



Franklin Bissett Update on Canadian Equity Strategy

Market Pullbacks & Relative Performance

Amidst the recent broad sell-off in global equities, the Canadian equity market declined 6.3% in October 2018, its worst month since September 2011. In fact, at its low point on October 29, 2018, the S&P/TSX Composite Total Return Index (TRI) resided 10.4% below the all-time high reached on July 12, 2018, reaching correction territory (which we define as a 10%+ pullback) for the fourth time this bull market cycle. The current bull market, now in its 10th year, began on March 9, 2009 and previously experienced corrections in 2011, 2014 and 2016. Similar to these three periods, the Franklin Bissett Canadian Equity Fund, while not immune to the broad market weakness, outperformed the benchmark. In October 2018 specifically, this favourable relative performance amounted to more than 100bps for the Fund.

During October, all 11 GICS sectors of the S&P/TSX Composite Index TRI posted negative returns with the headline-grabbing cannabis-related equities (Canadian federal legalization occurred on October 17th) leading the Health Care sector to the worst performance (-17.6%) amongst all sectors for the month. Similarly strong leading up to October, the Information Technology sector was also weak, declining 8.1% for the month. Broadly speaking the cyclical sectors, such as Energy (-9.1%), Consumer Discretionary (-6.4%) and Financials (-6.1%) were also soft, while those sectors considered more defensive such as Consumer Staples (-0.7%), Communication Services (-2.1%), Utilities (-2.6%) and Real Estate (-3.0%), were the most resilient. Sector positioning was additive to relative performance given the Fund's overweight positioning in sectors such as Consumer Staples, as well as our absence from the underperforming Health Care sector. However, security selection was the primary driver of the benchmark outperformance driven by individual holdings in sectors such as Industrials and Materials.

Portfolio activity was modest in October, and consistent with our historical approach we remain fully invested. We continue to believe the long-term return potential of the portfolio is compelling. As well, during market dislocations, we have historically identified opportunities to rebalance the portfolio.

Not a Time for Complacency

While the origin of this recent global risk-off environment may be debatable, we believe equity market excesses driven by investor exuberance regarding specific equities' momentum and potential, rather than more deeply rooted fundamentals and valuation, is clearly evident. Furthermore, despite general optimism regarding the U.S. economy, economic storm clouds in some jurisdictions outside North America hold the potential to weigh on expectations for broader global economic growth. The United States-Mexico-Canada Agreement (USMCA) may bring increased clarity for Canada, but protectionism remains a critical global issue, especially between the U.S. and China. Also, the direction of interest rates carry enormous influence over the value of equities, and notwithstanding the recent pause, interest rates have generally been on the rise this year.

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Leading into October, signs of investor optimism bordering on complacency, threatened to prove indicative of a late-cycle environment. Ultimately, equity market returns that are not rooted in the fundamental progress of the underlying business are generally not sustainable. And while impressive progress has been made by a number of constituents of the Canadian equity marketplace through the current market cycle, in several cases equity returns have gone beyond the progress of the underlying business. As was the case going into this most recent correction, we believe now is an important time to be increasingly discerning, not more complacent. With our long-term perspective and discerning approach, we remain ready to capitalize on equity market dislocations as they present themselves, and continue to build on our track record of superior absolute, relative and risk-adjusted returns.

Performance as of October 31, 2018 (%)

	1 month	1 year*	3 years*	5 years*	10 years*	Inception* ¹
Franklin Bissett Canadian Equity Fund - Series F	-5.09	-5.74	5.88	5.27	9.13	10.17
S&P/TSX Composite Index	-6.27	-3.41	6.67	5.44	7.56	8.50

*Annualized

¹Inception Date: March 1, 1983.

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