

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(MARK ONE)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2019

or

☐ **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

(State or other jurisdiction of incorporation or organization)

13-2670991

(I.R.S. Employer Identification No.)

One Franklin Parkway, San Mateo, CA 94403

(Address of principal executive offices) (Zip code)

(650) 312-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.10 per share	BEN	New York Stock Exchange

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. ☒ Yes ☐ 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). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

Number of shares of the registrant's common stock outstanding at January 22, 2020: 496,897,552.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.
FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended December 31,	
	2019	2018
<i>(in millions, except per share data)</i>		
Operating Revenues		
Investment management fees	\$ 979.7	\$ 971.8
Sales and distribution fees	351.5	354.8
Shareholder servicing fees	50.0	55.1
Other	31.5	29.8
Total operating revenues	1,412.7	1,411.5
Operating Expenses		
Sales, distribution and marketing	443.9	444.5
Compensation and benefits	389.4	355.0
Information systems and technology	62.5	60.9
Occupancy	34.5	31.2
General, administrative and other	89.7	108.4
Total operating expenses	1,020.0	1,000.0
Operating Income	392.7	411.5
Other Income (Expenses)		
Investment and other income (losses), net	59.6	(59.1)
Interest expense	(6.7)	(6.4)
Other income (expenses), net	52.9	(65.5)
Income before taxes	445.6	346.0
Taxes on income	97.5	86.0
Net income	348.1	260.0
Less: net income (loss) attributable to		
Redeemable noncontrolling interests	9.0	(15.4)
Nonredeemable noncontrolling interests	(11.4)	(0.5)
Net Income Attributable to Franklin Resources, Inc.	\$ 350.5	\$ 275.9
Earnings per Share		
Basic	\$ 0.70	\$ 0.54
Diluted	0.70	0.54

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

<i>(in millions)</i>	Three Months Ended December 31,	
	2019	2018
Net Income	\$ 348.1	\$ 260.0
Other Comprehensive Income (Loss)		
Currency translation adjustments, net of tax	58.0	(14.6)
Net unrealized losses on defined benefit plans, net of tax	(0.9)	(0.4)
Net unrealized losses on investments, net of tax	(1.7)	—
Total other comprehensive income (loss)	55.4	(15.0)
Total comprehensive income	403.5	245.0
Less: comprehensive income (loss) attributable to		
Redeemable noncontrolling interests	9.0	(15.4)
Nonredeemable noncontrolling interests	(11.4)	(0.5)
Comprehensive Income Attributable to Franklin Resources, Inc.	\$ 405.9	\$ 260.9

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
Unaudited

<i>(in millions, except share and per share data)</i>	December 31, 2019	September 30, 2019
Assets		
Cash and cash equivalents	\$ 5,817.3	\$ 5,803.4
Receivables	710.9	740.0
Investments (including \$997.3 and \$589.7 at fair value at December 31, 2019 and September 30, 2019)	2,003.7	1,555.8
Assets of consolidated investment products		
Cash and cash equivalents	159.0	154.2
Receivables	76.6	99.0
Investments, at fair value	2,041.2	2,303.9
Property and equipment, net	691.9	683.7
Goodwill and other intangible assets, net	3,032.2	2,994.5
Operating lease right-of-use assets	275.3	—
Other	193.7	197.7
Total Assets	\$ 15,001.8	\$ 14,532.2
Liabilities		
Compensation and benefits	\$ 353.8	\$ 502.4
Accounts payable and accrued expenses	194.0	222.9
Dividends	142.1	137.4
Commissions	255.8	254.0
Income taxes	886.5	824.7
Debt	697.0	696.9
Liabilities of consolidated investment products		
Accounts payable and accrued expenses	59.0	81.5
Debt	99.4	50.8
Deferred taxes	132.8	120.1
Operating lease liabilities	317.9	—
Other	238.7	270.6
Total liabilities	3,377.0	3,161.3
Commitments and Contingencies (Note 10)		
Redeemable Noncontrolling Interests	790.4	746.7
Stockholders' Equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; none issued	—	—
Common stock, \$0.10 par value, 1,000,000,000 shares authorized; 497,599,517 and 499,303,269 shares issued and outstanding at December 31, 2019 and September 30, 2019	49.8	49.9
Retained earnings	10,408.0	10,288.2
Accumulated other comprehensive loss	(376.2)	(431.6)
Total Franklin Resources, Inc. stockholders' equity	10,081.6	9,906.5
Nonredeemable noncontrolling interests	752.8	717.7
Total stockholders' equity	10,834.4	10,624.2
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity	\$ 15,001.8	\$ 14,532.2

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Unaudited

(in millions) for the three months ended December 31, 2019	Franklin Resources, Inc.							
	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accum- ulated Other Compre- hensive Loss	Stockholders' Equity	Non- redeemable Non- controlling Interests	Total Stockholders' Equity
	Shares	Amount						
Balance at October 1, 2019	499.3	\$ 49.9	\$ —	\$ 10,288.2	\$ (431.6)	\$ 9,906.5	\$ 717.7	\$ 10,624.2
Net income (loss)				350.5		350.5	(11.4)	339.1
Other comprehensive income					55.4	55.4		55.4
Dividends declared on common stock (\$0.27 per share)				(135.3)		(135.3)		(135.3)
Repurchase of common stock	(4.6)	(0.4)	(27.8)	(95.4)		(123.6)		(123.6)
Issuance of common stock	2.9	0.3	28.7			29.0		29.0
Stock-based compensation			(0.9)			(0.9)		(0.9)
Net subscriptions and other							28.2	28.2
Deconsolidation of investment product							(0.7)	(0.7)
Acquisition							19.0	19.0
Balance at December 31, 2019	497.6	\$ 49.8	\$ —	\$ 10,408.0	\$ (376.2)	\$ 10,081.6	\$ 752.8	\$ 10,834.4

(in millions) for the three months ended December 31, 2018	Franklin Resources, Inc.							
	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accum- ulated Other Compre- hensive Loss	Stockholders' Equity	Non- redeemable Non- controlling Interests	Total Stockholders' Equity
	Shares	Amount						
Balance at October 1, 2018	519.1	\$ 51.9	\$ —	\$ 10,217.9	\$ (370.6)	\$ 9,899.2	\$ 308.7	\$ 10,207.9
Adoption of new accounting guidance				22.9	(8.0)	14.9		14.9
Net income (loss)				275.9		275.9	(0.5)	275.4
Other comprehensive loss					(15.0)	(15.0)		(15.0)
Dividends declared on common stock (\$0.26 per share)				(133.8)		(133.8)		(133.8)
Repurchase of common stock	(10.7)	(1.1)	(30.8)	(295.0)		(326.9)		(326.9)
Issuance of common stock	3.1	0.3	33.6			33.9		33.9
Stock-based compensation			(2.8)			(2.8)		(2.8)
Net subscriptions and other							23.1	23.1
Balance at December 31, 2018	511.5	\$ 51.1	\$ —	\$ 10,087.9	\$ (393.6)	\$ 9,745.4	\$ 331.3	\$ 10,076.7

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Three Months Ended December 31,	
	2019	2018
<i>(in millions)</i>		
Net Income	\$ 348.1	\$ 260.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred sales commissions	20.3	21.7
Depreciation and other amortization	26.8	20.3
Stock-based compensation	28.0	31.2
Losses (income) from investments in equity method investees	(39.1)	37.6
Net losses on investments of consolidated investment products	8.3	49.0
Net purchase of investments by consolidated investment products	(268.5)	(150.9)
Deferred income taxes	13.7	11.5
Other	(5.0)	8.7
Changes in operating assets and liabilities:		
Decrease in receivables and other assets	0.3	43.1
Decrease in receivables of consolidated investment products	13.9	19.5
Decrease (increase) in investments, net	(25.7)	105.8
Increase in operating lease right-of-use assets	(0.8)	—
Decrease in accrued compensation and benefits	(151.8)	(186.0)
Increase (decrease) in commissions payable	1.8	(38.5)
Increase in income taxes payable	61.8	37.1
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(27.9)	15.4
Increase (decrease) in accounts payable and accrued expenses of consolidated investment products	24.8	(30.7)
Increase in operating lease liabilities	2.7	—
Net cash provided by operating activities	31.7	254.8
Purchase of investments	(87.9)	(115.7)
Liquidation of investments	87.6	73.2
Additions of property and equipment, net	(25.7)	(25.7)
Acquisition, net of cash acquired	(1.0)	—
Net deconsolidation of investment products	(2.6)	(30.9)
Net cash used in investing activities	(29.6)	(99.1)
Dividends paid on common stock	(130.6)	(122.3)
Repurchase of common stock	(121.4)	(321.4)
Proceeds from loan	0.2	1.7
Payments on loan	(0.2)	—
Proceeds from debt of consolidated investment products	49.4	—
Noncontrolling interests	193.3	45.9
Net cash used in financing activities	(9.3)	(396.1)
Effect of exchange rate changes on cash and cash equivalents	25.9	(11.3)
Increase (decrease) in cash and cash equivalents	18.7	(251.7)
Cash and cash equivalents, beginning of period	5,957.6	6,910.6
Cash and Cash Equivalents, End of Period	\$ 5,976.3	\$ 6,658.9

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See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

[Table continued from previous page]

<i>(in millions)</i>	Three Months Ended December 31,	
	2019	2018
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$ 20.6	\$ 35.8
Cash paid for interest	0.6	6.0
Cash paid for interest by consolidated investment products	0.5	0.5

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019
(Unaudited)

Note 1 – Basis of Presentation

The unaudited interim financial statements of Franklin Resources, Inc. (“Franklin”) and its consolidated subsidiaries (collectively, the “Company”) included herein have been prepared by the Company in accordance with the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission. Under these rules and regulations, some information and footnote disclosures normally included in financial statements prepared under accounting principles generally accepted in the United States of America have been shortened or omitted. Management believes that all adjustments necessary for a fair statement of the financial position and the results of operations for the periods shown have been made. All adjustments are normal and recurring. These financial statements should be read together with the Company’s audited financial statements included in its Form 10-K for the fiscal year ended September 30, 2019 (“fiscal year 2019”). Certain comparative amounts for the prior fiscal year period have been reclassified to conform to the financial statement presentation as of and for the period ended December 31, 2019.

Note 2 – New Accounting Guidance

Recently Adopted Accounting Guidance

On October 1, 2019, the Company adopted new guidance issued by the Financial Accounting Standards Board (“FASB”) for leases. The new guidance requires lessees to recognize assets and liabilities arising from substantially all leases. The guidance also requires an evaluation at the inception of a contract to determine whether the contract is or contains a lease. The Company adopted the new guidance using the modified retrospective approach and recognized right-of-use assets of \$274.5 million and lease liabilities of \$315.2 million, substantially all of which relate to real estate leases. The right-of-use assets recognized as of October 1, 2019 were net of \$40.7 million of deferred rent previously included in other liabilities on the consolidated balance sheet. See Note 9 – Leases for additional disclosures.

Accounting Guidance Not Yet Adopted

There were no other significant updates to the new accounting guidance that the Company has not yet adopted as disclosed in its Form 10-K for fiscal year 2019.

Note 3 – Earnings per Share

The components of basic and diluted earnings per share were as follows:

	Three Months Ended December 31,	
	2019	2018
<i>(in millions, except per share data)</i>		
Net income attributable to Franklin Resources, Inc.	\$ 350.5	\$ 275.9
Less: allocation of earnings to participating nonvested stock and stock unit awards	4.2	2.5
Net Income Available to Common Stockholders	\$ 346.3	\$ 273.4
Weighted-average shares outstanding – basic	494.7	510.3
Dilutive effect of nonparticipating nonvested stock unit awards	0.6	0.5
Weighted-Average Shares Outstanding – Diluted	495.3	510.8
Earnings per Share		
Basic	\$ 0.70	\$ 0.54
Diluted	0.70	0.54

Nonparticipating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been antidilutive were 0.8 million and 0.3 million for the three months ended December 31, 2019 and 2018.

Note 4 – Revenues

Operating revenues by geographic area were as follows:

(in millions)	Earned From Contracts With Customers					Not Earned From Contracts With Customers ¹	Total
	United States	Luxembourg	Americas Excluding United States	Asia-Pacific	Europe, Middle East and Africa, Excluding Luxembourg		
for the three months ended December 31, 2019							
Investment management fees	\$ 573.1	\$ 252.5	\$ 75.0	\$ 56.7	\$ 22.4	\$ —	\$ 979.7
Sales and distribution fees	237.4	98.8	14.4	0.5	0.4	—	351.5
Shareholder servicing fees	40.3	6.9	0.1	2.7	—	—	50.0
Other	6.1	0.3	—	0.1	1.5	23.5	31.5
Total	\$ 856.9	\$ 358.5	\$ 89.5	\$ 60.0	\$ 24.3	\$ 23.5	\$ 1,412.7

(in millions)	Earned From Contracts With Customers					Not Earned From Contracts With Customers ¹	Total
	United States	Luxembourg	Americas Excluding United States	Asia-Pacific	Europe, Middle East and Africa, Excluding Luxembourg		
for the three months ended December 31, 2018							
Investment management fees	\$ 533.1	\$ 267.7	\$ 85.6	\$ 61.4	\$ 24.0	\$ —	\$ 971.8
Sales and distribution fees	233.0	104.3	16.6	0.5	0.4	—	354.8
Shareholder servicing fees	44.9	7.7	—	2.5	—	—	55.1
Other	3.0	0.3	—	0.1	0.3	26.1	29.8
Total	\$ 814.0	\$ 380.0	\$ 102.2	\$ 64.5	\$ 24.7	\$ 26.1	\$ 1,411.5

¹ Consists of interest and dividend income from consolidated investment products.

Operating revenues are attributed to geographic areas based on the locations of the subsidiaries that provide the services, which may differ from the regions in which the related investment products are sold.

Note 5 – Investments

The disclosures below include details of the Company's investments, excluding those of consolidated investment products. See Note 7 – Consolidated Investment Products for information related to the investments held by these entities.

Investments consisted of the following:

(in millions)	December 31, 2019	September 30, 2019
Equity securities, at fair value		
Sponsored funds	\$ 874.7	\$ 466.4
Other equity securities	61.7	63.6
Total equity securities, at fair value	936.4	530.0
Debt securities		
Trading	47.5	44.2
Available-for-sale	2.0	4.0
Total debt securities	49.5	48.2
Investments in equity method investees	970.7	933.4
Other investments	47.1	44.2
Total	\$ 2,003.7	\$ 1,555.8

During the three months ended December 31, 2019, the Company entered into a swap agreement with a notional value of \$60.0 million to hedge against changes in the value of an investment in a sponsored fund. The swap is measured at fair value with changes in the fair value recognized in earnings. The Company recognized an immaterial loss on the swap during the three months ended December 31, 2019.

Note 6 – Fair Value Measurements

The disclosures below include details of the Company's fair value measurements, excluding those of consolidated investment products. See Note 7 – Consolidated Investment Products for information related to fair value measurements of the assets and liabilities of these entities.

