

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 March 31, 2021

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

13-2670991

(State or other jurisdiction of incorporation or organization)

(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 April 27, 2021: 504,322,686.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
<i>(in millions, except per share data)</i>	2021	2020	2021	2020
Operating Revenues				
Investment management fees	\$ 1,598.4	\$ 908.2	\$ 3,138.8	\$ 1,887.9
Sales and distribution fees	413.6	341.7	810.5	693.2
Shareholder servicing fees	55.7	54.8	105.1	104.8
Other	8.8	6.5	17.2	14.5
Total operating revenues	2,076.5	1,311.2	4,071.6	2,700.4
Operating Expenses				
Compensation and benefits	732.3	365.7	1,457.8	755.1
Sales, distribution and marketing	541.8	423.9	1,048.3	867.8
Information systems and technology	117.5	61.8	234.0	124.3
Occupancy	53.8	34.4	109.5	68.9
Amortization of intangible assets	57.9	4.4	116.1	9.2
General, administrative and other	116.9	81.1	240.5	162.3
Total operating expenses	1,620.2	971.3	3,206.2	1,987.6
Operating Income	456.3	339.9	865.4	712.8
Other Income (Expenses)				
Investment and other income (losses), net	67.1	(181.0)	144.3	(113.1)
Interest expense	(15.9)	(3.7)	(45.6)	(9.8)
Investment and other income (losses) of consolidated investment products, net	111.2	(40.9)	202.3	(25.7)
Expenses of consolidated investment products	(5.2)	(11.4)	(15.6)	(15.7)
Other income (expenses), net	157.2	(237.0)	285.4	(164.3)
Income before taxes	613.5	102.9	1,150.8	548.5
Taxes on income	128.1	44.1	270.6	141.6
Net income	485.4	58.8	880.2	406.9
Less: net income (loss) attributable to				
Redeemable noncontrolling interests	12.0	(28.5)	30.7	(19.5)
Nonredeemable noncontrolling interests	91.6	8.2	122.4	(3.2)
Net Income Attributable to Franklin Resources, Inc.	\$ 381.8	\$ 79.1	\$ 727.1	\$ 429.6
Earnings per Share				
Basic	\$ 0.74	\$ 0.16	\$ 1.42	\$ 0.86
Diluted	0.74	0.16	1.42	0.86

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

<i>(in millions)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Net Income	\$ 485.4	\$ 58.8	\$ 880.2	\$ 406.9
Other Comprehensive Income (Loss)				
Currency translation adjustments, net of tax	(34.8)	(102.5)	58.7	(44.5)
Net unrealized gains (losses) on defined benefit plans, net of tax	1.0	0.7	0.4	(0.2)
Net unrealized gains on investments, net of tax	—	1.9	—	0.2
Total other comprehensive income (loss)	(33.8)	(99.9)	59.1	(44.5)
Total comprehensive income (loss)	451.6	(41.1)	939.3	362.4
Less: comprehensive income (loss) attributable to				
Redeemable noncontrolling interests	12.0	(28.5)	30.7	(19.5)
Nonredeemable noncontrolling interests	91.6	8.2	122.4	(3.2)
Comprehensive Income (Loss) Attributable to Franklin Resources, Inc.	\$ 348.0	\$ (20.8)	\$ 786.2	\$ 385.1

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
Unaudited

<i>(in millions, except share and per share data)</i>	March 31, 2021	September 30, 2020
Assets		
Cash and cash equivalents	\$ 3,740.2	\$ 3,026.8
Receivables	1,294.9	1,200.6
Investments (including \$554.3 and \$504.8 at fair value at March 31, 2021 and September 30, 2020)	1,433.9	1,270.5
Assets of consolidated investment products		
Cash and cash equivalents	624.5	930.7
Investments, at fair value	3,907.7	2,709.2
Property and equipment, net	768.0	813.8
Goodwill	4,516.4	4,500.8
Intangible assets, net	4,809.8	4,914.2
Operating lease right-of-use assets	498.0	534.8
Other	276.4	319.5
Total Assets	\$ 21,869.8	\$ 20,220.9
Liabilities		
Compensation and benefits	\$ 1,054.1	\$ 1,064.0
Accounts payable and accrued expenses	443.2	426.9
Commissions	279.3	268.0
Income taxes	664.4	703.3
Debt	3,486.5	3,017.1
Liabilities of consolidated investment products		
Accounts payable and accrued expenses	316.6	510.1
Debt	1,759.5	1,333.4
Deferred taxes	289.8	305.3
Operating lease liabilities	571.8	621.0
Other	507.6	456.1
Total liabilities	9,372.8	8,705.2
Commitments and Contingencies (Note 12)		
Redeemable Noncontrolling Interests	815.7	541.9
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; 504,341,424 and 495,116,677 shares issued and outstanding at March 31, 2021 and September 30, 2020	50.4	49.5
Retained earnings	10,861.5	10,472.6
Accumulated other comprehensive loss	(348.5)	(407.6)
Total Franklin Resources, Inc. stockholders' equity	10,563.4	10,114.5
Nonredeemable noncontrolling interests	1,117.9	859.3
Total stockholders' equity	11,681.3	10,973.8
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity	\$ 21,869.8	\$ 20,220.9

See Notes to Consolidated Financial Statements.

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

<i>(in millions)</i> for the six months ended March 31, 2021	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, 2020	495.1	\$ 49.5	\$ —	\$ 10,472.6	\$ (407.6)	\$ 10,114.5	\$ 859.3	\$ 10,973.8
Adoption of new accounting guidance				(3.3)		(3.3)		(3.3)
Net income				345.3		345.3	30.8	376.1
Other comprehensive income					92.9	92.9		92.9
Dividends declared on common stock (\$0.28 per share)				(144.0)		(144.0)		(144.0)
Repurchase of common stock	(2.1)	(0.2)	(39.9)	(5.5)		(45.6)		(45.6)
Issuance of common stock	12.5	1.2	32.5			33.7		33.7
Stock-based compensation			7.4			7.4		7.4
Net subscriptions and other							129.6	129.6
Balance at December 31, 2020	505.5	\$ 50.5	\$ —	\$ 10,665.1	\$ (314.7)	\$ 10,400.9	\$ 1,019.7	\$ 11,420.6
Net income				381.8		381.8	91.6	473.4
Other comprehensive loss					(33.8)	(33.8)		(33.8)
Dividends declared on common stock (\$0.28 per share)				(143.7)		(143.7)		(143.7)
Repurchase of common stock	(1.7)	(0.2)	(56.2)	10.6		(45.8)		(45.8)
Issuance of common stock	0.5	0.1	14.1			14.2		14.2
Stock-based compensation			42.1			42.1		42.1
Net subscriptions and other							38.2	38.2
Deconsolidation of investment products							(31.6)	(31.6)
Adjustment to fair value of redeemable noncontrolling interests				(52.3)		(52.3)		(52.3)
Balance at March 31, 2021	504.3	\$ 50.4	\$ —	\$ 10,861.5	\$ (348.5)	\$ 10,563.4	\$ 1,117.9	\$ 11,681.3

See Notes to Consolidated Financial Statements.

Franklin Resources, Inc.								
(in millions) for the six months ended March 31, 2020	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
Net income				79.1		79.1	8.2	87.3
Other comprehensive loss					(99.9)	(99.9)		(99.9)
Dividends declared on common stock (\$0.27 per share)				(134.6)		(134.6)		(134.6)
Repurchase of common stock	(2.9)	(0.4)	(41.7)	(22.5)		(64.6)		(64.6)
Issuance of common stock	0.6	0.1	15.9			16.0		16.0
Stock-based compensation			25.8			25.8		25.8
Net subscriptions and other							89.7	89.7
Deconsolidation of investment product							(0.6)	(0.6)
Balance at March 31, 2020	495.3	\$ 49.5	\$ —	\$ 10,330.0	\$ (476.1)	\$ 9,903.4	\$ 850.1	\$ 10,753.5

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

(in millions)	Six Months Ended March 31,	
	2021	2020
Net Income	\$ 880.2	\$ 406.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	86.2	57.8
Amortization of deferred sales commissions	38.4	41.5
Depreciation and other amortization	44.8	41.0
Amortization of intangible assets	116.1	9.2
Losses (income) from investments in equity method investees	(84.4)	120.3
Net (gains) losses on investments of consolidated investment products	(140.5)	67.7
Net purchase of investments by consolidated investment products	(287.5)	(359.9)
Deferred income taxes	(16.0)	8.6
Other	(41.9)	(2.6)
Changes in operating assets and liabilities:		
Decrease (increase) in receivables and other assets	(115.5)	4.1
Decrease (increase) in investments, net	(2.8)	50.4
Decrease in accrued compensation and benefits	(12.5)	(161.1)
Increase (decrease) in commissions payable	11.3	(26.7)
Decrease in income taxes payable	(38.9)	(127.0)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	45.6	(12.9)
Increase in accounts payable and accrued expenses of consolidated investment products	22.8	23.7
Net cash provided by operating activities	505.4	141.0
Purchase of investments	(365.1)	(243.3)
Liquidation of investments	207.8	193.0
Purchase of investments by consolidated collateralized loan obligations	(881.4)	(80.5)
Liquidation of investments by consolidated collateralized loan obligations	251.6	16.9
Decrease in loans receivable, net	42.7	—
Additions of property and equipment, net	(20.8)	(73.5)
Acquisitions, net of cash acquired	—	(19.8)
Payments of contingent consideration asset	10.6	—
Net (deconsolidation) consolidation of investment products	(18.4)	213.3
Net cash (used in) provided by investing activities	(773.0)	6.1

[Table continued on next page]

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

[Table continued from previous page]

<i>(in millions)</i>	Six Months Ended March 31,	
	2021	2020
Issuance of common stock	\$ 11.0	\$ 12.1
Dividends paid on common stock	(276.8)	(265.2)
Repurchase of common stock	(90.4)	(187.4)
Proceeds from issuance of debt	748.3	—
Payment of debt issuance costs	(6.7)	—
Payment on debt	(250.0)	—
Proceeds from loan	—	0.2
Payments on loan	—	(0.2)
Proceeds from debt of consolidated investment products	464.1	69.9
Payment on debt of consolidated investment products	(184.9)	—
Noncontrolling interests	245.3	306.5
Net cash provided by (used in) financing activities	659.9	(64.1)
Effect of exchange rate changes on cash and cash equivalents	14.9	(4.8)
Increase in cash and cash equivalents	407.2	78.2
Cash and cash equivalents, beginning of period	3,957.5	5,957.6
Cash and Cash Equivalents, End of Period	\$ 4,364.7	\$ 6,035.8
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$ 319.2	\$ 258.2
Cash paid for interest	62.8	10.6
Cash paid for interest by consolidated investment products	10.4	1.1

See Notes to Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021
(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 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 (“U.S. GAAP”) 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, 2020 (“fiscal year 2020”). 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 March 31, 2021.

In the quarter ended September 30, 2020, the Company changed the presentation of its consolidated statements of income to include dividend and investment income and expenses of consolidated investment products (“CIPs”) in other income, net. Amounts for the comparative prior fiscal year period have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported net income or financial position. Management believes the revised presentation is more useful to readers of its financial statements and more accurately portrays the nature of the CIPs revenue and expenses as the operations of CIPs are not related to the Company’s core business.

