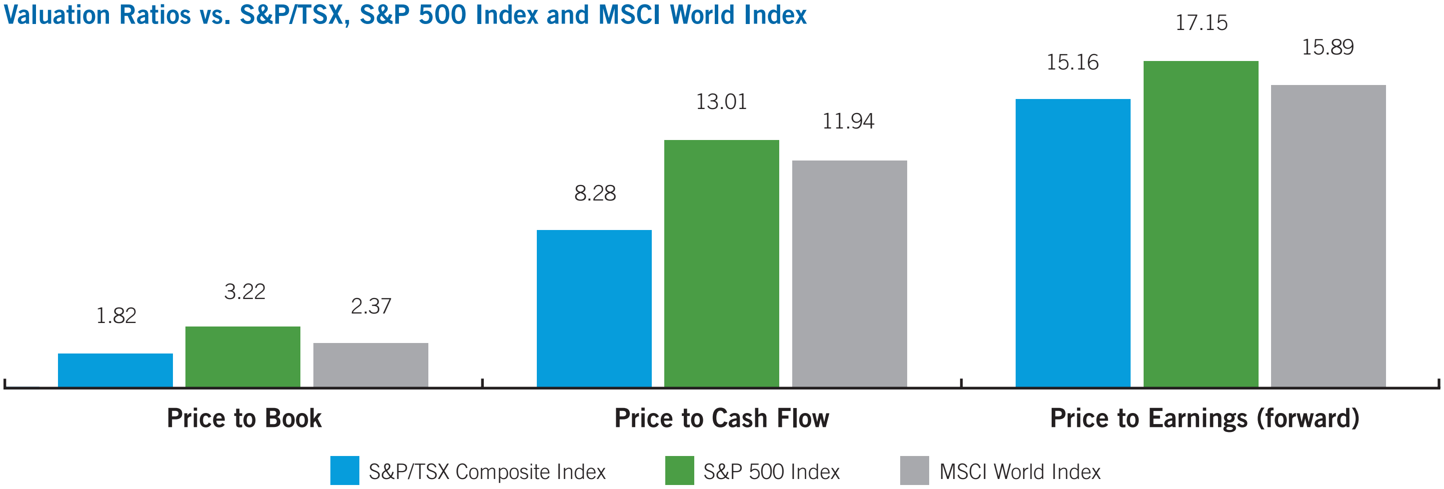
Today, the three worst performing sectors in Canada (Energy, Materials and Information Technology) represent 35.1% of the index. Ten years ago, these sectors had a 54.8% weighting. Canada's top performing sectors today (Consumer Staples, Industrials, and Consumer Discretionary) have an 18.2% weight now versus 11.5% a decade ago.

On the flipside, the worst performing sectors in the US (Energy, Financials and Telecom. Services) had an index weight of 33.7% 10 years ago and 22.3% today. The index weighting of the top performing American sectors today (Consumer Discretionary, Information Technology and Healthcare) grew from 36.6% 10 years ago to the current 52.8%.

This recent underperformance of the Canadian equity market contributed to its attractive overall valuation metrics relative to US and global benchmarks (Chart 2).

Chart 2: The Canadian equity market is attractively valued relative to US and global indices.

Valuation Ratios vs. S&P/TSX, S&P 500 Index and MSCI World Index



Source: Franklin Templeton Investments, as of May 31, 2018

From a relative performance standpoint, the Canadian equity market was impacted by the slow growth and low inflation exhibited by other developed economies within the last decade. And while other central banks (the Fed, European Central Bank and Bank of Japan) implemented quantitative easing policies during the period, the Bank of Canada's inactivity and challenging resource sectors helped to extend this period of underperformance.