The assets measured at fair value on a recurring basis were as follows:

<i>(in millions)</i>					
as of December 31, 2019	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Equity securities, at fair value					
Sponsored funds	\$ 794.9	\$ 10.6	\$ —	\$ 69.2	\$ 874.7
Other equity securities	24.2	0.5	10.9	26.1	61.7
Debt securities					
Trading	—	29.6	17.9	—	47.5
Available-for-sale	—	2.0	—	—	2.0
Life settlement contracts	—	—	11.4	—	11.4
Total Assets Measured at Fair Value	\$ 819.1	\$ 42.7	\$ 40.2	\$ 95.3	\$ 997.3

<i>(in millions)</i>					
as of September 30, 2019	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Equity securities, at fair value					
Sponsored funds	\$ 397.0	\$ —	\$ —	\$ 69.4	\$ 466.4
Other equity securities	22.6	3.2	0.8	37.0	63.6
Debt securities					
Trading	—	24.4	19.8	—	44.2
Available-for-sale	—	4.0	—	—	4.0
Life settlement contracts	—	—	11.5	—	11.5
Total Assets Measured at Fair Value	\$ 419.6	\$ 31.6	\$ 32.1	\$ 106.4	\$ 589.7

Level 1 assets consist primarily of sponsored funds and other equity securities for which the fair values are based on published NAV or quoted market prices. Level 2 assets consist of debt and equity securities for which the fair values are determined using independent third-party broker or dealer price quotes. Level 3 assets consist of debt and equity securities and life settlement contracts for which the fair values are based on discounted cash flows using significant unobservable inputs.

Investments for which fair value was estimated using reported NAV as a practical expedient primarily consist of nonredeemable private debt, equity, infrastructure and real estate funds. These investments are expected to be returned through distributions over the life of the funds as a result of liquidations of the funds' underlying assets. Investments with known liquidation periods were \$46.4 million with an expected weighted-average life of 1.1 years at December 31, 2019, and \$46.9 million with a weighted-average life of 1.3 years at September 30, 2019. The liquidation period for an investment in a private debt fund of \$47.3 million and \$48.6 million at December 31, 2019 and September 30, 2019 is unknown. The Company's unfunded commitments to the funds totaled \$4.8 million and \$4.7 million at December 31, 2019 and September 30, 2019.

Changes in the Level 3 assets and liability were as follows:

	2019	2018	
(in millions)			
for the three months ended December 31,	Investments	Investments	Contingent Consideration Liability
Balance at beginning of period	\$ 32.1	\$ 32.6	\$ (38.7)
Total realized and unrealized gains (losses)			
Included in investment and other income (losses), net	(0.3)	2.8	—
Included in general, administrative and other expense	—	—	(1.3)
Purchases	12.6	—	—
Sales	(1.5)	(4.3)	—
Settlements	(2.7)	—	—
Transfers out of Level 3	—	(2.1)	—
Balance at End of Period	\$ 40.2	\$ 29.0	\$ (40.0)
Change in unrealized gains (losses) included in net income relating to assets and liability held at end of period	\$ (0.3)	\$ 2.8	\$ (1.3)

There were no transfers into Level 3 during the three months ended December 31, 2019 and 2018.

Valuation techniques and significant unobservable inputs used in the Level 3 fair value measurements were as follows:

(in millions)				
as of December 31, 2019	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average ¹)
Equity securities, at fair value	\$ 10.9	Market pricing	Private sale pricing	\$1,000 per share
Debt securities, trading	17.9	Discounted cash flow	Discount rate	1.5%–15.5% (6.8%)
			Risk premium	2.0%–6.1% (3.8%)
Life settlement contracts	11.4	Discounted cash flow	Life expectancy	19–105 months (55)
			Discount rate	10.0%–20.0% (13.4%)

(in millions)				
as of September 30, 2019	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average ¹)
Debt securities, trading	\$ 19.8	Discounted cash flow	Discount rate	2.7%–13.3% (6.7%)
			Risk premium	2.0%–6.1% (4.2%)
Life settlement contracts	11.5	Discounted cash flow	Life expectancy	19–107 months (57)
			Discount rate	8.0%–20.0% (13.2%)

¹ Based on the relative fair value of the instruments.

If the relevant significant inputs used in the market pricing valuation were independently higher (lower) as of December 31, 2019, the resulting fair value of the assets would be higher (lower). If the relevant significant inputs used in the discounted cash flow valuations were independently higher (lower) as of December 31, 2019, the resulting fair value of the assets would be lower (higher).

Financial instruments that were not measured at fair value were as follows:

		December 31, 2019		September 30, 2019	
(in millions)	Fair Value Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets					
Cash and cash equivalents	1	\$ 5,817.3	\$ 5,817.3	\$ 5,803.4	\$ 5,803.4
Other investments					
Time deposits	2	16.8	16.8	15.4	15.4
Equity securities	3	18.9	20.7	17.3	19.2
Financial Liability					
Debt	2	\$ 697.0	\$ 720.2	\$ 696.9	\$ 718.7

Note 7 – Consolidated Investment Products

Consolidated investment products (“CIPs”) consist of mutual and other investment funds, limited partnerships and similar structures, substantially all of which are sponsored by the Company, and include both voting interest entities and variable interest entities. The Company had 56 and 60 CIPs as of December 31, 2019 and September 30, 2019.

The balances related to CIPs included in the Company’s consolidated balance sheets were as follows:

(in millions)	December 31, 2019	September 30, 2019
Assets		
Cash and cash equivalents	\$ 159.0	\$ 154.2
Receivables	76.6	99.0
Investments, at fair value	2,041.2	2,303.9
Total Assets	\$ 2,276.8	\$ 2,557.1
Liabilities		
Accounts payable and accrued expenses	\$ 59.0	\$ 81.5
Debt	99.4	50.8
Total liabilities	158.4	132.3
Redeemable Noncontrolling Interests	790.4	746.7
Stockholders’ Equity		
Franklin Resources, Inc.’s interests	760.0	1,129.6
Nonredeemable noncontrolling interests	568.0	548.5
Total stockholders’ equity	1,328.0	1,678.1
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders’ Equity	\$ 2,276.8	\$ 2,557.1

The CIPs did not have a significant impact on net income attributable to the Company during the three months ended December 31, 2019 and 2018.

The Company has no right to the CIPs’ assets, other than its direct equity investments in them and investment management and other fees earned from them. The debt holders of the CIPs have no recourse to the Company’s assets beyond the level of its direct investment, therefore the Company bears no other risks associated with the CIPs’ liabilities.

Investment products are typically consolidated when the Company makes an initial investment in a newly launched investment entity. They are typically deconsolidated when the Company no longer has a controlling financial interest due to redemptions of its investment or increases in third-party investments. The Company’s investments in these products subsequent to deconsolidation are accounted for as either equity method investments or equity securities measured at fair value depending on the structure of the product and the Company’s role and level of ownership.

Fair Value Measurements

Assets of CIPs measured at fair value on a recurring basis were as follows:

(in millions)

as of December 31, 2019	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Investments					
Equity securities	\$ 237.8	\$ 145.1	\$ 329.4	\$ 194.3	\$ 906.6
Debt securities	0.1	817.2	83.4	—	900.7
Real estate	—	—	219.9	—	219.9
Loans	—	—	14.0	—	14.0
Total Assets Measured at Fair Value	\$ 237.9	\$ 962.3	\$ 646.7	\$ 194.3	\$ 2,041.2

(in millions)

as of September 30, 2019	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Investments					
Equity securities	\$ 195.1	\$ 223.9	\$ 296.4	\$ 204.1	\$ 919.5
Debt securities	0.1	1,083.6	131.4	—	1,215.1
Real estate	—	—	152.7	—	152.7
Loans	—	—	16.6	—	16.6
Total Assets Measured at Fair Value	\$ 195.2	\$ 1,307.5	\$ 597.1	\$ 204.1	\$ 2,303.9

Level 1 assets consist of equity and debt securities for which the fair values are based on quoted market prices. Level 2 assets consist of debt and equity securities for which the fair values are determined using independent third-party broker or dealer price quotes. Level 3 assets consist of equity and debt securities of entities in emerging markets, other equity and debt instruments, real estate and loans for which the fair values are determined using significant unobservable inputs in either a market-based or income-based approach.

Investments for which fair value was estimated using reported NAV as a practical expedient consist of nonredeemable real estate and private equity funds. These investments are expected to be returned through distributions over the life of the funds as a result of liquidations of the funds' underlying assets over a weighted-average period of 4.3 years and 4.4 years at December 31, 2019 and September 30, 2019. The CIPs' unfunded commitments to these funds totaled \$173.5 million and \$168.7 million, of which the Company was contractually obligated to fund \$20.6 million based on its ownership percentage in the CIPs, at December 31, 2019 and September 30, 2019.

Changes in Level 3 assets were as follows:

(in millions)

for the three months ended December 31, 2019	Equity Securities	Debt Securities	Real Estate	Loans	Total Level 3 Assets
Balance at October 1, 2019	\$ 296.4	\$ 131.4	\$ 152.7	\$ 16.6	\$ 597.1
Realized and unrealized gains (losses) included in investment and other income (losses), net	1.0	(8.0)	(2.7)	(0.1)	(9.8)
Purchases	32.0	0.7	64.3	—	97.0
Sales and settlements	(1.2)	(0.4)	—	(2.5)	(4.1)
Deconsolidation	—	(40.7)	—	—	(40.7)
Foreign exchange revaluation	1.2	0.4	5.6	—	7.2
Balance at December 31, 2019	\$ 329.4	\$ 83.4	\$ 219.9	\$ 14.0	\$ 646.7
Change in unrealized gains (losses) included in net income relating to assets held at December 31, 2019	\$ 1.0	\$ (8.0)	\$ (2.7)	\$ 0.3	\$ (9.4)

(in millions)

for the three months ended December 31, 2018	Equity Securities	Debt Securities	Loans	Total Level 3 Assets
Balance at October 1, 2018	\$ 199.7	\$ 118.0	\$ 32.3	\$ 350.0
Realized and unrealized gains (losses) included in investment and other income (losses), net	11.4	(7.2)	(1.0)	3.2
Purchases	9.7	—	8.2	17.9
Sales and settlements	(1.1)	(6.0)	(0.3)	(7.4)
Transfers into Level 3	0.1	—	—	0.1
Transfers out of Level 3	(25.4)	(3.6)	—	(29.0)
Foreign exchange revaluation	(0.8)	(0.3)	—	(1.1)
Balance at December 31, 2018	\$ 193.6	\$ 100.9	\$ 39.2	\$ 333.7
Change in unrealized gains (losses) included in net income relating to assets held at December 31, 2018	\$ 11.7	\$ (1.4)	\$ —	\$ 10.3

There were no transfers into or out of Level 3 during the three months ended December 31, 2019.

Valuation techniques and significant unobservable inputs used in Level 3 fair value measurements were as follows:

(in millions)

as of December 31, 2019	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average ¹)
Equity securities	\$ 148.6	Discounted cash flow	Discount rate	4.7%–15.4% (10.8%)
			Discount for lack of marketability	17.0%
	98.5	Market comparable companies	Enterprise value/ EBITDA multiple	4.5–11.8 (8.1)
			Discount for lack of marketability	15.0%–30.0% (23.1%)
			Risk premium	18.9%
	82.3	Market pricing	Enterprise value/ Revenue multiple	3.7
			Private sale pricing	\$0.24–\$87.73 (\$24.81) per share
Debt securities	74.9	Discounted cash flow	Discount rate	4.7%–17.4% (12.1%)
			Discount for lack of marketability	17.0%–24.7% (22.9%)
	8.5	Market comparable companies	Price-to-earnings ratio	10.0
			Enterprise value/ EBITDA multiple	22.8
Real estate	134.0	Yield capitalization	Equivalent yield	4.3%–6.1% (5.2%)
	85.9	Discounted cash flow	Discount rate	5.3%–5.4% (5.3%)
Loans	14.0	Discounted cash flow	Loss-adjusted discount rate	3.0%–23.9% (12.1%)

(in millions)

as of September 30, 2019	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average ¹)
Equity securities	\$ 97.2	Discounted cash flow	Discount rate	4.8%–16.3% (10.3%)
			Discount for lack of marketability	17.0%
	176.9	Market comparable companies	Enterprise value/EBITDA multiple	4.5–11.8 (8.1)
			Discount for lack of marketability	15.0%–30.0% (23.1%)
			Risk premium	18.9%
			Enterprise value/Revenue multiple	3.7
			Private sale pricing	\$0.25–\$20.13 (\$2.06) per share
Debt securities	115.5	Discounted cash flow	Discount rate	4.8%–17.4% (9.7%)
			Discount for lack of marketability	17.0%–24.7% (22.9%)
	15.9	Market comparable companies	Price-to-earnings ratio	10.0
			Enterprise value/EBITDA multiple	21.9
Real estate	68.0	Yield capitalization	Equivalent yield	4.3%–6.1% (5.4%)
	84.7	Discounted cash flow	Discount rate	6.4%–7.4% (7.1%)
Loans	16.6	Discounted cash flow	Loss-adjusted discount rate	3.0%–23.9% (12.0%)

¹ Based on the relative fair value of the instruments.

If the relevant significant inputs used in the market-based valuations, other than the discount for lack of marketability and risk premium, were independently higher (lower) as of December 31, 2019, the resulting fair value of the assets would be higher (lower). If the relevant significant inputs used in the discounted cash flow or yield capitalization valuations, as well as the discount for lack of marketability and risk premium in the market-based valuations, were independently higher (lower) as of December 31, 2019, the resulting fair value of the assets would be lower (higher).

Financial instruments of CIPs that were not measured at fair value were as follows:

(in millions)	Fair Value Level	December 31, 2019		September 30, 2019	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Asset					
Cash and cash equivalents	1	\$ 159.0	\$ 159.0	\$ 154.2	\$ 154.2
Financial Liability					
Debt	3	\$ 99.4	\$ 101.2	\$ 50.8	\$ 51.0

Debt

Debt of CIPs totaled \$99.4 million and \$50.8 million at December 31, 2019 and September 30, 2019. The debt had fixed and floating interest rates ranging from 1.28% to 7.69% with a weighted-average effective interest rate of 3.94% at December 31, 2019, and from 2.08% to 7.94% with a weighted-average effective interest rate of 5.09% at September 30, 2019.

The contractual maturities for debt of CIPs at December 31, 2019 were as follows:

<i>(in millions)</i>	
for the fiscal years ending September 30,	Amount
2020 (remainder of year)	\$ 23.3
2021	7.5
2022	—
2023	—
2024	30.1
Thereafter	38.5
Total	\$ 99.4

Redeemable Noncontrolling Interests

Changes in redeemable noncontrolling interests of CIPs were as follows:

<i>(in millions)</i>		
for the three months ended December 31,	2019	2018
Balance at beginning of period	\$ 746.7	\$ 1,043.6
Net income (loss)	9.0	(15.4)
Net subscriptions and other	165.1	22.8
Net deconsolidations	(130.4)	(118.7)
Balance at End of Period	\$ 790.4	\$ 932.3

Note 8 – Nonconsolidated Variable Interest Entities

Variable interest entities (“VIEs”) for which the Company is not the primary beneficiary consist of sponsored funds and other investment products in which the Company has an equity ownership interest. The Company’s maximum exposure to loss from these VIEs consists of equity investments and investment management and other fee receivables as follows:

<i>(in millions)</i>	December 31, 2019	September 30, 2019
Investments	\$ 467.4	\$ 458.1
Receivables	159.2	149.5
Total	\$ 626.6	\$ 607.6

While the Company has no legal or contractual obligation to do so, it routinely makes cash investments in the course of launching sponsored funds. As it has done in the past, the Company also may voluntarily elect to provide its sponsored funds with additional direct or indirect financial support based on its business objectives. The Company did not provide financial or other support to its sponsored funds during the three months ended December 31, 2019 or fiscal year 2019.