The following table presents the effects of the change in the presentation of operating revenues, operating expenses and other income, net, to the Company’s previously reported consolidated statements of income:

<i>(in millions)</i>	Three Months Ended March 31, 2020		
	As Reported	Adjustments	As Amended
Operating revenues			
Other	\$ 33.6	\$ (27.1)	\$ 6.5
Operating Expenses			
General, administrative, and other ¹	\$ 96.4	\$ (10.9)	\$ 85.5
Other Income (Expenses)			
Investment and other income (losses), net	\$ (249.0)	\$ 68.0	\$ (181.0)
Interest expense	(4.2)	0.5	(3.7)
Investment and other income (losses) of consolidated investment products, net	—	(40.9)	(40.9)
Expenses of consolidated investment products	—	(11.4)	(11.4)
Other income (expenses), net	\$ (253.2)	\$ 16.2	\$ (237.0)

(in millions)	Six Months Ended March 31, 2020		
	As Reported	Adjustments	As Amended
Operating revenues			
Other	\$ 65.1	\$ (50.6)	\$ 14.5
Operating Expenses			
General, administrative, and other ¹	\$ 186.1	\$ (14.6)	\$ 171.5
Other Income (Expenses)			
Investment and other income (losses), net	\$ (189.4)	\$ 76.3	\$ (113.1)
Interest expense	(10.9)	1.1	(9.8)
Investment and other income (losses) of consolidated investment products, net	—	(25.7)	(25.7)
Expenses of consolidated investment products	—	(15.7)	(15.7)
Other income (expenses), net	\$ (200.3)	\$ 36.0	\$ (164.3)

¹ General, administrative and other includes amortization of intangible assets.

Note 2 – New Accounting Guidance

On October 1, 2020, the Company adopted new guidance issued by the Financial Accounting Standards Board for credit losses. The new guidance requires the application of a current expected credit loss model for financial assets measured at amortized cost, including receivables, and an allowance for credit loss model for available-for-sale debt securities. The Company adopted the new guidance using the modified retrospective approach and recognized a cumulative effect adjustment resulting in a decrease of \$4.1 million in receivables, net, offset by decreases of \$0.8 million in deferred tax liabilities and \$3.3 million in retained earnings as of October 1, 2020.

Note 3 – Acquisition

On July 31, 2020, the Company acquired all outstanding shares of Legg Mason, Inc. (“Legg Mason”) common stock for a purchase consideration of \$4.5 billion in cash and \$0.2 billion related to the settlement of historical compensation arrangements.

There were no changes to the purchase price allocation during the three and six months ended March 31, 2021; however, the purchase price allocation is preliminary and subject to change during the measurement period, which is not to exceed one year from the acquisition date. At this time, the Company does not expect material changes to the assets acquired or liabilities assumed with the exception of deferred tax assets and liabilities which were valued using preliminary assumptions.

Transaction costs incurred in connection with the acquisition were \$6.7 million for the six months ended March 31, 2021. These costs were primarily comprised of professional fees, recorded in general, administrative and other expenses. The Company also incurred \$5.6 million and \$13.0 million of acquisition-related compensation and benefits expense during the three and six months ended March 31, 2021, primarily for employee severance and retention incentives.

Revenue and net income of Legg Mason included in total operating revenues and net income attributable to Franklin Resources, Inc. in the consolidated statements of income were \$762.2 million and \$167.7 million for the three months ended March 31, 2021 and \$1,500.8 million and \$291.4 million for the six months ended March 31, 2021.

See Note 3 – Acquisitions in the Company’s Form 10-K for fiscal year 2020 for additional information regarding the acquisition of Legg Mason.

Note 4 – Earnings per Share

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

(in millions, except per share data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Net income attributable to Franklin Resources, Inc.	\$ 381.8	\$ 79.1	\$ 727.1	\$ 429.6
Less: allocation of earnings to participating nonvested stock and stock unit awards	16.9	1.8	31.3	5.7
Net Income Available to Common Stockholders	\$ 364.9	\$ 77.3	\$ 695.8	\$ 423.9
Weighted-average shares outstanding – basic	490.5	491.5	490.8	493.1
Dilutive effect of nonparticipating nonvested stock unit awards	0.4	0.3	0.5	0.5
Weighted-Average Shares Outstanding – Diluted	490.9	491.8	491.3	493.6
Earnings per Share				
Basic	\$ 0.74	\$ 0.16	\$ 1.42	\$ 0.86
Diluted	0.74	0.16	1.42	0.86

Nonparticipating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been antidilutive were insignificant for the three and six months ended March 31, 2021, and 0.5 million for the three and six months ended March 31, 2020.

Note 5 – Revenues

Operating revenues by geographic area were as follows:

(in millions)			Americas Excluding United States	Asia-Pacific	Europe, Middle East and Africa, Excluding Luxembourg	Total
	United States	Luxembourg				
for the three months ended March 31, 2021						
Investment management fees	\$ 1,091.0	\$ 311.5	\$ 69.6	\$ 83.6	\$ 42.7	\$ 1,598.4
Sales and distribution fees	280.8	104.9	12.6	15.0	0.3	413.6
Shareholder servicing fees	43.6	10.1	—	2.0	—	55.7
Other	3.6	0.2	—	1.2	3.8	8.8
Total	\$ 1,419.0	\$ 426.7	\$ 82.2	\$ 101.8	\$ 46.8	\$ 2,076.5
(in millions)			Americas Excluding United States	Asia-Pacific	Europe, Middle East and Africa, Excluding Luxembourg	Total
	United States	Luxembourg				
for the six months ended March 31, 2021						
Investment management fees	\$ 2,203.1	\$ 533.3	\$ 139.6	\$ 162.3	\$ 100.5	\$ 3,138.8
Sales and distribution fees	558.7	194.7	24.9	29.0	3.2	810.5
Shareholder servicing fees	81.6	15.9	0.1	3.9	3.6	105.1
Other	10.1	0.5	—	1.5	5.1	17.2
Total	\$ 2,853.5	\$ 744.4	\$ 164.6	\$ 196.7	\$ 112.4	\$ 4,071.6

<i>(in millions)</i>						
for the three months ended March 31, 2020	United States	Luxembourg	Americas Excluding United States	Asia-Pacific	Europe, Middle East and Africa, Excluding Luxembourg	Total
Investment management fees	\$ 528.9	\$ 236.1	\$ 68.2	\$ 53.4	\$ 21.6	\$ 908.2
Sales and distribution fees	232.3	94.8	13.3	1.0	0.3	341.7
Shareholder servicing fees	45.8	6.6	0.1	2.3	—	54.8
Other	6.0	0.3	—	0.2	—	6.5
Total	\$ 813.0	\$ 337.8	\$ 81.6	\$ 56.9	\$ 21.9	\$ 1,311.2

<i>(in millions)</i>						
for the six months ended March 31, 2020	United States	Luxembourg	Americas Excluding United States	Asia-Pacific	Europe, Middle East and Africa, Excluding Luxembourg	Total
Investment management fees	\$ 1,102.0	\$ 488.6	\$ 143.2	\$ 110.1	\$ 44.0	\$ 1,887.9
Sales and distribution fees	469.7	193.6	27.7	1.5	0.7	693.2
Shareholder servicing fees	86.1	13.5	0.2	5.0	—	104.8
Other	12.1	0.6	—	0.3	1.5	14.5
Total	\$ 1,669.9	\$ 696.3	\$ 171.1	\$ 116.9	\$ 46.2	\$ 2,700.4

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.

Revenues earned from sponsored funds were 82% and 81% of the Company's total operating revenues for the three and six months ended March 31, 2021 and 91% for the three and six months ended March 31, 2020.

Note 6 – Investments

The disclosures below include details of the Company's investments, excluding those of CIPs. See Note 9 – Consolidated Investment Products for information related to the investments held by these entities.

Investments consisted of the following:

<i>(in millions)</i>	March 31, 2021	September 30, 2020
Investments, at fair value		
Sponsored funds and separate accounts	\$ 332.6	\$ 303.4
Investments related to long-term incentive plans	164.0	146.6
Other equity and debt investments	57.7	54.8
Total investments, at fair value	554.3	504.8
Investments in equity method investees	785.5	682.2
Other investments	94.1	83.5
Total	\$ 1,433.9	\$ 1,270.5

Note 7 – Fair Value Measurements

The disclosures below include details of the Company's fair value measurements, excluding those of CIPs. See Note 9 – Consolidated Investment Products for information related to fair value measurements of the assets and liabilities of these entities.

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

<i>(in millions)</i>					
as of March 31, 2021	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Investments, at fair value					
Sponsored funds and separate accounts	\$ 202.1	\$ 41.6	\$ 19.5	\$ 69.4	\$ 332.6
Investments related to long-term incentive plans	164.0	—	—	—	164.0
Other equity and debt investments	6.0	5.4	—	46.3	57.7
Contingent consideration asset	—	—	29.1	—	29.1
Total Assets Measured at Fair Value	\$ 372.1	\$ 47.0	\$ 48.6	\$ 115.7	\$ 583.4
Liabilities					
Contingent consideration liabilities	\$ —	\$ —	\$ 25.3	\$ —	\$ 25.3
<i>(in millions)</i>					
as of September 30, 2020	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Investments, at fair value					
Sponsored funds and separate accounts	\$ 176.3	\$ 40.9	\$ 17.4	\$ 68.8	\$ 303.4
Investments related to long-term incentive plans	145.5	—	—	1.1	146.6
Other equity and debt investments	2.1	1.5	—	51.2	54.8
Contingent consideration asset	—	—	39.7	—	39.7
Total Assets Measured at Fair Value	\$ 323.9	\$ 42.4	\$ 57.1	\$ 121.1	\$ 544.5
Liabilities					
Contingent consideration liabilities	\$ —	\$ —	\$ 25.3	\$ —	\$ 25.3

Investments for which fair value was estimated using reported NAV as a practical expedient primarily consist of nonredeemable private equity, debt and infrastructure funds, and redeemable global equity funds. The investments in nonredeemable funds 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 \$58.7 million with an expected weighted-average life of 2.5 years at March 31, 2021, and \$51.2 million with an expected weighted-average life of 1.9 years at September 30, 2020. The liquidation period for an investment in a private debt fund of \$43.0 million and \$40.2 million at March 31, 2021 and September 30, 2020 is unknown. The Company's unfunded commitments to the funds totaled \$10.8 million and \$9.5 million at March 31, 2021 and September 30, 2020. The redeemable global equity funds investment of \$12.1 million and \$25.3 million at March 31, 2021 and September 30, 2020 can be redeemed monthly.