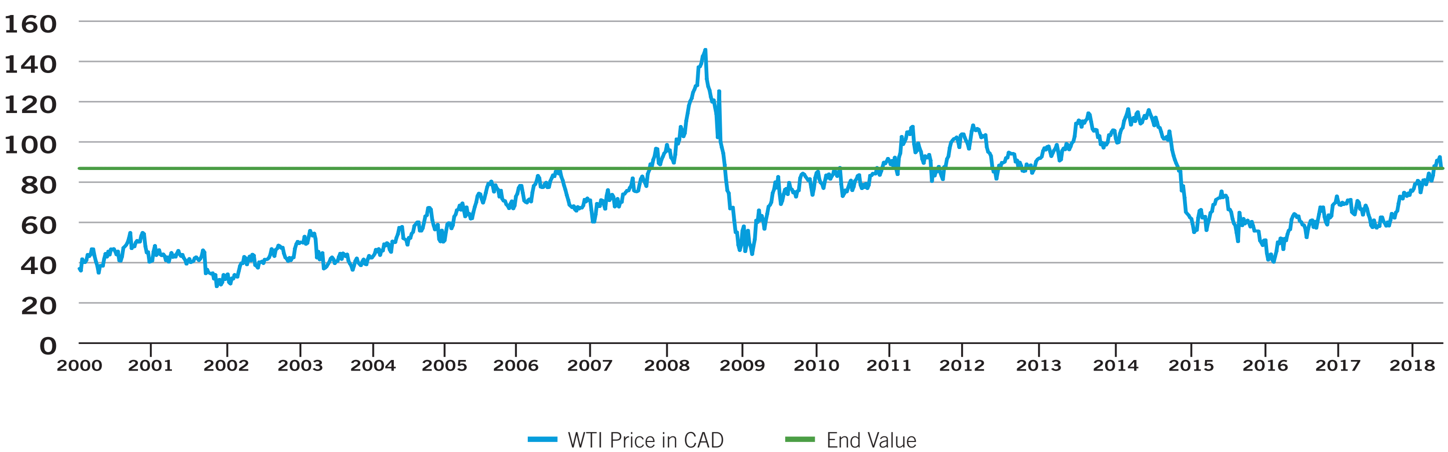
Light at the End of the Tunnel

The market dynamics that led to the underperformance of Canadian equities appear to be shifting. As some central banks are either winding down quantitative easing policies or implementing tighter monetary policies, global economic growth has improved in recent quarters and inflation has been on the rise in North America. These economic trends and the signals that we may be in the late stages of a bull market tend to favour more commodity-based markets like Canada's.

In fact, Canadian corporate earnings have rebounded in recent quarters following the downturn in 2015/2016. This rebound was supported by improving energy sector earnings and market conditions, notwithstanding the sector's recent equity underperformance relative to the overall market (Chart 3)

Chart 3: Canadian corporate earnings are supported by the energy sector.

WTI Crude Price in CAD

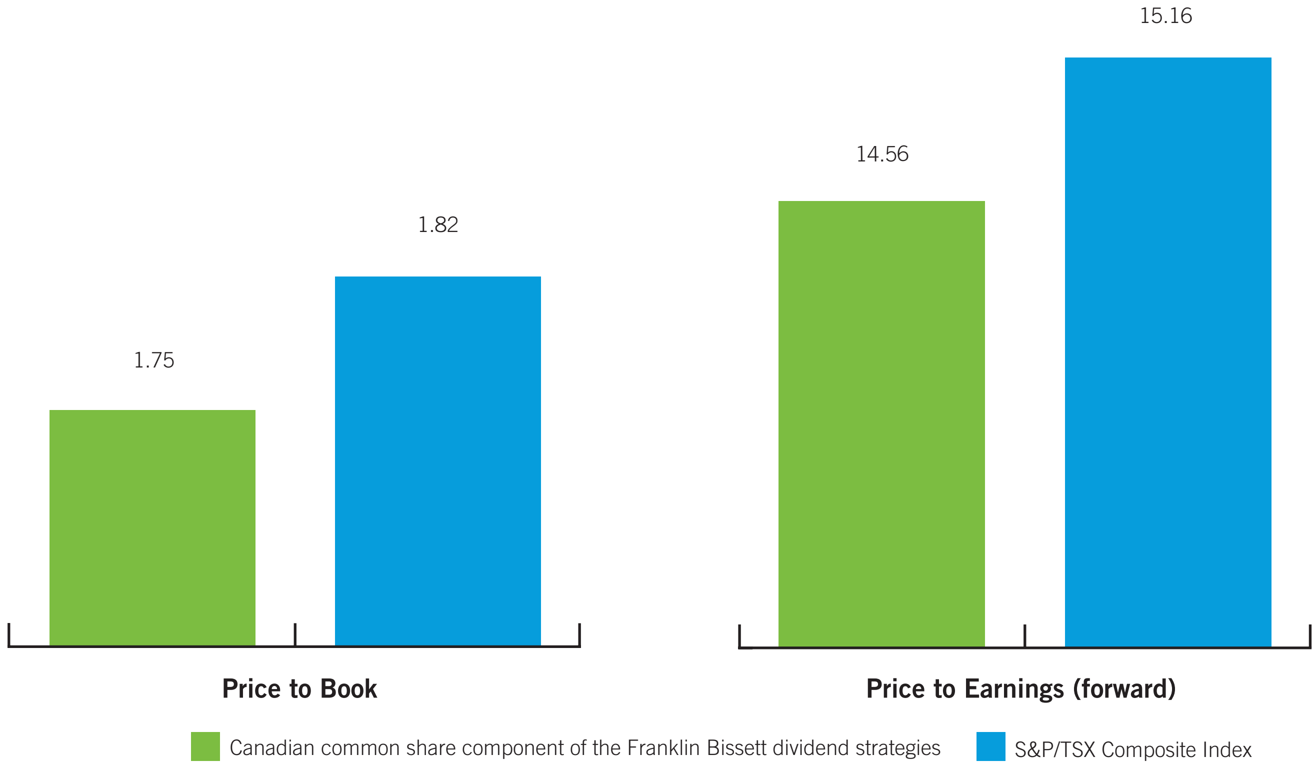


Source: Bloomberg. As of May 31, 2018

The Opportunity – Why Franklin Bissett Dividend Portfolios?