Note 9 – Leases

Lessee Arrangements

Substantially all of the Company's leases are operating leases relating to real estate. The leases had a weighted-average remaining lease term of 8.8 years as of December 31, 2019, and generally include one or more options to renew.

At the inception of a contract, the Company determines whether it is or contains a lease, which includes consideration of whether there are identified assets in the contract and if the Company has control over such assets. Right-of-use ("ROU") assets and lease liabilities are recognized for all arrangements that qualify as a lease, except for those with original lease terms of 12 months or less.

ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments using an incremental borrowing rate estimated on a collateralized basis with similar terms for the specific interest rate environment. Leases with fixed payments are expensed on a straight-line basis over the lease term. Variable lease payments based on usage, changes in an index or market rate are expensed as incurred. The lease terms include options to extend or terminate the lease when it is reasonably certain they will be exercised.

Lease and nonlease payment components are accounted for separately. The Company elected to use hindsight in determining the lease term and evaluating impairment of ROU assets upon adoption of new lease accounting guidance on October 1, 2019. ROU assets are tested for impairment when there is an indication that the carrying value of an asset may not be recoverable.

Lease expense was as follows:

(in millions)

for the three months ended December 31, 2019

	Amount
Operating lease cost ¹	\$ 13.8
Finance lease cost	0.3
Variable lease cost ²	0.3
Total lease expense	\$ 14.4

¹ Substantially all is included in occupancy expense.

² Consists of operating lease payments.

Supplemental cash flow information related to leases was as follows:

(in millions)

for the three months ended December 31, 2019

	Amount
Operating cash flows from operating leases included in the measurement of operating lease liabilities	\$ 13.2
ROU assets obtained in exchange for new operating lease liabilities	8.2

The weighted-average discount rate for the operating lease liabilities as of December 31, 2019 was 2.8%. The maturities of the liabilities were as follows:

(in millions)

for the fiscal years ending September 30,

	Amount
2020 (remainder of year)	\$ 39.1
2021	46.8
2022	42.2
2023	41.8
2024	39.2
Thereafter	151.9
Total lease payments	361.0
Less: interest	(43.1)
Operating lease liabilities	\$ 317.9

As of September 30, 2019, future minimum lease payments under long-term non-cancelable operating leases were as follows:

(in millions)

for the fiscal years ending September 30,	Amount
2020	\$ 49.5
2021	45.3
2022	40.9
2023	39.1
2024	36.7
Thereafter	149.1
Total Minimum Lease Payments	\$ 360.6

Lessor Arrangements

The Company leases excess owned space in its San Mateo, California corporate headquarters and various other office buildings primarily in the U.S. to third parties. The leases had a weighted-average remaining lease term of 7.8 years as of December 31, 2019, and generally include one or more options to renew.

The maturities of lease payments due to the Company as of December 31, 2019 were as follows:

(in millions)

for the fiscal years ending September 30,	Amount
2020 (remainder of year)	\$ 20.8
2021	28.6
2022	25.4
2023	26.0
2024	27.0
Thereafter	93.9
Total	\$ 221.7

Note 10 – Commitments and Contingencies

Legal Proceedings

The Company is from time to time involved in litigation relating to claims arising in the normal course of business. Management is of the opinion that the ultimate resolution of such claims will not materially affect the Company's business, financial position, results of operations or liquidity. In management's opinion, an adequate accrual has been made as of December 31, 2019 to provide for any probable losses that may arise from such matters for which the Company could reasonably estimate an amount.

Other Commitments and Contingencies

At December 31, 2019, there were no material changes in the other commitments and contingencies as reported in the Company's Form 10-K for fiscal year 2019.

Note 11 – Stock-Based Compensation

Stock and stock unit award activity was as follows:

(shares in thousands)

for the three months ended December 31, 2019	Time-Based Shares	Performance- Based Shares	Total Shares	Weighted- Average Grant-Date Fair Value
Nonvested balance at October 1, 2019	3,778	1,854	5,632	\$ 34.06
Granted	4,458	118	4,576	27.91
Vested	(381)	(374)	(755)	35.51
Forfeited/canceled	(102)	(524)	(626)	34.48
Nonvested Balance at December 31, 2019	7,753	1,074	8,827	\$ 30.72

Total unrecognized compensation expense related to nonvested stock and stock unit awards was \$218.0 million at December 31, 2019. This expense is expected to be recognized over a remaining weighted-average vesting period of 2.2 years.

Note 12 – Other Income (Expenses)

Other income (expenses) consisted of the following:

(in millions)	Three Months Ended December 31,	
	2019	2018
Investment and Other Income (Losses), Net		
Dividend income	\$ 18.6	\$ 25.6
Interest income	5.4	9.0
Gains (losses) on investments, net	7.8	(15.8)
Income (losses) from investments in equity method investees	39.1	(37.6)
Losses on investments of CIPs, net	(8.3)	(49.0)
Rental income	7.5	4.9
Foreign currency exchange (losses) gains, net	(8.5)	4.7
Other, net	(2.0)	(0.9)
Total	59.6	(59.1)
Interest Expense	(6.7)	(6.4)
Other Income (Expenses), Net	\$ 52.9	\$ (65.5)

Substantially all dividend income was generated by investments in nonconsolidated sponsored funds. Interest income was primarily generated by cash equivalents and time deposits. Gains (losses) on investments, net consists primarily of realized and unrealized gains (losses) on equity securities measured at fair value.

Proceeds from the sale of available-for-sale securities were \$1.0 million for the three months ended December 31, 2019. There were no sales of available-for-sale securities in fiscal year 2019.

Net gains (losses) recognized on equity securities measured at fair value and trading debt securities that were held by the Company at December 31, 2019 and 2018 were \$5.9 million and \$(12.1) million. Net gains (losses) recognized on investment securities of CIPs that were held at December 31, 2019 and 2018 were \$14.8 million and \$(31.2) million.

Note 13 – Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component were as follows:

(in millions)

for the three months ended December 31, 2019	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Unrealized Losses on Investments	Total
Balance at October 1, 2019	\$ (425.4)	\$ (6.2)	\$ —	\$ (431.6)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	58.1	(0.9)	(1.9)	55.3
Reclassifications to net investment and other income (losses), net of tax	(0.1)	—	0.2	0.1
Total other comprehensive income (loss)	58.0	(0.9)	(1.7)	55.4
Balance at December 31, 2019	\$ (367.4)	\$ (7.1)	\$ (1.7)	\$ (376.2)

(in millions)

for the three months ended December 31, 2018	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Unrealized Gains (Losses) on Investments	Total
Balance at October 1, 2018	\$ (372.9)	\$ (4.2)	\$ 6.5	\$ (370.6)
Adoption of new accounting guidance	—	—	(8.0)	(8.0)
Other comprehensive loss				
Other comprehensive loss before reclassifications, net of tax	(14.4)	(0.4)	—	(14.8)
Reclassifications to net investment and other income (losses), net of tax	(0.2)	—	—	(0.2)
Total other comprehensive loss	(14.6)	(0.4)	—	(15.0)
Balance at December 31, 2018	\$ (387.5)	\$ (4.6)	\$ (1.5)	\$ (393.6)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
FORWARD-LOOKING STATEMENTS

In this section, we discuss and analyze the results of operations and financial condition of Franklin Resources, Inc. (“Franklin”) and its subsidiaries (collectively, the “Company”). In addition to historical information, we also make statements relating to the future, called “forward-looking” statements, which are provided under the “safe harbor” protection of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally written in the future tense and/or are preceded by words such as “will,” “may,” “could,” “expect,” “believe,” “anticipate,” “intend,” “plan,” “seek,” “estimate” or other similar words. Moreover, statements that speculate about future events are forward-looking statements. These forward-looking statements involve a number of known and unknown risks, uncertainties and other important 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. You should carefully review the “Risk Factors” section set forth below, which describes these risks, uncertainties and other important factors in more detail.

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 Form 10-Q 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.

The following discussion should be read in conjunction with our Form 10-K for the fiscal year ended September 30, 2019 (“fiscal year 2019”) filed with the U.S. Securities and Exchange Commission, and the consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

OVERVIEW

We are a global investment management organization and derive our operating revenues and net income from providing investment management and related services in jurisdictions worldwide for investors in 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 and distribution, and shareholder servicing. We may perform services directly or through third parties. We offer our services and products under our various distinct brand names, including, but not limited to, Franklin®, Templeton®, Balanced Equity Management®, Benefit Street Partners®, Darby®, Edinburgh Partners™, Fiduciary Trust™, Franklin Bissett®, Franklin Mutual Series®, K2® and LibertyShares®. We offer a broad product mix of equity, multi-asset/balanced, fixed income and cash management investment objectives and solutions that meet a wide variety of specific investment goals and needs for individual and institutional investors. We also provide sub-advisory services to certain investment products sponsored by other companies that 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 below, 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 and our clients. These arrangements could change in the future.

During our first fiscal quarter, the global equity markets provided strong positive returns as global trade tensions eased, central banks continued their accommodative monetary policies and economic data remained stable. The S&P 500 Index and MSCI World Index increased 9.1% and 8.7% for the quarter. The global bond markets remained positive as the Bloomberg Barclays Global Aggregate Index increased 0.5% during the quarter.

Our total AUM at December 31, 2019 was \$698.3 billion, 1% higher than at September 30, 2019 and 7% higher than at December 31, 2018. Simple monthly average AUM (“average AUM”) for the three months ended December 31, 2019 increased 2% from the same period in the prior fiscal year.

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 set forth below.

RESULTS OF OPERATIONS

<i>(in millions, except per share data)</i>	Three Months Ended December 31,		Percent Change
	2019	2018	
Operating revenues	\$ 1,412.7	\$ 1,411.5	0%
Operating income	392.7	411.5	(5%)
Net income attributable to Franklin Resources, Inc.	350.5	275.9	27%
Diluted earnings per share	\$ 0.70	\$ 0.54	30%
Operating margin ¹	27.8%	29.2%	

¹ Defined as operating income divided by total operating revenues.

Operating income decreased \$18.8 million for the three months ended December 31, 2019, as compared to the same period in the prior fiscal year, due to a 2% increase in operating expenses. Net income attributable to Franklin Resources, Inc. increased \$74.6 million for the three months ended December 31, 2019 primarily due to investment and other income, net, as compared to net losses in the prior year, less the portion attributable to noncontrolling interests, partially offset by the decrease in operating income.

Diluted earnings per share increased for the three months ended December 31, 2019, consistent with the increase in net income and the impact of a 3% decrease in diluted average common shares outstanding primarily resulting from repurchases of shares of our common stock during the twelve-month period ended December 31, 2019.

ASSETS UNDER MANAGEMENT

AUM by investment objective was as follows:

<i>(in billions)</i>	December 31, 2019	December 31, 2018	Percent Change
Equity			
Global/international	\$ 163.5	\$ 166.0	(2%)
United States	117.0	97.1	20%
Total equity	280.5	263.1	7%
Multi-Asset/Balanced	136.5	124.8	9%
Fixed Income			
Tax-free	66.7	62.0	8%
Taxable			
Global/international	136.7	147.7	(7%)
United States	67.5	42.2	60%
Total fixed income	270.9	251.9	8%
Cash Management	10.4	10.1	3%
Total	\$ 698.3	\$ 649.9	7%

AUM at December 31, 2019 increased 7% from December 31, 2018 as a \$58.8 billion increase from net market change, distributions and other and \$26.4 billion from an acquisition were partially offset by \$36.8 billion of net outflows.

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

<i>(in billions)</i>	Average AUM		Percent Change	Mix of Average AUM	
for the three months ended December 31,	2019	2018		2019	2018
Equity					
Global/international	\$ 160.4	\$ 179.4	(11%)	23%	26%
United States	114.0	106.4	7%	17%	16%
Total equity	274.4	285.8	(4%)	40%	42%
Multi-Asset/Balanced	135.1	132.1	2%	19%	19%
Fixed Income					
Tax-free	66.4	62.7	6%	10%	9%
Taxable					
Global/international	140.9	149.7	(6%)	20%	22%
United States	67.1	43.4	55%	10%	7%
Total fixed income	274.4	255.8	7%	40%	38%
Cash Management	9.9	9.5	4%	1%	1%
Total	\$ 693.8	\$ 683.2	2%	100%	100%

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)	Three Months Ended December 31,		Percent Change
	2019	2018	
Beginning AUM	\$ 692.6	\$ 717.1	(3%)
Long-term sales	22.7	21.7	5%
Long-term redemptions	(45.7)	(42.4)	8%
Long-term net exchanges	(0.1)	(0.5)	(80%)
Long-term reinvested distributions	10.8	13.9	(22%)
Net flows	(12.3)	(7.3)	68%
Net market change, distributions and other	18.0	(59.9)	NM
Ending AUM	\$ 698.3	\$ 649.9	7%

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

(in billions)	Equity				Fixed Income			
	Global/ International	United States	Multi-Asset/ Balanced	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
for the three months ended December 31, 2019								
AUM at October 1, 2019	\$ 158.4	\$ 112.1	\$ 134.3	\$ 66.3	\$ 144.6	\$ 67.4	\$ 9.5	\$ 692.6
Long-term sales	3.8	4.4	3.5	2.0	6.6	2.4	—	22.7
Long-term redemptions	(10.7)	(7.6)	(6.2)	(1.9)	(16.2)	(3.1)	—	(45.7)
Long-term net exchanges	(0.2)	0.1	0.1	0.1	(0.7)	0.5	—	(0.1)
Long-term reinvested distributions	2.4	4.8	1.9	0.4	1.0	0.3	—	10.8
Net flows	(4.7)	1.7	(0.7)	0.6	(9.3)	0.1	—	(12.3)
Net market change, distributions and other	9.8	3.2	2.9	(0.2)	1.4	—	0.9	18.0
AUM at December 31, 2019	\$ 163.5	\$ 117.0	\$ 136.5	\$ 66.7	\$ 136.7	\$ 67.5	\$ 10.4	\$ 698.3

(in billions)	Equity				Fixed Income			
	Global/ International	United States	Multi-Asset/ Balanced	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
for the three months ended December 31, 2018								
AUM at October 1, 2018	\$ 194.4	\$ 115.2	\$ 138.9	\$ 63.9	\$ 150.6	\$ 44.8	\$ 9.3	\$ 717.1
Long-term sales	4.3	4.0	2.8	1.6	7.4	1.6	—	21.7
Long-term redemptions	(9.7)	(6.3)	(6.8)	(3.9)	(12.1)	(3.6)	—	(42.4)
Long-term net exchanges	(0.4)	0.1	(0.2)	(0.2)	0.2	—	—	(0.5)
Long-term reinvested distributions	4.4	5.0	1.9	0.5	1.8	0.3	—	13.9
Net flows	(1.4)	2.8	(2.3)	(2.0)	(2.7)	(1.7)	—	(7.3)
Net market change, distributions and other	(27.0)	(20.9)	(11.8)	0.1	(0.2)	(0.9)	0.8	(59.9)
AUM at December 31, 2018	\$ 166.0	\$ 97.1	\$ 124.8	\$ 62.0	\$ 147.7	\$ 42.2	\$ 10.1	\$ 649.9

AUM increased \$5.7 billion during the three months ended December 31, 2019 due to \$18.0 billion of net market change, distributions and other, partially offset by \$12.3 billion of net outflows. Net market change, distributions and other primarily consists of \$27.4 billion of market appreciation and a \$2.2 billion increase from foreign exchange revaluation, partially offset by \$12.5 billion of long-term distributions. The market appreciation occurred in all long-term investment objectives, primarily in the equity and multi-asset/balanced investment objectives, and reflected positive returns in global equity markets as evidenced by increases of 9.1% and 8.7% in the S&P 500 Index and MSCI World Index. The foreign exchange revaluation resulted from AUM in products that are not U.S. dollar denominated, which represented 14% of total AUM as of December 31, 2019, and was primarily

due to weakening of the U.S. dollar against the Pound Sterling, Euro, Canadian dollar and Australian dollar. The net outflows included outflows of \$6.0 billion from four global/international fixed income funds, \$1.3 billion from a U.S. equity fund and \$0.8 billion from an institutional separate account. Long-term sales increased 5% to \$22.7 billion, as compared to the prior-year period, due to higher sales in all investment objectives other than global/international objectives, and long-term redemptions increased 8% to \$45.7 billion, primarily due to higher redemptions of global/international fixed income products.

