



FRANKLIN TEMPLETON
INVESTMENTS

June 30, 2018

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.

Co-Lead Manager

Darcy Briggs, CFA, CGA

Franklin Templeton Investments Corp.

Industry Experience: 24 years

Location: Calgary, AB

Co-Lead Manager

Thomas O’Gorman, MBA, CFA

Franklin Templeton Investments Corp.

Industry Experience: 28 years

Location: Calgary, AB

Co-Lead Manager

Brian A. Calder

Franklin Templeton Investments Corp.

Industry Experience: 19 years

Location: Calgary, AB

RESULTS OF OPERATIONS

As at June 30, 2018, total net asset value of the Fund was \$414.7 million, an increase of 11.5% from December 31, 2017. This was primarily driven by \$41.7 million in net subscriptions and an increase of \$2.6 million in net assets from operations. The Fund paid or made payable \$1.5 million in cash distributions to unitholders.

Since inception on January 5, 2018 of Series A units, the Fund’s Series A units generated total returns of 0.6%. The Fund’s Series O performance dates back to January 2009. Over the past six months, the Fund’s benchmark, the FTSE TMX Canada Universe Bond Index (the “Index”), returned 0.6%. The performance of the Fund’s other series is similar to that of its Series A 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.

It is important to note that the Fund’s return reflects the effect of fees and expenses for professional management, while the Index does not have such costs. Gross of fees, the Fund returned 0.5% (Series O).

The Fund slightly lagged its benchmark during the period under review. Positive security selection and asset allocation could not fully offset the negative effect from yield curve positioning, despite shorter-than-benchmark duration, which resulted in 7 basis points (bps) of underperformance.

Over the six-month period, mid-term rates rose while longer yields fell, flattening the curve as volatility receded. Federal agencies outperformed, as did provincials and municipals, which benefitted from longer duration.

Yield curve and duration positioning detracted 23 bps from the Fund’s relative performance over the review period. An overweight exposure to medium-term maturities detracted from relative performance as the yield curve flattened, with rates at the short end rising while longer-term maturities fell. Duration positioning had a slightly positive effect on performance.

Security selection contributed 12 bps to relative performance during the six-month period, largely on strong performance by the Fund’s holdings in provincial and municipal bonds, as well as investment-grade Energy securities.

Asset allocation added a more modest 2 bps of relative return, supported by the Fund’s Federal underweight, along with provincial and municipal bonds. In addition, investment-grade Financial and Industrial exposure contributed to results during the reporting period.

Trading, pricing and residual effects added 2 bps to relative performance.

Income received from investments held, excluding net realized and/or unrealized gain (loss) on investments and derivatives, as applicable, increased due to the results of the Fund’s investment activities, including, but not limited to, those previously discussed for the period in review.

RECENT DEVELOPMENTS

Global trade tensions moved to the foreground during the past six months. The United States implemented tariffs against most of its trading partners, who in turn responded with countervailing tariffs on US exports. What began in February as rhetoric on steel and aluminum trade has since transformed into a full-blown trade war; yet financial markets have remained relatively calm, with market volatility falling from first-quarter peaks to below long-term averages by period-end.

The portfolio manager expects more volatility, given the heightened domestic, geopolitical and economic uncertainty, combined with central bank monetary tightening.

With improved global growth, global central banks have sought to reduce monetary stimulus and normalize interest rates. On July 11, the Bank of Canada (BoC) raised its overnight lending rate for the second time this year to a rate of 1.5%, citing a stronger US economy, higher oil prices, strong global demand and a Canadian economy operating close to capacity. The Bank’s previous concerns regarding housing market weakness have diminished as it sees the market beginning to stabilize. The BoC has indicated that further moves would be data-dependent and gradual. Markets are priced for a 60% chance of another rate hike in 2018, which the portfolio manager believes is consistent with the BoC’s message.

In the first half of the year, short-maturity yields rose while longer yields fell slightly, further flattening the curve. The portfolio manager expects the curve will continue to flatten should the BoC raise rates further.

Corporate credit spreads widened modestly over the past six months but remained tight by historical standards, indicating a high level of investor complacency. Although corporate credit has performed well in recent quarters, the portfolio manager expects volatility will increase given elevated levels of event risks encompassing global economic and geopolitical uncertainty.

