FRANKLIN RESOURCES INC
Form 10-K
November 09, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(MARK ONE)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-09318
FRANKLIN RESOURCES, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-2670991
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Franklin Parkway, San Mateo, California	94403
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (650) 312-2000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.10 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
x YES o NO
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o YES x NO
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x YES o NO
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x YES o NO
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). o YES x NO

The aggregate market value of the voting common equity ("common stock") held by non-affiliates of the registrant, as of March 29, 2018 (the last business day of registrant's second quarter of fiscal year 2018), was $11.0 billion based upon the last sale price reported for such date on the New York Stock Exchange.

Number of shares of the registrant's common stock outstanding at October 31, 2018: 513,094,888.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of the registrant's definitive proxy statement for its annual meeting of stockholders, to be filed with the Securities and Exchange Commission within 120 days after September 30, 2018, are incorporated by reference into Part III of this report.

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PART I

Forward-looking Statements. In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve a number of known and unknown risks, uncertainties and other important factors, including the risks and other factors discussed in Item 1A ("Risk Factors"), that could cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. When used in this report, words or phrases generally written in the future tense and/or preceded by words such as "will," "may," "could," "expect," "believe," "anticipate," "intend," "plan," "seek," "estimate" or other similar words ar "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Moreover, statements in Risk Factors, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report that speculate about future events are forward-looking statements.

While forward-looking statements are our best prediction at the time that they are made, you should not rely on them and are cautioned against doing so. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They are neither statements of historical fact nor guarantees or assurances of future performance. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. If a circumstance occurs after the date of this Annual Report on Form 10-K that causes any of our forward-looking statements to be inaccurate, whether as a result of new information, future developments or otherwise, we do not have an obligation, and we undertake no obligation, to announce publicly the change to our expectations, or to make any revision to our forward-looking statements, unless required by law.

Item 1. Business.

OVERVIEW

Franklin Resources, Inc. ("Franklin") is a holding company that, together with its various subsidiaries (collectively, the "Company"), operates as Franklin Templeton Investments®. The common stock of Franklin is traded on the New York Stock Exchange (the "NYSE") under the ticker symbol "BEN," and is included in the Standard & Poor's 500 Index. In this report, words such as "we," "us," "our" and similar terms refer to the Company.

We offer our services and products under our Franklin®, Templeton®, Franklin Mutual Series®, Franklin Bissett®, Fiduciary Trust™, Darby® Balanced Equity Management®, K2®, LibertyShares® and Edinburgh Partners™ brand names, among others. Unless otherwise indicated, our "funds" means the funds offered under our brand names.

We are a global investment management organization that provides investment management and related services to retail, institutional and high net-worth clients in jurisdictions worldwide through our investment products. As of September 30, 2018, we had $717.1 billion in assets under management ("AUM"). We take an active approach to investment management, which requires a high degree of active investment analysis conviction, strengthened by robust risk management. We have more than 70 years of experience that informs our perspective. We offer clients the combined experience of our investment professionals with expertise across asset classes and a sharp focus on managing risk. We are committed to delivering strong investment performance for our clients by offering a broad range of strategies and drawing on the experience and perspective gained through our long history in the investment management business. We are committed to achieving the best possible outcomes for our investors over the long term.

Our investment products include our funds, as well as institutional and high net-worth separate accounts. Our funds include U.S.-registered funds ("U.S. Funds"), non-U.S.-registered funds ("Non-U.S. Funds"), and unregistered funds. In addition to investment management, our services include fund administration, sales, distribution, marketing, shareholder servicing, and other services. We offer a broad product mix under our equity, multi-asset/balanced, fixed income and cash management investment objectives and solutions which meet a variety of investment goals and needs for investors. We also provide sub-advisory services to certain investment products sponsored by other companies which may be sold to investors under the brand names of those other companies or on a co-branded basis.

We know that success demands smart and effective business innovation, solutions and technologies, and we remain committed to focusing on investment excellence, innovating to meet evolving client goals, and building strong partnerships by delivering superior client service. Since 2016, we have introduced and expanded our Franklin LibertyShares platform of strategic beta and actively managed exchange-traded funds ("ETFs"), as well as additional lower fee passive ETF products. Our ETF platform is designed to provide investors with additional investment options.

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We believe that mutual funds remain a critical tool to make professional investment management affordable for a broad range of investors. Our U.S. Funds and most of our Non-U.S. Funds operate as independent companies subject to the supervision and oversight of the funds' own boards of directors or trustees. Most of our funds are registered open-end mutual funds that continuously offer their shares to investors. We also offer registered closed-end funds that issue a set number of shares to investors in a public offering and the shares are then traded on a public stock exchange. Since the funds themselves do not have direct employees to support their operations, our subsidiaries either provide or arrange for the investment services our funds require. An investment advisory entity manages a fund's portfolio of securities in accordance with the fund's stated objectives. Investors may purchase shares of an open-end fund through a broker-dealer, financial adviser, bank or other similar financial intermediary that provides investment advice to the investor, while investors may purchase shares of a closed-end fund on the stock exchange where the fund is traded. Financial intermediaries may earn fees and commissions and receive other compensation with respect to the fund shares managed or sold to investors.

The business and regulatory environments in which we operate globally remain complex, uncertain and subject to change. We are subject to various laws, rules and regulations globally that impose restrictions, limitations and registration, reporting and disclosure requirements on our business and add complexity to our global compliance operations.

We continue to focus on the long-term investment performance of our investment products and on providing high quality customer service to our clients. The success of these and other strategies may be affected by the Risk Factors discussed below in Item 1A of Part I of this Annual Report, and other factors as discussed in this section.

COMPANY HISTORY

Since 1947, the Company and its predecessors have been engaged in the investment management and related services business. Franklin was incorporated in the State of Delaware in November 1969 and originated our mutual fund business with the initial Franklin family of funds, which is known for its fixed income funds and growth- and value-oriented equity funds. Over the years, we have expanded and developed our business to meet evolving investor needs, in part, by acquiring companies engaged in investment management and related services. As a result of these transactions, among others, we added the Templeton family of funds, which is known for its global investing strategies and value style of investing, in 1992; the Franklin Mutual Series family of funds, which is known for its value-oriented equity funds, in 1996; the Franklin Bissett family of funds, which is known for its Canadian taxable fixed income funds and growth-oriented equity funds, in 2000; the Fiduciary Trust investment management, trust and fiduciary services, in 2001; and the Darby family of funds, which is known for its emerging markets investing strategies, in 2003.

In May 2018, we acquired all of the outstanding shares of Edinburgh Partners Limited, a global value investment manager based in the United Kingdom ("U.K."). In October 2018, we entered into an agreement to acquire all of the outstanding ownership interests in Benefit Street Partners L.L.C., a U.S. alternative credit manager.

OUR BUSINESS

We believe in the value of active investment management to help investors navigate global markets, as well as in continuing to evolve and build on our strengths to meet the needs of our clients. Through our investment products, we serve a variety of clients consisting of retail, institutional and high net-worth investors in regions and jurisdictions worldwide. We derive our revenues and net income from providing investment management and related services to our products as well as sub-advised products. Our investment management fees, which represent the majority of our revenues, depend to a large extent on the level and relative mix of our AUM and the types of services provided. Sales and distribution fees, also a significant source of our revenues, consist of sales charges and commissions derived from sales and distribution of our sponsored funds. These fees and arrangements change from time to time.

Our business is conducted through our subsidiaries, including those registered with the U.S. Securities and Exchange Commission (the "SEC") as investment advisers under the Investment Advisers Act of 1940 (the "Advisers Act"), subsidiaries registered as investment adviser equivalents in jurisdictions including Australia, Brazil, Canada, Hong Kong, India, Japan, Luxembourg, Malaysia, Mexico, Singapore, South Korea, The Bahamas, the United Arab Emirates, the U.K., and certain other subsidiaries.

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AUM by Investment Objective

We offer a broad product mix under our equity, multi-asset/balanced, fixed income and cash management investment objectives and solutions, including alternative investment products, to meet a variety of investment goals. Our fees for providing investment management services are generally based on a percentage of the market value of AUM in the accounts that we advise, the investment objectives of the accounts and the types of services that we provide for the accounts. As of September 30, 2018, AUM by investment objective on a worldwide basis was as follows:

Investment Objective	Value in Billions	Percentage of Total AUM	
Equity			
Growth potential, income potential, value or various combinations thereof	$ 309.6	43	%
Multi-Asset/Balanced			
Asset allocation, balanced, flexible, alternative and income-mixed funds	138.9	20	%
Fixed Income			
Global/international, U.S. tax-free and U.S. taxable	259.3	36	%
Cash Management			
Short-term liquid assets	9.3	1	%
Total	$ 717.1	100	%

Broadly speaking, the change in the net assets of our products depends primarily upon two factors: (1) the increase or decrease in the market value of the securities held in the portfolio of investments; and (2) the level of sales as compared to the level of redemptions. We are subject to the risk of asset volatility resulting from changes in the global capital markets. In addition, changing market conditions and the evolving needs of our clients may cause a shift in our asset mix, potentially resulting in an increase or decrease in our revenues and income depending upon the nature of our AUM and the level of management fees we earn based on our AUM. Despite such market risks, we believe that we have a competitive advantage as a result of the economic and geographic diversity of our products available to our clients.

Summary of Services

1. Investment Management Services

We are committed to providing active investment management and strategic advice for our clients. Our subsidiaries offer our equity, fixed income and alternative strategies through various investment vehicles, including registered open-end and closed-end funds, unregistered funds and separate accounts. We provide our investment management services pursuant to agreements in effect with each of our investment products and the products for which we provide sub-advisory services. Investment management fees are generally determined pursuant to such contractual arrangements, as a percentage of the market value of AUM. Our investment management services include services to managed accounts for which we have full investment discretion, and to advisory accounts for which we have no investment discretion. Advisory accounts for which we have no investment discretion may or may not include the authority to trade for the account. Our services include fundamental investment research and valuation analyses, including original economic, political, industry and company research, and analyses of suppliers, customers and competitors. Our company research utilizes such sources as company public records and other publicly available information, management interviews, company prepared information, and company visits and inspections. Research services provided by brokerage firms are also used to support our findings. Our management fee on an account varies with the types of services that we provide for the account, among other things.

Our subsidiaries that provide discretionary investment management services for our products and sub-advised products either perform or obtain investment research and determine which securities the products will purchase, hold or sell under the supervision and oversight of the funds' boards of directors or trustees, as applicable. In addition, these subsidiaries may take all appropriate steps to implement such decisions, including arranging for the selection of broker-dealers and the execution and settlement of trades in accordance with applicable criteria set forth in the management agreements, internal policies, and applicable law and practice. Our subsidiaries that provide non-discretionary investment management services perform investment research for our clients and make recommendations as to which securities the clients purchase, hold or sell, and may or may not perform trading activities for the products.

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Through our subsidiaries, we compensate the personnel who serve as officers of our funds or of the funds' management companies, in addition to the personnel necessary to conduct the funds' day-to-day business operations. The funds themselves do not have direct employees. Our subsidiaries either provide or arrange for the provision of: office space, telephone, office equipment and supplies; trading desk facilities; authorization of expenditures and approval of bills for payment; preparation of registration statements, proxy statements and annual and semi-annual reports to fund shareholders, notices of dividends, capital gains distributions and tax credits, and other regulatory reports; the daily pricing of fund investment portfolios, including collecting quotations from pricing services; accounting services, including preparing and supervising publication of daily net asset value quotations, periodic earnings reports and other financial data; services to ensure compliance with securities regulations, including recordkeeping requirements; preparation and filing of tax reports; the maintenance of accounting systems and controls; and other administrative services. The funds generally pay their own expenses, such as external legal, insurance, custody and independent audit fees, regulatory registration fees, and other related expenses. The funds also share in board and shareholder meeting and reporting costs.

For our U.S. Funds, the board of directors or trustees and our management personnel regularly review the investment management fee structures for the funds in light of fund performance, the level and range of services provided, industry conditions and other relevant factors. Most of our investment management agreements between our subsidiaries and our U.S. Funds must be renewed each year (after an initial two-year term), and must be specifically approved at least annually by a vote of each fund's board of directors or trustees as a whole and separately by a majority of its directors or trustees who are not interested persons of the fund under the Investment Company Act of 1940 (the "Investment Company Act"), or by a vote of the holders of a majority of the fund's outstanding voting securities. Our U.S. agreements automatically terminate in the event of their "assignment," as defined in the Investment Company Act. In addition, either party may terminate such an agreement without penalty after prior written notice. If agreements representing a significant portion of our AUM were terminated, it would have a material adverse impact on us.

Under the majority of our investment management agreements globally, the funds pay us a monthly fee in arrears based upon the fund's average daily net assets. Annual fee rates under our various agreements are often reduced as net assets exceed various threshold levels. Annual rates also vary by investment objective and type of services provided. Our agreements generally permit us to provide services to more than one fund and to other clients so long as our ability to render services to each of the funds is not impaired, and so long as purchases and sales of portfolio securities for various advised funds are made on an equitable basis.

We use a "master/feeder" fund structure in certain situations. This structure allows an investment adviser to manage a single portfolio of securities at the "master fund" level and have multiple "feeder funds" that invest substantially all of their respective assets into the master fund. Individual and institutional shareholders generally invest in the "feeder funds," which can offer a variety of service and distribution options. A management fee (or performance fee or carried interest as applicable) may be charged either at the master fund level or the feeder fund level depending on the specific requirements of the fund. Administrative, shareholder servicing and custodian fees are often waived at the feeder fund level and only charged at the master fund level, although the feeder funds will indirectly bear their pro-rata share of the expenses of the master fund as an investor in the master fund. Fees and expenses specific to a feeder fund may be charged at the level of that feeder fund.

Our services also include management of our ETFs in the U.S., Canada and the European Union ("EU"). ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETF's net asset value.

Our Non-U.S. Funds, unregistered funds, institutional and high net-worth separate accounts, and the products for which we provide sub-advisory services are subject to various termination rights and review and renewal provisions. Investment management fees are generally waived or voluntarily reduced when a new fund or account is established and then increased to contractual levels within an established timeline or as net asset values reach certain levels.