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

(in millions) for the three months ended March 31,	2021			2020	
	Investments	Contingent Consideration Asset	Contingent Consideration Liabilities	Investments	Contingent Consideration Liabilities
Balance at beginning of period	\$ 17.8	\$ 36.9	\$ (25.5)	\$ 40.2	\$ —
Acquisitions	—	—	—	—	(7.6)
Realized and unrealized losses included in investment and other income (losses), net	(0.1)	—	—	(0.4)	—
Purchases	3.0	—	—	—	—
Sales	(1.2)	—	—	(2.0)	—
Settlements	—	(7.8)	—	(0.1)	—
Consolidation of investment product	—	—	—	(10.0)	—
Foreign exchange revaluation	—	—	0.2	—	—
Balance at End of Period	\$ 19.5	\$ 29.1	\$ (25.3)	\$ 27.7	\$ (7.6)
Change in unrealized losses included in net income relating to assets and liabilities held at end of period	\$ (0.1)	\$ —	\$ —	\$ (1.1)	\$ —

(in millions) for the six months ended March 31,	2021			2020	
	Investments	Contingent Consideration Asset	Contingent Consideration Liabilities	Investments	Contingent Consideration Liabilities
Balance at beginning of period	\$ 17.4	\$ 39.7	\$ (25.3)	\$ 32.1	\$ —
Acquisitions	—	—	—	—	(7.6)
Realized and unrealized losses included in investment and other income (losses), net	(0.2)	—	—	(0.7)	—
Purchases	8.5	—	—	12.6	—
Sales	(5.5)	—	—	(3.5)	—
Settlements	(0.5)	(10.6)	—	(2.8)	—
Consolidation of investment product	—	—	—	(10.0)	—
Transfers out of Level 3	(0.2)	—	—	—	—
Balance at End of Period	\$ 19.5	\$ 29.1	\$ (25.3)	\$ 27.7	\$ (7.6)
Change in unrealized losses included in net income relating to assets and liabilities held at end of period	\$ (0.2)	\$ —	\$ —	\$ (1.9)	\$ —

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

(in millions)	Fair Value Level	March 31, 2021		September 30, 2020	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets					
Cash and cash equivalents	1	\$ 3,740.2	\$ 3,740.2	\$ 3,026.8	\$ 3,026.8
Other investments					
Time deposits	2	20.6	20.6	19.2	19.2
Equity securities	3	73.5	78.1	64.3	67.3
Loans receivable	3	—	—	42.4	42.4
Financial Liability					
Debt	2	\$ 3,486.5	\$ 3,462.9	\$ 3,017.1	\$ 3,086.5

Note 8 – Debt

The disclosures below include details of the Company’s debt, excluding that of CIPs. See Note 9 – Consolidated Investment Products for information related to the debt of these entities.

Debt consisted of the following:

(in millions)	March 31, 2021		September 30, 2020	
	Carrying Value	Effective Interest Rate	Carrying Value	Effective Interest Rate
Notes issued by Franklin Resources, Inc.				
\$300 million 2.800% senior notes due September 2022	\$ 299.9	2.93 %	\$ 299.8	2.93 %
\$400 million 2.850% senior notes due March 2025	399.7	2.97 %	399.7	2.97 %
\$750 million 1.600% senior notes due October 2030	748.4	1.72 %	—	N/A
Total notes issued by Franklin Resources, Inc.	1,448.0		699.5	
Notes issued by Legg Mason (a subsidiary of Franklin)				
\$250 million 3.950% senior notes due July 2024	269.5	1.53 %	272.4	1.53 %
\$450 million 4.750% senior notes due March 2026	516.3	1.80 %	523.0	1.80 %
\$550 million 5.625% senior notes due January 2044	745.1	3.38 %	747.5	3.38 %
\$250 million 6.375% junior notes due March 2056	—	N/A	260.7	6.08 %
\$500 million 5.450% junior notes due September 2056	515.9	5.25 %	516.1	5.25 %
Total notes issued by Legg Mason	2,046.8		2,319.7	
Debt issuance costs	(8.3)		(2.1)	
Total	\$ 3,486.5		\$ 3,017.1	

On March 15, 2021, the Company redeemed all of the outstanding \$250.0 million 6.375% junior notes due in March 2056 issued by Legg Mason at the principal amount plus accrued and unpaid interest of \$4.0 million.

On October 19, 2020, the Company completed its offering and sale of \$750.0 million in aggregate principal amount of 1.600% senior unsecured unsubordinated notes due October 2030. The Company incurred \$6.7 million in debt issuance costs and the notes were issued at a discount of \$1.7 million. The debt issuance costs and discount are being amortized over the term of the notes.

At March 31, 2021, Franklin’s outstanding senior unsecured unsubordinated notes had an aggregate principal amount due of \$1,450.0 million. The notes have fixed interest rates with interest payable semi-annually.

At March 31, 2021, Legg Mason’s outstanding senior unsecured unsubordinated notes and junior unsecured subordinated notes had an aggregate principal amount due of \$1,750.0 million. The notes have fixed interest rates with interest payable semi-annually for senior notes and quarterly for junior notes.

The Franklin and Legg Mason senior notes contain an optional redemption feature that allows the Company 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 senior notes contain limitations on the Company’s ability and the ability of its subsidiaries to pledge voting stock or profit participating equity interests in its subsidiaries to secure other debt without similarly securing the notes equally and ratably. In addition, the indentures include requirements that must be met if the Company consolidates or merges with, or sells all or substantially all of its assets to, another entity. The Company was in compliance with all debt covenants at March 31, 2021.

The junior notes due September 2056 may only be redeemed in whole on or after September 15, 2021. The Company currently expects to call these notes in September 2021, subject to Board approval.

At March 31, 2021, the Company had \$500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program which has been inactive since 2012.

Note 9 – Consolidated Investment Products

CIPs consist of mutual and other investment funds, limited partnerships and similar structures and collateralized loan obligations (“CLOs”), all of which are sponsored by the Company, and include both voting interest entities and variable interest entities. The Company had 74 CIPs, including five CLOs, as of March 31, 2021 and 72 CIPs, including four CLOs, as of September 30, 2020.

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

<i>(in millions)</i>	March 31, 2021	September 30, 2020
Assets		
Cash and cash equivalents	\$ 624.5	\$ 930.7
Receivables	101.3	85.8
Investments, at fair value	3,907.7	2,709.2
Total Assets	\$ 4,633.5	\$ 3,725.7
Liabilities		
Accounts payable and accrued expenses	\$ 316.6	\$ 510.1
Debt	1,759.5	1,333.4
Other liabilities	5.5	12.1
Total liabilities	2,081.6	1,855.6
Redeemable Noncontrolling Interests	609.9	397.3
Stockholders’ Equity		
Franklin Resources, Inc.’s interests	1,024.0	788.4
Nonredeemable noncontrolling interests	918.0	684.4
Total stockholders’ equity	1,942.0	1,472.8
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders’ Equity	\$ 4,633.5	\$ 3,725.7

The CIPs did not have a significant impact on net income attributable to the Company during the three and six months ended March 31, 2021 and 2020.

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.

Fair Value Measurements

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

<i>(in millions)</i>	NAV as a Practical Expedient				
as of March 31, 2021	Level 1	Level 2	Level 3		Total
Assets					
Cash and cash equivalents of CLOs	\$ 234.1	\$ —	\$ —	\$ —	\$ 234.1
Receivables of CLOs	—	40.7	—	—	40.7
Investments					
Equity and debt securities	350.4	453.5	463.2	526.1	1,793.2
Loans	—	1,668.6	22.4	—	1,691.0
Real estate	—	—	423.5	—	423.5
Total Assets Measured at Fair Value	\$ 584.5	\$ 2,162.8	\$ 909.1	\$ 526.1	\$ 4,182.5

(in millions)

as of September 30, 2020	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Cash and cash equivalents of CLOs	\$ 488.8	\$ —	\$ —	\$ —	\$ 488.8
Receivables of CLOs	—	21.2	—	—	21.2
Investments					
Equity and debt securities	177.6	285.7	469.7	261.1	1,194.1
Loans	—	1,151.0	24.9	—	1,175.9
Real estate	—	—	339.2	—	339.2
Total Assets Measured at Fair Value	\$ 666.4	\$ 1,457.9	\$ 833.8	\$ 261.1	\$ 3,219.2

Investments for which fair value was estimated using reported NAV as a practical expedient consist of nonredeemable and redeemable private equity funds and a redeemable hedge fund. The investments in nonredeemable funds 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 \$375.6 million with an expected weighted-average life of 3.3 years at March 31, 2021, and \$261.1 million with an expected weighted-average life of 4.2 years at September 30, 2020. The CIPs' unfunded commitments to these funds totaled \$44.9 million and \$94.0 million, of which the Company was contractually obligated to fund \$5.6 million and \$11.4 million based on its ownership percentage in the CIPs, at March 31, 2021 and September 30, 2020. The liquidation periods for investments in a redeemable hedge fund of \$146.5 million and a redeemable private equity fund of \$4.0 million at March 31, 2021 are unknown.

Changes in Level 3 assets were as follows:

(in millions)

for the three months ended March 31, 2021	Equity and Debt Securities	Real Estate	Loans	Total Level 3 Assets
Balance at January 1, 2021	\$ 513.5	\$ 407.8	\$ 23.5	\$ 944.8
Realized and unrealized gains included in investment and other income (losses) of consolidated investment products, net	2.7	1.2	—	3.9
Purchases	75.4	21.2	—	96.6
Sales and settlements	(91.1)	—	(1.1)	(92.2)
Deconsolidations	(36.0)	—	—	(36.0)
Transfers into Level 3	1.1	—	—	1.1
Foreign exchange revaluation	(2.4)	(6.7)	—	(9.1)
Balance at March 31, 2021	\$ 463.2	\$ 423.5	\$ 22.4	\$ 909.1
Change in unrealized gains (losses) included in net income relating to assets held at March 31, 2021	\$ 3.0	\$ 1.2	\$ (0.1)	\$ 4.1

(in millions)

for the six months ended March 31, 2021	Equity and Debt Securities	Real Estate	Loans	Total Level 3 Assets
Balance at October 1, 2020	\$ 469.7	\$ 339.2	\$ 24.9	\$ 833.8
Realized and unrealized gains included in investment and other income (losses) of consolidated investment products, net	21.8	2.7	—	24.5
Purchases	130.3	72.3	—	202.6
Sales and settlements	(124.3)	—	(2.5)	(126.8)
Deconsolidations	(36.0)	—	—	(36.0)
Transfers into Level 3	1.1	—	—	1.1
Foreign exchange revaluation	0.6	9.3	—	9.9
Balance at March 31, 2021	\$ 463.2	\$ 423.5	\$ 22.4	\$ 909.1
Change in unrealized gains included in net income relating to assets held at March 31, 2021	\$ 21.3	\$ 2.7	\$ —	\$ 24.0

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<i>(in millions)</i> for the three months ended March 31, 2020	Equity and Debt Securities	Real Estate	Loans	Total Level 3 Assets
Balance at January 1, 2020	\$ 412.8	\$ 219.9	\$ 14.0	\$ 646.7
Realized and unrealized gains (losses) included in investment and other income (losses) of consolidated investment products, net	(17.3)	1.8	(1.3)	(16.8)
Purchases	40.0	77.3	—	117.3
Sales and settlements	(2.8)	—	(1.7)	(4.5)
Transfers into Level 3	2.2	—	—	2.2
Transfers out of Level 3	(1.0)	—	—	(1.0)
Foreign exchange revaluation	(1.4)	(11.0)	—	(12.4)
Balance at March 31, 2020	\$ 432.5	\$ 288.0	\$ 11.0	\$ 731.5
Change in unrealized gains (losses) included in net income relating to assets held at March 31, 2020	\$ (17.3)	\$ 1.8	\$ (1.7)	\$ (17.2)