The Canadian common share component of the both strategies exhibit compelling valuations relative to their respective benchmarks (Chart 4).

Chart 4: Compelling valuations relative to their benchmark.



Source: Franklin Templeton Investments, as of May 31, 2018

Not only do these two Franklin Bissett strategies have higher dividend yields than their benchmarks, but their dividend yields have grown by over 7% on a year-over-year basis. This impressive trend reflects the positive dividend trajectory of the strategies' underlying investments (Table 2).

Table 2: The portfolios' higher dividend yields reflect positive dividend trajectories.

Past 12 Months	Dividend Increases	Flat Dividends	Dividend Decreases	Total Holdings
Franklin Bissett Canadian Dividend Fund	31	6	1	38
Common Shares Component of Franklin Bissett Dividend Income SMA/UMA	48	6	1	55

Source: Franklin Templeton Investments. As of March 31, 2018

THE CASE FOR FRANKLIN BISSETT DIVIDEND PORTFOLIOS

In recent years, the Franklin Bissett Team believes that momentum and growth potential have exerted a much stronger influence on equity markets. This helps to explain why valuations and business fundamentals have largely been ignored by investors… despite positive developments in a number of areas.

Over time, Canadian companies with a history of growing their dividends have delivered better long-term returns than the overall equity market (Table 3). Recent weakness could be a precursor for strong outperformance when market conditions improve.

Table 3: Despite short-term weakness, companies with growing dividends have produced higher returns than the overall market.

Compound Annual Total Returns	20 Year	15 Year	10 Year	5 Year	3 Year	1 Year
S&P / TSX Total Return (Weighted)	6.35%	8.71%	3.92%	8.05%	5.36%	7.75%
TSX Dividend Payers (Div > 0%) (Weighted)	7.30%	9.39%	4.35%	8.09%	6.63%	6.27%
TSX Non-Dividend Payers (Weighted)	0.42%	2.61%	-3.37%	0.23%	-12.06%	14.54%
TSX Stable or Growing Dividends (Weighted)	7.32%	9.79%	4.58%	8.33%	6.27%	5.56%

Source: RBC Capital Markets Quantitative Research. As of May 31, 2018.

Historically, investing in companies with sustainable or growing dividends have delivered more attractive total returns than the overall Canadian equity market (as represented by the S&P/TSX Composite TRI) as well as gradually increasing cash flow (Table 4). As a result, portfolios containing companies with stable or growing dividends can help to mitigate the long-term impact of inflation on investors' purchasing power.

Table 4: Companies with stable or growing dividends have outperformed the broader market and generated more cash flow.

Calendar Year	S&P/TSX Composite TRI		Stable or Growing Dividends	
	YE Market Value	Distributions	YE Market Value	Distributions
1986	100,000		100,000	
1987	101,702	2,219	97,739	2,656
1988	111,609	2,997	110,755	3,428
1989	124,383	3,364	124,055	4,408
1990	88,316	2,636	93,404	3,720
1991	90,758	2,685	101,305	3,608
1992	87,941	2,169	94,296	3,021
1993	121,899	2,562	122,387	3,906
1994	113,621	2,130	115,191	3,499
1995	125,562	2,319	128,638	3,873
1996	153,982	2,231	165,611	4,130
1997	158,891	2,306	203,154	5,342
1998	139,642	1,751	202,885	4,779
1999	155,696	1,644	212,540	4,131
2000	170,278	1,910	242,561	4,975
2001	173,805	2,596	279,180	6,986

Calendar Year	S&P/TSX Composite TRI		Stable or Growing Dividends	
	YE Market Value	Distributions	YE Market Value	Distributions
2002	148,577	1,477	278,215	5,666
2003	192,507	2,390	346,105	7,106
2004	212,040	2,966	411,534	8,948
2005	243,234	4,360	494,995	11,441
2006	272,280	8,896	529,413	24,267
2007	275,326	9,776	539,657	27,439
2008	161,440	6,517	359,535	20,890
2009	248,725	9,924	483,701	28,007
2010	311,482	9,829	566,549	24,981
2011	279,207	7,522	535,465	21,374
2012	283,159	8,072	563,669	22,784
2013	293,186	8,957	630,077	24,793
2014	288,752	7,912	626,743	22,465
2015	241,117	6,716	526,035	19,050
2016	304,736	6,917	651,402	19,628
2017	320,523	6,090	686,265	17,410
Total		143,835		368,713

Source: RBC Capital Markets Quantitative Research. Weighted compounded average annual total returns minus cash distributions, between January 1, 1987 and December 31, 2017.