2. Institutional Investment Management

We provide a broad array of investment management services to institutional clients, which include corporations, endowments, charitable foundations, and pension and defined contribution plans. We distribute and market globally our different capabilities under our brand names through various subsidiaries. In the U.S., we generally operate our institutional business under the trade name “Franklin Templeton Institutional.” We primarily attract new institutional business through our relationships with pension, defined contribution and management consultants, direct sales efforts and additional mandates from our existing client relationships, as well as from our responses to requests for proposals. We also market and distribute our products through various subsidiaries to institutional investors with separate accounts. A few of our subsidiaries also serve

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as direct marketing broker-dealers for institutional investors for certain of our institutional funds and private equity funds, and some of our private funds may utilize third-party placement agents.

3. Alternative Strategies

Certain of our investment advisers manage alternative investment strategies. Our alternative investment products include hedge funds, private equity funds, venture capital funds, real estate funds and commodities funds. These products employ various investment strategies, including fund-of-fund platforms; custom-tailored investment programs; private equity, private debt and infrastructure transactions in emerging markets; global macro; financial technology (FinTech); consumer loans and real estate.

4. High Net-Worth Investment Management, Trust and Custody

Through our subsidiary Fiduciary Trust Company International (“Fiduciary Trust”), including its trust company and investment adviser subsidiaries, we provide investment management and related services to, among others, high net-worth individuals and families, foundations and institutional clients. Similarly, through Fiduciary Trust Company of Canada (“FTCC”), we provide services and offer products to high net-worth individuals and families and institutional clients in Canada. Fiduciary Trust offers investment management and advisory services across different investment styles and asset classes. The majority of Fiduciary Trust’s client assets are actively managed by individual portfolio managers, while a significant number of clients also seek multi-manager, multi-asset class solutions. Through our various trust company subsidiaries, including Fiduciary Trust, we may also provide trust, custody and related services, including administration, performance measurement, estate planning and tax planning.

5. Sales, Distribution and Marketing

Our sales, distribution and marketing capabilities and efforts are critical components of our business, and may be impacted by global distribution trends and changes within the financial services industry. A significant portion of our revenues is generated from providing sales and distribution services, including asset-based fees, sales-based fees and contingent sales charges. We earn fees from the sale of certain classes of our sponsored funds at the time of purchase, with sales commissions reduced or eliminated on some share classes and for some sale transactions depending on the amount invested and the type of investor. Globally, our open-end mutual funds and certain other products generally pay us distribution fees in return for sales, distribution and marketing efforts on their behalf. Fund shares are sold primarily through a large network of independent financial intermediaries, including broker-dealers, financial advisers, banks and other third parties. We pay substantially all of our sales and distribution fees to the financial intermediaries who sell our products on our behalf.

As of September 30, 2018, approximately 1,100 local, regional and national banks, securities firms and financial adviser firms offered shares of our open-end U.S. Funds for sale to the U.S. investing public, and approximately 2,700 banks, securities firms and financial adviser firms offered shares of our cross-border Non-U.S. Funds for sale outside of the U.S.

In the U.S., our subsidiary Franklin/Templeton Distributors, Inc. (“FTDI”) acts as the principal underwriter and distributor of shares of most of our open-end U.S. Funds. Outside the U.S., certain of our non-U.S. subsidiaries provide sales, distribution and marketing services to our Non-U.S. Funds. Some of our Non-U.S. Funds, particularly the Luxembourg-domiciled Franklin Templeton Investment Funds Société d’Investissement à Capital Variable (“SICAV”), are distributed globally on a cross-border basis, while others are distributed exclusively in local markets.

We earn sales and distribution fees primarily by distributing our funds pursuant to distribution agreements between FTDI or our non-U.S. subsidiaries and the funds. Under each distribution agreement with our open-end funds, we offer and sell the fund’s shares on a continuous basis and pay certain costs associated with selling, distributing and marketing the fund’s shares, including the costs of developing and producing sales literature, shareholder reports and prospectuses.

The distribution agreements with our open-end U.S. Funds generally provide for FTDI to pay commission expenses for sales of our fund shares to qualifying broker-dealers and other independent financial intermediaries. These financial intermediaries receive various sales commissions and other fees from FTDI for services in matching investors with funds whose investment objectives match such investors’ goals and risk profiles. Such intermediaries may also receive fees for their assistance in explaining the operations of the funds and in servicing and maintaining investors’ accounts, and for reporting and various other distribution services. We are heavily dependent upon these third-party distribution and sales channels and business relationships. FTDI may also make payments to certain broker-dealers who provide marketing support services, as described further below. There is increasing competition for access to these channels, which has caused our distribution costs

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to rise and could cause further increases in the future as competition continues and service expectations increase.

Most of our open-end U.S. Funds, with the exception of certain money market mutual funds, have adopted distribution plans under Rule 12b-1 (the “Rule 12b-1 Plans”) promulgated under the Investment Company Act (“Rule 12b-1”). In 2010, the SEC proposed changes to Rule 12b-1 which, if adopted, could limit our ability to recover expenses relating to the distribution of our funds. The Rule 12b-1 Plans permit the funds to pay FTDI for marketing, marketing support, advertising, printing and sales promotion services relating to the distribution of their shares, subject to the Rule 12b-1 Plans’ limitations based on average daily net AUM. The Rule 12b-1 Plans are established for one-year terms and must be approved annually by a vote of each fund’s board of directors or trustees as a whole and separately by a majority of its directors or trustees who are not interested persons of the fund under the Investment Company Act. All of these Rule 12b-1 Plans are subject to termination at any time by a majority vote of the disinterested fund directors or trustees or by the particular fund shareholders. Fees from the Rule 12b-1 Plans that FTDI receives as revenues are paid primarily to third-party broker-dealers who sell our funds on our behalf.

Similar arrangements exist with the distribution of our Non-U.S. Funds where, generally, our subsidiary that distributes the funds receives maintenance fees from the funds and pays commissions and certain other fees to banks and other intermediaries.

In the U.S., most of our retail funds are distributed with a multi-class share structure which provides investors with more sales charge alternatives for their investments. Class A shares are sold with a front-end sales charge, except for when certain investment criteria or requirements are met. Class C shares have no front-end sales charges, although our distribution subsidiaries pay an up-front commission to financial intermediaries on these sales. Class C shares have a contingent deferred sales charge for redemptions within 12 months from the date of purchase. Although Class C shares are generally more costly to us in the year of sale, they allow us to be more competitive by providing a fixed percentage annual charge option. Class R and Class R6 shares, available in the U.S. as retirement share classes, also have no front-end sales charges. Class R shares are available to certain retirement and health savings plan accounts, and Class R6 shares are available to employer sponsored retirement plans where plan level or omnibus accounts are held on the books of our transfer agent. We no longer offer Class B shares to clients in the U.S.

In the U.S., we also offer Advisor Class shares in many of our Franklin and Templeton funds, and we offer Class Z shares in the Franklin Mutual Series funds, both of which have no sales charges. Advisor and Class Z shares are offered to certain qualified financial intermediaries, institutions and high net-worth clients (both affiliated and unaffiliated) who have assets held in accounts managed by a subsidiary of Franklin and are also available to our full-time employees, current and former officers, trustees and directors, and certain of their family members. We also offer money market funds to investors in the U.S. without a sales charge. Under the terms and conditions described in the prospectuses or the statements of additional information for some funds, certain investors can purchase shares at net asset value or at reduced sales charges. Our insurance product funds sold in the U.S. offer a multi-class share structure, and are offered at net asset value without a sales charge directly to insurance company separate accounts, certain qualified plans and other funds (funds of funds).

Our U.S. retirement business is conducted through divisions of FTDI that work closely with sponsors, consultants, record keepers and financial advisers of defined contribution plans, including 401(k) plans, variable annuity products and individual retirement accounts (“IRAs”). We offer our capabilities to the U.S. retirement industry through a number of investment options, including sub-advised portfolios, funds, education savings plans and variable insurance product funds.

Outside the U.S., we offer share classes similar to the Advisor Class shares to certain types of investors, although depending upon the fund and the country in which the fund is domiciled, the equivalent share class may be offered on a more restrictive or less restrictive basis than the similar U.S. Advisor Class shares. We also offer additional types of share classes and unit series outside the U.S. in response to local demand based on the needs of investors in particular markets, subject to applicable regulations which may change over time. In the majority of cases, investors in any class of shares may exchange their shares for a like class of shares in another one of our funds, subject to certain fees that may apply. Our Non-U.S. Funds have sales charges and fee structures that vary by region.

FTDI and/or its affiliates may make the following additional payments to broker-dealers that sell shares of our funds:

Marketing support payments. FTDI may make payments to certain broker-dealers who are holders or dealers of record for accounts in one or more of our open-end U.S. Funds. A broker-dealer’s marketing support services may include business planning assistance, advertising, educating broker-dealer personnel about the funds and shareholder financial planning needs, placement on the broker-dealer’s list of offered funds, and access to sales meetings, sales representatives and management representatives of the broker-dealer. FTDI compensates broker-dealers differently depending upon, among other factors, sales and asset levels, and the level and/or type of marketing and educational activities provided by the broker-dealer. Such compensation may include financial assistance to broker-dealers that enables FTDI to participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other broker-dealer-sponsored events. These payments may vary depending upon the nature of the event. FTDI periodically reviews its marketing support arrangements to determine whether to continue such payments. The statement of additional information for each retail U.S. Fund, provided to investors in such funds upon request, provides a list of broker-dealers that receive such marketing support payments and the maximum payments received. FTDI may also make marketing support payments to financial intermediaries that serve as plan service providers to certain employer sponsored retirement plans in connection with activities intended to assist in the sale of our open-end U.S. Funds to such plans. Certain of our non-U.S. subsidiaries may also make marketing support or similar payments to intermediaries located outside the U.S. with respect to investments in Non-U.S. Funds.

Transaction support and other payments. FTDI may pay ticket charges per purchase or exchange order placed by a broker-dealer or one-time payments for ancillary services, such as setting up funds on a broker-dealer's fund trading system. From time to time, FTDI, at its expense, may make additional payments to broker-dealers that sell or arrange for the sale of shares of our U.S. Funds. FTDI routinely sponsors due diligence meetings for registered representatives during which they receive updates on various funds and are afforded the opportunity to speak with portfolio managers. Invitation to these meetings is not conditioned on selling a specific number of shares. Those who have shown an interest in our funds, however, are more likely to be considered. To the extent permitted by their firm's policies and procedures, registered representatives' expenses in attending these meetings may be covered by FTDI. Similar payments may be made by our non-U.S. subsidiaries that distribute our Non-U.S. Funds to third-party distributors of such funds.

Other compensation may be offered to the extent not prohibited by federal or state laws or any self-regulatory agency, such as the Financial Industry Regulatory Authority ("FINRA"). FTDI makes payments for events it deems appropriate, subject to FTDI's guidelines and applicable law.

6. Shareholder Servicing

We earn shareholder servicing fees as compensation from our sponsored funds for providing transfer agency services, which include providing shareholder statements, transaction processing, customer service and tax reporting. Effective November 1, 2017, the fees for our U.S. Funds changed to be based on the level of AUM and number of transactions in shareholder accounts, from the prior structure of a fixed charge per shareholder account that varied by fund type and service provided. Our subsidiary Franklin Templeton Investor Services, LLC ("FTIS") serves as the shareholder servicing and dividend-paying agent for our open-end U.S. Funds. FTIS is registered with the SEC as a transfer agent under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). Outside of the U.S., certain of our non-U.S. subsidiaries provide similar services to our Non-U.S. Funds, and earn fees based on the level of AUM and/or the number of shareholder accounts.

FTIS may pay servicing fees to third-party intermediaries primarily to help offset costs associated with client account maintenance support, statement preparation and transaction processing. Such third parties maintain omnibus accounts with funds in the institution's name on behalf of numerous beneficial owners of fund shares, or provide support for fund shareholder accounts by sharing account data with FTIS through the Depository Trust & Clearing Corporation systems. The funds reimburse FTIS for these third-party payments, as well as other out-of-pocket expenses.

Summary of Products

1. Investment Objectives Overview

We offer a broad range of products under our equity, multi-asset/balanced, fixed income and cash management investment objectives and solutions. Our investment products are offered globally to retail, institutional and high net-worth investors, which include individual investors, qualified groups, trustees, tax-deferred plans (such as IRAs in the U.S. and retirement saving plans, or RSPs, in Canada) or money purchase plans, employee benefit and profit sharing plans, trust companies, bank trust departments and institutional investors. Our products include portfolios managed for some of the world's largest corporations, endowments, charitable foundations and pension funds, as well as wealthy individuals and other institutions. We use various investment techniques to focus on specific client objectives for these specialized portfolios.

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The products that we offer accommodate a variety of investment goals, spanning the spectrum of our clients' risk tolerance from capital appreciation (with our more growth-oriented products) to capital preservation (with our fixed income offerings). In seeking to achieve such objectives, each portfolio emphasizes different strategies and invests in different types of instruments.

Our equity investment products include some that are considered value-oriented, others that are considered growth-oriented, and some that use a combination of growth and value characteristics, generally identified as blend or core products. Value investing focuses on identifying companies that our research analysts and portfolio managers believe are undervalued based on a number of different factors, usually put in the context of historical ratios such as price-to-earnings or price-to-book value; however, we also consider the future earnings potential of each individual company on a multi-year basis. Growth investing focuses on identifying companies that our research analysts and portfolio managers believe have sustainable growth characteristics, meeting our criteria for sustainable growth potential, quality and valuation. In this effort, the key variables we examine include: market opportunity (overall size and growth); competitive positioning of the company; assessment of management (strength, breadth, depth, and integrity) and execution of plans; and the general financial strength and profitability of the enterprise, to determine whether the growth and quality aspects are properly reflected in the current share price. Paramount to all of our different equity products is the incorporation of independent, fundamental research through our own collaborative in-house group of investment professionals. Our approach across the variety of equity products we manage emphasizes bottom-up stock selection within a disciplined portfolio construction process, and is complemented by our ongoing assessment of risk at both the security and portfolio levels.

Portfolios seeking income generally focus on one or more of the following securities: taxable and tax-exempt money market instruments; tax-exempt municipal bonds; global or regional fixed income securities; and fixed income debt securities of corporations, of the U.S. government and its sponsored agencies and instrumentalities (such as the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation) or of the various states in the U.S. Others focus on investments in particular countries and regions.