<i>(in millions)</i> for the six months ended March 31, 2020	Equity and Debt Securities	Real Estate	Loans	Total Level 3 Assets
Balance at October 1, 2019	\$ 427.8	\$ 152.7	\$ 16.6	\$ 597.1
Realized and unrealized losses included in investment and other income (losses) of consolidated investment products, net	(24.3)	(0.9)	(1.4)	(26.6)
Purchases	72.7	141.6	—	214.3
Sales and settlements	(4.4)	—	(4.2)	(8.6)
Deconsolidation	(40.7)	—	—	(40.7)
Transfers into Level 3	2.2	—	—	2.2
Transfers out of Level 3	(1.0)	—	—	(1.0)
Foreign exchange revaluation	0.2	(5.4)	—	(5.2)
Balance at March 31, 2020	\$ 432.5	\$ 288.0	\$ 11.0	\$ 731.5
Change in unrealized losses included in net income relating to assets held at March 31, 2020	\$ (24.3)	\$ (0.9)	\$ (1.4)	\$ (26.6)

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

<i>(in millions)</i> as of March 31, 2021	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average ¹)
Equity and debt securities	\$ 263.8	Discounted cash flow	Discount rate	3.5%–13.2% (10.2%)
			Risk premium	14.5%
	138.5	Market pricing	Private sale pricing	\$0.02–\$165.03 (\$19.62) per share
			Enterprise value/EBITDA multiple	13.5–20.6 (17.7)
	60.9	Market comparable companies	Discount for lack of marketability	14.8%–25.5% (21.1%)
			Enterprise value/Revenue multiple	0.6–7.2 (5.1)
			Price to earnings ratio	36.7
Real estate	316.6	Discounted cash flow	Discount rate	4.5%–7.0% (5.5%)
			Exit capitalization rate	5.8%
	106.9	Yield capitalization	Equivalent yield	4.3%–6.1% (5.2%)

(in millions)

as of September 30, 2020	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average ¹)
Equity and debt securities	\$ 244.9	Discounted cash flow	Discount rate	4.0%–23.0% (11.5%)
			Discount for lack of marketability	17.0%
			Risk premium	9.7%–19.3% (16.7%)
	116.3	Market pricing	Private sale pricing	\$0.02–\$100.00 (\$13.01) per share
	108.5	Market comparable companies	Enterprise value/ EBITDA multiple	7.0–19.1 (10.8)
			Discount for lack of marketability	20.0%–25.2% (21.9%)
			Risk premium	55.0%
			Enterprise value/ Revenue multiple	7.5
			Price to earnings ratio	9.4–10.0 (9.7)
Real estate	231.8	Discounted cash flow	Discount rate	4.5%–6.5% (5.2%)
			Exit capitalization rate	6.0%
	107.4	Yield capitalization	Equivalent yield	4.3%–6.1% (5.2%)

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 March 31, 2021, 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 March 31, 2021, 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	March 31, 2021		September 30, 2020	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Asset					
Cash and cash equivalents	1	\$ 390.4	\$ 390.4	\$ 441.9	\$ 441.9
Financial Liabilities					
Debt of CLOs	2	\$ 1,649.6	\$ 1,652.8	\$ 1,179.7	\$ 1,225.0
Other debt	3	109.9	108.2	153.7	155.2

Debt

Debt of CIPs consisted of the following:

(in millions)	March 31, 2021		September 30, 2020	
	Amount	Weighted-Average Effective Interest Rate	Amount	Weighted-Average Effective Interest Rate
Debt of CLOs	\$ 1,649.6	2.35%	\$ 1,179.7	2.85%
Other debt	109.9	2.44%	153.7	2.97%
Total	\$ 1,759.5		\$ 1,333.4	

The debt of CLOs had fixed and floating interest rates based on LIBOR ranging from 1.00% to 8.15% at March 31, 2021, and from 1.48% to 8.19% at September 30, 2020. The other debt had fixed and floating interest rates primarily based on LIBOR and EURIBOR ranging from 1.00% to 4.45% at March 31, 2021, and from 1.00% to 5.81% at September 30, 2020.

The contractual maturities for the debt of CIPs at March 31, 2021 were as follows:

(in millions)

for the fiscal years ending September 30,	Amount
2021 (remainder of year)	\$ 7.8
2022	61.6
2023	—
2024	36.7
2025	49.1
Thereafter	1,604.3
Total	\$ 1,759.5

Collateralized Loan Obligations

The unpaid principal balance and fair value of the investments of CLOs were as follows:

(in millions)

	March 31, 2021	September 30, 2020
Unpaid principal balance	\$ 1,657.7	\$ 1,196.5
Difference between unpaid principal balance and fair value	10.9	(45.5)
Fair Value	\$ 1,668.6	\$ 1,151.0

Investments 90 days or more past due were \$1.8 million and \$3.9 million at March 31, 2021 and September 30, 2020.

The Company recognized \$6.5 million and \$7.4 million of net gains during the three and six months ended March 31, 2021 related to its own economic interests in the CLOs.

The aggregate principal amount due of the debt of CLOs was \$1,649.0 million and \$1,235.8 million at March 31, 2021 and September 30, 2020.

Note 10 – Redeemable Noncontrolling Interests

Changes in redeemable noncontrolling interests were as follows:

(in millions) for the three months ended March 31,	2021			2020 ¹
	CIPs	Minority Interests	Total	
Balance at beginning of period	\$ 465.3	\$ 150.3	\$ 615.6	\$ 790.4
Net income (loss)	6.4	5.6	12.0	(28.5)
Net subscriptions (distributions) and other	109.8	(2.4)	107.4	23.5
Net consolidations (deconsolidations)	28.4	—	28.4	(576.3)
Adjustment to fair value	—	52.3	52.3	—
Balance at End of Period	\$ 609.9	\$ 205.8	\$ 815.7	\$ 209.1

(in millions) for the six months ended March 31,	2021			2020 ¹
	CIPs	Minority Interests	Total	
Balance at beginning of period	\$ 397.3	\$ 144.6	\$ 541.9	\$ 746.7
Net income (loss)	19.4	11.3	30.7	(19.5)
Net subscriptions (distributions) and other	79.9	(2.4)	77.5	188.6
Net consolidations (deconsolidations)	113.3	—	113.3	(706.7)
Adjustment to fair value	—	52.3	52.3	—
Balance at End of Period	\$ 609.9	\$ 205.8	\$ 815.7	\$ 209.1

¹ Represents redeemable noncontrolling interests of CIPs.

Note 11 – 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, investment management and other fee receivables, and loans and related interest receivable as follows:

(in millions)	March 31, 2021	September 30, 2020
Investments	\$ 523.6	\$ 439.2
Receivables	156.4	168.0
Loans receivable	—	42.4
Total	\$ 680.0	\$ 649.6

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 six months ended March 31, 2021. In April 2020, the Company authorized loans aggregating up to 5.0 billion Indian Rupees (approximately \$66.2 million) to certain sponsored funds in India that had experienced increased liquidity risks and redemptions and which are in the process of winding up. See Note 12 – Commitments and Contingencies for further information. At March 31, 2021, the loans have been fully repaid.

Note 12 – Commitments and Contingencies

Legal Proceedings

India Credit Fund Closure Matters. Effective April 24, 2020, Franklin Templeton Trustee Services Private Limited (“FTTS”), a subsidiary of Franklin, announced its decision to wind up six fixed income mutual fund schemes of the Franklin Templeton Mutual Fund in India (referred to herein as the “Funds”), closing the Funds to redemptions. At the time, the Funds

had collective assets under management of approximately USD \$3.4 billion. In connection with the wind-up decision, FTTS sought to convene unitholder meetings for the Funds to approve the appointment of a liquidator and the asset management company to the Funds, Franklin Templeton Asset Management (India) Private Limited (“FTAMI”), ceased earning investment management fees on the Funds. In May and June 2020, certain Fund unitholders and others commenced multiple writ petition actions in different courts in India against a number of respondents, including Franklin, its subsidiaries FTTS, FTAMI, and Templeton International, Inc., as sponsor of the Franklin Templeton Mutual Fund, and related individuals (collectively, the “Company Respondents”), the Securities and Exchange Board of India (“SEBI”), and other governmental entities, challenging the decisions to wind up the Funds and alleging that the Company Respondents violated various SEBI regulations, mismanaged the Funds, misrepresented or omitted certain information relating to the Funds, and/or engaged in other alleged misconduct. The petitioners sought a wide range of relief, including, among other items, an order quashing the winding up notices and blocking the unitholder votes, initiating investigations into the Company Respondents, and allowing the unitholder petitioners to redeem their investments with interest. One of the petitioners obtained an *ex parte* interim injunction order staying the operation and implementation of the unitholder voting process. Following appeals to the Supreme Court of India, the petitions were transferred to the High Court of Karnataka for further consolidated proceedings.

On October 24, 2020, the High Court of Karnataka issued its judgment, in which it upheld the decision taken by FTTS to wind up the Funds and held that there was “nothing wrong with the decision making process,” but determined that unitholder approval is required to implement the decision. Certain Company Respondents and other parties filed cross-appeals to the Supreme Court of India, and certain intervenors filed applications, challenging aspects of the High Court’s judgment. In December 2020, with the approval of the Supreme Court, and without prejudice to its arguments on appeal that unitholder approval of the wind-up decision is not required, FTTS proceeded to obtain approval from the majority of the voting unitholders for winding up the six Funds. Following a hearing on objections to the unitholder voting process asserted by certain of the parties before the Supreme Court, in February 2021, the Supreme Court issued a decision confirming the results of the unitholder votes and, following further hearings in March 2021, it reserved its decision on the legal question of whether prior consent of unitholders is required to wind up a mutual fund scheme. The Supreme Court also appointed a third-party asset manager to serve as the liquidator and begin cash distributions to unitholders, and deferred for a future hearing the other remaining issues raised on appeal. FTAMI is cooperating with the liquidator in its work to liquidate the Funds’ remaining investments and distribute proceeds to unitholders. As of April 12, 2021, approximately \$1.6 billion has been distributed to Fund unitholders.

Separately, following the completion of a forensic audit/inspection, in late November and early December 2020, SEBI initiated regulatory proceedings by issuing show cause notices against FTAMI, FTTS and certain directors, officers, and employees of FTAMI, alleging certain deficiencies and areas of non-compliance in the management of the Funds leading up to the wind-up decision. The show cause notices contain allegations relating to the differentiation between products, risk management, classification and valuation of securities, and due diligence standards, among other things, and contemplate the imposition of monetary sanctions and restrictions on FTAMI’s ability to launch new funds in India for a specified period. The respondents responded to the show cause notices and those proceedings remain pending.