AUM decreased \$67.2 billion during the three months ended December 31, 2018 due to \$59.9 billion of net market change, distributions and other, and \$7.3 billion of net outflows. Net market change, distributions and other primarily consists of \$43.5 billion of market depreciation, \$15.8 billion of long-term distributions and a \$1.4 billion decrease from foreign exchange revaluation. The market depreciation occurred primarily in equity and multi-asset/balanced products, partially offset by appreciation in global/international fixed income products, and reflected sharp declines in global equity markets as evidenced by decreases of 13.5% and 13.3% in the S&P 500 Index and MSCI World Index and slightly positive returns in global fixed income markets as evidenced by a 1.2% increase in the Bloomberg Barclays Global Aggregate Index. The net outflows included \$1.4 billion from a multi-asset/balanced fund.

Average AUM by sales region was as follows:

(in billions)	Three Months Ended December 31,		Percent Change
	2019	2018	
United States	\$ 478.1	\$ 458.6	4%
International			
Europe, Middle East and Africa	89.3	93.3	(4%)
Asia-Pacific	89.3	88.5	1%
Canada	23.6	27.9	(15%)
Latin America ¹	13.5	14.9	(9%)
Total international	215.7	224.6	(4%)
Total	\$ 693.8	\$ 683.2	2%

¹ Includes North America-based advisers serving non-resident clients.

The percentage of average AUM in the United States sales region was 69% and 67% for the three months ended December 31, 2019 and 2018.

The region in which investment products are sold may differ from the geographic area in which we provide investment management and related services to the products.

Investment Performance Overview

A key driver of our overall success is the long-term investment performance of our investment products. A standard measure of the performance of these products is the percentage of AUM exceeding benchmarks and peer group medians. Our global/international fixed income products generated notable long-term results with at least 75% of AUM exceeding the benchmark and peer group median comparisons for the ten-year period, however, lower performance of these products during the three months ended December 31, 2019 resulted in significant decreases from September 30, 2019 to the comparisons for the three-year period. The performance of our multi-asset/balanced products significantly exceeded the peer group median for the ten-year period, but has lagged in the other period comparisons and against the benchmarks during the periods presented, reflecting the performance of a fund that represents 69% of this category. Lower relative investment performance by this fund during the three months ended December 31, 2019 resulted in a significant decrease from September 30, 2019 to the peer group median comparison for the one-year period. The performance of our tax-free and U.S. taxable fixed income, as well as of our global/international equity products, has mostly lagged the benchmarks and peer group medians during the periods presented. Improved performance of our U.S. taxable fixed income products during the three months ended December 31, 2019 resulted in significant increases from September 30, 2019 to the benchmark and peer group median comparisons for the one-year period.

The performance of our products against benchmarks and peer group medians is presented in the table below.

as of December 31, 2019	Benchmark Comparison ^{1,2}				Peer Group Comparison ^{1,3}			
	% of AUM Exceeding Benchmark				% of AUM in Top Two Peer Group Quartiles			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Equity								
Global/international	29%	23%	20%	25%	41%	26%	24%	31%
United States	33%	32%	31%	17%	61%	43%	56%	62%
Total equity	31%	27%	25%	21%	50%	34%	39%	45%
Multi-Asset/Balanced	7%	9%	8%	1%	12%	14%	17%	76%
Fixed Income								
Tax-free	40%	35%	36%	43%	46%	39%	43%	50%
Taxable								
Global/international	12%	11%	14%	75%	11%	25%	46%	80%
United States	53%	16%	12%	54%	39%	18%	10%	6%
Total fixed income	27%	18%	20%	60%	26%	28%	38%	57%

¹ AUM measured in the 1-year benchmark and peer group rankings represents 85% and 86% of our total AUM as of December 31, 2019.

² The benchmark comparisons are based on each fund's return as compared to a market index that has been selected to be generally consistent with the investment objectives of the fund.

³ The peer group rankings are sourced from Lipper, a Thomson Reuters Company, Morningstar or eVestment and various international third-party providers in each fund's market and were based on an absolute ranking of returns. © 2019 Morningstar, Inc. All rights reserved. The information herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

For products with multiple share classes, rankings for all share classes with applicable history in their respective time periods are included. Rankings for most institutional separate accounts are as of the prior quarter-end due to timing of availability of information. Private equity and debt funds, certain privately-offered emerging market and real estate funds, cash management funds and certain hedge and other funds are not included. Certain other funds and products were also excluded because of limited benchmark or peer group data. Had this data been available, the results may have been different. These results assume the reinvestment of dividends, are based on data available as of January 15, 2020 and are subject to revision. While we remain focused on achieving strong long-term performance, our future benchmark and peer group rankings may vary from our past performance.

OPERATING REVENUES

The table below presents the percentage change in each operating revenue category.

(in millions)	Three Months Ended December 31,		Percent Change
	2019	2018	
Investment management fees	\$ 979.7	\$ 971.8	1%
Sales and distribution fees	351.5	354.8	(1%)
Shareholder servicing fees	50.0	55.1	(9%)
Other	31.5	29.8	6%
Total Operating Revenues	\$ 1,412.7	\$ 1,411.5	0%

Investment Management Fees

Investment management fees are generally calculated under contractual arrangements with our investment products and the products for which we provide sub-advisory services as a percentage of AUM. Annual fee rates vary by investment objective and type of services provided. Fee rates for products sold outside of the U.S. are generally higher than for U.S. products.

Investment management fees increased \$7.9 million for the three months ended December 31, 2019 primarily due to higher performance fees and a 2% increase in average AUM, partially offset by a lower effective investment management fee rate. The increase in average AUM occurred primarily in the U.S. taxable fixed income investment objective, as well as all other objectives other than the global/international objectives which decreased. The increase occurred primarily in the U.S. sales region, and was partially offset by declines in all international sales regions except Asia-Pacific.

Our effective investment management fee rate excluding performance fees (annualized investment management fees excluding performance fees divided by average AUM) decreased to 55.2 basis points for the three months ended December 31, 2019, from 56.2 basis points for the same period in the prior fiscal year. The rate decrease was primarily due to lower weighting of AUM in the global/international investment objectives, which generally have higher fee rates, partially offset by higher rates and mix of AUM in the U.S. taxable fixed income investment objective.

Performance-based investment management fees were \$17.4 million and \$4.1 million for the three months ended December 31, 2019 and 2018, with the increase primarily due to performance fees earned from a private debt fund and separate accounts.

Our product offerings and global operations are diverse. As such, the impact of future changes in AUM on investment management fees will be affected by the relative mix of investment objective, geographic region, distribution channel and investment vehicle of the assets.

Sales and Distribution Fees

Sales and distribution fees primarily consist of upfront sales commissions and ongoing distribution fees. Sales commissions are earned from the sale of certain classes of sponsored funds at the time of purchase (“commissionable sales”) and may be reduced or eliminated depending on the amount invested and the type of investor. Therefore, sales fees will change with the overall level of gross sales, the size of individual transactions, and the relative mix of sales between different share classes and types of investors.

Our sponsored mutual funds generally pay us distribution fees in return for sales, marketing and distribution efforts on their behalf. The majority of U.S.-registered mutual funds, with the exception of certain money market funds, have adopted distribution plans under Rule 12b-1 (the “Rule 12b-1 Plans”) promulgated under the Investment Company Act of 1940. The Rule 12b-1 Plans permit the funds to pay us 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 on amounts based on daily average AUM. Similar arrangements exist for the distribution of non-U.S. funds.

We pay substantially all of our sales and distribution fees to the financial advisers and other intermediaries who sell our funds on our behalf. See the description of sales, distribution and marketing expenses below.

Sales and distribution fees by revenue driver are presented below.

(in millions)	Three Months Ended December 31,		Percent Change
	2019	2018	
Asset-based fees	\$ 287.8	\$ 302.4	(5%)
Sales-based fees	59.8	49.6	21%
Contingent sales charges	3.9	2.8	39%
Sales and Distribution Fees	\$ 351.5	\$ 354.8	(1%)

Asset-based distribution fees decreased \$14.6 million for the three months ended December 31, 2019 primarily due to decreases of \$8.7 million from a lower mix of U.S. Class C assets which have higher fee rates than other share classes and \$4.1 million in non-U.S. product fees primarily due to a 4% decrease in the related average AUM.

Sales-based fees increased \$10.2 million for the three months ended December 31, 2019 primarily due to \$12.4 million from an 18% increase in total commissionable sales, partially offset by a \$2.1 million decrease mainly from a higher mix of U.S. product fixed income sales, which typically generate lower sales fees than equity products. Commissionable sales represented 8% and 7% of total sales for the three months ended December 31, 2019 and 2018.

Contingent sales charges are earned from investor redemptions within a contracted period of time. Substantially all of these charges are levied on certain shares sold without a front-end sales charge, and they vary with the mix of redemptions of these shares.

Shareholder Servicing Fees

Substantially all shareholder servicing fees are earned from our sponsored funds for providing transfer agency services, which include providing shareholder statements, transaction processing, customer service and tax reporting. These fees are primarily determined based on a percentage of AUM and either the number of transactions in shareholder accounts or the number of shareholder accounts, while fees from certain funds are based only on AUM. Shareholder servicing fees also include fund reimbursements of expenses incurred while providing transfer agency services.

Shareholder servicing fees decreased \$5.1 million for the three months ended December 31, 2019 primarily due to lower levels of transactions and fund expense reimbursement revenue.

Other

Other revenue increased \$1.7 million for the three months ended December 31, 2019 primarily due to higher miscellaneous fee revenues, largely offset by lower interest and dividend income from consolidated investment products ("CIPs").

OPERATING EXPENSES

The table below presents the percentage change in each operating expense category.

(in millions)	Three Months Ended December 31,		Percent Change
	2019	2018	
Sales, distribution and marketing	\$ 443.9	\$ 444.5	0%
Compensation and benefits	389.4	355.0	10%
Information systems and technology	62.5	60.9	3%
Occupancy	34.5	31.2	11%
General, administrative and other	89.7	108.4	(17%)
Total Operating Expenses	\$ 1,020.0	\$ 1,000.0	2%

Sales, Distribution and Marketing

Sales, distribution and marketing expenses primarily relate to services provided by financial advisers, broker-dealers and other third parties to our sponsored funds, including marketing support services. Substantially all sales expenses are incurred from the same commissionable sales transactions that generate sales fee revenues and are determined as a percentage of sales. Substantially all distribution expenses are incurred from assets that generate distribution fees and are determined as a percentage of AUM. Marketing support expenses are based on AUM, sales or a combination thereof. Also included is the amortization of deferred sales commissions related to upfront commissions on shares sold without a front-end sales charge. The deferred sales commissions are amortized over the periods in which commissions are generally recovered from related revenues.

Sales, distribution and marketing expenses by cost driver are presented below.

(in millions)	Three Months Ended December 31,		Percent Change
	2019	2018	
Asset-based expenses	\$ 360.8	\$ 370.3	(3%)
Sales-based expenses	62.8	52.5	20%
Amortization of deferred sales commissions	20.3	21.7	(6%)
Sales, Distribution and Marketing	\$ 443.9	\$ 444.5	0%

Asset-based expenses decreased \$9.5 million for the three months ended December 31, 2019 primarily due to \$8.4 million from a 2% decrease in the related average AUM and \$5.6 million from a lower mix of U.S. Class C assets which have higher expense rates than other share classes, partially offset by a \$2.0 million increase in placement fees. Distribution expenses are generally not directly correlated with distribution fee revenues due to certain international fee structures that do not provide full recovery of distribution costs.

Sales-based expenses increased \$10.3 million for the three months ended December 31, 2019 primarily due to a \$12.1 million increase from an 18% increase in total commissionable sales, partially offset by a \$1.1 million decrease mainly from a higher mix of U.S. product fixed income sales which typically generate lower sales commissions than equity products.

Amortization of deferred sales commissions decreased \$1.4 million for the three months ended December 31, 2019, as lower expense related to non-U.S. shares sold without a front-end sales charge was largely offset by higher expense resulting from increased sales of U.S. shares.

Compensation and Benefits

Compensation and benefit expenses increased \$34.4 million for the three months ended December 31, 2019 due to increases of \$22.1 million in salaries, wages and benefits, and \$12.3 million in variable compensation.

Salaries, wages and benefits increased primarily due to increases of \$16.6 million from acquisition-related retention compensation, \$5.7 million for annual salary increases that were effective December 1, 2019 and 2018, and \$5.4 million in termination benefits, partially offset by a \$6.5 million decrease from lower average staffing levels. Variable compensation increased primarily due to a \$16.1 million increase for acquired firms' performance bonus plans, partially offset by decreases of \$4.2 million in bonus expense due to lower expectations of our annual performance and \$3.1 million in stock and stock unit award amortization.

We expect to incur additional acquisition-related retention expenses of approximately \$60 million during the remainder of the current fiscal year, and annual amounts beginning at approximately \$70 million in the fiscal year ending September 30, 2021 and gradually decreasing by approximately \$10 million per year in the following three fiscal years. We also expect to incur additional termination benefit expenses of approximately \$11 million during the remainder of the fiscal year primarily related to moving certain positions to lower cost jurisdictions and outsourcing our fund administration services.

Variable compensation as a percentage of compensation and benefits was 32% for the three months ended December 31, 2019 and 2018. At December 31, 2019, our global workforce had decreased to approximately 9,600 employees from approximately 9,800 at December 31, 2018.

We continue to place a high emphasis on our pay for performance philosophy. As such, any changes in the underlying performance of our investment products or changes in the composition of our incentive compensation offerings could have an impact on compensation and benefit expenses going forward. However, in order to attract and retain talented individuals, our level of compensation and benefit expenses may increase more quickly or decrease more slowly than our revenue.

Information Systems and Technology

Information systems and technology expenses increased \$1.6 million for the three months ended December 31, 2019 primarily due to higher software costs, partially offset by lower technology consulting costs.

Details of capitalized information systems and technology costs are shown below.

(in millions)	Three Months Ended December 31,	
	2019	2018
Net carrying value at beginning of period	\$ 112.0	\$ 106.2
Additions, net of disposals	7.6	9.5
Amortization	(11.5)	(11.8)
Net Carrying Value at End of Period	\$ 108.1	\$ 103.9

Occupancy

We conduct our worldwide operations using a combination of leased and owned facilities. Occupancy expenses include rent and other facilities-related costs including depreciation and utilities.