Our alternative investment strategies, products and solutions provide our clients with alternatives to our traditional equity and fixed income products and services. Our alternative investment products include hedge funds, private equity funds, venture capital funds, real estate funds and commodities funds.

2. Types of Products

As of September 30, 2018, our total AUM was $717.1 billion and the types of investment products we offered were as follows:

- U.S. Funds - Our U.S. funds (including U.S. registered open-end and closed-end funds, unregistered funds, exchange-traded funds and our insurance products trust) accounted for $401.2 billion of AUM. Our five largest U.S. funds and their AUM were: FCF-Franklin Income Fund ($76.6 billion), TIT-Templeton Global Bond Fund ($34.9 billion), FMT-Franklin Rising Dividends Fund ($20.1 billion), FMSF-Franklin Mutual Global Discovery Fund ($19.1 billion) and FTF-Franklin Growth Fund ($16.4 billion). These five funds represented, in the aggregate, 23% of total AUM.
- Cross-Border Funds - Our cross-border products, which are comprised of a variety of funds principally domiciled in Luxembourg and registered for sale to non-U.S. investors in 45 countries, accounted for $104.7 billion of AUM. Our five largest cross-border funds and their AUM were: FTIF-Templeton Global Total Return Fund ($16.5 billion), FTIF-Templeton Global Bond Fund ($14.8 billion), FTIF-Templeton Emerging Markets Bond Fund ($9.4 billion), FTIF-Templeton Growth (Euro) Fund ($8.8 billion), and FTIF-Franklin U.S. Opportunities Fund ($4.4 billion). These five funds represented, in the aggregate, 8% of total AUM.
- Local/Regional Funds - In addition to our cross-border products, in some countries we offer products for the particular local market. These local/regional funds accounted for $46.4 billion of AUM.
- Other Managed Accounts, Alternative Investment Products and Trusts - Our other managed accounts, alternative investment products and trusts accounted for $164.8 billion of AUM.

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3. AUM by Investment Objective and Types of Products

The following table shows our AUM by investment objective and types of investment products as of September 30, 2018:

(in billions) Investment Objective	U.S. Funds	Cross-Border Funds	Local/Regional Funds	Other Managed Accounts, Alternative Investment Products and Trusts	Total
Equity					
Asia-Pacific	$1.3	$ 8.6	$ 7.3	$ 12.8	$30.0
Canada	—	—	4.0	5.3	9.3
Europe, Middle East and Africa	2.3	3.4	3.6	1.8	11.1
U.S.	98.9	10.8	1.6	3.9	115.2
Emerging markets [1]	3.7	4.6	5.9	4.4	18.6
Global/international [2]	57.1	12.9	4.7	50.7	125.4
Total equity	163.3	40.3	27.1	78.9	309.6
Multi-Asset/Balanced					
Asia-Pacific	—	—	0.4	0.2	0.6
Canada	—	—	0.6	0.6	1.2
U.S.	92.9	2.0	0.2	20.5	115.6
Global/international [2]	3.1	8.1	1.3	9.0	21.5
Total multi-asset/balanced	96.0	10.1	2.5	30.3	138.9
Fixed Income					
Asia-Pacific	—	0.5	7.0	0.4	7.9
Canada	—	—	3.3	2.0	5.3
Europe, Middle East and Africa	—	1.4	0.2	0.9	2.5
U.S. tax-free	59.8	—	0.1	4.0	63.9
U.S. taxable	28.2	6.5	2.1	8.0	44.8
Emerging markets [1]	1.1	11.0	0.5	13.8	26.4
Global/international [2]	44.9	34.5	2.6	26.5	108.5
Total fixed income	134.0	53.9	15.8	55.6	259.3
Cash Management	7.9	0.4	1.0	—	9.3
Total	$401.2	$ 104.7	$ 46.4	$ 164.8	$717.1

[1] Emerging markets include developing countries worldwide.
[2] Global/international includes products that invest worldwide (including the U.S.) or only outside of the U.S.

COMPETITION

The financial services industry is a highly competitive global industry. Competition is based on various factors, including, among others, business reputation, investment performance, product mix and offerings, service quality and innovation, distribution relationships, and fees charged. According to data sourced from the Investment Company Institute as of June 30, 2018, there were approximately 11,300 registered open-end funds whose shares were offered to the public in the U.S., and approximately 117,300 registered open-end funds whose shares were offered to the public outside the U.S., in each case including mutual funds, ETFs and funds of funds.

We face strong competition from numerous investment management companies, securities brokerage and investment banking firms, insurance companies, banks and other financial institutions, which offer a wide range of financial and investment management services and products to the same retail, institutional and high net-worth investors and accounts that we are

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seeking to attract. We offer a broad product mix that meets a variety of investment goals and needs for different investors, and we may periodically introduce new products to provide investors with additional investment options. Due to our international presence and varied product mix, it is difficult to assess our market position relative to other investment managers on a worldwide basis, but we believe that we are one of the more widely diversified asset managers based in the U.S. We believe that our equity and fixed income asset mix coupled with our global presence will serve our competitive needs well over the long term. We continue to focus on the long-term performance of our investment products, service to clients and extensive marketing activities through our strong broker-dealer and other financial institution distribution network as well as with high net-worth and institutional clients.

The periodic establishment of new investment management firms and investment products increases the competition that we face. Many of our competitors have long-standing and established relationships with broker-dealers, investment advisers and their clients. Others have focused on, offer and market specific product lines, which provide strong competition to certain of our asset classes. In addition, consolidation in the financial services industry has created stronger competitors, some with greater financial resources and broader distribution channels than our own.

We rely largely on third-party broker-dealers and other similar independent financial intermediaries to distribute and sell our fund shares. We have pursued and continue to pursue sales relationships with all types of financial intermediaries to broaden our distribution network. We have experienced increased costs related to maintaining our distribution channels and we anticipate that this trend will continue. A failure to maintain strong business relationships with the major intermediaries who currently distribute our products may also impair our distribution and sales operations. Additionally, competing broker-dealers whom we rely upon to distribute and sell our investment products may also sell their own proprietary funds and investment products, which could further limit the distribution of our investment products. Any inability to access and successfully sell our products to clients through third-party distribution channels could have a negative effect on our level of AUM, related revenues and overall business and financial condition.

We maintain a technology platform to compete with the rapidly developing and evolving marketplace. However, technology is subject to rapid change and we cannot guarantee that our competitors may not implement new technologies or more advanced platforms for their products, which could affect our business.

We believe that we are well positioned to deal with changes in marketing trends as a result of our advertising activities and broad based marketplace recognition. In conjunction with our subsidiaries, we conduct advertising and promotional campaigns through various media sources to promote brand recognition, and advertise in major financial publications, as well as on television and the Internet, to promote brand name recognition and to assist our distribution network. Such activities include purchasing network and cable programming, sponsorship of sporting events, newspaper and magazine advertising, online and paid search advertising and social media marketing.

REGULATORY CONSIDERATIONS

We are subject to extensive regulation. Virtually all aspects of our business are subject to various federal, state, and international regulation and supervision that continue to change and evolve over time. Consequently, there is uncertainty associated with the regulatory environments in which we operate.

U.S. Regulation

We are subject to federal and state laws that include U.S. federal securities laws, state securities and corporate laws, and the rules and regulations promulgated by certain regulatory and self-regulatory organizations such as the SEC and the NYSE. As a U.S. reporting company, we are subject to various securities, compliance, corporate governance and disclosure rules adopted by the SEC. We are also subject to various other federal and state laws, including those affecting corporate governance and disclosure, such as the U.S. Securities Act of 1933, the Exchange Act, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), and the USA Patriot Act of 2001. As a NYSE-listed company, we are also subject to NYSE listing and disclosure requirements.

As a global investment management organization, certain of our subsidiaries are also subject to the rules and regulations promulgated by the SEC, FINRA, the U.S. Commodity Futures Trading Commission (“CFTC”), the National Futures Association, the U.S. Department of Justice (“DOJ”), the U.S. Department of Labor (“DOL”) and the U.S. Department of Treasury, and to various securities, compliance, corporate governance, disclosure, privacy, anti-money laundering, anti-terrorist financing, and economic, trade and sanctions laws and regulations, both domestically and internationally. Given our global operations, our subsidiaries are also subject to applicable securities and other laws of various non-U.S. jurisdictions, and to various non-U.S. and cross-border rules and regulations, such as the data protection rules under the EU's General Data

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Protection Regulation ("GDPR"). Our non-U.S. operations may also be subject to regulation by U.S. regulators, including the SEC, the CFTC and the DOJ (for example with respect to the Foreign Corrupt Practices Act of 1977). We are also subject not only to the sanctions programs administered by the U.S. Department of Treasury's Office of Foreign Assets Control, but also to sanctions programs adopted and administered by non-U.S. jurisdictions where our services and products are offered. We are also subject to the laws and regulations of states and other jurisdictions regarding the reporting and escheatment of unclaimed or abandoned property.

Certain of our subsidiaries are registered with the SEC under the Advisers Act, the CFTC and/or registered with or licensed by various non-U.S. regulators. In addition, many of our funds are registered with the SEC under the Investment Company Act or other non-U.S. laws. These registrations, licenses and authorizations impose numerous obligations, as well as detailed operational requirements, on such subsidiaries and such funds. The Advisers Act imposes numerous obligations on our registered investment adviser subsidiaries, including record keeping, operating and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. The Investment Company Act imposes similar obligations on the registered investment companies advised by our subsidiaries. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act and the Investment Company Act, ranging from fines and censure to termination of an investment adviser's registration. Our subsidiaries must also comply with complex tax regimes.

FINRA Conduct Rules limit the amount of aggregate sales charges that may be paid in connection with the purchase and holding of investment company shares sold through broker-dealers. The effect of the rule is to limit the amount of fees that could be paid pursuant to a fund's Rule 12b-1 Plan to FTDI, our principal sales and distribution subsidiary in the U.S., which earns distribution fees on the distribution of fund shares in the U.S. In 2010, the SEC proposed changes to Rule 12b-1 which, if adopted, could limit our ability to recover expenses relating to the distribution of our funds.

The Dodd-Frank Act authorized the establishment of the Financial Stability Oversight Council ("FSOC"), the mandate of which is to identify and respond to threats to U.S. financial stability. Similarly, the U.S. and other members of the G-20 group of nations have empowered the Financial Stability Board ("FSB") to identify and respond, in a coordinated manner, to threats to global financial stability. The FSOC may designate certain non-bank financial companies as systemically important financial institutions ("SIFIs"), which are subject to supervision and regulation by the Board of Governors of the Federal Reserve System. The FSB may designate certain non-bank financial companies as global systemically important financial institutions ("G-SIFIs"); the additional regulatory requirements triggered by any such designation are not yet established. The FSOC and the FSB, as well as other global regulators, are considering what threats to U.S. and global financial stability, if any, arise from asset management companies and/or the funds that they sponsor or manage, and whether such threats can be mitigated by treating such entities as SIFIs or G-SIFIs and/or subjecting them to additional regulation. To the extent that we or any of our funds are designated as a SIFI or G-SIFI, such regulation, which could include requirements related to risk-based capital, leverage, liquidity, credit exposure, stress testing, resolution plans, early remediation, and certain risk management requirements, could impact our business.

Pursuant to the Dodd-Frank Act, the SEC may establish different standards for broker-dealers in their interaction with retail customers, which could increase our sales and/or distribution costs. In April 2018, the SEC proposed rules that would apply to all retail investors and would, among other things: require broker-dealers to act in the best interest of their retail customers when recommending securities and provide additional disclosure about the scope and terms of the relationship; clarify the fiduciary duty that an investment adviser owes to its clients; and require a new short-form disclosure document to inform clients of the nature of their relationships with investment professionals and investment advisers, including differences in the principal types of services offered, the legal standards of conduct that apply to each, the fees a client might pay, and conflicts of interest that may exist.

The Dodd-Frank Act, as well as other legislative and regulatory changes, impose other restrictions and limitations on us, resulting in increased scrutiny and oversight of our financial services and products. We continue to analyze the impact of the Dodd-Frank Act as further implementing rules are adopted and become effective. Under the Dodd-Frank Act, which imposes a number of regulations governing derivative transactions, certain categories of swaps are currently required, and further categories of swaps are likely to be required, to be submitted for clearing by a regulated clearing organization and reported on a swap execution facility. These and other requirements, such as the posting of collateral for uncleared swaps, are likely to impact how we manage our investment strategies because of, among other things, an increase in the costs and expenses of utilizing swaps and other derivatives. In addition to the rulemaking mandated by the Dodd-Frank Act, rules adopted by the CFTC have removed or limited previously available exemptions and exclusions from registration and regulation as a commodity pool operator and commodity trading advisor on which we had relied, resulting in the imposition of either additional registration, disclosure, reporting and recordkeeping requirements or more stringent requirements to comply with the remaining exemptions

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or exclusions for operators of certain of our registered funds and other pooled vehicles that use or trade in futures, swaps and other derivatives considered commodity interests and subject to regulation by the CFTC. Further, the SEC has adopted rules that have changed the structure and operation for certain types of money market funds, and that will require certain U.S. Funds to adopt liquidity management programs. (Compliance with certain aspects of the latter is required by December 1, 2018, and other aspects are delayed until June 1, 2019, subject to further regulatory update.) The SEC has also proposed a rule that would impose restrictions on the use of derivatives by registered funds. In addition, the Tax Cuts and Jobs Act enacted into law in the U.S. on December 22, 2017 includes various changes to the tax law, including a permanent reduction in the corporate income tax rate and one-time transition tax on certain non-U.S. earnings. We expect that the complex regulatory requirements and developments applicable to us will cause us to incur additional administrative and compliance costs.

Non-U.S. Regulation

Our operations outside the U.S. are subject to the laws and regulations of various non-U.S. jurisdictions and non-U.S. regulatory agencies and bodies. As we continue to expand our international presence, a number of our subsidiaries and international operations have become subject to regulatory systems, in various jurisdictions, comparable to those covering our operations in the U.S. Regulators in these non-U.S. jurisdictions may have broad authority with respect to the regulation of financial services including, among other things, the authority to grant or cancel required licenses or registrations. In addition, these regulators may subject certain of our subsidiaries to net capital and other financial or operational requirements.