Although late in the investment cycle, the portfolio manager remains constructive on credit, which continues to be supported by broadly stable corporate fundamentals. In the portfolio manager’s view, credit

still provides an acceptable cushion against further unexpected increases in government yields. The portfolio manager will continue to look for opportunities to reduce risk and upgrade credit quality while capitalizing on trading opportunities that increases in volatility may present.

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 plus applicable taxes, 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% plus applicable taxes, applied against the average daily net assets of the Fund (“Administration Fee”), except for 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.

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 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, general administration and other (%)
A	1.05	47.62	52.38
F	0.55	–	100.00
PF	0.50	–	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 are paid for by the unitholder directly to the Manager as follows:

- First C\$200,000 to under \$2.5 million—0.60%
- Next C\$2.5 million to under \$5 million—0.50%
- C\$5 million and over—0.40%

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, 2018)

REGIONAL WEIGHTINGS (%)*

North America	94.93
Europe	2.86
Australia & New Zealand	1.30

ASSET CLASS WEIGHTINGS (%)

Canadian Government Bonds	51.70
Canadian Corporate Bonds	38.10
Foreign Corporate Bonds	9.15
Foreign Government Bonds	0.14
Short-term securities and all other assets, net	0.91

TOP 25 HOLDINGS (%)

PSP Capital Inc., Senior Note, 3.29%, 4/4/2024	5.32
Government of Canada, 5.00%, 6/1/2037	3.58
Province of Ontario, 3.15%, 6/2/2022	3.47
Province of New Brunswick, 4.55%, 3/26/2037	3.42
Province of Manitoba, 4.40%, 9/5/2025	2.86
Canada Housing Trust, Second Lien, 1.90%, 9/15/2026	2.61
Province of Alberta, 3.90%, 12/1/2033	2.40
TransCanada PipeLines Ltd., Senior Note, 8.29%, 2/5/2026	2.39
Sun Life Capital Trust II, Senior Subordinated Note, 5.863% to 12/31/19, Floating Rate Note thereafter, 12/31/2108	2.37
OPB Finance Trust, Senior Note, E, 2.95%, 2/2/2026	2.27
Province of Ontario, 6.50%, 3/8/2029	2.19
Province of British Columbia, 4.95%, 12/1/2027	2.11
Labrador-Island Link Funding Trust, 3.76%, 6/1/2033	1.81
PSP Capital Inc., Senior Note, 1.73%, 6/21/2022	1.64
Canadian Natural Resources Ltd., Senior Note, 3.42%, 12/1/2026	1.37
Smart Real Estate Investment Trust, Senior Note, 3.444%, 8/28/2026	1.35
Government of Canada, 1.50%, 6/1/2026	1.32
Province of Manitoba, 6.30%, 3/5/2031	1.31
BHP Billiton Finance Ltd., 3.23%, 5/15/2023	1.30
Manulife Financial Capital Trust II, Junior Subordinated Note, 7.405% to 12/31/19, Floating Rate Note thereafter, 12/31/2108	1.29
Wells Fargo & Co., Subordinated Note, 3.874%, 5/21/2025	1.23
Province of Ontario, 5.85%, 3/8/2033	1.21
Royal Bank of Canada, Senior Note, 2.86%, 3/4/2021	1.21
HSBC Holdings PLC, Senior Note, 3.196%, 12/5/2023	1.19
Suncor Energy Inc., Senior Bond, 3.00%, 9/14/2026	1.19

TOTAL NET ASSET VALUE: \$414,678,000

*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.

MANAGEMENT REPORT OF FUND PERFORMANCE**Series A** (AS AT JUNE 30, 2018)**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 six months ended June 30.