Occupancy expenses increased \$3.3 million for the three months ended December 31, 2019 primarily due to higher depreciation and other expenses related to our new buildings in San Mateo, California and Poznan, Poland which we occupied beginning in the second half of fiscal year 2019.

General, Administrative and Other

General, administrative and other operating expenses primarily consist of fund-related service fees payable to external parties, professional fees, travel and entertainment, advertising and promotion, and other miscellaneous expenses.

General, administrative and other operating expenses decreased \$18.7 million for the three months ended December 31, 2019 primarily due to a prior-year \$13.9 million litigation settlement. Professional fees decreased \$4.3 million and intangible asset amortization increased \$4.1 million, both primarily related to the prior-year acquisition of Benefit Street Partners L.L.C. ("BSP").

We are committed to investing in advertising and promotion in response to changing business conditions, and to advance our products where we see continued or potential new growth opportunities. As a result of potential changes in our strategic marketing campaigns, the level of advertising and promotion expenses may increase more rapidly, or decrease more slowly, than our revenues.

OTHER INCOME (EXPENSES)

Other income (expenses) consisted of the following:

(in millions)	Three Months Ended December 31,		Percent Change
	2019	2018	
Investment and other income (losses), net	\$ 59.6	\$ (59.1)	NM
Interest expense	(6.7)	(6.4)	5%
Other Income (Expenses), Net	\$ 52.9	\$ (65.5)	NM

Investment and other income (losses), net consists primarily of dividend and interest income, income (losses) from equity method investees, gains (losses) on investments held by the Company and investments of CIPs, rental income and foreign currency exchange gains (losses).

Other income (expenses), net increased \$118.4 million for the three months ended December 31, 2019 primarily due to the impact of increased market valuations on investment income, partially offset by foreign exchange losses. Equity method investees generated income of \$39.1 million as compared to losses of \$37.6 million in the prior year primarily due to investments held by a global equity fund. Net losses on investments of CIPs decreased \$40.7 million primarily from holdings of a U.S. fixed income fund and various multi-asset/balanced and global/international funds. Investments held by the Company generated \$7.8 million of net gains as compared to net losses of \$15.8 million in the prior year primarily from various nonconsolidated funds and other equity and debt securities. Weakening of the U.S. dollar against the Euro resulted in \$8.5 million of foreign exchange losses on cash and cash equivalents denominated in U.S. dollars held in Europe, as compared to net gains of \$4.7 million in the prior year.

Significant portions of the net gains (losses) of CIPs are offset in noncontrolling interests in our consolidated statements of income.

Our investments in sponsored funds include initial cash investments made in the course of launching mutual fund and other investment product offerings, as well as investments for other business reasons. The market conditions that impact our AUM similarly affect the investment income earned or losses incurred on our investments in sponsored funds.

Our cash, cash equivalents and investments portfolio by investment objective and accounting classification at December 31, 2019, excluding third-party assets of CIPs, was as follows:

(in millions)	Accounting Classification ¹				
	Cash and Cash Equivalents and Other ²	Equity Securities, at Fair Value	Equity Method Investments	Direct Investments in CIPs	Total Direct Portfolio
Cash and Cash Equivalents	\$ 5,817.3	\$ —	\$ —	\$ —	\$ 5,817.3
Investments					
Equity					
Global/international	9.4	106.7	656.5	162.5	935.1
United States	9.6	2.9	15.2	48.6	76.3
Total equity	19.0	109.6	671.7	211.1	1,011.4
Multi-Asset/Balanced	5.4	15.9	43.4	100.5	165.2
Fixed Income					
Tax-free	—	—	—	11.1	11.1
Taxable					
Global/international	43.8	197.8	116.2	211.5	569.3
United States	28.4	613.1	139.4	212.9	993.8
Total fixed income	72.2	810.9	255.6	435.5	1,574.2
Total investments	96.6	936.4	970.7	747.1	2,750.8
Total Cash and Cash Equivalents and Investments	\$ 5,913.9	\$ 936.4	\$ 970.7	\$ 747.1	\$ 8,568.1

¹ See Note 1 – Significant Accounting Policies in the notes to consolidated financial statements in Item 8 of Part II of our Form 10-K for fiscal year 2019 for information on investment accounting classifications.

² Other consists of \$49.5 million of debt securities and \$11.4 million of investments in life settlement contracts, both of which are measured at fair value, and \$35.7 million of investments carried at adjusted cost.

TAXES ON INCOME

Our effective income tax rate was 21.9% and 24.9% for the three months ended December 31, 2019 and 2018. The rate decrease was primarily due to a statutory rate reduction enacted in India in December 2019, which also resulted in a tax benefit from the revaluation of net deferred tax liabilities, and a higher forecasted mix of earnings in lower tax jurisdictions compared to the prior year.

Our effective income tax rate reflects the relative contributions of earnings in the jurisdictions in which we operate, which have varying tax rates. Changes in our pre-tax income mix, tax rates or tax legislation in such jurisdictions may affect our effective income tax rate and net income.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows were as follows:

(in millions)	Three Months Ended December 31,	
	2019	2018
Operating cash flows	\$ 31.7	\$ 254.8
Investing cash flows	(29.6)	(99.1)
Financing cash flows	(9.3)	(396.1)

Net cash provided by operating activities decreased during the three months ended December 31, 2019 primarily due to net purchases of our investments as compared to net liquidations in the prior year, and higher net purchases of investments by CIPs. Net cash used in investing activities decreased primarily due to lower net purchases of our investments and lower net deconsolidation of CIPs. Net cash used in financing activities decreased primarily due to lower repurchases of common stock, higher net subscriptions in CIPs by noncontrolling interests, and proceeds from debt of CIPs.

The assets and liabilities of CIPs attributable to third-party investors do not impact our liquidity and capital resources. We have no right to the CIPs' assets, other than our direct equity investment in them and investment management and other fees earned from them. The debt holders of the CIPs have no recourse to our assets beyond the level of our direct investment, therefore we bear no other risks associated with the CIPs' liabilities. Accordingly, the assets and liabilities of CIPs, other than our direct investments in them, are excluded from the amounts and discussion below.

Our liquid assets and debt consisted of the following:

<i>(in millions)</i>	December 31, 2019	September 30, 2019
Assets		
Cash and cash equivalents	\$ 5,817.3	\$ 5,803.4
Receivables	710.9	740.0
Investments	2,082.2	2,029.4
Total Liquid Assets	\$ 8,610.4	\$ 8,572.8
Liability		
Debt	\$ 697.0	\$ 696.9

Liquidity

Liquid assets consist of cash and cash equivalents, receivables and certain investments. Cash and cash equivalents at December 31, 2019 primarily consist of money market funds and deposits with financial institutions. Liquid investments consist of investments in sponsored and other funds, direct investments in redeemable CIPs, other equity and debt securities, and time deposits with maturities greater than three months.

We utilize a significant portion of our liquid assets to satisfy operational and regulatory requirements and fund capital contributions to sponsored and other products. Certain of our subsidiaries are required by our internal policy or regulation to maintain minimum levels of capital, and may be restricted in their ability to transfer cash to their parent companies. Liquid assets used to satisfy these purposes were \$3,442.2 million and \$3,429.0 million at December 31, 2019 and September 30, 2019, including \$271.4 million and \$263.3 million that were restricted by regulatory requirements. Should we require more capital than is available for use, we could elect to reduce the level of discretionary activities, such as share repurchases or investments in sponsored and other products, or we could raise capital through debt or equity issuance. These alternatives could result in increased interest expense, decreased dividend or interest income, or other dilution to our earnings.

Capital Resources

We believe that we can meet our present and reasonably foreseeable operating cash needs and future commitments through existing liquid assets, continuing cash flows from operations, the ability to issue debt or equity securities and borrowing capacity under our uncommitted private placement program.

In prior fiscal years, we issued senior unsecured unsubordinated notes for general corporate purposes, to redeem outstanding notes and to finance an acquisition. At December 31, 2019, \$699.4 million of the notes were outstanding with an aggregate face value of \$700.0 million. The notes were issued at fixed interest rates and consist of \$300.0 million at 2.80% per annum which mature in 2022 and \$400.0 million at 2.85% per annum which mature in 2025.

Interest on the notes is payable semi-annually. The notes contain an optional redemption feature that allows us to redeem each series of notes prior to maturity in whole or in part at any time, at a make-whole redemption price. The indentures governing the notes contain limitations on our ability and the ability of our subsidiaries to pledge voting stock or profit participating equity interests in our subsidiaries to secure other debt without similarly securing the notes equally and ratably. The indentures also include requirements that must be met if we consolidate or merge with, or sell all of our assets to, another entity. We were in compliance with all debt covenants at December 31, 2019.

At December 31, 2019, we had \$500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program which has been inactive since 2012 and is unrated.

Our ability to access the capital markets in a timely manner depends on a number of factors, including our credit rating, the condition of the global economy, investors' willingness to purchase our securities, interest rates, credit spreads and the valuation levels of equity markets. If we are unable to access capital markets in a timely manner, our business could be adversely impacted.

Uses of Capital

We expect that our main uses of cash will be to invest in and grow our business, repurchase shares of our common stock, invest in our products, pay stockholder dividends, income taxes and operating expenses of the business, enhance technology infrastructure and business processes, fund property and equipment purchases, and repay and service debt.

We declare dividends on a quarterly basis. We declared regular dividends of \$0.27 and \$0.26 per share during the three months ended December 31, 2019 and 2018. We currently expect to continue paying comparable regular dividends on a quarterly basis to holders of our common stock depending upon earnings and other relevant factors.

We maintain a stock repurchase program to manage our equity capital with the objective of maximizing shareholder value. Our stock repurchase program is effected through regular open-market purchases and private transactions in accordance with applicable laws and regulations, and is not subject to an expiration date. The size and timing of these purchases will depend on price, market and business conditions and other factors. We repurchased 4.6 million shares of our common stock at a cost of \$123.6 million during the three months ended December 31, 2019, and 10.7 million shares at a cost of \$326.9 million in the prior-year period. At December 31, 2019, 42.6 million shares remained available for repurchase under the authorization of 80.0 million shares approved by our Board of Directors in April 2018.

We invested \$8.9 million and \$6.5 million, net of redemptions, into our sponsored products during the three months ended December 31, 2019 and 2018.

On February 1, 2019, we acquired all of the outstanding ownership interests in BSP for a purchase consideration of \$720.1 million in cash.

During fiscal year 2019, we completed construction of two new buildings at our corporate headquarters campus in San Mateo, California with a total cost of approximately \$130 million and purchased an office building in Poznan, Poland with a total cost of approximately \$86 million. The buildings are used in our business operations, and portions of the California campus are leased to third parties.

The funds that we manage have their own resources available for purposes of providing liquidity to meet shareholder redemptions, including securities that can be sold or provided to investors as in-kind redemptions, and lines of credit. While we have no legal or contractual obligation to do so, as we have done in the past, we may voluntarily elect to provide the funds with direct or indirect financial support based on our business objectives. We did not provide financial or other support to our sponsored funds during the three months ended December 31, 2019 or during fiscal year 2019.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

At December 31, 2019, there were no material changes in our contractual obligations, commitments and federal transition tax liability as reported in our Form 10-K for fiscal year 2019.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. These estimates, judgments, and assumptions are affected by our application of accounting policies. Actual results could differ from the estimates. The following are updates to our critical accounting policies disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for fiscal year 2019.

Consolidation

We consolidate our subsidiaries and investment products in which we have a controlling financial interest. We have a controlling financial interest when we own a majority of the voting interest in a voting interest entity (“VOE”) or are the primary beneficiary of a variable interest entity (“VIE”). Substantially all of our VIEs are investment products and our variable interests consist of our equity ownership interests in and investment management fees earned from these products. As of December 31, 2019, we were the primary beneficiary of 33 investment product VIEs.

Business Combinations

Business combinations are accounted for by recognizing the acquired assets, including separately identifiable intangible assets, and assumed liabilities at their acquisition-date estimated fair values. Any excess of the purchase consideration over the acquisition-date fair values of these identifiable assets and liabilities is recognized as goodwill. Goodwill and indefinite-lived intangible assets are tested for impairment annually and when an event occurs or circumstances change that more likely than not reduce the fair value of the related reporting unit or indefinite-lived intangible asset below its carrying value. Definite-lived intangible assets are tested for impairment quarterly.

Subsequent to our annual impairment tests as of August 1, 2019, we monitored market conditions, including changes in our AUM and weighted-average cost of capital, and their potential impact on the assumptions used in the annual calculations of fair value to determine whether circumstances have changed that would more likely than not reduce the fair value of the reporting unit below its carrying value, or indicate that the indefinite-lived intangible assets might be impaired. We also monitored fluctuations of our common stock per share price to evaluate our market capitalization relative to the reporting unit as a whole. During the three months ended December 31, 2019, there were no events or circumstances which would indicate that goodwill or indefinite-lived or definite-lived intangible assets might be impaired.

While we believe that the assumptions used to estimate fair value in our impairment tests are reasonable and appropriate, future changes in the assumptions could result in recognition of impairment.

Fair Value Measurements

A substantial amount of our investments is recorded at fair value or amounts that approximate fair value on a recurring basis. We use a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on whether the inputs to those valuation techniques are observable or unobservable.

As of December 31, 2019, Level 3 assets represented 23% of total assets measured at fair value, substantially all of which related to CIPs’ investments in equity and debt securities, and real estate. There were no transfers into or out of Level 3 during the three months ended December 31, 2019.

Revenues

We earn revenue primarily from providing investment management and related services to our customers. In addition to investment management, services include fund administration, sales and distribution, and shareholder servicing. Revenues are recognized when our obligations related to the services are satisfied and it is probable that a significant reversal of the revenue amount would not occur in future periods. The obligations are satisfied over time as the services are rendered, except for the sales and distribution obligations for the sale of shares of sponsored funds, which are satisfied on trade date. Multiple services included in customer contracts are accounted for separately when the obligations are determined to be distinct.

Investment management fees, other than performance-based fees, and distribution fees are determined based on a percentage of AUM, primarily on a monthly basis using daily average AUM. Performance-based investment management fees are generated when investment product performance exceeds targets established in customer contracts.

AUM is generally based on the fair value of the underlying securities held by investment products and is calculated using fair value methods derived primarily from unadjusted quoted market prices, unadjusted independent third-party broker or dealer price quotes in active markets, or market prices or price quotes adjusted for observable price movements after the close of the primary market. The fair values of securities for which market prices are not readily available are valued internally using various methodologies which incorporate significant unobservable inputs as appropriate for each security type. As of December 31, 2019, our total AUM by fair value hierarchy level was 50% Level 1, 45% Level 2 and 5% Level 3.

NEW ACCOUNTING GUIDANCE

See Note 2 – New Accounting Guidance in the notes to consolidated financial statements in Item 1 of Part I of this Form 10-Q.

RISK FACTORS

For any capitalized terms used but not defined herein, see “Item 1 – Business – Regulation” included in Part I of our Form 10-K for the fiscal year ended September 30, 2019.