In addition, the Company is responding to related inquiries and investigations commenced by certain governmental agencies in India, including the previously-reported “first information report” (the preliminary step in an investigation) registered by the Economic Offences Wing of the Chennai police department against certain of the Company Respondents in connection with a complaint by two Fund unitholders, as well as a related investigation by India’s Enforcement Directorate commenced in or around April 2021. The Company is cooperating in these matters.

The Company strongly believes that the decision taken by FTTS to wind up the Funds was in the best interests of unitholders and fully pursuant to applicable SEBI regulations and that the Company has meritorious defenses to the pending legal and regulatory proceedings. The Company cannot at this time predict the eventual outcome of the matters described above or reasonably estimate the possible loss or range of loss that may arise from any negative outcome of such matters, including due to the current stage of these matters.

Other Litigation Matters. The Company is from time to time involved in other 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 March 31, 2021 to provide for any probable losses that may arise from such matters for which the Company could reasonably estimate an amount.

Indemnifications and Guarantees

In the ordinary course of business or in connection with certain acquisition agreements, the Company enters into contracts that provide for indemnifications by the Company in certain circumstances. In addition, certain Company entities guarantee certain financial and performance-related obligations of various Franklin subsidiaries. The Company is also subject to certain legal requirements and agreements providing for indemnifications of directors, officers and personnel against liabilities and expenses they may incur under certain circumstances in connection with their service in those positions. The terms of these indemnities and guarantees vary pursuant to applicable facts and circumstances, and from agreement to agreement. Future payments for claims against the Company under these indemnities or guarantees could negatively impact the Company's financial condition. In management's opinion, no material loss was deemed probable or reasonably possible pursuant to such indemnification agreements and/or guarantees as of March 31, 2021.

Other Commitments and Contingencies

At March 31, 2021, there were no material changes in the other commitments and contingencies as reported in the Company's Form 10-K for fiscal year 2020.

Note 13 – Stock-Based Compensation

Stock and stock unit award activity was as follows:

<i>(shares in thousands)</i> for the six months ended March 31, 2021	Time-Based Shares	Performance- Based Shares	Total Shares	Weighted- Average Grant-Date Fair Value
Nonvested balance at October 1, 2020	12,141	4,808	16,949	\$ 24.30
Granted	5,586	168	5,754	20.34
Vested	(935)	(223)	(1,158)	30.36
Forfeited/canceled	(318)	(522)	(840)	33.07
Nonvested Balance at March 31, 2021	16,474	4,231	20,705	\$ 22.50

Total unrecognized compensation expense related to nonvested stock and stock unit awards was \$356.2 million at March 31, 2021. This expense is expected to be recognized over a remaining weighted-average vesting period of 2.8 years.

Note 14 – Investment and Other Income (Losses), Net

Investment and other income (losses), net consisted of the following:

<i>(in millions)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Dividend income	\$ 1.3	\$ 20.0	\$ 3.8	\$ 38.6
Interest income	2.6	3.7	5.2	9.1
Gains (losses) on investments, net	10.2	(79.4)	58.9	(71.6)
Income (losses) from investments in equity method investees	45.9	(159.4)	84.4	(120.3)
Gains (losses) on derivatives, net	(6.1)	31.4	(16.1)	29.1
Rental income	7.8	7.8	15.5	15.3
Foreign currency exchange gains (losses), net	6.5	(2.4)	(10.0)	(10.9)
Other, net	(1.1)	(2.7)	2.6	(2.4)
Investment and other income (losses), net	\$ 67.1	\$ (181.0)	\$ 144.3	\$ (113.1)

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 \$2.0 million for the three months ended March 31, 2021 and \$2.6 million and \$1.0 million for the six months ended March 31, 2021 and 2020. There were no sales of available-for-sale securities in the three months ended March 31, 2020.

Net gains (losses) recognized on equity securities measured at fair value and trading debt securities that were held by the Company at March 31, 2021 and 2020 were \$(2.6) million and \$51.2 million for the three and six months ended March 31, 2021, and \$(75.5) million and \$(69.4) million for the three and six months ended March 31, 2020.

Note 15 – Accumulated Other Comprehensive Income (Loss)

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

<i>(in millions)</i>				
for the three months ended March 31, 2021				
	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans		Total
Balance at January 1, 2021	\$ (306.1)	\$ (8.6)		\$ (314.7)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	(35.6)	1.0		(34.6)
Reclassifications to net investment and other income (losses), net of tax	0.8	—		0.8
Total other comprehensive income (loss)	(34.8)	1.0		(33.8)
Balance at March 31, 2021	\$ (340.9)	\$ (7.6)		\$ (348.5)
<i>(in millions)</i>				
for the six months ended March 31, 2021				
	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans		Total
Balance at October 1, 2020	\$ (399.6)	\$ (8.0)		\$ (407.6)
Other comprehensive income				
Other comprehensive income before reclassifications, net of tax	57.8	0.4		58.2
Reclassifications to net investment and other income (losses), net of tax	0.9	—		0.9
Total other comprehensive income	58.7	0.4		59.1
Balance at March 31, 2021	\$ (340.9)	\$ (7.6)		\$ (348.5)
<i>(in millions)</i>				
for the three months ended March 31, 2020				
	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Unrealized Gains (Losses) on Investments	Total
Balance at January 1, 2020	\$ (367.4)	\$ (7.1)	\$ (1.7)	\$ (376.2)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	(103.0)	0.7	1.9	(100.4)
Reclassifications to net investment and other income (losses), net of tax	0.5	—	—	0.5
Total other comprehensive income (loss)	(102.5)	0.7	1.9	(99.9)
Balance at March 31, 2020	\$ (469.9)	\$ (6.4)	\$ 0.2	\$ (476.1)
<i>(in millions)</i>				
for the six months ended March 31, 2020				
	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Unrealized Gains on Investments	Total
Balance at October 1, 2019	\$ (425.4)	\$ (6.2)	\$ —	\$ (431.6)
Other comprehensive income (loss)				
Other comprehensive loss before reclassifications, net of tax	(44.9)	(0.2)	—	(45.1)
Reclassifications to net investment and other income (losses), net of tax	0.4	—	0.2	0.6
Total other comprehensive income (loss)	(44.5)	(0.2)	0.2	(44.5)
Balance at March 31, 2020	\$ (469.9)	\$ (6.4)	\$ 0.2	\$ (476.1)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD-LOOKING STATEMENTS

This Form 10-Q and the documents incorporated by reference herein may include forward-looking statements that reflect our current views with respect to future events and financial performance. Such statements are provided under the “safe harbor” protection of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts and generally can be identified by words or phrases written in the future tense and/or preceded by words such as “anticipate,” “believe,” “could,” “depends,” “estimate,” “expect,” “intend,” “likely,” “may,” “plan,” “potential,” “seek,” “should,” “will,” “would,” or other similar words or variations thereof, or the negative thereof, but these terms are not the exclusive means of identifying such statements.

Forward-looking statements involve a number of known and unknown risks, uncertainties and other important factors that may cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. The forward-looking statements contained in this Form 10-Q or that are incorporated by reference herein are qualified in their entirety by reference to the risks and uncertainties disclosed in this Form 10-Q, including those discussed under the headings “Risk Factors” and “Quantitative and Qualitative Disclosures About Market Risk” below.

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 possible 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 undertake no obligation to announce publicly the change to our expectations, or to make any revision to our forward-looking statements, to reflect any change in assumptions, beliefs or expectations, or any change in events, conditions or circumstances upon which any forward-looking statement is based, unless required by law.

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”). The following discussion should be read in conjunction with our Form 10-K for the fiscal year ended September 30, 2020 (“fiscal year 2020”) 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

Franklin Resources, Inc. (“Franklin”) is a holding company with subsidiaries operating under our Franklin Templeton® and/or subsidiary brand names. We are a global investment management organization that derives operating revenues and net income from providing investment management and related services to investors in jurisdictions worldwide. We deliver our investment capabilities through a variety of investment products, which include our sponsored funds, as well as institutional and high-net-worth separate accounts, retail separately managed account programs, sub-advised products, and other investment vehicles. 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®, Legg Mason®, Balanced Equity Management®, Benefit Street Partners®, Brandywine Global Investment Management®, Clarion Partners®, ClearBridge Investments®, Darby®, Edinburgh Partners™, Fiduciary Trust™, Franklin Bissett®, Franklin Mutual Series®, K2®, LibertyShares®, Martin Currie®, Royce® Investment Partners and Western Asset Management Company®. We offer a broad product mix of fixed income, equity, multi-asset, alternative and cash management asset classes 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 which may be sold to investors under the brand names of those other companies or on a co-branded basis.

The level of our revenues depends largely on the level and relative mix of assets under management (“AUM”). As noted in the “Risk Factors” section set forth below, the amount and mix of our AUM are subject to significant fluctuations that 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.

As further noted in the “Risk Factors” section, the outbreak and spread of contagious diseases such as the coronavirus disease 2019 (“COVID-19”), a highly transmissible and pathogenic disease, has adversely affected, and may continue to adversely affect, our business, financial condition and results of operations. Ongoing global health concerns and uncertainty regarding the impact of COVID-19 could lead to further and/or increased volatility in global capital and credit markets, adversely affect our key executives and other personnel, clients, investors, providers, suppliers, lessees, and other third parties, and negatively impact our AUM, revenues, income, business and operations. As of the time of this filing, as the COVID-19 pandemic continues to evolve, it is not possible to predict the full extent to which the pandemic may adversely impact our business, liquidity, capital resources, financial results and operations, which impacts will depend on numerous developing factors that remain uncertain and subject to change.

During our second fiscal quarter, the global equity markets continued to provide strong positive returns, reflecting among other things, the successful rollout of COVID-19 vaccines in the U.S. and U.K. and news of an additional U.S. economic stimulus package. The MSCI World Index and S&P 500 Index increased 5.0% and 6.2% for the quarter and 19.8% and 19.1% for the fiscal year to date. The global bond markets turned negative as the Bloomberg Barclays Global Aggregate Index decreased 4.5% during the quarter and 1.3% for the fiscal year to date.

Our total AUM at March 31, 2021 was \$1,498.9 billion, 6% higher than at September 30, 2020 and 158% higher than at March 31, 2020. Simple monthly average AUM (“average AUM”) for the three and six months ended March 31, 2021 increased 128% and 118% from the same periods in the prior fiscal year. The increase in total AUM and average AUM from the same period in the prior fiscal year is primarily due to the Legg Mason, Inc. (“Legg Mason”) acquisition.