In the U.K., the Financial Conduct Authority (the “FCA”) and the Prudential Regulation Authorities (the “PRA”) currently regulate certain of our subsidiaries. Authorization by the FCA and the PRA is required to conduct any financial services related business in the U.K. pursuant to the Financial Services and Markets Act 2000. The FCA’s and PRA’s rules under that act govern a firm’s capital resources requirements, senior management arrangements, conduct of business, interaction with clients, and systems and controls. Breaches of these rules could result in a wide range of disciplinary actions against our U.K.-regulated subsidiaries.

In Luxembourg, the Commission de Surveillance du Secteur Financier (“CSSF”) currently regulates our substantial activities in Luxembourg, including our subsidiary Franklin Templeton International Services S.à r.l. (“FTIS Lux”). FTIS Lux is licensed as a management company for both the Undertakings for Collective Investment in Transferable Securities Directive (“UCITS”) and alternative investment funds (“AIFs”) and, as such, it manages our Luxembourg-domiciled UCITS and our EU-domiciled AIFs. FTIS Lux’s license also covers certain MiFID (as defined below) investment services, such as discretionary portfolio management, investment advice and reception and transmission of orders in relation to financial instruments. The CSSF’s rules include capital resource, governance and risk management requirements, conduct of business rules, remuneration rules and oversight of systems and controls. Breaches of these rules could result in a wide range of disciplinary actions against FTIS Lux.

In addition to the above, our U.K.-regulated subsidiaries and certain other European subsidiaries and branches, must comply with the pan-European regime established by the EU Markets in Financial Instruments Directive (“MiFID”), which regulates the provision of investment services and conduct of investment activities throughout the European Economic Area (“EEA”). MiFID sets out detailed requirements governing the organization and conduct of business of investment firms and regulated markets. It also includes pre- and post-trade transparency requirements for equity markets and extensive transaction reporting requirements. The U.K. has adopted the MiFID rules into national legislation via the FCA rules, as have those other EU member states in which we have a presence.

A review of MiFID by the European Commission has led to the creation of a replacement directive and a new regulation (together “MiFID II”), effective as of January 2018, which extends the scope of the original MiFID in response to issues raised by the financial crisis. Changes apply to pre- and post-trade reporting obligations and there is an expansion of the types of instruments subject to these requirements, such as bonds, structured products and derivatives. A new concept of trading venue has been created and algorithmic trading is subject to specific regulations. There are also changes to conduct of business requirements, including selling practices, intermediary inducements and client categorization, as well as the provision of investment advice and management within the EU by non-EU advisers, including ours. Powers have also been given to EU national regulators to ban certain services and products and to the European Securities and Markets Authority to temporarily restrict certain financial activities within the EU.

One of the most significant developments in MiFID II is the ban on commission and other payments (“inducements”) to independent advisers and discretionary managers, which will result in a major change in the commercial relationships between fund providers and distributors. Arrangements with non-independent advisers will also be affected as narrower rules around the requirement that any commission reflects an enhancement of the service to customers come into effect, along with

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a prescriptive list of permissible non-monetary benefits. The interpretation of the inducements rules has also resulted in major changes to how fund managers finance investment research with many firms, including ours, opting to pay for third-party investment research for client accounts covered by MiFID II.

The European Market Infrastructure Regulation which sets out the rules in relation to central clearing of specified derivatives came into effect in 2016 for large derivatives users (including some of our clients). For the smallest counterparties, implementation has been delayed until June 2019. Mutual recognition of central counterparties has been achieved between the EU regulatory authorities and other important jurisdictions including the U.S. In addition, rules relating to margin requirements for uncleared over-the-counter derivatives came into effect in September 2017. Future regulatory policy reviews will decide whether these rules are extended to other types of derivative instruments, which could increase operational costs for our business and transactional costs for our clients.

The EU's Alternative Investment Fund Managers Directive ("AIFMD") came into effect in July 2014 and regulates managers of, and service providers to, AIFs that are domiciled and offered in the EU and that are not authorized as retail funds under UCITS. The AIFMD also regulates the marketing within the EU of all AIFs, including those domiciled outside the EU. The introduction of a third-country passport to non-EU AIFs/AIF managers was due to be implemented in 2018 but has been delayed until further positive advice is delivered to the European Commission on a sufficient number of non-EU countries to better evaluate the impact, including the proposed withdrawal of the U.K. from the EU ("Brexit") on the U.K. Compliance with the AIFMD's requirements may restrict AIF marketing and imposes compliance obligations in the form of remuneration policies, capital requirements, reporting requirements, leverage oversight, valuation, stakes in EU companies, the domicile, duties and liability of custodians and liquidity management.

The EU's Market Abuse Regulation ("MAR") came into effect in July 2016 and its primary aim is to increase market integrity and investor protection, enhancing the attractiveness of securities markets for raising capital. Under MAR, EU market abuse rules become extra-territorial as long as the instrument has a listing on an EEA regulated market.

As of January 1, 2018, the EU regulation on packaged retail investment and insurance products ("PRIIPs") imposes new pre-contractual disclosure requirements under the form of a Key Information Document ("KID") for the benefit of retail investors when they are considering the purchase of packaged retail investment products or insurance based products. It requires PRIIP manufacturers to draw up a KID which can be no longer than three pages in length and must be written in simple language. The regulation allows UCITS providers, who are already required to produce the UCITS Key Investor Information Document, a transitional period of five years from enactment during which they will be exempt from its terms.

As of May 2018, the EU's GDPR strengthened and unified data protection rules for individuals within the EU. The GDPR also addresses export of personal data outside the EU. The primary objectives of the GDPR are to give citizens control of their personal data and to simplify the regulatory environment for international business by unifying data protection regulation within the EU. Compliance with the stringent data protection rules under the GDPR requires an extensive review of all of our global data processing systems. The failure to comply timely and properly with GDPR rules and to maintain ongoing compliance with such rules may subject us to enforcement proceedings and significant fines and costs.

Further, pursuant to ongoing efforts to encourage global tax compliance, the Organization for Economic Co-operation and Development has adopted a global common reporting standard for the automatic exchange of financial information among participating countries ("CRS"), aimed at ensuring that persons with financial assets located outside of their tax residence country pay required taxes. In many cases, intergovernmental agreements between the participating countries will govern implementation of the new CRS rules. CRS will be implemented over a multi-year period and we will continue to monitor the implementing regulations and corresponding intergovernmental agreements to determine our requirements. CRS may subject us to additional reporting, compliance and administrative costs and burdens in jurisdictions where we operate as a qualifying financial institution.

Although Brexit negotiations between the U.K. and EU began in June 2017, it is still unclear what terms may be agreed to for the final outcome and for any transitional period. While we are monitoring the consequences very closely for our clients from an investment perspective, we believe that Brexit will not have a major impact on the way our firm operates in the U.K. Our long-standing U.K. businesses are expected to continue to provide their services to

U.K. customers. Furthermore, we have other regulated subsidiaries across continental Europe such that, in the event of a future restriction on cross-border trade in financial services and products between the U.K. and the new EU, it would be likely to have a limited effect on our business. Moreover, our cross-border UCITS SICAV investment fund range, which is the most widely-distributed such range in the world, is based in Luxembourg. We have a separate, U.K.-domiciled fund range that is, and will continue to be, distributed mainly in the U.K.

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In Canada, our subsidiaries are subject to provincial and territorial laws and are registered with and regulated by provincial and territorial securities regulatory authorities. The mandate of Canadian securities regulatory authorities is generally to protect investors and to foster fair and efficient capital markets. Securities regulatory authorities impose certain requirements on registrants, including a standard of conduct, capital and insurance, record keeping, regulatory financial reporting, conflict of interest management, compliance systems and security holder reporting. Failure to comply with applicable securities laws, regulations and rules could result in, among other things, reprimands, suspension of or restrictions on an individual's or firm's registration, prohibitions from becoming or acting as a registrant, administrative penalties or disgorgement. In addition, as a federally licensed trust company, FTCC is subject to regulation and supervision by the Office of the Superintendent of Financial Institutions Canada and another subsidiary, FTC Investor Services Inc., is a member of and regulated by the Mutual Fund Dealers Association of Canada. These regulatory bodies have similar requirements to those of the securities regulatory authorities with a view to ensuring the capital adequacy and sound business practices of the subsidiaries and the appropriate treatment of their clients.

In June 2018, the Canadian Securities Administrators ("CSA"), the umbrella organization of provincial and territorial securities regulatory authorities, published proposed amendments to their registration rules. The stated purposes of these amendments are to better align the interests of Canadian registrants with the interests of their clients, to improve outcomes for clients and to make clearer to clients the nature and the terms of their relationship with registrants. The amendments would, among other things, enhance current registrant requirements in the areas of know your client, know your product, suitability and conflicts of interest. At the same time, the CSA issued a notice providing a status report in respect of their mutual fund fee reform project. The reforms being proposed include expanded conflict of interest guidance (in the proposed amendments to registration rules) around the payment of embedded commissions by investment fund managers and the receipt of such commissions by dealers, a prohibition on all forms of deferred sales charges in connection with the purchase of mutual fund securities and a prohibition on the payment of trailing commissions to discount brokers in respect of their distribution of mutual fund securities. In September 2018, the CSA published draft rule amendments in respect of their mutual fund fee reform project.

In Singapore, our subsidiaries are subject to, among others, the Securities and Futures Act ("SFA"), the Financial Advisers Act ("FAA") and the subsidiary legislation promulgated pursuant to these Acts, which are administered by the Monetary Authority of Singapore ("MAS"). Our asset management subsidiary and its employees conducting regulated activities specified in the SFA and/or the FAA are required to be licensed with the MAS. Failure to comply with applicable laws, regulations, codes, directives, notices and guidelines issued by the MAS may result in penalties including fines, censures and the suspension or revocation of licenses granted by the MAS.

In Australia, our subsidiaries are subject to various Australian federal and state laws and are regulated by the Australian Securities and Investments Commission ("ASIC"). ASIC regulates companies, financial markets and financial services in Australia. ASIC imposes certain conditions on licensed financial services organizations that apply to our subsidiaries, including requirements relating to capital resources, operational capability and controls. Failure to comply with applicable law, regulations or conditions could result in various sanctions being imposed including cancellation, suspension or variation of the licenses held by our Australian subsidiaries.

In Hong Kong, our subsidiary is subject to the Securities and Futures Ordinance (the "SFO") and its subsidiary legislation, which governs the securities and futures markets and regulates, among others, offers of investments to the public and provides for the licensing of dealing in securities and asset management activities and intermediaries. This legislation is administered by the Securities and Futures Commission (the "SFC"). The SFC is also empowered under the SFO to establish standards for compliance as well as codes and guidelines. Our subsidiary and its employees conducting any of the regulated activities specified in the SFO are required to be licensed with the SFC, and are subject to the rules, codes and guidelines issued by the SFC from time to time. Failure to comply with the applicable laws, regulations, codes and guidelines could result in various sanctions being imposed, including fines, reprimands and the suspension or revocation of the licenses granted by the SFC.

In India, certain of our subsidiaries are primarily subject to relevant regulations promulgated by the Securities and Exchange Board of India ("SEBI"). Effective May 2018, SEBI reduced the total expense ratio that may be charged to mutual funds. In September 2018, SEBI proposed to further reduce the total expense ratio chargeable to funds with an effective date that is not yet determined. In October 2018, SEBI banned, with some exceptions, upfront commissions payable on sales of funds and mandated that all trail commissions be paid from the funds. These changes may impact the commercial relationships between fund providers and distributors. The Reserve Bank of India (“RBI”), the Ministry of Corporate Affairs (“MCA”) and the Department of Industrial Policy and Promotion (“DIPP”) are the other major regulatory authorities that are capable of issuing directions of a binding nature to our subsidiaries. A failure to comply with the applicable laws, regulations, codes,

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notices, directives, guidelines, orders, circulars and schemes issued by SEBI, RBI, MCA or DIPP may result in penalties including fines, censures and/or suspension or revocation of licenses, approvals or registration status.

In Japan, our subsidiaries are subject to the Financial Instruments and Exchange Act (the "FIEL") and the Act on Investment Trusts and Investment Corporations. These laws are administered and enforced by the Japanese Financial Services Agency (the "JFSA"), which establishes standards for compliance, including capital adequacy and financial soundness requirements, customer protection requirements and conduct of business rules. The JFSA is empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease and desist orders or the suspension or revocation of registrations and licenses granted under the FIEL.

There are similar legal and regulatory arrangements in effect in many other non-U.S. jurisdictions where our subsidiaries, branches and representative offices, as well as certain joint ventures or companies in which we own minority stakes, are authorized to conduct business. We are also subject to regulation and supervision by, among others, the Securities Commission of The Bahamas; the Comissão de Valores Mobiliários in Brazil; the Cayman Islands Monetary Authority; the China Securities Regulatory Commission in the People's Republic of China; the Autorité des Marchés Financiers in France; the Federal Financial Supervisory Authority in Germany; the Central Bank of Ireland; the Commissione Nazionale per le Società e la Borsa in Italy; the Financial Services Commission and the Financial Supervisory Service in South Korea; the Securities Commission in Malaysia; the Comision Nacional Bancaria y de Valores in Mexico; the Autoriteit Financiële Markten in the Netherlands; the Polish Securities and Exchange Commission; the Romanian Financial Services Authority; the Comisión Nacional del Mercado de Valores in Spain; the Finansinspektionen in Sweden; the Swiss Federal Banking Commission; the Financial Supervisory Commission in the Republic of China; the Dubai Financial Services Authority in the United Arab Emirates; and the State Securities Commission of Vietnam.

INTELLECTUAL PROPERTY

We have used, registered, and/or applied to register certain trademarks, service marks and trade names to distinguish our sponsored investment products and services from those of our competitors in the U.S. and in other countries and jurisdictions, including, but not limited to, Franklin®, Templeton®, Franklin Mutual Series®, Franklin Bissett®, Fiduciary Trust™, Darby® Balanced Equity Management®, K2®, LibertyShares® and Edinburgh Partners™. Our trademarks, service marks and trade names are important to us and, accordingly, we enforce our trademark, service mark and trade name rights. The Franklin Templeton Investments® brand has been, and continues to be, extremely well received both in our industry and with our clients, reflecting the fact that our brand, like our business, is based in part on trust and confidence. If our brand is harmed, our future business prospects may be adversely affected.