MARKET AND VOLATILITY RISKS

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 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, and sub-advised products. In addition to investment management, our services include fund administration, sales and distribution, and shareholder servicing. We may perform services directly or through third parties. The level of our revenues depends largely on the level and relative 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 caused, 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. Due to market volatility or other events or conditions described above, our funds may need to sell securities or instruments that 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. While we have no legal or contractual obligation to do so, we have in the past provided, 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 caused, and could in the future cause, sizable redemptions and lower the value of our AUM, which would result in lower revenue and operating results. Any decrease in the level of our AUM resulting from market declines, credit or interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

A shift in our asset mix toward lower fee products may negatively impact our revenues. Changing market conditions and investor preferences may cause a shift in our asset mix toward certain lower fee products, such as fixed income products, and away from equity and multi-asset/balanced products. This may cause 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. 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. Further, changing market conditions and investor preferences also may cause a shift in our asset mix toward lower fee exchange-traded funds. Moreover, 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. 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 on that AUM.

We may not effectively manage risks associated with the replacement of benchmark indices. The withdrawal and replacement of widely used benchmark indices such as the London Interbank Offered Rate (“LIBOR”) with alternative benchmark rates may introduce a number of risks for our business, our clients and the financial services industry more widely. These include financial risks arising from potential changes in the valuation of financial instruments linked to benchmark indices, pricing and operational risks, and legal implementation and revised documentation risks. The FCA in the U.K., which regulates LIBOR, has announced that it will no longer compel panel banks to submit rates for LIBOR after 2021. Accordingly, the withdrawal and replacement of LIBOR may pose financial risks and uncertainties to our business. We also may face operational challenges adopting successor benchmarks.

INVESTMENT AND PERFORMANCE RISKS

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 investment performance, along with achieving and maintaining superior distribution and client service, is 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 led, 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. If we fail, or appear to fail, to address successfully and promptly the underlying causes of any poor investment performance, we may be unsuccessful in repairing any existing harm to our performance and our future business prospects would likely be negatively affected.

Harm to our reputation may 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 clients and 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. In addition, reputational harm may prevent us from attracting new clients or developing new business.

GLOBAL OPERATIONAL RISKS

Our business operations are complex and a failure to perform operational tasks properly or the misrepresentation of our services and products resulting, without limitation, in 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. 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 process and monitor a large number of transactions effectively, 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, as well as others involved in our business, such as third-party vendors, providers and other intermediaries, 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, litigation, 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 and clients. Our revenues could be adversely affected if such agreements representing a significant portion of our AUM are terminated. 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 perform and monitor our operations properly, our business could suffer and our revenues and income could be adversely affected.

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 operate our business consistently and effectively. 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 vary widely and they may be inconsistent or less developed or mature than other more internationally focused distributors. Notwithstanding potential long-term cost savings, 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 challenges 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 extraterritorial application. This may lead to duplicative or conflicting legal or regulatory burdens and additional costs and risks. For example, although negotiations between the U.K. and EU regarding Brexit began in June 2017, it is still unclear what terms, if any, may be agreed to in the final outcome and for any transitional period, and the ultimate impact on us.

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 joint venture partner may have business interests, strategies or goals that are inconsistent with ours. The business decisions or other actions or omissions of the controlling stakeholder, joint venture partner or the entity itself may result in liability to us or harm to our reputation, or adversely affect the value of our investment in the entity.

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, the 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, our situation may change in the future. Appreciation of the U.S. dollar 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 had, 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.

We may review and pursue strategic transactions that could pose risks to our business. As part of our business strategy, we regularly consider, and have discussions with respect to, potential strategic transactions, including acquisitions, dispositions, consolidations, joint ventures or similar transactions, some of which may be deemed material. There can be no assurance that we will find suitable candidates for strategic transactions at acceptable prices, have sufficient capital resources to accomplish our strategy, or be successful in entering into agreements for desired transactions. In addition, such transactions typically involve a number of risks and present financial, managerial and operational challenges. Acquisitions and related transactions pose the risk that any business we acquire may lose customers or employees or could underperform relative to expectations. We could also experience financial or other setbacks if transactions encounter unanticipated problems, including problems related to execution or integration. Strategic transactions typically are announced publicly even though they may remain subject to numerous closing conditions, contingencies and approvals, and there is no assurance that any announced transaction will actually be consummated.

Future transactions may also further increase our leverage or, if we issue equity securities to pay for acquisitions, dilute the holdings of our existing stockholders.

COMPETITION AND DISTRIBUTION RISKS

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 and banks, upon which we rely 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.

Increasing competition and other 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. Because we rely on third-party distribution and sales channels to sell our products, we do not control the ultimate investment recommendations given by them to clients. Increasing competition for these distribution and sales channels, and regulatory changes and initiatives, have caused our distribution costs to rise and could cause further cost increases in the future, or could otherwise negatively impact the distribution of our products. Higher distribution costs lower our income, and consolidations in the broker-dealer or banking industries could also adversely impact our income. A failure to maintain our third-party distribution and sales channels, or a failure to maintain strong business relationships with our distributors and other intermediaries, may impair our distribution and sales operations. Any inability to access and successfully sell our products to clients through such third-party channels could have a negative effect on our level of AUM and adversely impact our business.

Moreover, there is no assurance that we will continue to have access to the third-party financial intermediaries that currently distribute our products, or that we will continue to have the opportunity to offer all or some of our existing products through them. If several of the major financial advisers that 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.

Further, the standards of conduct and disclosure and reporting requirements, with respect to fees, products, services and possible conflicts of interest, applicable to broker-dealers and other financial intermediaries in the U.S., remain subject to change and enhancement pursuant to business and regulatory developments and requirements, including with respect to investor suitability obligations, enhanced investor protections for retail customers, and increased compliance requirements.

In addition, the U.K., the Netherlands and the EU, through MiFID II, have adopted regimes that 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, including us, finance investment research with many firms, by opting to pay for third-party investment research for client accounts covered by MiFID II.

THIRD-PARTY RISKS

Any failure of our third-party providers to fulfill their obligations, or our failure to maintain good relationships with our providers, could adversely impact our business. We currently, and may in the future, depend on a number of third-party providers to support various operational, administrative, market data, distribution, and other business needs of our company. In addition, we may, from time to time, transfer vendor contracts and services from one provider to another. If our third-party providers fail to deliver required services on a timely basis, or if we experience other negative service quality or relationship issues with our providers, we may be exposed to significant costs and/or operational difficulties, and our ability to conduct and grow our business may be impaired. In addition, we are in the process of outsourcing certain of our fund administration services for our funds to a third-party provider. Such administrative and functional changes are costly and complex, and may expose us to heightened operational risks. Any failure to mitigate such risks could result in reputational harm to us, as well as financial losses to us and our clients. The failure of any key provider or vendor to fulfill its obligations to us could result in outcomes inconsistent with our or our clients' objectives and requirements, result in legal liability and regulatory issues for us, and otherwise adversely impact us.

We may be adversely affected if any of our third-party providers is subject to a successful cyber or security attack. 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 is 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. Any breach, 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. Our third-party applications may include confidential and proprietary data provided by vendors and by us.

TECHNOLOGY AND SECURITY RISKS

Our ability to manage and grow our business successfully 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 our 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 upgrade and improve our technology continually, including our data processing, financial, accounting, shareholder servicing and trading systems. Further, we also must be proactive and prepared to implement new technology 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 significant capital spending, and may require us to reevaluate the current value and/or expected useful lives of the technology we use, which could negatively impact our results of operations. In addition, technology is subject to rapid advancements and changes and our competitors may, from time to time, implement newer 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.

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, theft, systems failures, data security 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. We have been, and expect to continue to be, the subject of these types of breaches and/or attacks. Although we take protective measures, including measures to secure and protect information through system security technology and our internal security procedures, there can be no assurance that any of these measures will prove effective. The technology systems we use remain vulnerable to unauthorized access, computer viruses, potential human errors and 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 maliciously designed to obtain and exploit confidential information and to 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 we use or the security infrastructure we rely upon, and the costs necessary to address them, could result in: (i) significant material financial loss or costs, (ii) the unauthorized disclosure or modification of sensitive or confidential client and business information, (iii) loss of valuable information, (iv) breach of client and vendor contracts, (v) liability for stolen assets, information or identity, (vi) remediation costs to repair damage caused by the failure or breach, (vii) additional security and organizational costs to mitigate against future incidents, (viii) reputational harm, (ix) loss of confidence in our business and products, (x) liability for failure to review and disclose applicable incidents or provide relevant updated disclosure properly and timely, (xi) regulatory investigations or actions, and/or (xii) legal claims, litigation, and liability costs. Moreover, loss or unauthorized disclosure or transfer of confidential and proprietary data or confidential customer identification information could further harm our reputation and subject us to liability under laws that protect confidential data and personal information, 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, which may require us to incur additional administrative costs and/or take remedial actions. In addition, the failure to manage and operate properly 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.

Our inability to recover successfully, should we experience a disaster or other business continuity problem, could cause material financial loss, regulatory actions, legal liability, and/or reputational harm. Should we experience a local or regional disaster or other business continuity problem, such as an earthquake, hurricane, 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 such a local or regional event may affect our personnel across our operations or with regard to particular aspects of our operations, such as key executives or personnel in our technology groups. 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. However, a disaster on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to recover successfully following a disaster or other business continuity problem, could adversely impact our business and operations.

HUMAN CAPITAL RISKS

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. Global and/or local laws and regulations 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 may 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 and increase our key management succession planning, resulting in additional expense without a corresponding increase in potential revenues. 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. 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.

EXPENSE AND CASH MANAGEMENT RISKS

Our future results are dependent upon maintaining an appropriate expense level. The level of our expenses is subject to fluctuation and may increase for the following or other reasons: (i) changes in the level and scope of our operating expenses in response to market conditions or regulations, (ii) variations in the level of total compensation expense due to, among other things, bonuses, merit increases and severance costs, (iii) changes in our employee count and mix, and competitive factors, (iv) 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 (v) increases in insurance expenses, including through the assumption of higher deductibles and/or co-insurance liability.

Our ability to meet cash needs depends upon certain factors, including the market value of our assets, our operating cash flows and our perceived creditworthiness. 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 that 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.

LEGAL AND REGULATORY RISKS

We are subject to extensive, complex, overlapping and frequently changing rules, regulations, policies, and legal interpretations. There is uncertainty associated with the regulatory and compliance environments in which we operate. Our business is subject to extensive and complex, overlapping and/or conflicting, and frequently changing and increasing rules, regulations, policies and legal interpretations, around the world. Political and electoral changes, developments and conflicts have in the past introduced, and may in the future introduce, additional uncertainty. Our regulatory and compliance obligations impose significant operational and cost burdens on us and cover a broad range of requirements related to financial reporting and other disclosure matters, securities and other financial instruments, investment and advisory matters, accounting, tax, compensation, ethics, data protection, privacy, sanctions programs, and escheatment requirements. We may be adversely affected by a failure to comply with applicable laws, regulations and changes in the countries in which we operate. For a more extensive discussion of the laws, regulations and regulators to which we are subject, see "Item 1 – Business – Regulation" included in Part I of our Form 10-K for the fiscal year ended September 30, 2019.

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. 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. Over the years, the U.S. federal corporate governance and securities laws have been augmented substantially and made significantly more complex by various legislation. As we continue to address our legal and regulatory requirements or focus on meeting new or expanded requirements, we may need to expend a substantial amount of additional time, costs and resources. Regulatory reforms may add further complexity to our business and operations and could require us to alter our investment management services and related activities, which could be costly, impede our growth and adversely impact our AUM, revenues and income. Regulatory reforms also may impact our clients, which could cause them to change their investment strategies or allocations in a manner adverse to our business. Certain key regulatory reforms in the U.S. that impact or relate to our business, and may cause us to incur additional obligations, include:

- ***Dodd-Frank.*** In July 2010, Dodd-Frank was adopted in the U.S. Dodd-Frank is expansive in scope and has required the adoption of extensive regulations and the issuance of numerous regulatory decisions, while certain proposed rules remain subject to final adoption.

- *Systemically Important Financial Institutions.* Dodd-Frank authorized the establishment of the 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 FSB to identify and respond, in a coordinated manner, to threats to global financial stability. To the extent that we or any of our funds are designated as SIFIs by the FSOC or as global SIFIs by the FSB, such designations add additional supervision and/or 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, that could impact our business.
- *Derivatives and Other Financial Products.* Dodd-Frank, as well as other legislation and regulations, impose restrictions and limitations on us related to our financial services and products, resulting in increased scrutiny and oversight. Under such regulations governing derivative transactions, certain categories of swaps are subject to the exchange of margin, while others are required to be submitted for clearing by a regulated clearing organization. In both cases, swaps must be reported on a swap execution facility. The EU and other countries have implemented, or are in the process of implementing, similar requirements. There is some risk that full mutual recognition may not be achieved between the various regulators, which may cause us to incur duplicate regulation and transaction costs. The SEC has also proposed a rule that would impose restrictions on the use of derivatives by registered funds. In addition, SEC rules have changed the structure and operation for certain types of money market funds, and certain U.S.-registered funds are required to adopt liquidity management programs.
- *Privacy and Data Protection.* There also has been increased regulation with respect to the protection of customer privacy and data, and the need to secure sensitive customer, employee and others' information. As the regulatory focus on privacy continues to intensify and laws and regulations concerning the management of personal data expand, risks related to privacy and data collection within our business will increase. In addition to the EU's GDPR data protection rules, we may also be or become subject to or affected by additional country, federal and state laws, regulations and guidance impacting consumer privacy, such as the recently enacted CCPA effective January 2020, which provides for enhanced consumer protections for California residents and statutory fines for data security breaches or other CCPA violations. Noncompliance with our legal obligations relating to privacy and data protection could result in penalties, legal proceedings by governmental entities or affected individuals, and significant legal and financial exposure.
- *Rule 12b-1 Plans.* In 2010, the SEC proposed changes to Rule 12b-1 promulgated under the Investment Company Act that, if adopted, could limit our ability to recover expenses relating to the distribution of our U.S.-registered funds, which could decrease our revenues.
- *SEC Regulation Best Interest.* In June 2019, the SEC adopted a package of new rules, amendments and interpretations, including Regulation Best Interest and a new form of relationship summary, designed to enhance investor protections for all retail customers, that will, subject to a transition period until June 30, 2020, among other things: (i) require broker-dealers to act in the best interest of their retail customers when recommending securities and account types, (ii) raise the broker-dealer standard of conduct beyond existing suitability obligations, and (iii) require a new relationship summary disclosure document to inform retail clients of the nature of the broker-dealers' relationships with investment professionals and registered investment advisers, including a description 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.
- *Other Compliance Requirements.* Compliance with the U.S. Bank Secrecy Act of 1970, the U.S. Patriot Act of 2001, and anti-money laundering and economic sanctions, both domestically and internationally, has taken on heightened importance as a result of efforts to, among other things, combat terrorist financing and actions that undermine the stability, sovereignty and territorial integrity of countries. In addition, global regulatory, federal and/or state anti-takeover or business combination laws may impose various disclosure and procedural requirements on a person seeking 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.

The impacts of these and other regulatory reforms on us, now and in the future, could be significant. We expect that the regulatory requirements and developments applicable to us will cause us to continue to incur additional compliance and administrative burdens and costs. Any inability to meet applicable 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. As in the U.S., regulatory and legislative actions outside the U.S. have been augmented substantially and made more complex, by measures such as the EU's Alternative Investment Fund Managers Directive and MiFID II. Further, 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. We may be required to invest significant additional management time and resources to address new regulations being adopted pursuant to 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.