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

Uncertainties regarding the global economy remain for the foreseeable future. As we continue to confront the challenges of the current economic and regulatory environments, we remain focused on the investment performance of our products and on providing high quality service to our clients. We continuously perform reviews of our business model. While we remain focused on expense management, we will also seek to attract, retain and develop personnel 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

(in millions, except per share data)	Three Months Ended March 31,		Percent Change	Six Months Ended March 31,		Percent Change
	2021	2020		2021	2020	
Operating revenues ¹	\$ 2,076.5	\$ 1,311.2	58%	\$ 4,071.6	\$ 2,700.4	51%
Operating income ¹	456.3	339.9	34%	865.4	712.8	21%
Net income attributable to Franklin Resources, Inc.	381.8	79.1	383%	727.1	429.6	69%
Diluted earnings per share	\$ 0.74	\$ 0.16	363%	\$ 1.42	\$ 0.86	65%
Operating margin ²	22.0 %	25.9 %		21.3 %	26.4 %	
As adjusted (non-GAAP):³						
Adjusted operating income	\$ 581.1	\$ 385.9	51%	\$ 1,131.0	\$ 791.4	43%
Adjusted operating margin	38.0 %	43.2 %		37.6 %	42.9 %	
Adjusted net income	\$ 403.5	\$ 332.8	21%	\$ 776.9	\$ 671.1	16%
Adjusted diluted earnings per share	\$ 0.79	\$ 0.66	20%	\$ 1.51	\$ 1.34	13%

¹ Effective with the quarter ended September 30, 2020, the Company changed the presentation of its consolidated statements of income to include dividend and interest income and other expenses from consolidated investment products in non-operating income (expense). Amounts for the comparative prior fiscal periods were reclassified to conform to the current presentation. These reclassifications had no impact on previously reported net income attributable to Franklin Resources, Inc.

² Defined as operating income divided by total operating revenues.

³ “Adjusted operating income,” “adjusted operating margin,” “adjusted net income” and “adjusted diluted earnings per share” are based on methodologies other than generally accepted accounting principles. See “Supplemental Non-GAAP Financial Measures” for definitions and reconciliations of these measures.

Operating income increased \$116.4 million and \$152.6 million for the three and six months ended March 31, 2021, as compared to the same periods in the prior fiscal year, as 58% and 51% increases in operating revenues were substantially offset by 67% and 61% increases in operating expenses, which reflected higher levels of compensation and benefits expenses including acquisition-related retention and other expenses and amortization of intangible assets. Net income attributable to Franklin Resources, Inc. increased \$302.7 million and \$297.5 million for the three and six months ended March 31, 2021 primarily due to higher other income, net, less the portion attributable to noncontrolling interests, and increases in operating income, partially offset by higher taxes on income.

Diluted earnings per share increased for the three and six months ended March 31, 2021 consistent with the increases in net income available to common stockholders and the impacts of decreases in diluted average common shares outstanding in both periods, primarily resulting from repurchases of shares of our common stock during the twelve-month period ended March 31, 2021.

Adjusted operating income increased \$195.2 million and \$339.6 million for the three and six months ended March 31, 2021 primarily due to 76% and 67% increases in investment management fees, partially offset by 97% and 85% increases in compensation and benefits expenses. Adjusted net income increased \$70.7 million and \$105.8 million for the three and six months ended March 31, 2021 primarily due to the increases in adjusted operating income partially offset by higher taxes on income and decreases in other income, net.

Adjusted diluted earnings per share increased for the three and six months ended March 31, 2021, consistent with the increases in adjusted net income and the impacts of the decreases in diluted average common shares outstanding.

ASSETS UNDER MANAGEMENT

AUM by asset class was as follows:

<i>(in billions)</i>	March 31, 2021	March 31, 2020	Percent Change
Fixed Income	\$ 642.3	\$ 214.9	199%
Equity	511.9	200.9	155%
Multi-Asset	148.2	107.4	38%
Alternative	131.1	46.4	183%
Cash Management	65.4	10.7	511%
Total	\$ 1,498.9	\$ 580.3	158%

In the first quarter of fiscal year 2021, we revised our presentation of AUM to reflect changes in asset class of certain legacy Legg Mason AUM as part of our post-acquisition onboarding process.

AUM at March 31, 2021 increased 158% from March 31, 2020 driven by \$800.9 billion from acquisitions as well as \$170.7 billion from net market change, distributions and other, partially offset by \$32.6 billion of long-term net outflows and \$20.4 billion of cash management net outflows.

Average AUM and the mix of average AUM by asset class are shown below.

<i>(in billions)</i>	Average AUM		Percent Change	Mix of Average AUM	
for the three months ended March 31,	2021	2020		2021	2020
Fixed Income	\$ 658.6	\$ 234.8	180%	44%	36%
Equity	500.2	246.0	103%	33%	37%
Multi-Asset	143.4	118.5	21%	10%	18%
Alternative	129.0	46.0	180%	9%	7%
Cash Management	66.7	10.5	535%	4%	2%
Total	\$ 1,497.9	\$ 655.8	128%	100%	100%

<i>(in billions)</i>	Average AUM		Percent Change	Mix of Average AUM	
for the six months ended March 31,	2021	2020		2021	2020
Fixed Income	\$ 658.7	\$ 240.4	174%	45%	36%
Equity	475.0	254.4	87%	32%	37%
Multi-Asset	140.2	120.7	16%	10%	18%
Alternative	125.9	45.8	175%	9%	7%
Cash Management	67.2	10.1	565%	4%	2%
Total	\$ 1,467.0	\$ 671.4	118%	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, and foreign exchange revaluation.

(in billions)	Three Months Ended March 31,		Percent Change	Six Months Ended March 31,		Percent Change
	2021	2020		2021	2020	
Beginning AUM	\$ 1,498.0	\$ 698.3	115%	\$ 1,418.9	692.6	105%
Long-term inflows	101.7	38.9	161%	197.8	81.9	142%
Long-term outflows	(105.9)	(64.3)	65%	(206.5)	(119.6)	73%
Long-term net flows	(4.2)	(25.4)	(83%)	(8.7)	(37.7)	(77%)
Cash management net flows	1.2	0.5	140%	(9.0)	1.5	NM
Total net flows	(3.0)	(24.9)	(88%)	(17.7)	(36.2)	(51%)
Acquisition	—	5.6	(100%)	—	5.6	(100%)
Net market change, distributions and other	3.9	(98.7)	NM	97.7	(81.7)	NM
Ending AUM	\$ 1,498.9	\$ 580.3	158%	\$ 1,498.9	\$ 580.3	158%

Components of the change in AUM by asset class were as follows:

(in billions) for the three months ended March 31, 2021	Fixed Income	Equity	Multi-Asset	Alternative	Cash Management	Total
AUM at January 1, 2021	\$ 669.9	\$ 495.7	\$ 141.1	\$ 127.1	\$ 64.2	\$ 1,498.0
Long-term inflows	53.5	32.4	9.6	6.2	—	101.7
Long-term outflows	(56.1)	(38.0)	(8.5)	(3.3)	—	(105.9)
Long-term net flows	(2.6)	(5.6)	1.1	2.9	—	(4.2)
Cash management net flows	—	—	—	—	1.2	1.2
Total net flows	(2.6)	(5.6)	1.1	2.9	1.2	(3.0)
Net market change, distributions and other	(25.0)	21.8	6.0	1.1	—	3.9
AUM at March 31, 2021	\$ 642.3	\$ 511.9	\$ 148.2	\$ 131.1	\$ 65.4	\$ 1,498.9

(in billions) for the three months ended March 31, 2020	Fixed Income	Equity	Multi-Asset	Alternative	Cash Management	Total
AUM at January 1, 2020	\$ 243.0	\$ 273.2	\$ 125.6	\$ 46.1	\$ 10.4	\$ 698.3
Long-term inflows	15.6	13.4	6.7	3.2	—	38.9
Long-term outflows	(29.3)	(23.2)	(9.4)	(2.4)	—	(64.3)
Long-term net flows	(13.7)	(9.8)	(2.7)	0.8	—	(25.4)
Cash management net flows	—	—	—	—	0.5	0.5
Total net flows	(13.7)	(9.8)	(2.7)	0.8	0.5	(24.9)
Acquisition	—	—	5.6	—	—	5.6
Net market change, distributions and other	(14.4)	(62.5)	(21.1)	(0.5)	(0.2)	(98.7)
AUM at March 31, 2020	\$ 214.9	\$ 200.9	\$ 107.4	\$ 46.4	\$ 10.7	\$ 580.3

AUM increased \$0.9 billion during the three months ended March 31, 2021 due to \$3.9 billion of net market change, distributions and other and \$1.2 billion of cash management net inflows, partially offset by \$4.2 billion of long-term net outflows. Net market change, distributions and other consists of \$12.7 billion of market appreciation, partially offset by a \$4.8 billion decrease from foreign exchange revaluation and \$4.0 billion of long-term distributions. The market appreciation occurred primarily in the equity and multi-asset asset classes, partially offset by depreciation in the fixed income asset class, and reflected positive returns in global equity markets as evidenced by increases of 6.2% in the S&P 500 Index and 5.0% in the MSCI World Index and negative returns in global fixed income markets as evidenced by a 4.5% decrease in the Bloomberg Barclays Global Aggregate Index. Long-term inflows increased 161% to \$101.7 billion, as compared to the prior-year period, due to higher inflows in all long-term asset classes. Long-term outflows increased 65% to \$105.9 billion due to higher outflows in all long-term asset classes except multi-asset asset class and primarily consisted of \$8.6 billion from three institutional products, including a single fixed income institutional redemption of \$5.9 billion, \$2.7 billion from two equity funds, \$2.7 billion from six fixed income funds, including \$1.3 billion from five India credit funds that were non-management fee earning which are in the process of winding up and \$1.7 billion from a multi-asset fund. Long-term outflows were partially offset by inflows of \$3.0 billion in a multi-asset fund, \$1.8 billion in a fixed income fund, \$1.1 billion in an equity fund and \$1.1 billion in an institutional separate account. Additionally, long-term outflows in the equity asset class included \$2.1 billion of exchanges that are included as long-term inflows in the multi-asset asset class. The foreign exchange revaluation resulted from AUM in products that are not U.S. dollar denominated, which represented 12% of total AUM as of March 31, 2021, and was primarily due to the strengthening of the U.S. dollar against the Japanese Yen, Euro and Brazilian Real.

AUM decreased \$118.0 billion during the three months ended March 31, 2020 primarily due to \$98.7 billion of net market change, distributions and other and \$25.4 billion of long-term net outflows, slightly offset by \$5.6 billion from an acquisition. Net market change, distributions and other primarily consists of \$89.3 billion of market depreciation, a \$5.6 billion decrease from foreign exchange revaluation and \$3.8 billion of long-term distributions. The market depreciation occurred in all asset classes, most significantly in equity and multi-asset asset classes, and reflected sharp declines in global equity markets as evidenced by decreases of 20.9% in the MSCI World Index and 19.6% in the S&P 500 Index. The foreign exchange revaluation was primarily due to the strengthening of the U.S. dollar against the Canadian dollar, Australian dollar, Indian Rupee and Pound Sterling. Long-term net outflows included outflows of \$10.0 billion from six fixed income funds, \$1.6 billion from a multi-asset fund and \$0.9 billion from an institutional product, partially offset by inflows of \$1.2 billion in a private open-end product and \$0.8 billion in an equity fund.

