FOR REPRESENTATIVES ONLY

DFS GIF – BALANCED INCOME – FRANKLIN QUOTENTIAL

QUARTERLY COMMENTARY AS OF DECEMBER 31, 2017

PERFORMANCE	3 months
Series 6	**2.35**
Series 7	**2.49**

Portfolio Manager: Franklin Templeton Investments Corp.
Inception Date: February 24, 2014

CONTRIBUTORS TO PERFORMANCE

- A fixed income underweight and an equity overweight benefitted relative returns.
- Fund selection in Canadian bonds and Japanese stocks helped relative returns.

DETRACTORS FROM PERFORMANCE

- The portfolio's overall allocations and, to a modest degree, fund selection weighed on performance. Detractive fund selection in equity more than offset favourable selection in fixed income. Relative results were also hampered by modest cash exposure and currency positions. Regionally, an overweight in Europe ex United Kingdom and selection in Canada and emerging markets weakened equity relative performance.

MAJOR CHANGES TO PORTFOLIO

- On a regional basis, we continue to favour Japanese equities and maintain an overweight to these stocks. Japanese economic indicators continue to remain strong, and the fall 2017 electoral victory by Prime Minister Shinzo Abe suggests to us this momentum will continue. Profits continue to be a key driver for Japanese equities, and remained at both cyclical and structural highs. Central bank policy in Japan has been supportive, and Japanese equities should benefit from strong leverage to the global economic acceleration taking place, in our opinion. Relative valuations at December-end appeared attractive to us compared to developed-market peers.
- We increased exposure to Canadian bonds in the fourth quarter, and lowered our global fixed income exposure. We also added an equity fund focused on the financials sector. We increased our allocations to Japanese stocks and Canadian large-cap equities, while exiting an exchange-traded fund focused on large US stocks and lowering our allocation to European equities. With regards to European stocks, concerns over potentially plateauing profit margins, a strong euro's impact on corporate profitability and the nascent tightening of credit conditions led us to a more cautious view.
- Major central banks remain in the spotlight. In recent months, the Fed commenced balance sheet normalisation, Jerome Powell was pending Senate approval to succeed the current Fed chair, and the ECB announced it will taper its quantitative easing programme in 2018. Our analysis suggests the liquidity environment should remain accommodative, with aggregate central bank balance sheets likely expanding during 2018, although there is a possibility for volatility to pick up as monetary policy normalisation continues throughout 2018.

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