The EU's GDPR strengthened and unified data protection rules for individuals within the EU. GDPR also addresses export of personal data outside the EU. The primary objectives of 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 GDPR requires an extensive review of all of our global data processing systems. The failure to comply properly with GDPR rules on a timely basis 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 GDPR could result in fines up to 20 million Euros or 4% of our annual global revenues, whichever is higher.

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 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. Failure to comply with the applicable laws, rules, regulations, codes, directives, notices or guidelines in any of our jurisdictions could result in civil liability, criminal liability and/or sanctions against us, including fines, censures, injunctive relief, the suspension or expulsion from a particular jurisdiction or market, or the revocation of licenses or charters, any of which could adversely affect our reputation and operations. Moreover, any potential accounting or reporting error, whether financial or otherwise, if material, could damage our reputation and adversely affect our business. While management has focused attention and resources on our compliance policies, procedures and practices, 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. 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.

The U.S. Tax Cuts and Jobs Act 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. Further, pursuant to ongoing efforts to encourage global tax compliance, the OECD has adopted 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 is being 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.

The OECD has also undertaken a new project focused on “Addressing the Tax Challenges of the Digitalization of the Economy.” This project may impact all multinational businesses by allocating a greater share of taxing rights to countries where consumers are located regardless of the current physical presence of a business, and by implementing a global minimum tax. There is significant uncertainty regarding such proposal and any unfavorable resolution could have an adverse effect on our effective tax rate.

Our contractual obligations may subject us to indemnification costs and liability to third parties. In the ordinary course of business, we and our subsidiaries enter into contracts with third parties, including, without limitation, clients, vendors, and other service providers, that contain a variety of representations and warranties and that provide for indemnifications by us in certain circumstances. Pursuant to such contractual arrangements, we may be subject to indemnification costs and liability to third parties if, for example, we breach any material obligations under the agreements or agreed standards of care, or in the event such third parties have certain legal claims asserted against them. The terms of these indemnities vary from contract to contract, and future indemnification claims against us could negatively impact our financial condition.

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 regulatory and governmental requests for documents or other information, subpoenas, examinations and investigations in connection with our business activities. In addition, regulatory or governmental 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 examinations, investigations, litigation, and/or 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the three months ended December 31, 2019, there were no material changes from the market risk disclosures in our Form 10-K for the fiscal year ended September 30, 2019.

Item 4. Controls and Procedures.

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2019. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures as of December 31, 2019 were designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended December 31, 2019, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

For a description of our legal proceedings, please see the description set forth in the "Legal Proceedings" section in Note 10 – Commitments and Contingencies in the notes to the consolidated financial statements in Item 1 of Part I of this Form 10-Q, which is incorporated herein by reference.

Item 1A. Risk Factors.

Our Form 10-K for the fiscal year ended September 30, 2019 filed with the SEC includes a discussion of the risk factors identified by us, which are also set forth under the heading "Risk Factors" in Item 2 of Part I of this Form 10-Q. There were no material changes from the Risk Factors as previously disclosed in our Form 10-K for the fiscal year ended September 30, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information with respect to the shares of our common stock that we repurchased during the three months ended December 31, 2019.

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
October 2019	1,342,666	\$ 27.37	1,342,666	45,833,153
November 2019	1,007,105	27.75	1,007,105	44,826,048
December 2019	2,241,023	26.28	2,241,023	42,585,025
Total	4,590,794		4,590,794	

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 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. Exhibits.

The exhibits listed on the Exhibit Index to this Form 10-Q are incorporated herein by reference.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Registrant's Certificate of Incorporation, as filed November 28, 1969, incorporated by reference to Exhibit 3(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 001-09318) (the "1994 Annual Report")
3.2	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed March 1, 1985, incorporated by reference to Exhibit 3(ii) to the 1994 Annual Report
3.3	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed April 1, 1987, incorporated by reference to Exhibit 3(iii) to the 1994 Annual Report
3.4	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed February 2, 1994, incorporated by reference to Exhibit 3(iv) to the 1994 Annual Report
3.5	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed on February 4, 2005, incorporated by reference to Exhibit 3(i)(e) to the Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 2004 (File No. 001-09318)
3.6	Registrant's Amended and Restated Bylaws (as adopted and effective October 22, 2018), incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed with the SEC on October 24, 2018 (File No. 001-09318)
10.1	Registrant's Amended and Restated Annual Incentive Compensation Plan (as amended and restated effective December 10, 2019) (filed herewith)*
10.2	Registrant's Named Executive Officer Compensation as of September 30, 2019 (filed herewith)*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2019, formatted in Inline Extensible Business Reporting Language (iXBRL), include: (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes (filed herewith)
104	Cover Page Interactive Data File (formatted in iXBRL and contained in Exhibit 101)

* Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRANKLIN RESOURCES, INC.

Date: January 30, 2020

By: /s/ Matthew Nicholls

Matthew Nicholls

Executive Vice President and Chief Financial Officer

Date: January 30, 2020

By: /s/ Gwen L. Shaneyfelt

Gwen L. Shaneyfelt

Chief Accounting Officer

FRANKLIN RESOURCES, INC.

AMENDED AND RESTATED ANNUAL INCENTIVE COMPENSATION PLAN

(amended and restated December 10, 2019)
(amended and restated June 14, 2016)
(amended and restated October 20, 2014)
(amended and restated October 22, 2012)
(amended and restated March 16, 2010)
(amended and restated December 13, 2006)
(amended and restated December 16, 2005)
(amended and restated September 22, 2005)
(amended and restated December 16, 2004)
(amended and restated December 11, 2003)

I. PURPOSE

Franklin Resources, Inc. has established this Amended and Restated Annual Incentive Compensation Plan to attract, retain, and motivate eligible employees to achieve the highest levels of performance results in the financial services business by providing them an opportunity to share in the organization's annual performance results.

II. DEFINITIONS

When used in this plan document, the following words and phrases shall have the following meanings:

- 2.1 "Award Pool" means the total amount, denominated in U.S. dollars, available for funding Incentive Awards under the Plan for an applicable Plan Year.
- 2.2 "Bonus Opportunity" means a potential bonus target for a Participant.
- 2.3 "Committee" means the Compensation Committee of the Board of Directors of the Company, and/or another committee of the Board of Directors to the extent of such other committee's authority granted by the Board of Directors of the Company.
- 2.4 "Company" means Franklin Resources, Inc., a Delaware corporation, and its direct and indirect subsidiaries.
- 2.5 "Compensation Committee" means the Compensation Committee of the Franklin Resources, Inc. Board of Directors.
- 2.6 "Equity Award" means a grant of Stock, Options, SARs, Stock Awards, Restricted Stock Awards or Restricted Stock Unit Awards under the 2002 Universal Stock Incentive Plan or successor equity compensation plan, or Mutual Fund Unit Awards.
- 2.7 "Grantor" means Management or a Committee, as applicable.
- 2.8 "Incentive Award" means either an Equity Award or cash awarded to a Participant under this Plan.
- 2.9 "Management" means one or more of the executive officers of the Company.

2.10 “Mutual Fund Unit Award” (also referred to as “Restricted Fund Units” from time to time) means the grant of a right to receive shares in mutual funds or other investment funds sponsored by the Company, or cash depending on the applicable award agreement, upon the vesting of the units, with such right to receive shares in such mutual funds (or cash) subject to a risk of forfeiture or other restrictions that will lapse based on the completion of service or achievement of performance objectives by the Participant, as determined by a Committee.

2.11 “Option” means the grant of a right to purchase Stock at a specified exercise price, with the right to purchase such shares of Stock subject to the completion of service or achievement of performance objectives by the Participant, as determined by a Committee.

2.12 “Participant” means each employee who has been determined by the Grantor to be a Participant pursuant to Article III.

2.13 “Plan” means the Amended and Restated Annual Incentive Compensation Plan as set forth in this document, as amended from time to time.

2.14 “Pre-Bonus Operating Income” (hereafter “PBOI”) means the consolidated operating income of the Company, calculated before non-operating interest, taxes and extraordinary items and before the accrual for any Incentive Awards and, if applicable, any “Actual Awards” as defined under the Company’s 2014 Key Executive Incentive Compensation plan, or any successor plan, in each case determined in a manner consistent with the Company’s consolidated statement of income for the applicable Plan Year.

2.15 “Plan Year” means the 12-month period beginning on the first day of each fiscal year of the Company.

2.16 “Restricted Stock Award” means the grant of shares of Stock, with such shares of Stock subject to a risk of forfeiture or other restrictions that will lapse based on the completion of service or achievement of performance objectives by the Participant, as determined by a Committee.

2.17 “Restricted Stock Unit Award” means the grant of a right to receive Stock or cash in lieu of Stock, depending on the terms of the applicable award agreement, upon the vesting of the units, with such right to receive Stock (or cash) subject to a risk of forfeiture or other restrictions that will lapse based on the completion of service or achievement of performance objectives by the Participant, as determined by a Committee.

2.18 “SAR” means the grant of a right to receive, in cash or Stock (as determined by a Committee), value equal to (or otherwise based on) the excess of (a) the fair market value of a specified number of shares of Stock at the time of exercise over (b) a specified exercise price, with the right to receive such value in cash or Stock subject to the completion of service or achievement of performance objectives by the Participant, as determined by a Committee.

2.19 “Stock” means Franklin Resources, Inc. common stock reserved for issuance under the Franklin Resources, Inc. 2002 Universal Stock Incentive Plan or successor equity compensation plan, as may be amended and restated from time to time.

2.20 “Stock Award” means the grant of a right to receive Stock.

III. PARTICIPATION

All individuals who are employees at the beginning of the Plan Year, except employees who participate in commission-based incentive plans or employees who a Grantor determines in its sole discretion are ineligible, are eligible to be designated by a Committee or Management as Participants during that Plan Year. Employees, including but not limited to employees hired during a Plan Year, may be added to the Plan as Participants in the sole discretion of a Committee or Management.

IV. AWARD POOL FUNDING AND INDIVIDUAL AWARDS

4.1 For each Plan Year, the Compensation Committee shall determine the amount to be allocated to the Award Pool, not to exceed Thirty Percent (30%) of PBOI.

4.2 The Grantor may generally determine the amount of Bonus Opportunities under the Plan. A Committee has the sole and absolute discretion to grant any Equity Award. The Compensation Committee has the sole and absolute discretion to increase or decrease an Incentive Award payable to a member of Management. Management or a Committee may award cash Incentive Awards.

4.3 The actual amounts allocated to the Award Pool may be determined and/or revised by the Compensation Committee at any time during or after the end of each Plan Year, based upon actual or projected Company performance and PBOI. Amounts not allocated as Incentive Awards do not carry over to the next Plan Year.

4.4 Incentive Awards may be awarded during or following the end of each Plan Year. The amount of any Incentive Awards awarded prior to the end of a Plan Year shall be credited against the Award Pool for such Plan Year so that the net amount remaining in the Award Pool is available for Incentive Awards determined and awarded after the end of such Plan Year. Actual Incentive Awards may vary from the Bonus Opportunities depending on the PBOI allocated or projected to be allocated to the Award Pool and on a Participant's individual performance.

4.5 No employee is entitled to receive an Incentive Award for any Plan Year. Generally a Participant's Incentive Award will be based upon an evaluation of a Participant's overall performance, including the successful accomplishment of annual goals and objectives and the desire to retain and motivate the Participant, as well as other performance factors such as business unit performance and overall Company performance. Notwithstanding an employee's individual performance, however, and despite anything to the contrary in this Plan, the Grantor has absolute discretion to determine the amount of any Incentive Award, including discretion to increase or decrease a recommended award, or to determine not to award any Incentive Award. Past Incentive Awards awarded to a Participant are not an indicator of future participation in the Award Pool or of the amount of any future Incentive Awards that may be awarded to the Participant. In order to promote the highest levels of individual performance, there is no minimum or maximum amount which applies to individual Incentive Awards of any Participant.

V. AWARD OF AND PAYMENT UNDER INCENTIVE AWARDS GENERALLY

5.1 Cash and/or equity awarded as part of an Incentive Award may be paid or become vested, as applicable, in the following time and manner:

(a) Incentive Awards may be subject to such restrictions and vesting as determined by a Committee to be appropriate.

(b) Any Equity Awards granted as part of an Incentive Award shall be governed by the terms of the applicable award agreement evidencing such Equity Award, and either (i) or (ii) as follows: (i) in the case of Equity Awards other than Mutual Fund Unit Awards, the 2002 Universal Stock Incentive Plan or any successor plan, and once granted to the recipient shall not be governed by or subject to the terms of this Plan, (ii) in the case of Mutual Fund Unit Awards, the terms of this Plan.

(c) The cash portion of an Incentive Award shall be paid at such time and in such manner as the Grantor determines. Participants shall be notified in writing as to the date and time of payment of any deferred portion of the Incentive Award.

(d) Equity Awards granted as part of an Incentive Award shall be granted effective as of such time during or after the end of the Plan Year as determined by a Committee. Notwithstanding anything in the Plan to the contrary, Equity Awards and any modifications thereto shall be made by a Committee.

(e) Notwithstanding the foregoing, with respect to any Incentive Award granted to a Participant who is a United States resident or subject to United States law, the payment of such Incentive Award shall be completed no later than two and one-half (2½) months following the end of the calendar year in which such Incentive Award is earned. Payment timing shall be determined by the Committee for any other Participant, subject to applicable law.

5.2 Application of Code Section 409A.

The Plan is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”) or an exemption or exclusion therefrom and, with respect to amounts that are subject to Section 409A of the Code, the Plan shall be administered in all respects in accordance with Section 409A of the Code. Notwithstanding any other provision of this Plan to the contrary, the Company, in its sole discretion and without Participant consent, may amend or modify the Plan in any manner to provide for the application and effects of Section 409A of the Code (relating to deferred compensation arrangements) and any related regulatory or administrative guidance issued by the Internal Revenue Service, or any successors thereto. The Company shall have the authority to delay the payment of any benefits described under the Plan to the extent it deems necessary or appropriate to comply with Section 409A(a)(2)(B)(i) of the Code (relating to payments made to certain “key employees” of certain publicly-traded companies) and in such event, any such payments to which a Participant would otherwise be entitled during the six (6) month period immediately following his or her separation from service (within the meaning of Section 409A of the Code) will be made on the first business day following the expiration of such six (6) month period. If the Participant dies following a separation from service and prior to the payment of any amounts delayed in accordance with the prior sentence, such amounts shall be paid to the Participant’s estate or applicable beneficiary within thirty (30) days after the date of the Participant’s death. None of the Company, the Committee nor any of the Company’s employees, directors or representatives shall have liability to any Participant with respect to Section 409A of the Code.

VI. AWARD OF OR PAYMENT UNDER INCENTIVE AWARDS IN EVENT OF TERMINATION OF EMPLOYMENT

6.1 Termination of Employment.

(a) Except as otherwise noted in Section 6.1(c) below, and subject to the terms of any governing award agreement, Participants must be employed with the Company both on the date Incentive Awards are awarded and the date Incentive Awards are paid in order to be eligible to receive the award of, or payment under, an Incentive Award.