(in billions)

for the six months ended March 31, 2021	Fixed Income	Equity	Multi-Asset	Alternative	Cash Management	Total
AUM at October 1, 2020	\$ 656.9	\$ 438.1	\$ 129.4	\$ 122.1	\$ 72.4	\$ 1,418.9
Long-term inflows	95.5	73.9	18.9	9.5	—	197.8
Long-term outflows	(104.0)	(78.2)	(18.1)	(6.2)	—	(206.5)
Long-term net flows	(8.5)	(4.3)	0.8	3.3	—	(8.7)
Cash management net flows	—	—	—	—	(9.0)	(9.0)
Total net flows	(8.5)	(4.3)	0.8	3.3	(9.0)	(17.7)
Net market change, distributions and other	(6.1)	78.1	18.0	5.7	2.0	97.7
AUM at March 31, 2021	\$ 642.3	\$ 511.9	\$ 148.2	\$ 131.1	\$ 65.4	\$ 1,498.9

(in billions)

for the six months ended March 31, 2020	Fixed Income	Equity	Multi-Asset	Alternative	Cash Management	Total
AUM at October 1, 2019	\$ 250.6	\$ 263.9	\$ 123.6	\$ 45.0	\$ 9.5	\$ 692.6
Long-term inflows	32.3	30.8	13.6	5.2	—	81.9
Long-term outflows	(54.7)	(44.1)	(17.1)	(3.7)	—	(119.6)
Long-term net flows	(22.4)	(13.3)	(3.5)	1.5	—	(37.7)
Cash management net flows	—	—	—	—	1.5	1.5
Total net flows	(22.4)	(13.3)	(3.5)	1.5	1.5	(36.2)
Acquisition	—	—	5.6	—	—	5.6
Net market change, distributions and other	(13.3)	(49.7)	(18.3)	(0.1)	(0.3)	(81.7)
AUM at March 31, 2020	\$ 214.9	\$ 200.9	\$ 107.4	\$ 46.4	\$ 10.7	\$ 580.3

AUM increased \$80.0 billion or 6% during the six months ended March 31, 2021 due to \$97.7 billion of net market change, distributions and other, partially offset by \$9.0 billion of cash management net outflows and \$8.7 billion of long-term net outflows. Net market change, distributions and other consists of \$113.8 billion of market appreciation and a \$3.4 billion increase from foreign exchange revaluation, partially offset by \$19.5 billion of long-term distributions. The market appreciation occurred primarily in the equity and multi-asset asset classes, and reflected positive returns in global equity markets as evidenced by increases of 19.8% in the MSCI World Index and 19.1% in the S&P 500 Index. Long-term inflows increased 142% to \$197.8 billion, as compared to the prior-year period, and long-term outflows increased 73% to \$206.5 billion due to higher inflows and outflows in all asset classes. Long-term outflows primarily consisted of \$19.8 billion from eight institutional products, including a single fixed income institutional redemption of \$5.9 billion, \$7.1 billion from seven fixed income funds, including \$1.3 billion from five India credit funds that were non-management fee earning which are in the process of winding up, \$3.2 billion from two equity funds and \$3.1 billion from a multi-asset fund. Long-term outflows were partially offset by inflows of \$6.3 billion in two fixed income funds, \$5.3 billion in two institutional separate accounts, \$3.1 billion in a multi-asset fund and \$2.4 billion in an equity fund. Additionally, long-term outflows in the equity asset class included \$2.1 billion of exchanges that are included as long-term inflows in the multi-asset asset class. The foreign exchange revaluation resulted from AUM in products that are not U.S. dollar denominated and was primarily due to weakening of the U.S. dollar against the Australian dollar, Canadian dollar and Pound Sterling, partially offset by strengthening of the U.S. dollar against Japanese Yen.

AUM decreased \$112.3 billion during the six months ended March 31, 2020 primarily due to \$81.7 billion of net market change, distributions and other and \$37.7 billion of long-term net outflows, slightly offset by \$5.6 billion from an acquisition. Net market change, distributions and other consists of \$61.9 billion of market depreciation, \$16.4 billion of long-term distributions and a \$3.4 billion decrease from foreign exchange revaluation. The market depreciation occurred in all asset classes except the alternative asset class, and reflected negative returns in global equity markets as evidenced by decreases of 14.1% in the MSCI World Index and 12.3% in the S&P 500 Index. The foreign exchange revaluation was primarily due to strengthening of the U.S. dollar against the Canadian dollar, Indian Rupee and Australian dollar. Long-term net outflows included outflows of \$16.9 billion from six fixed income funds, \$1.8 billion from two institutional products, \$1.7 billion from an equity fund and \$1.7 billion from a multi-asset fund, which were partially offset by inflows of \$1.2 billion in a private open-end product and \$1.2 billion in an equity fund.

AUM by sales region was as follows:

<i>(in billions)</i>	March 31, 2021	March 31, 2020	Percent Change
United States	\$ 1,100.5	\$ 408.3	170%
International			
Asia-Pacific	164.5	72.4	127%
Europe, Middle East and Africa	150.1	70.8	112%
Latin America ¹	57.4	10.5	447%
Canada	26.4	18.3	44%
Total international	398.4	172.0	132%
Total	\$ 1,498.9	\$ 580.3	158%

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

Average AUM by sales region was as follows:

(in billions)	Three Months Ended March 31,		Percent Change	Six Months Ended March 31,		Percent Change
	2021	2020		2021	2020	
United States	\$ 1,090.4	\$ 454.8	140%	\$ 1,065.4	\$ 464.4	129%
International						
Asia-Pacific	171.5	83.4	106%	170.2	85.9	98%
Europe, Middle East and Africa	151.9	83.6	82%	148.2	85.7	73%
Latin America ¹	58.2	12.5	366%	57.7	12.9	347%
Canada	25.9	21.5	20%	25.5	22.5	13%
Total international	407.5	201.0	103%	401.6	207.0	94%
Total	\$ 1,497.9	\$ 655.8	128%	\$ 1,467.0	\$ 671.4	118%

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

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 measure of the performance of these products is the percentage of AUM exceeding peer group medians and benchmarks. We compare the relative performance of our mutual funds against peers, and of our strategy composites against benchmarks. Higher long-term relative performance of our mutual fund AUM during the first half of fiscal year 2021 resulted in a significant increase from September 30, 2020 to the peer group comparison for the three- and five-year periods. Approximately half of our mutual fund AUM exceeded the peer group median comparisons for all periods presented. Our composites generated strong long-term results with at least 67% of AUM exceeding the benchmark comparisons for all periods presented, primarily driven by the performance of our fixed income products which had at least 85% of AUM exceeding the benchmark comparisons.

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

as of March 31, 2021	Peer Group Comparison ¹ % of Mutual Fund AUM in Top Two Peer Group Quartiles				Benchmark Comparison ² % of Composite AUM Exceeding Benchmark			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Fixed Income	51%	56%	56%	60%	87%	85%	89%	95%
Equity	35%	50%	40%	48%	39%	38%	39%	50%
Total AUM ³	49%	58%	53%	59%	68%	67%	69%	76%

¹ Mutual fund performance is sourced from Morningstar and measures the percent of ranked AUM in the top two quartiles versus peers. Total mutual fund AUM measured for the 1-, 3-, 5- and 10-year periods represents 41%, 41%, 40% and 39% of our total AUM as of March 31, 2021.

² Composite performance measures the percent of composite AUM beating its benchmark. The benchmark comparisons are based on each account's/composite's (composites may include retail separately managed accounts and mutual fund assets managed as part of the same strategy) return as compared to a market index that has been selected to be generally consistent with the asset class of the account/composite. Total composite AUM measured for the 1-, 3-, 5- and 10-year periods represents 69%, 69%, 68% and 64% of our total AUM as of March 31, 2021.

³ Total mutual fund AUM includes performance of our multi-asset and alternative AUM, and total composite AUM includes performance of our alternative AUM. Multi-asset and alternative AUM represent 10% and 9% of our total AUM at March 31, 2021.

Mutual fund performance data includes U.S. and cross-border domiciled mutual funds and exchange-traded funds, and excludes cash management and fund of funds. These results assume the reinvestment of dividends, are based on data available as of April 19, 2021, and are subject to revision. While we remain focused on achieving strong long-term performance, our future peer group and benchmarking 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 March 31,		Percent Change	Six Months Ended March 31,		Percent Change
	2021	2020		2021	2020	
Investment management fees	\$ 1,598.4	\$ 908.2	76%	\$ 3,138.8	\$ 1,887.9	66%
Sales and distribution fees	413.6	341.7	21%	810.5	693.2	17%
Shareholder servicing fees	55.7	54.8	2%	105.1	104.8	0%
Other	8.8	6.5	35%	17.2	14.5	19%
Total Operating Revenues	\$ 2,076.5	\$ 1,311.2	58%	\$ 4,071.6	\$ 2,700.4	51%

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 asset class 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 \$690.2 million for the three months ended March 31, 2021 primarily due to \$683.3 million of revenue earned by legacy Legg Mason strategies during the current quarter, a 2% increase in average AUM and higher performance fees, partially offset by lower effective investment management fee rate. The increase in average AUM occurred primarily in the equity and multi-asset asset classes, partially offset by fixed income asset class. The increase occurred primarily in Europe, Middle East and Africa and U.S. sales regions, partially offset by declines in all the other international sales regions.

Investment management fees increased \$1,250.9 million for the six months ended March 31, 2021 primarily due to \$1,347.3 million of revenue earned by legacy Legg Mason strategies during the current period, partially offset by a 2% decrease in average AUM and lower effective investment management fee rate. The decrease in average AUM occurred primarily in the fixed income asset class, partially offset by equity and multi-asset asset classes, and across all sales regions except Europe, Middle East and Africa and U.S. sales regions.

Our effective investment management fee rate excluding performance fees (annualized investment management fees excluding performance fees divided by average AUM) decreased to 42.1 and 41.7 basis points for the three and six months ended March 31, 2021, from 55.3 and 55.5 basis points for the same periods in the prior fiscal year. The rate decreases were primarily due to the Legg Mason acquisition, as legacy Legg Mason strategies generally have a lower effective fee rate due to a higher mix of institutional and fixed income AUM. The fee rate decreases were also due to higher weighting of AUM in lower-fee products and a shift from higher-fee products in the Europe, Middle East and Africa sales region to lower-fee products in the U.S. sales regions for the fixed income asset class.

Performance-based investment management fees were \$45.3 million and \$87.1 million for the three and six months ended March 31, 2021, and \$7.1 million and \$24.5 million for the same periods in the prior fiscal year. The increases were primarily due to \$27.2 million and \$62.5 million of performance fees earned by legacy Legg Mason strategies during the three and six months ended March 31, 2021, as well as from a private debt fund and an open end fund for the three-month period.

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 asset class, 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 generally 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 our U.S. mutual funds, with the exception of certain money market funds and certain other funds specifically designed for purchase through separately managed account programs, 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. We earn distribution fees from our non-U.S. funds based on daily average AUM.

