

Performance Review

- The US Federal Reserve (Fed) and the Bank of Canada (BoC) kept interest rates unchanged throughout the third quarter of 2021, as accommodative monetary policy supported financial markets. However, concerns about rising inflation and slowing growth saw the adoption of more hawkish language from both central banks in September.
- Against this backdrop, US Treasury (UST) yields were up across the quarter, whilst the Canadian government yield curve steepened as yields rose across the curve. Canadian provincial and municipal bonds lost ground during the quarter, alongside their Federal counterparts, particularly longer-duration issues. Corporate bonds generally outperformed government issues, although high-quality long-duration investment-grade credit suffered from the rising risk-free rate. In contrast, high-yield debt rose, notably issues in the energy and industrials sectors.
- US and Canadian stocks were broadly flat across the quarter in local currency terms, although a strong US dollar boosted returns in Canadian dollars for US equities. Emerging markets (EM) equities lost ground, hurt by weakness in China linked to slowing growth and domestic government reforms, while political and fiscal uncertainty in Brazil also proved a drag. European markets were flat, whilst Japanese stocks rose as its economic recovery accelerated.
- For the quarter, the fund's Series F shares returned -0.02%, and its benchmark, the Custom Franklin Conservative Income ETF Portfolio Benchmark, returned 0.09%.

QUARTERLY KEY PERFORMANCE DRIVERS

HELPED	US Treasury Inflation-Protected Securities (TIPS) added relative value during the quarter, posting positive absolute returns due to rising inflation. TIPS allow the portfolio to capture increases in inflation through adjustments in the par value of the bonds as inflation rises.
	Canadian fixed income fund selection contributed to relative results, in aggregate, benefitting from exposure to short-duration bonds in a rising rates environment. Lower-quality credit issues also boosted relative results, as investors sought yield in an environment of relatively narrow spreads.
	Cross-asset allocation contributed to relative performance, benefitting from an overweight to equities and a corresponding underweight to fixed income. The "risk-on" period for financial markets lasted for most of the quarter, helped by ongoing monetary and fiscal stimulus.
HURT	Franklin Liberty Global Aggregate Bond Fund was held back by high-quality, longer-duration US investment-grade credit and developed market government bonds issued in Europe and Japan, during a period in which yield curves steepened.
	US equities detracted from relative results, in aggregate, particularly value stocks, which underperformed their growth counterparts during the quarter, despite a style rotation in September as volatility increased.
	Exposure to European equities held back relative results, as the region underperformed broader international equity markets, including Japan. Investors in Europe were concerned about the possibility of asset purchase tapering, while Japan benefitted from an accelerating economic recovery and positive election prospects.

Outlook & Strategy

- Market volatility has risen recently, due to heightened levels of inflation, the peaking of growth in many major economies and a growing possibility of monetary policy normalisation.
- As markets experience short-term turbulence, we are inclined towards damage limitation, finding assets that dampen volatility. Index-linked bonds present a useful option for diversification, whilst cash offers some protection from downside, despite lack of yield. Should the market drawdown deepen further, we may consider increasing our overweight to equities, although that would depend on the progress of underlying growth and inflation fundamentals.
- The hawkish language used by central banks in the US, Canada and the UK is likely to have a destabilising effect on yields, driving down prices, whilst credit spreads remain relatively narrow, reducing the appeal of higher-quality investment-grade issues in a rising rates environment. The credit rally appears to have run its course, in our view, although the excess returns earned from holding high-yield credit are appealing, despite increased risk. We like EM debt for the same reasons, although selective positioning is important.
- Within equities, we hold an optimistic view on Japan as its COVID-19 vaccine programme gathers pace and the economy recovers. We also retain a preference for US and Canadian stocks, despite inflationary headwinds, given relatively strong economic data and corporate earnings. We are more pessimistic on EMs, which remain volatile with idiosyncratic headwinds. China is suffering from a natural slowing of growth momentum, following its early recovery from the pandemic, and is hampered further by domestic government policy. Elsewhere, the Asia-Pacific region is suffering from the zero-tolerance policy on COVID-19 infections implemented in certain countries, which increases the possibility of fresh lockdowns.

Fund Details

Inception Date	02/20/2019
Benchmark Name	Custom Franklin Conservative Income ETF Portfolio Benchmark, Equity Component of Custom Benchmark, Fixed Income Component of Custom Benchmark

Fund Description

Provide current income with some long-term capital appreciation by investing primarily in exchange traded funds (ETFs) that invest in Canadian, U.S. and international fixed income and equity securities.

Performance Data

Performance (%) as of 09/30/2021

	1 Mth	3 Mths	YTD	1 Yr	Since Inception	Inception Date
Series A	-1.94	-0.23	0.30	3.58	5.24	02/20/2019
Series F	-1.87	-0.02	0.93	4.45	6.13	02/20/2019
Custom Franklin Conservative Income ETF Portfolio Benchmark	-1.74	0.09	0.97	3.97	6.40	-

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

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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.

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