EMPLOYEES

As of September 30, 2018, we employed approximately 9,700 employees and operated offices in over 30 countries. We consider our relations with our employees to be satisfactory.

AVAILABLE INFORMATION

The SEC maintains an Internet site that contains current and periodic reports, proxy and information statements, and other information regarding issuers, including Franklin, that file electronically with the SEC, at www.sec.gov. Additional information about the Company's filings can also be obtained at our website at www.franklinresources.com under "Investor Relations." We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Corporate Governance Guidelines. The Company has adopted Corporate Governance Guidelines. The Corporate Governance Guidelines are posted on the Company's website under "Corporate Governance" and are available in print to any stockholder who requests a copy.

Committee Charters. The Company's Board of Directors has an Audit Committee, Compensation Committee and Corporate Governance Committee. The Board of Directors has adopted written charters for each such committee, which are posted on the Company's website under "Corporate Governance" and are available in print to any stockholder who requests a copy.

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Item 1A. Risk Factors.

Volatility and disruption of the capital and credit markets, and adverse changes in the global economy, may significantly affect our results of operations and may put pressure on our financial results. The capital and credit markets may from time to time experience volatility and disruption worldwide. Declines in global financial market conditions have in the past resulted in significant decreases in our assets under management (“AUM”), revenues and income, and future declines may further negatively impact our financial results. Such declines have had and may in the future have an adverse impact on our results of operations. We may need to modify our business, strategies or operations and we may be subject to additional constraints or costs in order to compete in a changing global economy and business environment.

The amount and mix of our AUM are subject to significant fluctuations. Fluctuations in the amount and mix of our AUM may be attributable in part to market conditions outside of our control that have had, and in the future could have, a negative impact on our revenues and income. We derive substantially all of our operating revenues and net income from providing investment management and related services to investors in jurisdictions worldwide through our investment products which include our sponsored funds, as well as institutional and high net-worth separate accounts. In addition to investment management, our services include fund administration, sales, distribution, marketing, shareholder servicing, and other services. The level of our revenues depends largely on the level and mix of AUM. Our investment management fee revenues are primarily based on a percentage of the value of AUM and vary with the nature and strategies of our products. Any decrease in the value or amount of our AUM because of market volatility or other factors, such as a decline in the price of stocks, in particular market segments or in the securities market generally, negatively impacts our revenues and income. We are subject to significant risk of asset volatility from changes in the global financial, equity, debt and commodity markets. Individual financial, equity, debt and commodity markets may be adversely affected by financial, economic, political, electoral, diplomatic or other instabilities that are particular to the country or region in which a market is located, including without limitation local acts of terrorism, economic crises, political protests, insurrection or other business, social or political crises. Global economic conditions, exacerbated by war, terrorism, natural disasters or financial crises, changes in the equity, debt or commodity marketplaces, changes in currency exchange rates, interest rates, inflation rates, the yield curve, defaults by trading counterparties, bond defaults, revaluation and bond market liquidity risks, geopolitical risks, the imposition of economic sanctions and other factors that are difficult to predict, affect the mix, market values and levels of our AUM. For example, changes in financial market prices, currency exchange rates and/or interest rates have in the past and could in the future cause the value of our AUM to decline, which would result in lower investment management fee revenues. Changing market conditions could also cause an impairment to the value of our goodwill and other intangible assets. Our funds may be subject to liquidity risks or an unanticipated large number of redemptions as a result of the events or conditions described above, causing the funds to sell securities they hold, possibly at a loss, or draw on any available lines of credit, to obtain cash to maintain sufficient liquidity or settle these redemptions, or settle in-kind with securities held in the applicable fund. We have in the past, and may in the future, at our discretion, provide financial support to our funds to enable them to maintain sufficient liquidity in any such event. Changes in investor preferences regarding our more popular products have in the past and could in the future cause sizable redemptions and lower the value of our AUM, which would result in lower revenue and operating results. Moreover, changing market conditions may cause a shift in our asset mix between international and U.S. assets, potentially resulting in a decline in our revenues and income depending upon the nature of our AUM and the level of management fees we earn based on our AUM. We generally derive higher investment management and distribution fees from our international products than from our U.S. products, and higher sales fees from our U.S. products than from our international products. Additionally, changing market conditions may cause a shift in our asset mix towards fixed income products and away from equity and multi-asset/balanced products, and a related decline in our revenues and income, as we generally derive higher fee revenues and income from our equity and certain multi-asset/balanced products than from our fixed income products. Further, changing market conditions and investor preferences also may cause a shift in our asset mix towards lower fee exchange-traded funds. Increases in interest rates, in particular if rapid, as well as any uncertainty in the future direction of interest rates, may have a negative impact on our fixed income products. Although the shorter duration of the bond investments in many of these products may help mitigate the interest rate risk, rising interest rates or interest rate uncertainty typically decrease the total return on many bond investments due to lower market valuations of existing bonds. Any decrease in the level of our AUM resulting from market declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

We are subject to extensive, complex, overlapping and frequently changing rules, regulations, policies, and legal interpretations. There is uncertainty associated with the regulatory environments in which we operate. As described below, our business is subject to extensive and complex, overlapping and/or conflicting, and frequently changing and increasing rules, regulations, policies and legal interpretations in the countries in which we operate. Our regulatory and compliance obligations impose significant operational and cost burdens on us and cover a broad range of requirements related to securities and other financial instruments, investment and advisory matters, accounting, tax, compensation, ethics, data protection, privacy, sanctions programs, and escheatment laws and regulations.

As a U.S. reporting company, we are subject to U.S. federal securities laws, state laws regarding securities fraud, other federal and state laws and rules and regulations of certain regulatory and self-regulatory organizations, including those rules and regulations promulgated by, among others, the U.S. Securities and Exchange Commission ("SEC") and the New York Stock Exchange. As a global investment management organization, certain of our subsidiaries are also subject to the rules and regulations promulgated by the SEC, the Financial Industry Regulatory Authority, the U.S. Commodity Futures Trading Commission ("CFTC"), the National Futures Association, the U.S. Department of Justice ("DOJ"), the U.S. Department of Labor ("DOL") and the U.S. Department of Treasury. Given our global operations, our subsidiaries are also subject to applicable securities and other laws of various non-U.S. jurisdictions, and to various non-U.S. and cross-border rules and regulations, such as the European Union's ("EU") data protection rules under the EU's General Data Protection Regulation ("GDPR"). Our non-U.S. regulators include, among others, the United Kingdom ("U.K.") Financial Conduct Authority, the Luxembourg Commission de Surveillance du Secteur Financier, the Canadian provincial and territorial securities regulatory authorities, the Monetary Authority of Singapore, the Australian Securities and Investments Commission, the Hong Kong Securities and Futures Commission, the Securities and Exchange Board of India, the Japanese Financial Services Agency and various international stock exchanges. Our non-U.S. operations may also be subject to regulation by U.S. regulators, including the SEC, the CFTC and the DOJ (for example, with respect to the Foreign Corrupt Practices Act of 1977). We are also subject not only to the sanctions programs administered by the U.S. Department of Treasury's Office of Foreign Assets Control, but also to sanctions programs adopted and administered by non-U.S. jurisdictions, including the EU, where our services and products are offered. We are also subject to the laws and regulations of states and other jurisdictions regarding the reporting and escheatment of unclaimed or abandoned property. Further, certain federal and state anti-takeover or business combination laws may impose various disclosure and procedural requirements on the ability of a person to acquire control of us, which may discourage potential merger and acquisition proposals and may delay, deter or prevent a change of control, including through transactions that some stockholders may consider desirable.

Certain of our subsidiaries are registered with the SEC under the Investment Advisers Act of 1940, the CFTC and/or registered with or licensed by various non-U.S. regulators. In addition, many of our funds are registered with the SEC under the Investment Company Act of 1940 (the "Investment Company Act") or authorized by various European and other non-U.S. regulators pursuant to the EU's Undertakings for Collective Investment in Transferable Securities ("UCITS") Directive or under other non-U.S. laws in Europe, Middle East and Africa, Asia-Pacific, Canada and Latin America. These registrations, licenses and authorizations impose numerous obligations, as well as detailed operational requirements, on such subsidiaries and such funds. Our subsidiaries must also comply with complex tax regimes. Financial reporting requirements, and the processes, controls and procedures that have been put in place to address them, are often comprehensive and complex. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation of existing laws and regulations. Political and electoral changes, developments and conflicts may also introduce additional uncertainty. While management has focused attention and resources on our compliance policies, procedures and practices, non-compliance with applicable laws, rules, regulations, conflicts of interest requirements or fiduciary principles, or our inability to keep up with, or adapt to, an ever changing, complex regulatory environment, could result in civil liability, criminal liability and/or sanctions against us, including fines and censures, injunctive relief, suspension or expulsion from a particular jurisdiction or market or the revocation of licenses or charters, any of which could adversely affect our reputation, prospects, revenues and income. Moreover, any potential accounting or reporting error, whether financial or otherwise, if material, could damage our reputation and adversely affect our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") authorized the establishment of the Financial Stability Oversight Council ("FSOC"), the mandate of which is to identify and respond to threats to U.S. financial stability. Similarly, the U.S. and other members of the G-20 group of nations have empowered the Financial Stability Board ("FSB") to identify and respond, in a coordinated manner, to threats to global financial stability. The FSOC may designate certain non-bank financial companies as systemically important financial institutions ("SIFIs"), which are subject to supervision and regulation by the Board of Governors of the Federal Reserve

System. The FSB may designate certain non-bank financial companies as global systemically important financial institutions ("G-SIFIs"); the additional regulatory requirements triggered by any such designation are not yet established. The FSOC and the FSB, as well as other global regulators including the European Commission, are considering what threats to U.S., EU and global financial stability, if any, arise from asset management companies and/or the funds that they sponsor or manage, and whether such threats can be mitigated by treating such entities as SIFIs or G-SIFIs and/or subjecting them to additional regulation. To the extent that we or any of our funds are designated as a SIFI or G-SIFI, such regulation, which could include requirements

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related to risk-based capital, leverage, liquidity, credit exposure, stress testing, resolution plans, early remediation, and certain risk management requirements, could impact our business. The Dodd-Frank Act, as well as other legislative and regulatory changes, impose other restrictions and limitations on us, resulting in increased scrutiny and oversight of our services and products. We continue to analyze the impact of the Dodd-Frank Act as implementing rules are adopted and become effective. Under the Dodd-Frank Act, which imposes a number of regulations governing derivative transactions, certain categories of swaps are currently required, and further categories of swaps are likely to be required, to be submitted for clearing by a regulated clearing organization and reported on a swap execution facility. The EU and other countries are in the process of implementing similar requirements, and there is some risk that full mutual recognition may not be achieved between the various regimes, and duplication of regulation and transaction costs may result. These and other requirements are likely to impact how we manage our investment strategies because of, among other things, an increase in the costs and expenses of utilizing swaps and other derivatives. In addition, the SEC has adopted rules that have changed the structure and operation for certain types of money market funds, and that will require certain registered funds to adopt liquidity management programs. (Compliance with certain aspects of the latter is required by December 1, 2018, and other aspects are delayed until June 1, 2019, subject to further regulatory update.) The SEC has also proposed a rule that would impose restrictions on the use of derivatives by registered funds. We expect that the complex regulatory requirements and developments applicable to us will cause us to incur additional administrative and compliance costs.

The laws and regulations applicable to our business generally involve restrictions and requirements in connection with a variety of technical, specialized, and expanding matters and concerns. For example, compliance with the Bank Secrecy Act of 1970, anti-money laundering and Know Your Customer requirements, and economic, trade and other sanctions, both domestically and internationally, has taken on heightened importance as a result of efforts to, among other things, limit terrorism and actions that undermine the stability, sovereignty and territorial integrity of countries. At the same time, there has been increased regulation with respect to the protection of customer privacy and the need to secure sensitive customer information. As we continue to address these requirements or focus on meeting new or expanded ones, we may expend a substantial amount of time and resources. Any inability to meet these requirements within the required timeframes may subject us to sanctions or other restrictions by governments and/or regulators that could adversely impact our broader business objectives.

Global regulatory and legislative actions and reforms have made the regulatory environment in which we operate more costly and future actions and reforms could adversely impact our financial condition and results of operations. The U.S. federal securities laws have been augmented substantially and made significantly more complex by, among other measures, the Dodd-Frank Act, the Sarbanes-Oxley Act of 2002 and the USA Patriot Act of 2001. Similarly, the securities and related laws outside the U.S. have been augmented substantially and made more complex by measures such as the EU's Alternative Investment Fund Managers Directive ("AIFMD") and Markets in Financial Instruments Directive II ("MiFID II"). Although negotiations between the U.K. and EU regarding the U.K.'s proposed withdrawal from the EU ("Brexit") began in June 2017, it is still unclear what terms may be agreed to in the final outcome and for any transitional period. Ongoing changes in the EU's regulatory framework applicable to our business, including changes related to Brexit and any other changes in the composition of the EU's member states, may add further complexity to our global risks and operations. Moreover, the adoption of new laws, regulations or standards and changes in the interpretation or enforcement of existing laws, regulations or standards have directly affected, and will continue to affect, our business. With new laws and changes in interpretation of existing requirements, the associated time we must dedicate to and related costs we must incur in meeting the regulatory complexities of our business have increased. In particular, certain provisions of the Dodd-Frank Act and MiFID II still require the adoption of implementing rules. We may be required to invest significant additional management time and resources to address the new regulations being adopted pursuant to the Dodd-Frank Act, MiFID II and other laws. For example, MiFID II requires the "unbundling" of research and execution charges for trading. The industry's response to the unbundling rules is still evolving and could lead to increased research costs. Outlays associated with meeting regulatory complexities have also increased as we expand our business into new jurisdictions.

As of May 2018, the EU's GDPR strengthened and unified data protection rules for individuals within the EU. The GDPR also addresses export of personal data outside the EU. The primary objectives of the GDPR are to give citizens control of their personal data and to simplify the regulatory environment for international business by unifying data protection regulation within the EU. Compliance with the stringent data protection rules under the GDPR requires an extensive review of all of our global data processing systems. The failure to comply timely and properly with GDPR rules and to maintain ongoing compliance with such rules may subject us to enforcement proceedings and significant fines and costs. For example, a failure to comply with the GDPR could result in fines up to 20 million Euros or 4% of our annual global revenues, whichever is higher.

