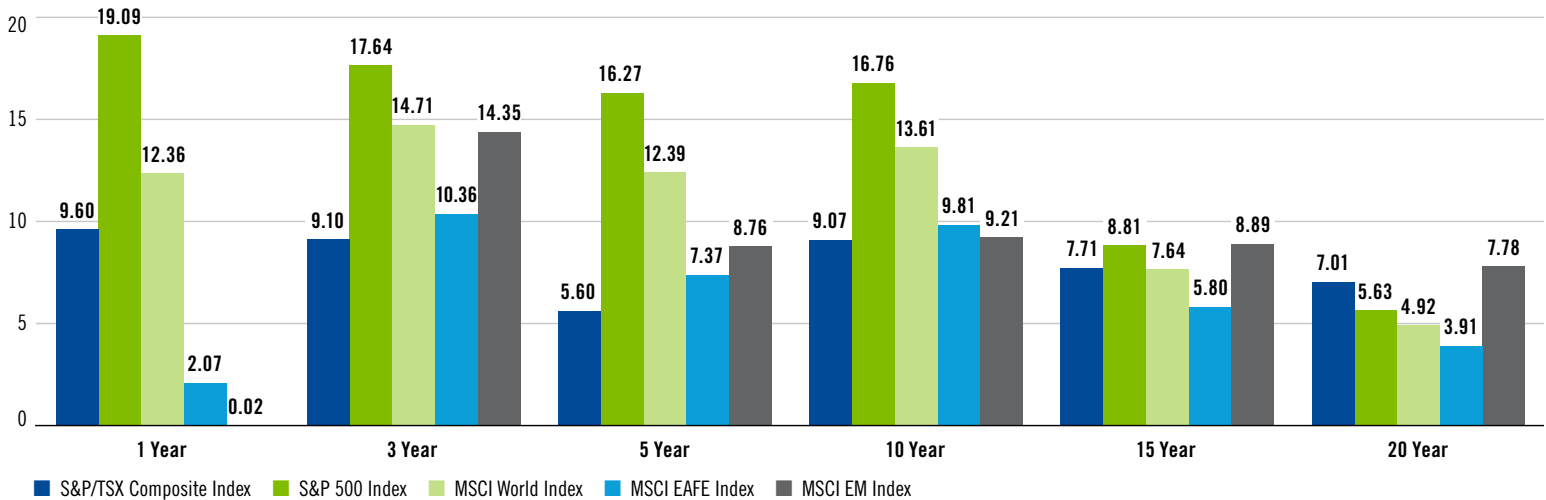


The Market Dynamics

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)



	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USD Appreciation/Depreciation vs. CAD	4.24	2.16	4.08	1.16	-0.16	-0.42

Source: Morningstar Research Inc. and Bloomberg, as of April 30, 2019.

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 (%) – April 2009	Weight (%) – April 2019	10-Yr Return	Weight (%) – April 2009	Weight (%) – April 2019	10-Yr Return
Real Estate	2.15	3.32	16.86	1.05	2.96	18.13
Industrials	5.75	11.13	16.52	10.44	9.48	17.20
Consumer Staples	3.03	3.84	16.23	12.05	7.21	14.81
Communication Services	7.34	5.57	14.51	6.36	10.33	11.42
Consumer Discretionary	2.00	4.28	14.16	6.87	10.31	21.21
Financials	27.75	32.52	13.28	11.13	13.27	15.80
Health Care	0.44	2.19	10.29	13.84	13.63	17.58
Utilities	1.64	4.10	9.85	3.98	3.23	14.32
Information Technology	4.88	4.64	4.23	18.40	21.68	20.89
Energy	27.93	18.25	3.04	12.51	5.22	7.22
Materials	17.09	10.15	0.94	3.37	2.67	12.60
Overall	100.00	100.00	9.07	100.00	100.00	16.76

Source: FactSet. Annualized Returns (%), as of April 30, 2019.

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.

