KEY POINTS

- The UK equity market endured a disappointing start to the new calendar year, with the benchmark FTSE All-Share Index registering a fall of 1.93%. January started calmly in the face of gently rising international bond yields, but as the upward move in yields became more pronounced towards month-end equity prices entered a correction phase.

- Franklin UK Rising Dividend Fund registered a drop of 0.76% in January.

- General retailer Next gained 13% after announcing a stronger-than-anticipated Christmas period. There were no significant negative statements in the month, but media company RELX and tobacco business Imperial Brands fell 10% and 8%, respectively, on negative sentiment.

PORTFOLIO MANAGER INSIGHT

Market Review

The UK equity market endured a disappointing start to the new calendar year, with the benchmark FTSE All-Share Index registering a fall of 1.93%. January started calmly in the face of gently rising international bond yields, but as the upward move in yields became more pronounced towards month-end equity prices entered a correction phase.

The FTSE 100 index fell by 2% as the strength of sterling against the US dollar presented a further headwind. The midcap FTSE 250 Index fell 2.2%, undermined by a number of stock-specific disappointments, whilst the small cap index proved more resilient and was unchanged on the month.

The UK equity market sharply underperformed world equity markets in January as global equities moved higher, with the US and Asia-Pacific (ex Japan) leading the way with 5% gains.

At the sector level, mining was once again the standout performer and one of few sectors in positive territory for the month. The negatives were the big US dollar-sensitive sectors such as pharmaceuticals, tobacco and beverages.

At the stock level, the key features of the market were GKN, up 30% on a bid approach, and Capita and Dignity, both down 55% on serious profit warnings.

The oil price continued to edge higher with Brent crude gaining a further US$2 to close to US$69.

Performance Review

Franklin UK Rising Dividend Fund registered a drop of 0.76% in January. The optical strong outperformance reflected the reversal of the year-end timing differences. On an underlying basis, the fund was slightly ahead of the benchmark.

General retailer Next gained 13% after announcing a stronger-than-anticipated Christmas period. Johnson Matthey gained 12% on hopes for their new battery technology. Close Brothers shares were 9% higher following a better-than-expected trading update. Shipping broker Clarkson rose

Discrete Annual Performance (%) as at 31/01/2018

<table>
<thead>
<tr>
<th></th>
<th>1/17-1/18</th>
<th>1/16-1/17</th>
<th>1/15-1/16</th>
<th>1/14-1/15</th>
<th>1/13-1/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>W (acc)</td>
<td>11.95</td>
<td>17.49</td>
<td>-0.73</td>
<td>16.14</td>
<td>11.25</td>
</tr>
<tr>
<td>FTSE All-Share Index GBP</td>
<td>11.28</td>
<td>20.06</td>
<td>-4.63</td>
<td>7.11</td>
<td>10.10</td>
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</table>

Performance Net of Management Fees as at 31/01/2018 (Dividends Reinvested) (%)¹

<table>
<thead>
<tr>
<th></th>
<th>1 Mth</th>
<th>3 Mths</th>
<th>YTD</th>
<th>1 Yr</th>
<th>3 Yrs</th>
<th>5 Yrs</th>
<th>10 Yrs</th>
<th>Since Inception (01/01/1990)²</th>
</tr>
</thead>
<tbody>
<tr>
<td>W (acc)</td>
<td>-0.76</td>
<td>-0.03</td>
<td>-0.76</td>
<td>11.95</td>
<td>9.30</td>
<td>11.03</td>
<td>8.00</td>
<td>8.59</td>
</tr>
<tr>
<td>FTSE All-Share Index</td>
<td>-1.93</td>
<td>1.05</td>
<td>-1.93</td>
<td>11.28</td>
<td>8.41</td>
<td>8.48</td>
<td>7.07</td>
<td>8.29</td>
</tr>
</tbody>
</table>

2. Performance data is based on Rensburg UK Blue Chip Growth Trust mid price from its launch 01/01/1990 to 17/10/2011 and the net asset value of the Franklin UK Rising Dividends Fund A (inc) shares thereafter. The fund charges all or part of its management fees to capital. This could lead to a higher level of income but may constrain capital growth. The W (acc) share class launched on 31/05/2012. Performance data prior to that date is for the A (inc) GBP share class launched on 01/01/1990 which has higher annual charges.
10% on signs of improved global economic growth. There were no significant negative statements in the month, but media company RELX and tobacco business Imperial Brands fell 10% and 8%, respectively, on negative sentiment.

**Portfolio Positioning**

The significant changes to the portfolio in January were the sale of the positions in chemical business Victrex and the purchase of general retailer Dunelm.

Following a strong share price performance, and with the shares now trading on a substantially higher rating, we sold the holding of Victrex. The share price of Dunelm has fallen sharply from its highs given the difficult consumer environment. With the prospect of slightly better times ahead, and given what we view as an excellent long-term dividend record, we established a holding at what we believe is an attractive valuation.

**Outlook & Strategy**

The opening week of February saw further equity market weakness as the US 10-year Treasury note yield has moved closer to 3%.

We have long expected that the process of normalisation in the financial markets would create periods of volatility. The real surprise to us has been that we had well over a year without a material setback in equity markets.

We are, therefore, well positioned with significant cash balances in the fund to put to work during the current period of volatility.
WHAT ARE THE KEY RISKS?
The value of shares in the Fund and income received from it can go down as well as up and investors may not get back the full amount invested. Performance may also be affected by currency fluctuations. Currency fluctuations may affect the value of overseas investments. There is no guarantee that the Fund will meet its objective. The Fund may distribute income gross of expenses. Whilst this might allow more income to be distributed, it may also have the effect of reducing capital. The Fund invests mainly in equity securities of UK companies that have paid consistently rising dividends. Such securities have historically been subject to price movements due to company-specific factors and movements in the equity markets of the UK generally. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: liquidity risk. For full details of all of the risks applicable to this Fund, please refer to the “Risk Factors” section of the Fund in the current prospectus of Franklin Templeton Funds.

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The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager’s assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund’s portfolio selection process. Holdings are subject to change.

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1. Source for all information is Franklin Templeton Investments. Benchmark related data provided by FactSet. Past performance is not an indicator or a guarantee of future performance. Portfolio holdings are subject to change. Periods greater than one year are shown as average annual total returns. Sales charges and other commissions, taxes and other relevant costs paid by investor are not included.