THE CASE FOR FRANKLIN BISSETT DIVIDEND PORTFOLIOS

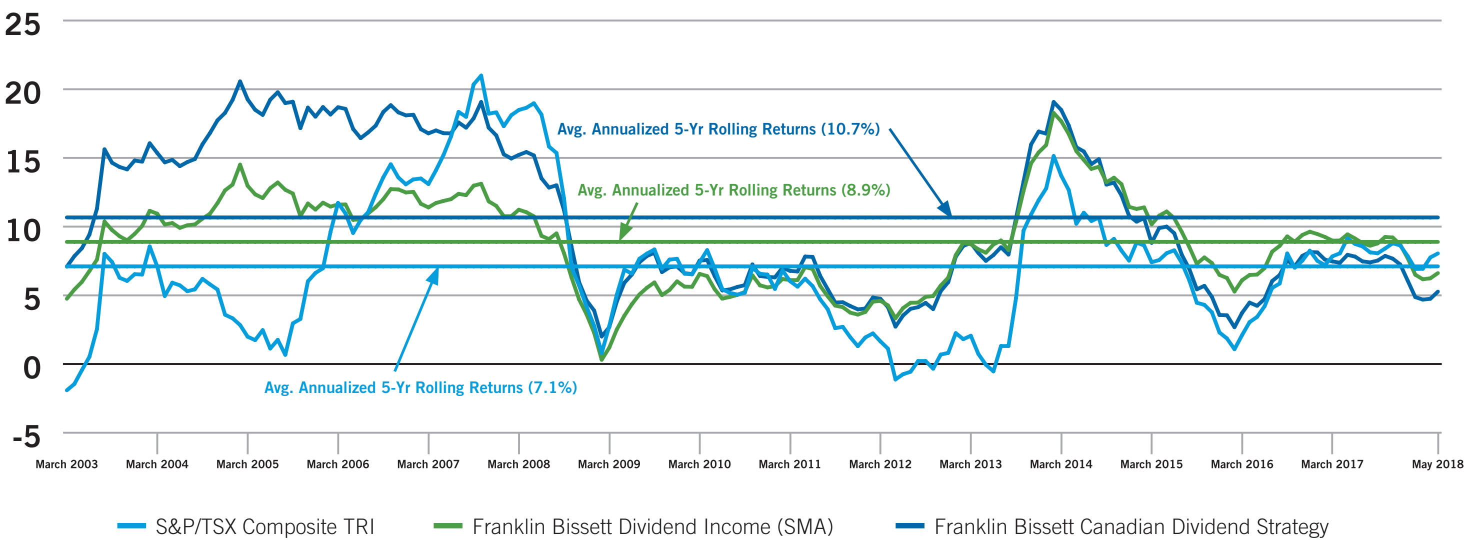
For its dividend-based strategies, the Franklin Bissett Team strongly believes that its focus on companies with long-term sustainable earnings growth will be rewarded with stable and growing dividend income.

The Franklin Bissett Canadian Dividend Fund and the Franklin Bissett Dividend Income SMA/UMA mandate have a proven track record of delivering attractive and tax-efficient dividend income as well as compelling dividend yields, which have supported returns over different market cycles, including periods of market volatility (Chart 5).

Chart 5: Franklin Bissett's Canadian Dividend and Dividend Income portfolios have produced compelling results in different market conditions.

Franklin Bissett Dividend Portfolios

5-Year Rolling Annualized Retuns



Source: Franklin Templeton Investments and Morningstar Direct, as of May 31, 2018.

To learn more about how these dividend strategies can potentially enhance your portfolio, contact your financial advisor or visit www.franklintempleton.ca.

IMPORTANT INFORMATION

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 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 author presently anticipates or projects. The information presented is not a recommendation or solicitation to buy or sell any securities.

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. The indicated rates of return are historical annual compounded total returns including changes in 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. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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

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

FRANKLIN TEMPLETON INVESTMENTS

Franklin Templeton Investments Canada
200 King Street, Suite 1500
Toronto, ON M5H 3T4
(800) 387-0830
www.franklintempleton.ca