(b) Subject to Section 6.1(c) and the terms of any applicable award agreement, a Participant shall have no right to an Incentive Award, and shall forfeit any awarded Incentive Award, which shall be cancelled without payment of any consideration to a Participant therefor, if the Participant’s employment terminates, for any reason, (i) before the date an Incentive Award is awarded to the Participant or, (ii) in the case of an Incentive Award that includes a cash award, before the cash payment under that Incentive Award has been made, in each case whether or not the Participant has been notified of his or her Incentive Award. For purposes of this Section 6.1(b), an Equity Award shall be considered to have been awarded to a Participant when the Equity Award has been granted to the Participant in accordance with the Company’s then-applicable Equity Award grant procedures.

(c) Notwithstanding the foregoing, the Grantor can decide in its sole and absolute discretion to award a cash Incentive Award, or make a cash payment under an Incentive Award previously awarded, to a Participant whose employment ends for any reason. The Grantor has the sole and absolute discretion to determine the amount of any Incentive Award awarded to a terminated employee. The Grantor shall, when exercising discretion to award such an Incentive Award, and in determining the amount of any specific cash Incentive Award to a terminated employee, consider that it is not practical or effective to award amounts that would otherwise have reflected future incentives to departed employees. Any Incentive Award awarded pursuant to this Section 6.1(c) in the discretion of the Grantor shall be paid in cash in a single payment as soon as practical following when the Incentive Award would have otherwise been paid absent the employee's termination, or as otherwise determined by the Grantor but subject to Section 5.1(e) above.

(d) There is no obligation, either expressed or implied, that the Grantor must actually consider awarding an Incentive Award, or making any payment under any Incentive Award already awarded but not yet accepted and paid, to an employee whose employment ends for any reason.

VII. AMENDMENT OR TERMINATION

7.1 Amendment.

The Compensation Committee reserves the right, in its sole discretion to amend, modify or suspend this Plan at any time in whole or in part; provided, however, that no amendment, modification or suspension shall result in the forfeiture or cancellation of any Participant's Incentive Award(s) already awarded before the date the Compensation Committee approves such amendment, modification or suspension, unless otherwise agreed to by the affected Participant(s).

7.2 Termination.

The Compensation Committee may terminate the Plan at any time. Termination of the Plan shall not result in the forfeiture or cancellation of any Participant's Incentive Award(s) which have already been awarded but under which payments have not yet been made, unless otherwise agreed to by the affected Participant(s).

VIII. ADMINISTRATION

8.1 Administration of the Plan.

This Plan has been adopted by the stockholders of Franklin Resources, Inc. and shall be administered by the Compensation Committee.

The Compensation Committee shall have the sole authority, in its absolute discretion, to adopt, amend, and rescind such policies and procedures as, in its opinion, may be advisable in the administration of the Plan, to construe and interpret the Plan, the policies and procedures, and any instruments evidencing Incentive Awards and to make all other determinations deemed necessary or advisable for the administration of the Plan. All decisions, determinations, and interpretations of the Compensation Committee shall be binding on all Participants.

The Plan is intended to meet the requirements of the rules promulgated by the Securities and Exchange Commission under Section 16(b) of the Securities Exchange Act of 1934, as amended, and shall be administered and construed accordingly.

The Compensation Committee shall have the right, solely with respect to any Participants who are not United States residents or subject to United States law, to vary from the provisions of the Plan to preserve its incentive features (subject to applicable law in the applicable jurisdiction).

8.2 Non-alienation of Benefits.

No benefit under this Plan may be sold, assigned, transferred, conveyed, hypothecated, encumbered, anticipated, or otherwise disposed of, and any attempt to do so shall be void other than by will or the laws of inheritance upon death of the Participant. No such benefit shall, prior to receipt thereof by a Participant, be in any manner subject to the debts, contracts, liabilities, engagements, or torts of such Participant.

8.3 No Contract or Effect on Employment.

This Plan is not intended to be, and should not be construed to be, an employment contract or any other contract or agreement or as a guarantee of employment for any particular period of time. This Plan also does not create any express or implied contract or promise for the payment or award of any Incentive Award or other compensation or benefit. Nothing in this Plan shall be construed to limit, change or contradict in any way any of the Company's personnel policies and procedures particularly, without limitation, the Company's right to terminate a Participant's employment at any time for any reason whatsoever with or without cause. Likewise, nothing in this Plan provides an agreement or understanding, express or implied, that the Company (a) will employ a Participant in any particular position or for a particular length of time, (b) will ensure participation in any incentive programs, or (c) will award any awards under such programs.

8.4 Applicable Law.

The provisions of the Plan shall be governed by and construed in accordance with the laws of the State of Delaware, with the exception of Delaware's conflict of laws provisions.

8.5 Mandatory Alternative Dispute Resolution.

The Participant and the Company agree to resolve all disputes arising under the Plan or involving the participation by Participant in the Plan exclusively through Alternative Dispute Resolution, including direct discussion and mandatory mediation, followed, if necessary, by final and binding arbitration in accordance with the Company's dispute resolution policies and the Participant's ADR Agreement with the Company then in effect.

IX. FORFEITURE OF INCENTIVE AWARDS

9.1 Forfeiture Pursuant to Restatement of Financial Results.

Notwithstanding any other provision of this Plan to the contrary, in the event that (i) the Company issues a restatement of financial results to correct a material error; (ii) the Compensation Committee determines, in good faith, that a Participant's fraud or willful misconduct was a significant contributing factor to the need to issue such restatement; and (iii) some or all of an award awarded to that Participant prior to such restatement (the "Relevant Award") and/or shares of Stock or mutual fund shares that were awarded and/or other property earned by the Participant prior to such restatement (the "Relevant Property") would not have been awarded and/or earned, as applicable, based upon the restated financial results, the Participant shall immediately return to the Company the Relevant Award and the Relevant Property, including any property received with respect to that Relevant Award or Relevant Property, including any pre-tax income derived from any disposition of it, and shares of Stock, mutual fund shares or other property previously received in settlement of a Relevant Award that would not have been awarded and/or earned based upon the restated financial results (the "Repayment Obligation"), and any and all such Relevant Award or Relevant Property (whether or not vested) shall immediately be forfeited. The Company shall be able to enforce the Repayment Obligation by all legal means available, including, without limitation, by withholding such amount from other sums owed by the Company to the Participant.

9.2 Forfeiture Pursuant to Fraud or Breach of Securities Law.

(a) Notwithstanding any other provision of this Plan to the contrary, in the event that the Participant:

(i) is convicted by any court for fraud;

(ii) is finally adjudicated by any court or is otherwise finally determined by a Regulatory Agency to be in violation of any Securities Law where the violation related to a period of time during which the Participant was an employee; or

(iii) enters into a settlement agreement with a Regulatory Agency, with or without admission of any liability, in relation to or in connection with an allegation concerning a violation of any Securities Law by the Participant where the violation or alleged violation related to a period of time during which the Participant was an employee, and the terms of the settlement agreement result in (x) the Participant making, or being required to make, payment of any penalty or a payment in lieu of any penalty or redress in respect of such violation, or alleged violation; (y) the publication of any statement of reprimand or censure; or (z) the Participant suffering any other penalty including (without limitation) suspension or termination of his status for the purposes of any Securities Law, each of the Participant's Incentive Awards under the Plan, if and to the extent that it has not been awarded or paid, shall immediately be forfeited without any payment to the Participant therefor and the Participant will immediately cease to have any further rights over or interest in such award; provided, however, that in such event Equity Awards (other than Mutual Fund Units) shall be subject to the terms of the 2002 Universal Stock Incentive Plan and the applicable award agreement(s) underlying such Equity Awards and Equity Awards that are Mutual Fund Units shall be governed by this Plan. Notwithstanding the foregoing, the Compensation Committee may determine, in its sole discretion, that only a portion of the Participant's award specified by the Compensation Committee (or no such portion of the award) shall be forfeited. However, there is no obligation, either expressed or implied, that the Compensation Committee must actually consider causing only a portion (or no such portion) of the Participant's award to be forfeited.

For the purposes of Section 9.2, the following words shall have the following meanings:

“Regulatory Agency” shall mean in any jurisdiction any department of government, independent agency, authority appointed by statute or by government in connection with the supervision and or enforcement of any Securities Law including, but not limited to, the U.S. Securities and Exchange Commission;

“Securities Law” shall mean any enactment, law, statute, rule, requirement or regulation in any jurisdiction relating to Securities that is or was applicable to the Company or that is or was applicable to the Participant;

“Securities” shall mean any shares, bonds, derivatives or other financial instruments or financial assets or any interest therein.

9.3 Other Repayment or Forfeiture.

Any benefits Participants may receive hereunder shall be subject to repayment or forfeiture as may be required to comply with (i) any applicable listing standards of a national securities exchange adopted in accordance with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (regarding recovery of erroneously awarded compensation) and any implementing rules and regulations of the U.S. Securities and Exchange Commission adopted thereunder, (ii) similar laws, and implementing rules and regulations, of the European Union (as implemented by its member states and by the European Securities and Markets Authority) and of any other jurisdiction and (iii) any policies adopted by the Company to implement such requirements, all to the extent determined by the Company in its discretion to be applicable to Participant.

This Plan was originally approved by the stockholders of Franklin Resources, Inc. on January 19, 1994. The stockholders of Franklin Resources, Inc. approved an amendment of the Plan on January 24, 1995. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on December 11, 2003 to (a) provide that up to 20% of pre-tax operating income may be allocated to the Award Pool by the Compensation Committee and (b) give broad discretion to the Compensation Committee in determining the amount of Incentive Awards payable to Participants in the Plan, which amendment and restatement was approved by the stockholders of Franklin Resources, Inc. on January 29, 2004. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on December 16, 2004 to provide that Incentive Awards may be paid in Options, SARs, Stock Awards and Restricted Stock Unit Awards, which amendment and restatement was not subject to the approval of the stockholders of Franklin Resources, Inc. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on September 22, 2005 principally to (a) provide that the allocation of actual amounts to the Award Pool, Associates' Pool(s) and/or Principals' Pool(s) for a Plan Year and the determination and payment of actual Incentive Awards for a Plan Year may be made in advance of the completion of such Plan Year and (b) make various conforming and other technical changes to the Plan, which amendment and restatement was not subject to the approval of the stockholders of Franklin Resources, Inc. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on December 16, 2005 principally to change the governing law of the Plan to Delaware, which amendment and restatement was not subject to the approval of the stockholders of Franklin Resources, Inc. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on December 13, 2006 principally to make clarifying and technical changes to the Plan, which amendment and restatement was not subject to the approval of the stockholders of Franklin Resources, Inc. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on March 16, 2010 principally to (a) make clarifying and technical changes to the Plan, including to extend certain administrative authority to appropriate officers and members of management personnel in addition to the Compensation Committee, as well as (b) include a clawback provision providing for the forfeiture of Incentive Awards by a Participant in the context of certain material financial restatements resulting from such Participant's misconduct, which amendment and restatement was not subject to the approval of the stockholders of Franklin Resources, Inc. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on October 22, 2012 to permit additional committees established by the Board to act under the Plan to the extent of the authority awarded to any such committee, which amendment and restatement was not subject to the approval of the stockholders of Franklin Resources, Inc. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on October 20, 2014 to amend the clawback provision to also provide for the forfeiture of Incentive Awards by a Participant in the case of certain circumstances involving fraud or breach of securities laws by the Participant, any applicable listing standards of a national securities exchange adopted in accordance with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and, similar laws, and implementing rules and regulations, of the European Union (as implemented by its member states and by the European Securities and Markets Authority) and of any other jurisdiction, which amendment and restatement was not subject to the approval of the stockholders of Franklin Resources, Inc. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on June 14, 2016 to amend the Plan in certain respects to clarify the rights of Participants and make other conforming changes, which amendment and restatement was not subject to the approval of the stockholders of Franklin Resources, Inc. The Board of Directors of Franklin Resources, Inc. approved an amendment and restatement of the Plan on December 10, 2019 to (a) increase the maximum amount to be allocated to the Award Pool from twenty percent (20%) of PBOI to thirty percent (30%) of PBOI, and (b) make clarifying and technical changes to the Plan, including to Sections 5.1 and 5.2 of the Plan.

FRANKLIN RESOURCES, INC.

NAMED EXECUTIVE OFFICER COMPENSATION
As of September 30, 2019

The following table sets forth the annual base salaries, as of September 30, 2019, of the Named Executive Officers¹ (the “NEOs”) of Franklin Resources, Inc. (the “Company”).

<u>Name and Principal Positions</u>	<u>Annual Base Salary</u>
Gregory E. Johnson <i>Chairman of the Board and Chief Executive Officer</i>	\$ 780,132
Matthew Nicholls <i>Executive Vice President and Chief Financial Officer</i>	\$ 525,000
Jennifer M. Johnson <i>President and Chief Operating Officer</i>	\$ 600,000
Craig S. Tyle <i>Executive Vice President and General Counsel</i>	\$ 525,000
Jed A. Plafker <i>Executive Vice President</i>	\$ 500,000

The NEOs are also eligible to:

Incentive Compensation²

- (a) receive an annual cash incentive award pursuant to the Company’s Amended and Restated Annual Incentive Compensation Plan and/or the Company’s 2014 Key Executive Incentive Compensation Plan, each as amended and restated;
- (b) participate in the Company’s equity incentive program under which they may be granted restricted stock awards and/or restricted stock unit awards (including both time- and performance-based awards) pursuant to the Company’s 2002 Universal Stock Incentive Plan, as amended and restated; and
- (c) receive additional cash and/or equity awards for special recognition of significant contributions or for retention purposes (which may include time- and performance-based awards).

Benefit Plans and Other Arrangements

- (a) participate in the Company’s broad-based benefit programs generally available to its salaried employees, including health, disability and life insurance programs, the Franklin Templeton 401(k) Retirement Plan and the Company’s 1998 Employee Stock Investment Plan, as amended and restated (the “ESIP”); provided that Mr. G. Johnson and Ms. J. Johnson may not participate in the ESIP pursuant to applicable rules; and
- (b) receive certain perquisites offered by the Company, including club memberships, and, in certain limited cases, use of the Company’s aircraft for personal use.

¹ The NEOs listed herein are the Company’s current chief executive officer, current chief financial officer, and the three other most highly compensated executive officers of the Company as of September 30, 2019.

² Mr. Nicholls joined the Company in May 2019. Under the terms of his offer letter, Mr. Nicholls is eligible to earn an annual incentive award of \$2.6 million for fiscal year 2020, and has certain severance protections during the first two years of his employment.

CERTIFICATION

I, Gregory E. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Franklin Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 30, 2020

/s/ GREGORY E. JOHNSON

Gregory E. Johnson
Chairman of the Board and Chief Executive Officer

CERTIFICATION

I, Matthew Nicholls, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Franklin Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 30, 2020

/s/ MATTHEW NICHOLLS

Matthew Nicholls

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002 (FURNISHED HEREWITH)**

I, Gregory E. Johnson, Chairman of the Board and Chief Executive Officer of Franklin Resources, Inc. (the “Company”), certify, as of the date hereof and solely for purposes of and pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended December 31, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: January 30, 2020

/s/ GREGORY E. JOHNSON

Gregory E. Johnson
Chairman of the Board and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002 (FURNISHED HEREWITH)**

I, Matthew Nicholls, Executive Vice President and Chief Financial Officer of Franklin Resources, Inc. (the “Company”), certify, as of the date hereof and solely for purposes of and pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended December 31, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: January 30, 2020

/s/ MATTHEW NICHOLLS

Matthew Nicholls
Executive Vice President and Chief Financial Officer