Net assets per unit (1)	Jun. 30, 2018
Net assets – initial offering price*	\$10.00
Increase (decrease) from operations:	
Total revenue	0.18
Total expenses	(0.06)
Realized gains (losses) for the period	(0.07)
Unrealized gains (losses) for the period	0.10
Total increase (decrease) from operations (2)	0.15
Distributions:	
From income (excluding dividends)	(0.17)
From dividends	–
From capital gains	–
Returns of capital	–
Total annual distributions (3)	(0.17)
Net assets – end of period	\$9.85
Ratios and supplemental data:	Jun. 30, 2018
Total net asset value (\$ millions) (1)	\$0.02
Number of units outstanding	2,083
Management expense ratio (2)	1.30%
Management expense ratio before waivers or absorptions	1.30%
Portfolio turnover rate (3)	81.52%
Net asset value per unit	\$9.85

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

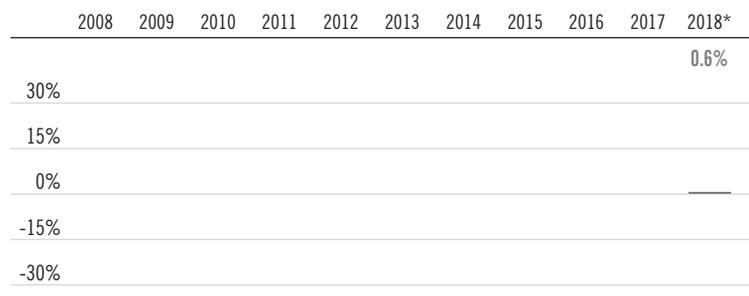
*The Series was launched on January 3, 2018 (Available for sale date January 5, 2018).

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, 2018, 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.



*For the period January 5 to June 30, 2018

MANAGEMENT REPORT OF FUND PERFORMANCE**Series F** (AS AT JUNE 30, 2018)**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 six months ended June 30.

Net assets per unit (1)	Jun. 30, 2018
Net assets – initial offering price*	\$10.00
Increase (decrease) from operations:	
Total revenue	0.19
Total expenses	(0.04)
Realized gains (losses) for the period	(0.05)
Unrealized gains (losses) for the period	(0.38)
Total increase (decrease) from operations (2)	(0.28)
Distributions:	
From income (excluding dividends)	(0.17)
From dividends	–
From capital gains	–
Returns of capital	–
Total annual distributions (3)	(0.17)
Net assets – end of period	\$9.88
Ratios and supplemental data:	Jun. 30, 2018
Total net asset value (\$ millions) (1)	\$0.19
Number of units outstanding	19,643
Management expense ratio (2)	0.73%
Management expense ratio before waivers or absorptions	0.73%
Portfolio turnover rate (3)	81.52%
Net asset value per unit	\$9.88

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

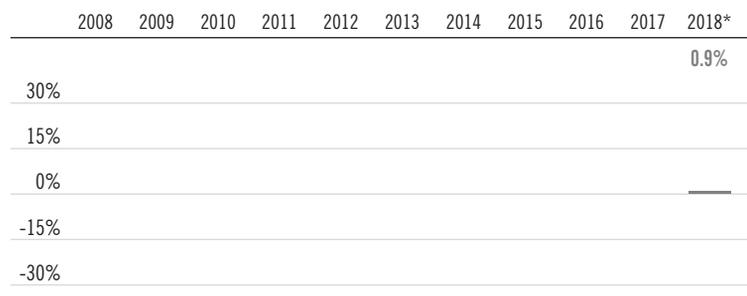
*The Series was launched on January 3, 2018 (Available for sale date January 5, 2018).

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, 2018, 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.



*For the period January 5 to June 30, 2018

MANAGEMENT REPORT OF FUND PERFORMANCE

Series 0 (AS AT JUNE 30, 2018)

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 six months ended June 30, 2018, and for the fiscal periods ended December 31.