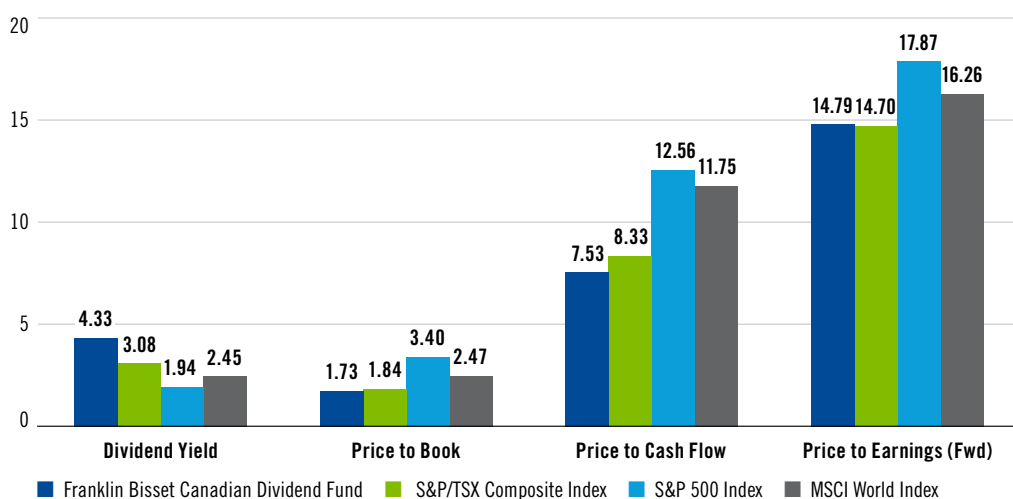
Today, the three worst performing sectors in Canada (Energy, Materials and Information Technology) represent 33.1% of the index. Ten years ago, these sectors had a 49.9% weighting. Canada's top performing sectors today (Real Estate, Industrials and Consumer Staples) have an 18.3% weight now versus 10.9% a decade ago.

On the flipside, the worst performing sectors in the US (Communication Services, Energy and Materials) had an index weight of 22.2% 10 years ago and 18.2% today. The index weighting of the top performing American sectors today (Real Estate, Consumer Discretionary and Information Technology) grew from 26.3% 10 years ago to the current 35.0%.

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 April 30, 2019.

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.