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Further, pursuant to ongoing efforts to encourage global tax compliance, the Organization for Economic Co-operation and Development has adopted a global common reporting standard for the automatic exchange of financial information among participating countries ("CRS"), aimed at ensuring that persons with financial assets located outside of their tax residence country pay required taxes. In many cases, intergovernmental agreements between the participating countries will govern implementation of the new CRS rules. CRS will be implemented over a multi-year period and we will continue to monitor the implementing regulations and corresponding intergovernmental agreements to determine our requirements. CRS may subject us to additional reporting, compliance and administrative costs and burdens in jurisdictions where we operate as a qualifying financial institution.
Compliance activities to address these and other new legal requirements have required, and will continue to require, us to expend additional time and resources, and, consequently, we are incurring increased costs of doing business, which potentially negatively impacts our profitability and future financial results. Finally, any further regulatory and legislative actions and reforms affecting the investment management industry, including compliance initiatives, may negatively impact revenues by increasing our costs of accessing or operating in the financial markets or by making certain investment offerings less favorable to our clients.

Failure to comply with the laws, rules or regulations in any of the jurisdictions in which we operate could result in substantial harm to our reputation and results of operations. As with all investment management companies, our activities are highly regulated in almost all countries in which we conduct business. The regulatory environments of the jurisdictions where we conduct our business, or where our products are organized or sold, are complex, uncertain and subject to change. Local regulatory environments may vary widely and place additional demands on our sales, investment, legal and compliance personnel. Failure to comply with the applicable laws, rules, regulations, codes, directives, notices or guidelines in any of our jurisdictions could result in a wide range of penalties and disciplinary actions, including fines, censures and the suspension or expulsion from a particular jurisdiction or market or the revocation of licenses, any of which could adversely affect our reputation and operations. In recent years, the regulatory environments in which we operate have seen significant increased and evolving regulations, which have imposed and may continue to impose additional compliance and operational requirements and costs on us in the applicable jurisdictions. Regulators could also change their policies or laws in a manner that might restrict or otherwise impede our ability to offer our services and products in their respective markets, or we may be unable to keep up with, or adapt to, the ever changing, complex regulatory requirements in such jurisdictions or markets, which could further negatively impact our business.
Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity. We are subject to income taxes as well as non-income based taxes, and are subject to ongoing tax audits, in various jurisdictions in which we operate. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes could have a material impact on our net income or financial condition. Changes in tax laws or tax rulings may at times materially impact our effective tax rate. For example, the Tax Cuts and Jobs Act enacted into law in the U.S. on December 22, 2017 includes various changes to the tax law, including a permanent reduction in the corporate income tax rate and one-time transition tax on certain non-U.S. earnings.
Any significant limitation, failure or security breach of our information and cyber security infrastructure, software applications, technology or other systems that are critical to our operations could disrupt our business and harm our operations and reputation. We are highly dependent upon the use of various proprietary and third-party information and security technology, software applications and other technology systems to operate our business. We are also dependent on the continuity and effectiveness of our information and cyber security infrastructure, management oversight and reporting framework, policies, procedures and capabilities to protect our computer and telecommunications systems and the data that reside on or are transmitted through them and contracted third-party systems. We use technology on a daily basis in our business to, among other things, support our business continuity and operations, process and transmit confidential communications, store and maintain data, obtain securities pricing

information, process client transactions, and provide reports and other customer services to our clients. Any disruptions, inaccuracies, delays, systems failures, data or privacy breaches, or cyber or other security breaches in these and other processes could subject us to significant client dissatisfaction and losses and damage our reputation. Although we take protective measures, including measures to secure and protect information through system security technology and our internal security procedures, the technology systems we use remain vulnerable to unauthorized access, computer viruses, potential human errors or other events and circumstances that have a security impact, such as an external or internal hacker attack by one or more cyber criminals (including through the use of phishing attacks, malware, ransomware and other methods and activities designed to maliciously obtain and exploit confidential information and to otherwise cause damage) or an authorized employee or vendor inadvertently or recklessly causing us to release confidential information, which could materially harm our operations and reputation.

Potential system disruptions, failures or breaches of the technology systems we use or the security infrastructure we rely upon, and the costs necessary to address them, could result in: significant material financial loss or costs; the unauthorized disclosure or modification of sensitive or confidential client and business information; loss of valuable information; breach of client and vendor contracts; liability for stolen assets, information or identity; remediation costs to repair damage caused by the failure or breach; additional security and organizational costs to mitigate against future incidents; reputational harm; loss of confidence in our business and products; liability for failure to properly and timely review and disclose applicable incidents or provide relevant updated disclosure; regulatory investigations or actions; and/or legal claims, liability and litigation costs resulting from the incident. Moreover, loss or unauthorized disclosure or transfer of confidential customer identification information could further harm our reputation and subject us to liability under laws that protect confidential personal data, resulting in increased costs or a decline in our revenues or common stock price. Further, although we take precautions to password protect and encrypt our laptops and sensitive information on our other mobile electronic devices, if such devices are stolen, misplaced or left unattended, they may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly actions by us.

In addition, due to our interconnectivity with third-party vendors, advisors, central agents, exchanges, clearing organizations and other financial institutions, we may be adversely affected if any of them are subject to a successful cyber attack or other information security event, including those arising due to the use of mobile technology or a third-party cloud environment. Most of the software applications that we use in our business are licensed from, and supported, upgraded and maintained by, third-party vendors. Our third-party applications include enterprise cloud storage and cloud computing application services provided and maintained by third-party vendors. A suspension or termination of certain of these licenses or the related support, upgrades and maintenance could cause temporary system delays or interruption that could adversely impact our business. Also, our third-party applications may include confidential and proprietary data provided by vendors and by us. We may be subject to indemnification costs and liability to third parties if we breach any confidentiality obligations regarding vendor data, for losses related to the data, or if data we provide is deemed to infringe upon the rights of others. In addition, the failure to properly manage and operate the data centers we use could have an adverse impact on our business. Although we have in place certain disaster recovery plans, we may experience system delays and interruptions as a result of natural disasters, power failures, acts of war, and third-party failures. Technology is subject to rapid advancements and changes and our competitors may from time to time implement new technologies or more advanced platforms for their services and products, including digital advisers and other advanced electronic systems, which could adversely affect our business if we are unable to remain competitive.

Our business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our services and products, or the termination of investment management agreements representing a significant portion of our AUM, could have an adverse effect on our revenues and income. Through our subsidiaries, we provide investment management and related services to investors globally through our products. In order to be competitive and comply with our agreements, we must properly perform our fund and portfolio administration and related responsibilities, including portfolio recordkeeping and accounting, security pricing, corporate actions, investment restrictions compliance, daily net asset value computations, account reconciliations, and required distributions to fund shareholders. Many of our operations are complex and dependent on our ability to effectively process and monitor a large number of transactions, many of which may occur across numerous markets and currencies at high volumes and frequencies. Although we expend considerable resources on internal controls, supervision, technology and training in an effort to ensure that such transactions do not violate applicable guidelines, rules and regulations or adversely affect our clients, counterparties or us, our operations are ultimately dependent on our employees and subject to potential human errors. Our employees and others involved in our business may, from time to time, make mistakes that are not always immediately detected, which may disrupt our operations, cause losses, lead to regulatory fines or sanctions, or otherwise damage our reputation. In addition, any misrepresentation of our services and products in advertising materials, public relations information, social media or other external communications could also adversely affect our reputation and business prospects. Our investment management fees, which represent the majority of our revenues, are dependent on fees earned under investment management agreements that we have with our products. Our revenues could be adversely affected if such agreements representing a significant portion of our AUM are terminated or significantly altered. Further, certain of our subsidiaries may act as general partner for various investment partnerships, which may subject them to liability for the partnerships' liabilities. If we fail to properly perform and monitor our operations, our business could suffer and our revenues and income could be adversely affected.

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We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries. We sell our products such as our funds and strategies, and offer our investment management and related services, in many different regulatory jurisdictions around the world, and intend to continue to expand our operations internationally. As we do so, we will continue to face challenges to the adequacy of our resources, procedures and controls to consistently and effectively operate our business. In order to remain competitive, we must be proactive and prepared to implement necessary resources when growth opportunities present themselves, whether as a result of a business acquisition or rapidly increasing business activities in particular markets or regions. Local regulatory environments may vary widely in terms of scope, adequacy and sophistication. Similarly, local distributors, and their policies and practices as well as financial viability, may also vary widely, or be inconsistent or less developed or mature than other more internationally focused distributors. Notwithstanding potential long-term cost savings by increasing certain operations, such as transfer agent and other back-office operations, in countries or regions of the world with lower operating costs, growth of our international operations may involve near-term increases in expenses as well as additional capital costs, such as information systems and technology costs and costs related to compliance with particular regulatory or other local requirements or needs. Local requirements or needs may also place additional demands on sales and compliance personnel and resources, such as meeting local language requirements, while also integrating personnel into an organization with a single operating language. Finding, hiring and retaining additional, well-qualified personnel and crafting and adopting policies, procedures and controls to address local or regional requirements remain a challenge as we expand our operations internationally. Moreover, regulators in non-U.S. jurisdictions could also change their policies or laws in a manner that might restrict or otherwise impede our ability to distribute or authorize products or maintain their authorizations in their respective markets. Any of these local requirements, activities, or needs could increase the costs and expenses we incur in a specific jurisdiction without any corresponding increase in revenues and income from operating in the jurisdiction. Certain laws and regulations both inside and outside the U.S. have included extraterritorial application. This may lead to duplicative or conflicting legal or regulatory burdens and additional costs and risks. In addition, from time to time we enter into joint ventures or take minority stakes in companies in which we typically do not have control. These investments may involve risks, including the risk that the controlling stakeholder or our joint venture partner may have business interests, strategies or goals that are inconsistent with ours, and the risk that business decisions or other actions or omissions of the controlling stakeholder, our joint venture partner or the entity itself may result in liability for us or harm to our reputation or adversely affect the value of our investment in the entity.

We depend on key personnel and our financial performance could be negatively affected by the loss of their services. The success of our business will continue to depend upon our key personnel, including our portfolio and fund managers, investment analysts, investment advisers, sales and management personnel and other professionals as well as our executive officers and business unit heads. Competition for qualified, motivated, and highly skilled executives, professionals and other key personnel in the investment management industry remains significant. Our success depends to a substantial degree upon our ability to find, attract, retain and motivate qualified individuals, including through competitive compensation packages, and upon the continued contributions of these people. Laws and regulations, including those contained in or relating to the EU's Capital Requirements Directive, those adopted under AIFMD and UCITS and those required to be adopted under the Dodd-Frank Act, could impose restrictions on compensation paid by financial institutions, which could restrict our ability to compete effectively for qualified professionals. As our business develops, we are likely to need to increase the number of individuals that we employ. Moreover, in order to retain certain key personnel, we may be required to increase compensation to such individuals, resulting in additional expense without a corresponding increase in potential revenues. In addition, due to the global nature of our business, our key personnel may from time to time have reasons to travel to regions susceptible to higher risk of civil unrest, organized crime or terrorism, and we may be unable to ensure the safety of our personnel traveling to such regions. There is no assurance that we will be successful in finding, attracting and retaining qualified individuals, and the departure of key investment personnel, in particular, if not replaced, could cause us to lose clients, which could have a material adverse effect on our financial condition, results of operations and business prospects.

Strong competition from numerous and sometimes larger companies with competing offerings and products could limit or reduce sales of our products, potentially resulting in a decline in our market share, revenues and income. We compete with numerous investment management companies, securities brokerage and investment banking firms, insurance companies, banks and other financial institutions. Our products also compete with products offered by these competitors, as well as with real estate investment trusts, hedge funds and other products. The periodic establishment of new investment management companies and other competitors increases the competition that we face. At the same time, consolidation in the financial services industry has created stronger competitors with greater financial resources and broader distribution channels than our own. Competition is based on various factors, including, among others, business reputation, investment performance, product mix and offerings, service quality and innovation, distribution relationships, and fees charged. Further, although we may offer certain types of exchange-traded funds, to the extent that there is a trend among existing or potential clients in favor of lower fee index and other exchange-traded funds, it may favor our competitors who may offer such products that are more established or on a larger scale than we do. Additionally, competing securities broker-dealers, whom we rely upon to distribute and sell certain of our funds and other products, may also sell their own proprietary funds and products, which could limit the distribution of our products. To the extent that existing or potential clients, including securities broker-dealers, decide to invest in or distribute the products of our competitors, the sales of our products as well as our market share, revenues and income could decline. Our ability to attract and retain AUM is also dependent on the relative investment performance of our products, offering a mix of products and strategies that meets investor demands, and our ability to maintain our investment management fees and pricing structure at competitive levels.