Net assets per unit (1)	Jun. 30, 2018	2017	2016	2015	2014	2013
Net assets – beginning of period	\$10.48	\$10.54	\$10.62	\$10.69	\$10.17	\$10.63 [†]
Increase (decrease) from operations:						
Total revenue	0.19	0.38	0.39	0.40	0.40	0.40
Total expenses	–	–	–	–	–	–
Realized gains (losses) for the period	(0.07)	–	(0.04)	0.08	–	(0.02)
Unrealized gains (losses) for the period	(0.05)	(0.07)	(0.07)	(0.12)	0.48	(0.44)
Total increase (decrease) from operations (2)	0.07	0.31	0.28	0.36	0.88	(0.06)
Distributions:						
From income (excluding dividends)	(0.17)	(0.36)	(0.36)	(0.39)	(0.38)	(0.39)
From dividends	–	–	–	–	–	–
From capital gains	–	–	–	(0.07)	–	–
Returns of capital	–	–	–	–	–	–
Total annual distributions (3)	(0.17)	(0.36)	(0.36)	(0.46)	(0.38)	(0.39)
Net assets – end of period	\$10.36	\$10.48	\$10.54	\$10.62	\$10.69	\$10.17
Ratios and supplemental data:	Jun. 30, 2018	2017	2016	2015	2014	2013
Total net asset value (\$ millions) (1)	\$414.46	\$371.91	\$354.14	\$187.94	\$156.99	\$99.60
Number of units outstanding	40,007,655	35,488,551	33,611,997	17,701,567	14,684,700	9,794,978
Management expense ratio (2)	–	0.01%	0.01%	0.02%	0.02%	0.03%
Management expense ratio before waivers or absorptions	–	0.01%	0.01%	0.02%	0.02%	0.03%
Portfolio turnover rate (3)	81.52%	114.72%	111.80%	101.71%	33.35%	28.07%
Net asset value per unit	\$10.36	\$10.48	\$10.54	\$10.62	\$10.69	\$10.17

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

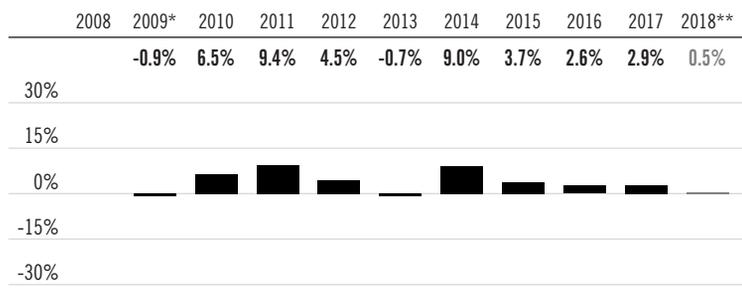
† The opening net assets have been adjusted in accordance with IFRS. Information pertaining to 2013 was derived from the audited annual financial statements prepared under Canadian GAAP.

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, 2018, 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.



*2009 Series 0 return: October 5 to December 31

** For the period January 1 to June 30, 2018

MANAGEMENT REPORT OF FUND PERFORMANCE

Series PF (AS AT JUNE 30, 2018)

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 six months ended June 30.

Net assets per unit (1)	Jun. 30, 2018
Net assets – initial offering price*	\$10.00
Increase (decrease) from operations:	
Total revenue	0.18
Total expenses	(0.03)
Realized gains (losses) for the period	(0.07)
Unrealized gains (losses) for the period	(0.04)
Total increase (decrease) from operations (2)	0.04
Distributions:	
From income (excluding dividends)	(0.17)
From dividends	–
From capital gains	–
Returns of capital	–
Total annual distributions (3)	(0.17)
Net assets – end of period	\$9.88
Ratios and supplemental data:	Jun. 30, 2018
Total net asset value (\$ millions) (1)	\$0.01
Number of units outstanding	500
Management expense ratio (2)	0.68%
Management expense ratio before waivers or absorptions	0.68%
Portfolio turnover rate (3)	81.52%
Net asset value per unit	\$9.88

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

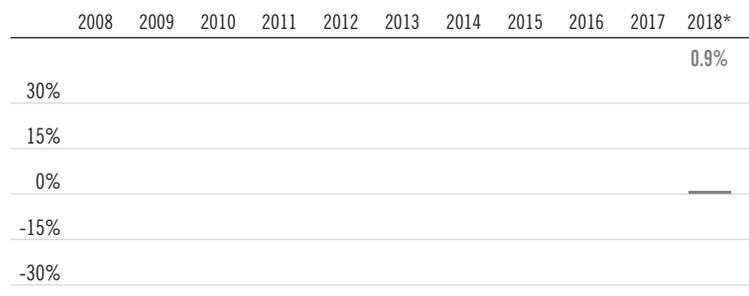
*The Series was launched on January 3, 2018 (Available for sale date January 5, 2018).

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, 2018, 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.



*For the period January 5 to June 30, 2018

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.

Series I and V, as applicable, are presently capped (closed to new investors). Investors who currently own units of Series I and Series V may continue to purchase additional units in those series. These series may become available for purchase by new investors at the discretion of the Manager.