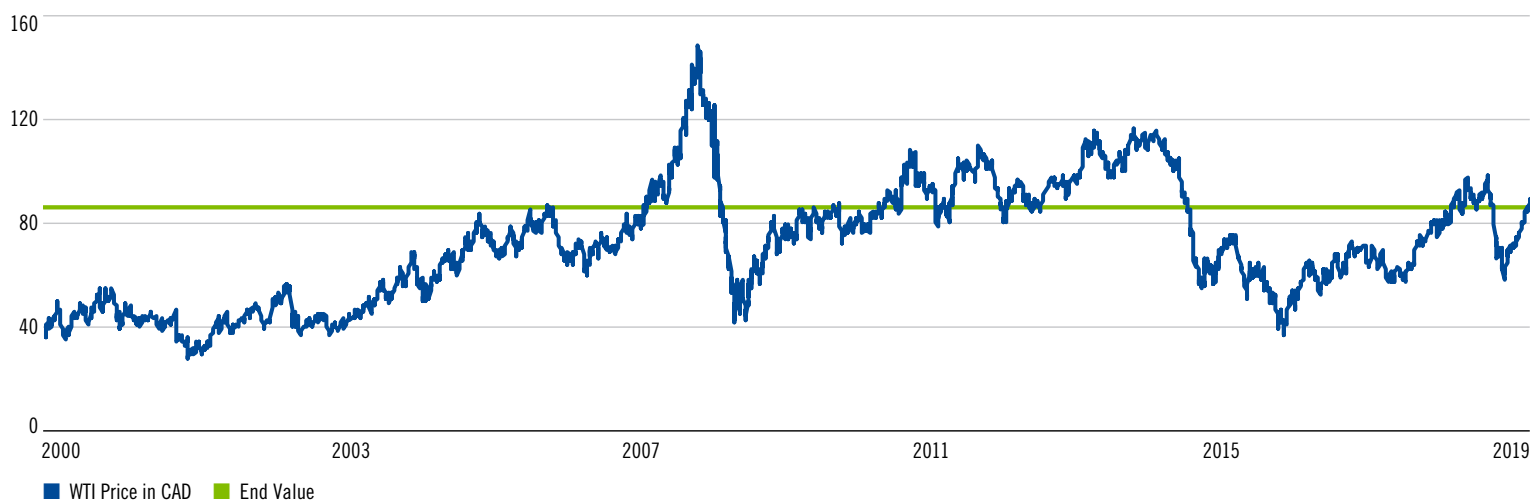
Light at the End of the Tunnel

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

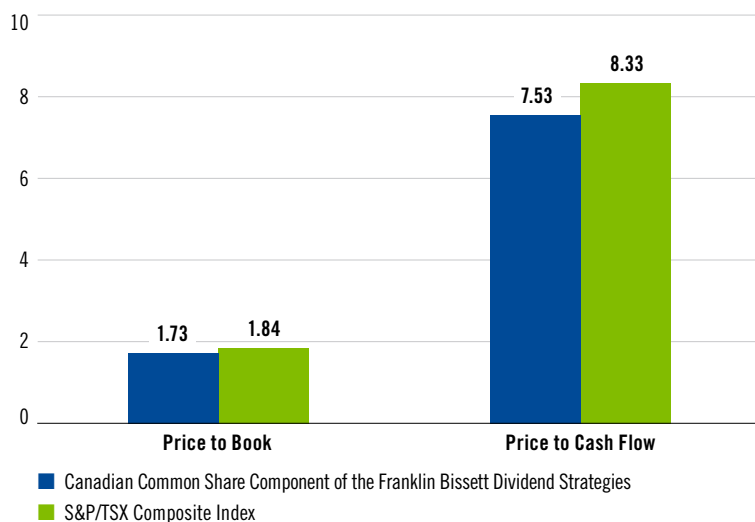


Source: Bloomberg, as of April 30, 2019.

The Opportunity – Why Franklin Bissett Dividend Portfolios?

The Canadian common share component of 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 April 30, 2019.

These two Franklin Bissett strategies have higher dividend yields than their benchmarks. This also 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	27	9	2	38
Common Shares Component of Franklin Bissett Dividend Income SMA/UMA	43	10	3	56

Source: Franklin Templeton Investments, as of April 30, 2019.

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)	6.16%	5.90%	8.73%	1.19%	5.31%	0.25%
TSX Dividend Payers (Div > 0%) (Weighted)	9.22%	8.24%	9.85%	2.35%	5.84%	0.96%
TSX Non-Dividend Payers (Weighted)	0.83%	0.41%	4.57%	-2.78%	3.61%	-1.64%
TSX Stable or Growing Dividends (Weighted)	10.35%	8.58%	10.66%	5.39%	6.97%	3.51%

Source: RBC Capital Markets Quantitative Research, as of April 30, 2019.

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		Calendar Year	S&P/TSX COMPOSITE TRI		STABLE OR GROWING DIVIDENDS	
	YE Market Value	Distributions	YE Market Value	Distributions		YE Market Value	Distributions	YE Market Value	Distributions
1986	100,000		100,000		2003	192,507	2,390	574,178	11,461
1987	101,702	2,219	95,184	2,419	2004	212,040	2,966	679,872	12,956
1988	111,609	2,997	106,861	3,330	2005	243,234	4,360	825,657	16,322
1989	124,383	3,364	123,010	4,066	2006	272,280	8,896	855,367	45,240
1990	88,316	2,636	96,218	4,127	2007	275,326	9,776	908,003	31,133
1991	90,758	2,685	114,035	3,415	2008	161,440	6,517	619,759	29,992
1992	87,941	2,169	115,867	3,154	2009	248,725	9,924	795,036	30,781
1993	121,899	2,562	167,057	4,138	2010	311,482	9,829	931,297	28,543
1994	113,621	2,130	158,336	3,551	2011	279,207	7,522	870,814	24,010
1995	125,562	2,319	181,825	4,402	2012	283,159	8,072	939,782	29,273
1996	153,982	2,231	237,876	5,791	2013	293,186	8,957	1,031,128	33,063
1997	158,891	2,306	291,619	5,199	2014	288,752	7,917	1,113,537	32,804
1998	139,642	1,751	302,074	5,819	2015	241,117	6,773	1,019,940	33,807
1999	155,696	1,644	296,117	4,998	2016	304,736	6,995	1,197,403	31,394
2000	170,278	1,910	377,822	7,594	2017	320,449	6,148	1,299,861	28,349
2001	173,805	2,596	444,137	8,518	2018	273,708	4,534	1,144,419	24,170
2002	148,577	1,477	460,205	9,670	Total		148,569		523,489