Changes in the third-party distribution and sales channels on which we depend could reduce our income and hinder our growth. We derive nearly all of our fund sales through third-party broker-dealers, banks, investment advisers and other financial intermediaries. Increasing competition for these distribution channels and regulatory initiatives have caused our distribution costs to rise and could cause further increases in the future or could otherwise negatively impact the distribution of our products. The SEC has proposed changes to Rule 12b-1 promulgated under the Investment Company Act which, if adopted, could limit our ability to recover expenses relating to the distribution of our U.S.-registered funds. Higher distribution costs lower our income; consolidations in the broker-dealer industry could also adversely impact our income. Moreover, if several of the major financial advisers who distribute our products were to cease operations or limit or otherwise end the distribution of our products, it could have a significant adverse impact on our income. Pursuant to the Dodd-Frank Act, the SEC may establish different standards for broker-dealers in their interaction with retail customers, which could have an impact on sales and/or distribution costs. In April 2018, the SEC proposed rules that would apply to all retail investors and would, among other things: require broker-dealers to act in the best interest of their retail customers when recommending securities and provide additional disclosure about the scope and terms of the relationship; clarify the fiduciary duty that an investment adviser owes to its clients; and require a new short-form disclosure document to inform clients of the nature of their relationships with investment professionals and investment advisers, including differences in the principal types of services offered, the legal standards of conduct that apply to each, the fees a client might pay, and conflicts of interest that may exist. In addition, the U.K., the Netherlands and the EU in MiFID II have adopted regimes which ban, or may limit, the payment of commissions and other inducements to intermediaries in relation to certain sales to retail customers in those jurisdictions, and similar regimes are under consideration in several other jurisdictions. Depending on their exact terms, such regimes may result in existing flows of business moving to less profitable channels or even to competitors providing substitutable products outside the regime. Arrangements with non-independent advisers will also be affected as narrower rules related to the requirement that commissions reflect an enhancement of the service to customers come into effect, along with a prescriptive list of permissible non-monetary benefits. The interpretation of the inducements rules has also resulted in major changes to how fund managers finance investment research with many firms, including ours, opting to pay for third-party investment research for client accounts covered by MiFID II. There is no assurance we will continue to have access to the third-party broker-dealers, banks, investment advisers and other financial intermediaries that currently distribute our products, or continue to have the opportunity to offer all or some of our existing products through them. A failure to maintain strong business relationships with such distributors may also impair our distribution and sales operations. Because we use broker-dealers, banks, investment advisers and other financial intermediaries to sell our products, we do not control the ultimate investment recommendations given to clients. Any inability to access and successfully sell our products to clients through third-party distribution channels could have a negative effect on our level of AUM, income and overall business and financial condition.

Our increasing focus on international markets as a source of investments and sales of our products subjects us to increased exchange rate and market-specific political, economic or other risks that may adversely impact our revenues and income generated overseas. While we maintain a significant portion of our operations in the U.S., we also provide services and earn revenues in Europe, Middle East and Africa, Asia-Pacific, Canada, The Bahamas and Latin America. As a result, we are subject to foreign currency exchange risk through our non-U.S. operations. Fluctuations in the exchange rates to the U.S. dollar have affected and may in the future affect our financial results from one period to the next. While we have taken steps to reduce our exposure to foreign exchange risk, for example, by denominating a significant amount of our transactions in U.S. dollars, the situation may change in the future as our business continues to grow outside the U.S. Appreciation of the U.S. dollar has and could in the future moderate revenues from managing our products internationally, or could affect relative investment performance of certain of our products invested in non-U.S. securities. In addition, we have risk associated with the foreign exchange revaluation of U.S. dollar balances held by certain non-U.S. subsidiaries for which the local currency is the functional currency. Separately, management fees that we earn tend to be higher in connection with non-U.S. AUM than with U.S. AUM. Consequently, downturns in international markets have in the past and could in the future have a significant effect on our revenues and income. Moreover, our emerging market portfolios and revenues derived from managing these portfolios are subject to significant risks of loss from financial, economic, political and diplomatic developments, currency fluctuations, social instability, changes in governmental policies, expropriation, nationalization, asset confiscation and changes in legislation related to non-U.S. ownership. International trading markets, particularly in some emerging market countries, are often smaller, less liquid, less regulated and significantly more volatile than those in the U.S. As our business continues to grow in non-U.S. markets, any ongoing and future business, economic, political or social unrest affecting these markets, in addition to any direct consequences such unrest may have on our personnel and facilities located in the affected area, may also have a more lasting impact on the long-term investment climate in these and other areas and, as a result, our AUM and the corresponding revenues and income that we generate from them may be negatively affected.

Harm to our reputation or poor investment performance of our products could reduce the level of our AUM or affect our sales, and negatively impact our revenues and income. Our reputation is critical to the success of our business. We believe that our brand names have been, and continue to be, well received both in our industry and with our clients, reflecting the fact that our brands, like our business, are based in part on trust and confidence. If our reputation is harmed, existing clients may reduce amounts held in, or withdraw entirely from, our products or our products may terminate their management agreements with us, which could reduce the amount of our AUM and cause us to suffer a corresponding loss in our revenues and income. Our investment performance, along with achieving and maintaining superior distribution and client service, is also critical to the success of our business. Strong investment performance often stimulates sales of our products. Poor investment performance as compared to third-party benchmarks or competitive products has in the past and could in the future lead to a decrease in sales of our products and stimulate redemptions from existing products, generally lowering the overall level of AUM and reducing the management fees we earn. There is no assurance that past or present investment performance in our products will be indicative of future performance. Any poor investment performance may negatively impact our revenues and income. Reputational harm or poor investment performance may cause us to lose current clients and we may be unable to continue to attract new clients or develop new business. If we fail to address, or appear to fail to address, successfully and promptly the underlying causes of any reputational harm or poor investment performance, we may be unsuccessful in repairing any existing harm to our reputation or performance and our future business prospects would likely be affected.

Our future results are dependent upon maintaining an appropriate level of expenses, which is subject to fluctuation. The level of our expenses is subject to fluctuation and may increase for the following or other reasons: changes in the level and scope of our operating expenses in response to market conditions or regulations; variations in the level of total compensation expense due to, among other things, bonuses, merit increases and severance costs, changes in our employee count and mix, and competitive factors; and/or changes in expenses and capital costs, including costs incurred to maintain and enhance our administrative and operating services infrastructure or to cover uninsured losses, and an increase in insurance expenses including through the assumption of higher deductibles and/or co-insurance liability.

Our ability to successfully manage and grow our business can be impeded by systems and other technological limitations. Our continued success in effectively managing and growing our business depends on our ability to integrate the varied accounting, financial, information, and operational systems on a global basis. Moreover, adapting or developing the existing technology systems we use to meet our internal needs, as well as client needs, industry demands and new regulatory requirements, is also critical for our business. The introduction of new technologies presents new challenges to us. We have an ongoing need to continually upgrade and improve our various technology systems, including our data processing, financial, accounting, shareholder servicing and trading systems. Further, we also must be proactive and prepared to implement technology systems when growth opportunities present themselves, whether as a result of a business acquisition or rapidly increasing business activities in particular markets or regions. These needs could present operational issues or require, from time to time, significant capital spending. It also may require us to reevaluate the current value and/or expected useful lives of the technology systems we use, which could negatively impact our results of operations.

Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability. Should we experience a local or regional disaster or other business continuity problem, such as an earthquake, tsunami, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the safety and availability of our personnel, our office facilities and infrastructure, and the proper functioning of our technology, computer, telecommunication and other systems and operations that are critical to our business. While our operational size, the diversity of locations from which we operate, and our various back-up systems provide us with an advantage should we experience a local or regional disaster or other business continuity event, we could still experience operational challenges, in particular depending upon how a local or regional event may affect our human capital across our operations or with regard to particular aspects of our operations, such as key executive officers or personnel in our technology group. Moreover, as we grow our operations in new geographic regions, the potential for particular types of natural or man-made disasters; political, economic or infrastructure instabilities; information, technology or security limitations or breaches; or other country- or region-specific business continuity risks increases. Past disaster recovery efforts have demonstrated that even seemingly localized events may require broader disaster recovery efforts throughout our operations and, consequently, we regularly assess and take steps to improve upon our existing business continuity plans and key management succession. However, a disaster on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to successfully recover should we experience a disaster or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.

Regulatory and governmental examinations and/or investigations, litigation and the legal risks associated with our business, could adversely impact our AUM, increase costs and negatively impact our profitability and/or our future financial results. From time to time we receive and respond to governmental or regulatory requests for documents or other information, subpoenas, examinations and investigations in connection with our business activities. In addition, governmental or regulatory examinations or investigations that have been inactive could become active. In addition, from time to time, we are named as a party in litigation. We may be obligated, and under our certificate of incorporation, by-laws and standard form of director indemnification agreement we are obligated under certain conditions, or we may choose, to indemnify directors, officers or employees against liabilities and expenses they may incur in connection with such matters to the extent permitted under applicable law. Even if claims made against us are without merit, litigation typically is an expensive process. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time. Eventual exposures from and expenses incurred relating to any litigation, investigations, examinations and settlements could adversely impact our AUM, increase costs and/or negatively impact our profitability and financial results. Allegations, findings or judgments of wrongdoing by regulatory or governmental authorities or in litigation against us, or settlements with respect thereto, could affect our reputation, increase our costs of doing business and/or negatively impact our revenues, any of which could have a material negative impact on our financial results.

Our ability to meet cash needs depends upon certain factors, including the market value of our assets, operating cash flows and our perceived creditworthiness. Our ability to meet anticipated cash needs depends upon factors such as the market value of our assets, our operating cash flows and our creditworthiness as perceived by lenders. If we are unable to obtain cash, financing or access to the capital markets in a timely manner, we may be forced to incur unanticipated costs or revise our business plans, and our business could be adversely impacted. Further, our access to the capital markets depends significantly on our credit ratings. A reduction in our long- or short-term credit ratings could increase our borrowing costs and limit our access to the capital markets. Volatility in the global financing markets may also impact our ability to access the capital markets should we seek to do so, and may have an adverse effect on investors' willingness to purchase our securities, interest rates, credit spreads and/or the valuation levels of equity markets.

We are dependent on the earnings of our subsidiaries. Substantially all of our operations are conducted through our subsidiaries. As a result, our cash flow and our ability to fund operations are dependent upon the earnings of our subsidiaries and the distribution of earnings, loans or other payments by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to fund our payment obligations, whether by dividends, distributions, loans or other payments. Any payments to us by our subsidiaries could be subject to statutory or contractual restrictions and are contingent upon our subsidiaries' earnings and business considerations. Certain of our subsidiaries are subject to regulatory restrictions which may limit their ability to transfer assets to their parent companies. Our financial condition could be adversely affected if certain of our subsidiaries are unable to distribute assets to us.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We conduct our worldwide operations using a combination of leased and owned facilities. While we believe we have sufficient facilities to conduct our business at present, we will continue to lease, acquire and dispose of facilities throughout the world as necessary.

We lease space in various states in the U.S., including California, Connecticut, Delaware, Florida, Massachusetts, New Jersey, New York, Utah, Virginia and Washington, D.C., and in various non-U.S. locations, including Australia, Austria, Belgium, Brazil, Canada, the People's Republic of China (including Hong Kong), Colombia, France, Germany, Hungary, India, Isle of Man, Italy, Japan, Luxembourg, Malaysia, Mexico, the Netherlands, Poland, Romania, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, United Arab

Emirates, the U.K. (including England and Scotland) and Vietnam. As of September 30, 2018, we leased and occupied approximately 1,147,000 square feet of space. We have also leased and subsequently subleased to third parties approximately 35,000 square feet of excess leased space.

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In addition, we own buildings in San Mateo, Rancho Cordova and Stockton, California; St. Petersburg and Ft. Lauderdale, Florida; Hyderabad, India; and Nassau, The Bahamas, as well as space in office buildings in Argentina, India and Singapore. The buildings we own consist of approximately 2,118,000 square feet of space. We have leased to third parties approximately 545,000 square feet of excess owned space.

Item 3. Legal Proceedings.

The information set forth in response to this Item 3 of Regulation S-K under "Legal Proceedings" is incorporated by reference from the "Legal Proceedings" section in Note 12 – Commitments and Contingencies in the notes to consolidated financial statements in Item 8 of Part II of this Form 10-K, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) to Form 10-K, the following description of our executive officers is included as an unnumbered item in Part I of this report in lieu of being included in our definitive proxy statement for our annual meeting of stockholders. Set forth below are the name, age, present title, and certain other information for each of our executive officers as of November 9, 2018. Each executive officer is appointed by Franklin's Board of Directors and holds his/her office until the earlier of his/her death, resignation, retirement, disqualification or removal.

Gregory E. Johnson

Age 57

Chairman of the Board of Franklin since June 2013 and Chief Executive Officer of Franklin since January 2004; formerly, President of Franklin from December 1999 to September 2015; officer and/or director of certain subsidiaries of Franklin; director or trustee of 44 registered investment companies managed or advised by subsidiaries of Franklin.

Jennifer M. Johnson

Age 54

President of Franklin since December 2016 and Chief Operating Officer since February 2017; formerly, Co-President of Franklin from October 2015 to December 2016, Executive Vice President and Chief Operating Officer of Franklin from March 2010 to September 2015, Executive Vice President–Operations and Technology of Franklin from December 2005 to March 2010, and Senior Vice President and Chief Information Officer of Franklin from May 2003 to December 2005; officer and/or director of certain subsidiaries of Franklin; director or trustee of certain registered investment companies managed or advised by subsidiaries of Franklin.

Rupert H. Johnson, Jr.

Age 78

Vice Chairman of Franklin since December 1999 and director of Franklin since 1969; officer and/or director of certain subsidiaries of Franklin; director or trustee of 40 registered investment companies managed or advised by subsidiaries of Franklin.

Kenneth A. Lewis

Age 57

Executive Vice President of Franklin since October 2007 and Chief Financial Officer of Franklin since October 2006; formerly, Senior Vice President and Treasurer of Franklin from October 2006 to October 2007, Vice President–Enterprise Risk Management of Franklin from April 2006 to October 2006 and Vice President and Treasurer of Franklin from June 2002 to April 2006; officer and/or director of certain subsidiaries of Franklin.

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Jed A. Plafker
Age 47
Senior Vice President of Franklin since June 2018; officer and/or director of various global advisory services related subsidiaries of Franklin for more than the past five years, including as Executive Vice President of subsidiary Franklin Templeton Institutional, LLC since April 2009, President and director of subsidiary Templeton Institutional, Inc. since September 2009, and President since February 2017 and director since December 2016 of subsidiary Templeton Worldwide, Inc.
Craig S. Tyle
Age 58
Executive Vice President and General Counsel of Franklin since August 2005; formerly, a partner at Shearman & Sterling LLP (a law firm) from March 2004 to July 2005 and General Counsel for the Investment Company Institute (a trade group for the U.S. fund industry) from September 1997 through March 2004; officer and/or director of certain subsidiaries of Franklin; officer of certain registered investment companies managed or advised by subsidiaries of Franklin.
Alok Sethi
Age 57
Officer and/or director of various operations and technology related subsidiaries of Franklin for more than the past five years, including as Senior Vice President of subsidiaries Franklin Advisers, Inc., Franklin Templeton Institutional, LLC and Templeton Investment Counsel, LLC since July 2014, Vice President of subsidiary FASA, LLC since June 2014, and Vice President of subsidiary Franklin Templeton Companies, LLC since June 2010.

