

Performance Review

- The fourth quarter of 2018 handed investors in riskier assets some of the worst monthly returns in a decade or longer as financial market volatility returned with a vengeance, weighing on sentiment. Canadian economic growth moderated further, while US growth crested from a cycle peak of over 4% in bolstered by tax reform and very loose financial conditions. The US Federal Reserve (Fed) raised rates in December, while the Bank of Canada (BoC) held steady. Yields fell precipitously in the fourth quarter as inflation expectations collapsed, along with the trend in oil prices.
- For the quarter, the fund's Series F shares returned 1.61%, and its benchmark, the FTSE Canada All Government Bond Index, returned 2.12%.

QUARTERLY KEY PERFORMANCE DRIVERS

HELPED	Yield curve positioning contributed to relative performance. Overweight positions in mid-term exposures were partially offset by underweight positions in long-term bonds.
	The fund benefitted from security selection and overweight positions in Ontario bonds. Security selection in Quebec bonds was also additive.
	An underweight position in British Columbia bonds lifted performance.
HURT	Asset allocation was the largest detractor, mainly due to the fund's underweight position in federal non-agency bonds.
	The fund's overweight positions in Manitoba, Alberta and Saskatchewan bonds curbed performance.
	Security selection in Federal agency bonds also weighed on relative returns.

Outlook & Strategy

- We expect both US and Canadian economic growth will continue to moderate given the impact from previous interest rate increases, and as late-cycle fiscal stimulus dissipates. Other financial uncertainties, combined with rising political and geopolitical risks following a period of remission, are additional potential weights on activity.
- Inflation remains benign and contained. In our view, further interest rate increases without inflation would run the risk of overtightening financial conditions.
- We expect financial conditions to tighten as central banks reduce their balance sheets.
- Canada economic growth appears to have leveled out from the peaks of mid-2017 but we expect Canadian aggregate activity to be mediocre at best and more likely to moderate in future quarters.
- Several provincial and federal elections in the next year will garner more close attention than typical and will be monitored regarding how they may affect regional and federal economies and policies.

Fund Details

Inception Date	11/14/2016
Benchmark	FTSE Canada All Government Bond Index

Fund Description

The Fund seeks current income, liquidity and modest capital appreciation by investing primarily in bonds issued by Canadian federal, provincial and municipal governments and government agencies, mortgage backed securities and real return bonds.

Performance Data

Performance (%) as of 12/31/2018

	1 Month	3 Mths	YTD	1 Yr	Since Inception (11/14/2016)
Series F	1.19	1.61	0.55	0.55	1.43
FTSE Canada All Government Bond Index ¹	1.47	2.12	1.53	1.53	1.50

Indicated rates of return include changes in unit or share value and reinvestment of all distributions and dividends 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. Please refer to the prospectus for further details. **For details on the respective series inception dates, please consult the Fund Facts or simplified prospectus for the fund.** Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. **Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.**

Investment Team

Brian A. Calder
Years with Firm 17
Years Experience 20

Darcy Briggs, CFA
Years with Firm 13
Years Experience 25

Important Legal Information

The information presented 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 or economic conditions, company or security performance, upcoming product offerings or other projections represent the beliefs of the speaker and do not necessarily represent the views of Franklin Templeton Investments Corp. General business, market, economic and political conditions could cause actual results to differ materially. The information presented is not a recommendation or solicitation to buy or sell securities.

Series F is available to investors participating in programs that do not require Franklin Templeton to incur distribution costs in the form of trailing commissions to dealers. As a consequence, the management fee on Series F is lower than on Series A.

Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

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

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

Important data provider notices and terms available at www.franklintempletondatasources.com.

1. Source: FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.



**FRANKLIN TEMPLETON
INVESTMENTS**

Franklin Templeton Investments Canada
200 King Street West, Suite 1500
Toronto, ON M5H 3T4
Tel: 800.387.0830
Fax: 866.850.8241
franklintempleton.ca