Source: RBC Capital Markets Quantitative Research. Weighted compounded average annual total returns minus cash distributions, between January 1, 1987 and December 31, 2018.

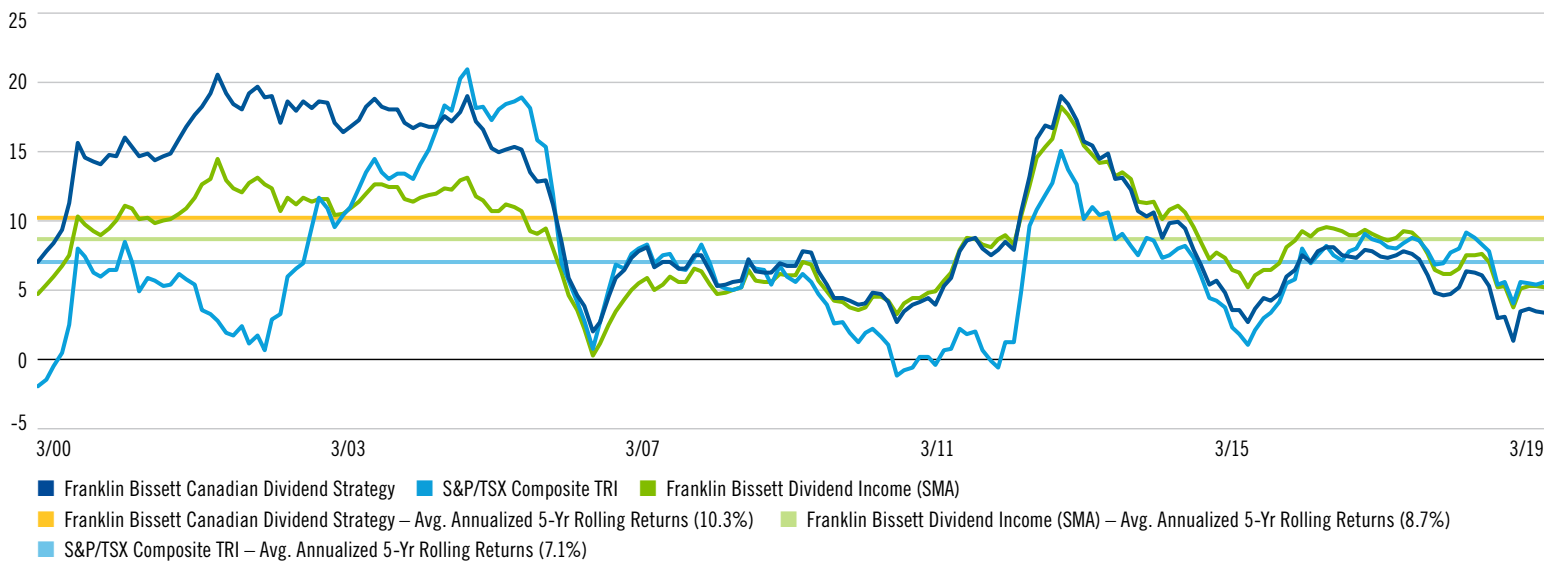
For its dividend-based strategies, the Franklin Bissett Team strongly believes that its focus on companies with long-term sustainable earnings growth will be rewarded with stable and growing dividend income.

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 Returns



Source: Franklin Templeton Investments and Morningstar Direct, as of April 30, 2019.

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

IMPORTANT INFORMATION

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