Family Relationships

Gregory E. Johnson is the nephew of Rupert H. Johnson, Jr. and the brother of Charles E. Johnson (a director of Franklin) and Jennifer M. Johnson. Charles E. Johnson is the nephew of Rupert H. Johnson, Jr. and the brother of Gregory E. Johnson and Jennifer M. Johnson. Jennifer M. Johnson is the niece of Rupert H. Johnson, Jr. and the sister of Gregory E. Johnson and Charles E. Johnson.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the NYSE under the ticker symbol “BEN.” At October 31, 2018, there were 2,914 stockholders of record of our common stock.

The equity compensation plan information called for by Item 201(d) of Regulation S-K is set forth in Item 12 of Part III of this Form 10-K under the heading “Equity Compensation Plan Information.”

The following table provides information with respect to the shares of our common stock that we repurchased during the three months ended September 30, 2018.

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 2018	3,544,755	$ 32.59	3,544,755	78,990,218
August 2018	3,935,173	$ 32.44	3,935,173	75,055,045
September 2018	3,320,168	$ 31.53	3,320,168	71,734,877
Total	10,800,096		10,800,096	

Under our stock repurchase program, which is not subject to an expiration date, we can repurchase shares of our common stock from time to time in the open market and in private transactions in accordance with applicable laws and regulations, including without limitation applicable federal securities laws. In order to pay taxes due in connection with the vesting of

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employee and executive officer stock and stock unit awards, we may repurchase shares under our program using a net stock issuance method. In April 2018, we announced that our Board of Directors authorized the repurchase of up to 80.0 million additional shares of our common stock under the stock repurchase program.

Item 6. Selected Financial Data.

FINANCIAL HIGHLIGHTS

as of and for the fiscal years ended September 30,	2018	2017	2016	2015	2014
Summary of Operations (in millions)					
Operating revenues	$6,319.1	$6,392.2	$6,618.0	$7,948.7	$8,491.4
Operating income	2,118.6	2,264.3	2,365.7	3,027.6	3,221.2
Operating margin	33.5 %	35.4 %	35.7 %	38.1 %	37.9 %
Net income attributable to Franklin Resources, Inc.	764.4 [1]	1,696.7	1,726.7	2,035.3	2,384.3
Financial Data (in millions)					
Total assets	$14,383.5	$17,534.0	$16,098.8	$16,335.7	$16,357.1
Debt	695.9	1,044.2	1,401.2	1,348.0	1,198.2
Debt of consolidated investment products	32.6	53.4	682.2	807.3	950.8
Franklin Resources, Inc. stockholders' equity	9,899.2	12,620.0	11,935.8	11,841.0	11,584.1
Operating cash flows	2,229.7	1,135.4	1,727.7	2,252.0	2,138.0
Investing cash flows	(290.4)	52.0	192.2	248.9	390.6
Financing cash flows	(3,761.7)	(956.0)	(1,800.7)	(1,612.2)	(1,195.3)
Assets Under Management (in billions)					
Ending	$717.1	$753.2	$733.3	$770.9	$898.0
Average [2]	740.5	736.9	749.3	869.5	887.9
Per Common Share					
Earnings					
Basic	$1.39	$3.01	$2.94	$3.29	$3.79
Diluted	1.39	3.01	2.94	3.29	3.79
Cash dividends declared	3.92	0.80	0.72	1.10	0.48
Book value	19.07	22.74	20.93	19.62	18.60
Employee Headcount	9,691	9,386	9,059	9,489	9,266

[1] Includes an estimated income tax charge of $968.8 million resulting from enactment of the Tax Cuts and Jobs Act of 2017.

[2] Represents simple monthly average AUM.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD-LOOKING STATEMENTS

The following discussion and analysis of the results of operations and financial condition of Franklin Resources, Inc. ("Franklin") and its subsidiaries (collectively, the "Company") should be read in conjunction with the "Forward-looking Statements" disclosure set forth in Part I and the "Risk Factors" set forth in Item 1A of Part I of this Annual Report on Form 10-K and in any more recent filings with the U.S. Securities and Exchange Commission (the "SEC"), each of which describe these risks, uncertainties and other important factors in more detail.

OVERVIEW

We are a global investment management organization and derive our operating revenues and net income from providing investment management and related services to investors in jurisdictions worldwide through our investment products which include our sponsored funds, as well as institutional and high net-worth separate accounts. In addition to investment management, our services include fund administration, sales, distribution, marketing, shareholder servicing, and other services. Our products and investment management and related services are distributed or marketed to investors globally under various distinct brand names, including: Franklin®, Templeton®, Franklin Mutual Series®, Franklin Bissett®, Fiduciary Trust™, Darby®, Balanced Equity Management®, K2®, LibertyShares® and Edinburgh Partners™. We offer a broad product mix of equity, multi-asset/balanced, fixed income and cash management funds and accounts, including alternative investment products, which meet a wide variety of specific investment needs of individual and institutional investors. We also provide sub-advisory services to certain investment products sponsored by other companies which may be sold to investors under the brand names of those other companies or on a co-branded basis.

The level of our revenues depends largely on the level and relative mix of assets under management ("AUM"). As noted in the "Risk Factors" section set forth above in Item 1A of Part I of this Annual Report on Form 10-K, the amount and mix of our AUM are subject to significant fluctuations and can negatively impact our revenues and income. The level of our revenues also depends on mutual fund sales, the number of shareholder transactions and accounts, and the fees charged for our services, which are based on contracts with our funds or our clients. These arrangements could change in the future.

During the fiscal year ended September 30, 2018 ("fiscal year 2018"), the global equity markets experienced volatility but provided strong positive returns, reflecting, among other things, generally positive U.S. economic data tempered by concerns about rising interest rates, global trade tensions and political uncertainty, as the S&P 500 Index and MSCI World Index increased 17.9% and 11.8%. The global bond markets were negatively impacted by rising interest rates and the Bloomberg Barclays Global Aggregate Index decreased 1.3% for the fiscal year.

Our total AUM was $717.1 billion at September 30, 2018, 5% lower than at September 30, 2017 as $38.0 billion of net outflows and $7.9 billion of net market change, distributions and other were partially offset by $9.8 billion from an acquisition. Simple monthly average AUM ("average AUM") increased slightly during fiscal year 2018.

The business and regulatory environments in which we operate globally remain complex, uncertain and subject to change. We are subject to various laws, rules and regulations globally that impose restrictions, limitations and registration, reporting and disclosure requirements on our business and add complexity to our global compliance operations.

Uncertainties regarding the global economy remain for the foreseeable future. As we continue to confront the challenges of the current economic and regulatory environments, we remain focused on the investment performance of our products and on providing high quality service to our clients. We continuously perform reviews of our business model. While we remain focused on expense management, we will also seek to attract, retain and develop employees and invest strategically in systems and technology that will provide a secure and stable environment. We will continue to seek to protect and further our brand recognition while developing and maintaining broker-dealer and client relationships. The success of these and other strategies may be influenced by the factors discussed in the "Risk Factors" section in Part I of this Annual Report.

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RESULTS OF OPERATIONS

(in millions, except per share data) for the fiscal years ended September 30,	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Operating revenues	$6,319.1	$6,392.2	$6,618.0	(1 %)	(3 %)
Operating income	2,118.6	2,264.3	2,365.7	(6 %)	(4 %)
Net income attributable to Franklin Resources, Inc.	764.4	1,696.7	1,726.7	(55 %)	(2 %)
Diluted earnings per share	$1.39	$3.01	$2.94	(54 %)	2 %
Operating margin [1]	33.5 %	35.4 %	35.7 %		

[1] Defined as operating income divided by total operating revenues.

Operating income decreased $145.7 million in fiscal year 2018 due to a 1% decrease in operating revenues and a 2% increase in operating expenses. Net income attributable to Franklin Resources, Inc. decreased $932.3 million primarily due to an estimated income tax charge of $968.8 million resulting from enactment of the Tax Cuts and Jobs Act of 2017.

Operating income decreased $101.4 million in the fiscal year ended September 30, 2017 ("fiscal year 2017") as a 3% decrease in operating revenues was partially offset by a 3% decrease in operating expenses. Net income attributable to Franklin Resources, Inc. decreased $30.0 million as the decrease in operating income was significantly offset by a $152.3 million increase in investment and other income, net, less the portion attributable to noncontrolling interests.

Diluted earnings per share decreased in fiscal year 2018 consistent with net income and increased in fiscal year 2017 despite the decrease in net income. The amounts were impacted by 4% decreases in diluted average common shares outstanding in both periods primarily resulting from repurchases of shares of our common stock.

ASSETS UNDER MANAGEMENT

AUM by investment objective was as follows:

(in billions) as of September 30,	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Equity					
Global/international	$194.4	$209.8	$200.4	(7 %)	5 %
United States	115.2	107.2	103.3	7 %	4 %
Total equity	309.6	317.0	303.7	(2 %)	4 %
Multi-Asset/Balanced	138.9	143.3	137.4	(3 %)	4 %
Fixed Income					
Tax-free	63.9	71.0	76.5	(10 %)	(7 %)
Taxable					
Global/international	150.6	165.0	156.2	(9 %)	6 %
United States	44.8	50.6	53.4	(11 %)	(5 %)
Total fixed income	259.3	286.6	286.1	(10 %)	0 %
Cash Management	9.3	6.3	6.1	48 %	3 %
Total	$717.1	$753.2	$733.3	(5 %)	3 %
Average for the Year	$740.5	$736.9	$749.3	0 %	(2 %)

AUM at September 30, 2018 decreased 5% from September 30, 2017 as $38.0 billion of net outflows and $7.9 billion of net market change, distributions and other were partially offset by $9.8 billion from an acquisition. Average AUM increased slightly during fiscal year 2018.

AUM at September 30, 2017 increased 3% from September 30, 2016 primarily due to $58.1 billion of net market change, distributions and other, partially offset by $38.6 billion of net outflows. Average AUM decreased 2% during fiscal year 2017.

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Average AUM is generally more indicative of trends in revenue for providing investment management services than the year-over-year change in ending AUM.

Average AUM and the mix of average AUM by investment objective are shown below.

(in billions)	Average AUM			2018	2017
for the fiscal years ended September 30,	2018	2017	2016	vs. 2017	vs. 2016
Equity					
Global/international	$205.8	$203.7	$205.1	1 %	(1 %)
United States	110.2	104.4	101.1	6 %	3 %
Total equity	316.0	308.1	306.2	3 %	1 %
Multi-Asset/Balanced	140.6	140.2	135.5	0 %	3 %
Fixed Income					
Tax-free	67.3	72.3	74.0	(7 %)	(2 %)
Taxable					
Global/international	160.6	157.8	172.6	2 %	(9 %)
United States	48.0	52.3	54.5	(8 %)	(4 %)
Total fixed income	275.9	282.4	301.1	(2 %)	(6 %)
Cash Management	8.0	6.2	6.5	29 %	(5 %)
Total	$740.5	$736.9	$749.3	0 %	(2 %)

	Mix of Average AUM		
for the fiscal years ended September 30,	2018	2017	2016
Equity			
Global/international	28 %	28 %	27 %
United States	15 %	14 %	14 %
Total equity	43 %	42 %	41 %
Multi-Asset/Balanced	19 %	19 %	18 %
Fixed Income			
Tax-free	9 %	10 %	10 %
Taxable			
Global/international	22 %	21 %	23 %
United States	6 %	7 %	7 %
Total fixed income	37 %	38 %	40 %
Cash Management	1 %	1 %	1 %
Total	100%	100%	100%

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Components of the change in AUM are shown below. Net market change, distributions and other includes appreciation (depreciation), distributions to investors that represent return on investments and return of capital, foreign exchange revaluation and net cash management.

(in billions) for the fiscal years ended September 30,	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Beginning AUM	$753.2	$733.3	$770.9	3 %	(5 %)
Long-term sales	105.0	112.3	101.7	(7 %)	10 %
Long-term redemptions	(162.1)	(169.7)	(186.9)	(4 %)	(9 %)
Long-term net exchanges	(0.4)	(0.1)	(0.5)	300 %	(80 %)
Long-term reinvested distributions	19.5	18.9	23.3	3 %	(19 %)
Net flows	(38.0)	(38.6)	(62.4)	(2 %)	(38 %)
Acquisitions	9.8	0.4	—	NM	NM
Net market change, distributions and other	(7.9)	58.1	24.8	NM	134 %
Ending AUM	$717.1	$753.2	$733.3	(5 %)	3 %

Components of the change in AUM by investment objective were as follows:

(in billions)	Equity			Fixed Income				
for the fiscal year ended September 30, 2018	Global/International	United States	Multi-Asset/Balanced	Tax-Free	Taxable Global/International	Taxable United States	Cash Management	Total
AUM at October 1, 2017	$209.8	$107.2	$ 143.3	$71.0	$ 165.0	$50.6	$ 6.3	$753.2
Long-term sales	22.8	16.6	15.3	5.6	36.9	7.8	—	105.0
Long-term redemptions	(48.0)	(23.6)	(23.2)	(11.9)	(42.2)	(13.2)	—	(162.1)
Long-term net exchanges	(0.3)	0.9	0.2	(0.6)	(0.8)	0.2	—	(0.4)
Long-term reinvested distributions	2.8	4.0	5.5	2.0	4.1	1.1	—	19.5
Net flows	(22.7)	(2.1)	(2.2)	(4.9)	(2.0)	(4.1)	—	(38.0)
Acquisition	9.8	—	—	—	—	—	—	9.8
Net market change, distributions and other	(2.5)	10.1	(2.2)	(2.2)	(12.4)	(1.7)	3.0	(7.9)
AUM at September 30, 2018	$194.4	$115.2	$ 138.9	$63.9	$ 150.6	$44.8	$ 9.3	$717.1

(in billions)	Equity			Fixed Income				
for the fiscal year ended September 30, 2017	Global/International	United States	Multi-Asset/Balanced	Tax-Free	Taxable Global/International	Taxable United States	Cash Management	Total
AUM at October 1, 2016	$200.4	$103.3	$ 137.4	$76.5	$ 156.2	$ 53.4	$ 6.1	$733.3
Long-term sales	24.7	14.7	16.8	7.4	38.2	10.5	—	112.3
Long-term redemptions	(48.4)	(25.4)						