We pay substantially all of our sales and distribution fees to the financial advisers, broker-dealers and other intermediaries that 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 March 31,		Percent Change	Six Months Ended March 31,		Percent Change
	2021	2020		2021	2020	
Asset-based fees	\$ 322.2	\$ 271.6	19%	\$ 639.2	\$ 559.4	14%
Sales-based fees	86.4	65.1	33%	160.0	124.9	28%
Contingent sales charges	5.0	5.0	0%	11.3	8.9	27%
Sales and Distribution Fees	\$ 413.6	\$ 341.7	21%	\$ 810.5	\$ 693.2	17%

Asset-based distribution fees increased \$50.6 million and \$79.8 million for the three and six months ended March 31, 2021 primarily due to \$53.5 million and \$107.4 million of fees earned by Legg Mason. The increase for the six-month period was partially offset by decreases of \$16.0 million from a higher mix of lower-fee U.S. assets and \$8.1 million from a 2% decrease in the related average AUM.

Sales-based fees increased \$21.3 million and \$35.1 million for the three and six months ended March 31, 2021 primarily due to \$20.0 million and \$35.7 million of fees earned by Legg Mason.

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 vary with the mix of redemptions of these shares. Contingent sales charges increased \$2.4 million for the six months ended March 31, 2021 due to higher redemptions.

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 increased \$0.9 million and \$0.3 million for the three and six months ended March 31, 2021 primarily due to revenue earned by Legg Mason, which was substantially offset by lower levels of transactions and for the six month period, lower levels of fee earning AUM.

Other

Other revenue increased \$2.3 million and \$2.7 million for the three and six months ended March 31, 2021 primarily due to higher miscellaneous fee revenues.

OPERATING EXPENSES

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

(in millions)	Three Months Ended March 31,		Percent Change	Six Months Ended March 31,		Percent Change
	2021	2020		2021	2020	
Compensation and benefits	\$ 732.3	\$ 365.7	100%	\$ 1,457.8	\$ 755.1	93%
Sales, distribution and marketing	541.8	423.9	28%	1,048.3	867.8	21%
Information systems and technology	117.5	61.8	90%	234.0	124.3	88%
Occupancy	53.8	34.4	56%	109.5	68.9	59%
Amortization of intangible assets	57.9	4.4	NM	116.1	9.2	NM
General, administrative and other	116.9	81.1	44%	240.5	162.3	48%
Total Operating Expenses	\$ 1,620.2	\$ 971.3	67%	\$ 3,206.2	\$ 1,987.6	61%

Compensation and Benefits

The components of compensation and benefits expenses are presented below.

(in millions)	Three Months Ended March 31,		Percent Change	Six Months Ended March 31,		Percent Change
	2021	2020		2021	2020	
Salaries, wages and benefits	\$ 361.3	\$ 251.0	44%	\$ 719.0	\$ 491.7	46%
Variable compensation	313.9	87.5	259%	630.8	214.9	194%
Acquisition-related retention	46.6	27.2	71%	90.1	48.5	86%
Special termination benefits	10.5	—	NM	17.9	—	NM
Compensation and Benefits Expenses	\$ 732.3	\$ 365.7	100%	\$ 1,457.8	\$ 755.1	93%

Salaries, wages and benefits increased \$110.3 million and \$227.3 million for the three and six months ended March 31, 2021 primarily due to \$130.0 million and \$258.7 million of salaries, wages and benefits of Legg Mason.

Variable compensation increased \$226.4 million and \$415.9 million for the three and six months ended March 31, 2021 primarily due to \$174.7 million and \$377.2 million of variable compensation of Legg Mason, including \$9.3 million and \$25.3 million of acquisition-related pass through performance fees and \$0.2 million and \$14.3 million of expenses related to deferred compensation plans and seed investments.

Acquisition-related retention expenses increased \$19.4 million and \$41.6 million for the three and six months ended March 31, 2021 primarily related to the acquisition of Legg Mason.

Special termination benefits relate to workforce optimization initiatives related to the acquisition of Legg Mason.

We expect to incur additional acquisition-related retention expenses of approximately \$70 million during the remainder of the current fiscal year, and annual amounts beginning at approximately \$130 million in the fiscal year ending September 30, 2022 and decreasing over the following two fiscal years by approximately \$15 million and \$25 million. At March 31, 2021, our global workforce had increased to approximately 11,100 employees from approximately 9,600 at March 31, 2020.

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.

Sales, Distribution and Marketing

Sales, distribution and marketing expenses primarily relate to services provided by financial advisers, broker-dealers and other intermediaries 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 March 31,		Percent Change	Six Months Ended March 31,		Percent Change
	2021	2020		2021	2020	
Asset-based expenses	\$ 437.3	\$ 334.2	31%	\$ 851.6	\$ 695.0	23%
Sales-based expenses	85.1	68.5	24%	158.3	131.3	21%
Amortization of deferred sales commissions	19.4	21.2	(8%)	38.4	41.5	(7%)
Sales, Distribution and Marketing	\$ 541.8	\$ 423.9	28%	\$ 1,048.3	\$ 867.8	21%

Asset-based expenses increased \$103.1 million and \$156.6 million for the three and six months ended March 31, 2021 primarily due to \$91.9 million and \$180.1 million of expenses incurred by Legg Mason. The increase for the six-month period was partially offset by decreases of \$20.4 million from a higher mix of lower-fee U.S. assets and \$7.7 million from a 1% decrease in the related average AUM. 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 \$16.6 million and \$27.0 million for the three and six months ended March 31, 2021 primarily due to \$18.3 million and \$32.9 million of expenses incurred by Legg Mason. The increase for the six-month period was partially offset by a \$4.8 million decrease from lower sales of U.S. Class C shares, which do not generate sales fee revenues.

Amortization of deferred sales commissions decreased \$1.8 million and \$3.1 million for the three and six months ended March 31, 2021 primarily due to lower expenses resulting from decreased sales of shares sold without a front-end sales charge.

Information Systems and Technology

Information systems and technology expenses increased \$55.7 million and \$109.7 million for the three and six months ended March 31, 2021 primarily due to \$54.0 million and \$108.1 million of expenses of Legg Mason.

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 \$19.4 million and \$40.6 million for the three and six months ended March 31, 2021 primarily due to \$18.8 million and \$43.0 million of expenses of Legg Mason, partially offset by a decrease of \$2.3 million from lower levels of rent expense and other building related costs for the six months ended March 31, 2021.

Amortization of intangible assets

Amortization of intangible assets increased \$53.5 million and \$106.9 million for the three and six months ended March 31, 2021 primarily related to the intangible assets recognized as part of the acquisition of Legg Mason.

General, Administrative and Other

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

General, administrative and other operating expenses increased \$35.8 million and \$78.2 million for the three and six months ended March 31, 2021, primarily due to \$31.1 million and \$66.9 million of expenses of Legg Mason and increases of \$8.0 million and \$10.2 million in third-party fees primarily for sub-advisory and fund administration services, partially offset by decreases of \$5.4 million and \$15.4 million in travel and entertainment expenses and \$6.7 million and \$10.8 million in advertising and promotion expenses, both primarily due to lower activity levels. The increase for the six-month period also included a \$9.5 million increase in acquisition-related expenses.

OTHER INCOME (EXPENSES)

Other income (expenses) consisted of the following:

(in millions)	Three Months Ended March 31,		Percent Change	Six Months Ended March 31,		Percent Change
	2021	2020		2021	2020	
Investment and other income (losses), net	\$ 67.1	\$ (181.0)	NM	\$ 144.3	\$ (113.1)	NM
Interest expense	(15.9)	(3.7)	330%	(45.6)	(9.8)	365%
Investment and other income (losses) of consolidated investment products, net	111.2	(40.9)	NM	202.3	(25.7)	NM
Expenses of consolidated investment products	(5.2)	(11.4)	(54%)	(15.6)	(15.7)	(1%)
Other Income (Expenses), Net	\$ 157.2	\$ (237.0)	NM	\$ 285.4	\$ (164.3)	NM

In the quarter ended September 30, 2020, the Company changed the presentation of its consolidated statements of income to include dividend and interest income and other expenses from consolidated investment products (“CIPs”) in other income, net. Amounts for the comparative prior fiscal year period have been reclassified to conform to the current presentation. See Note 1 - Basis of Presentation in the notes to consolidated financial statements in Item 1 of Part I of this Form 10-Q.

Investment and other income (losses), net consists primarily of income (losses) from equity method investees, gains (losses) on investments held by the Company, gains (losses) on derivatives, foreign currency exchange gains (losses), rental income from excess owned space in our San Mateo, California corporate headquarters and other office buildings which we lease to third parties.

Investment and other income (losses), net increased \$248.1 million and \$257.4 million for the three and six months ended March 31, 2021, primarily due to income from equity method investees and gains on investments held by the Company, partially offset by losses on various derivatives and a decrease in dividend income. Equity method investees generated gains of \$45.9 million and \$84.4 million for the three- and six-month periods, as compared to losses of \$159.4 million and \$120.3 million in the prior year periods. The current year periods reflect continued recovery in market valuations of investments held by various global equity funds, while the prior year periods reflect steep declines in market valuations of investments held primarily by a global equity fund amid global concerns about the COVID-19 pandemic. Investments held by the Company generated \$10.2 million and \$58.9 million in net gains for the three- and six-month periods as compared to \$79.4 million and \$71.6 million in net losses in the prior year periods, primarily from various nonconsolidated funds, separate accounts and assets invested for Legg Mason deferred compensation plans. Dividend income decreased \$18.7 million and \$34.8 million for the three- and six-month periods primarily due to lower yields on money market funds. Derivatives generated \$6.1 million and \$16.1 million of losses for the three and six months ended December 31, 2020 as compared to \$31.4 million and \$29.1 million of gains in the prior year periods.

Interest expense increased \$12.2 million and \$35.8 million for the three- and six-month periods, primarily due to interest expense recognized on debt of Legg Mason and the 1.600% senior unsecured unsubordinated notes issued in October 2020.

Investment and other income (losses) of consolidated investment products, net consists of dividend and interest income and investment gains (losses) on investments held by CIPs. Expenses of consolidated investment products primarily consists of fund-related expenses, including professional fees and other administrative expenses, and interest expense. Significant portions of the investment and other income (losses) of consolidated investment products, net and expenses of consolidated investment products are offset in noncontrolling interests in our consolidated statements of income.

Investment and other income (losses) of consolidated investment products, net, increased \$152.1 million and \$228.0 million for the three- and six-month periods, primarily due to a \$156.7 million and \$225.9 million increase in net gains on investments held by CIPs, largely related to holdings of various alternative funds.

Expenses of consolidated investments products decreased \$6.2 million and \$0.1 million for the three- and six-month periods. The decrease in the three-month period was primarily due to lower expenses incurred by an alternative fund.

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 asset class and accounting classification at March 31, 2021, excluding third-party assets of CIPs, was as follows:

(in millions)	Accounting Classification ¹				Direct Investments in CIPs	Total Direct Portfolio
	Cash and Cash Equivalents	Investments at Fair Value	Equity Method Investments	Other Investments		
Cash and Cash Equivalents	\$ 3,740.2	\$ —	\$ —	\$ —	\$ —	\$ 3,740.2
Investments						
Fixed Income	—	225.5	39.1	36.7	321.4	622.7
Equity	—	200.3	479.7	33.5	116.7	830.2
Multi-Asset	—	33.4	5.2	—	77.3	115.9
Alternative	—	95.1	261.5	23.9	522.3	902.8
Total investments	—	554.3	785.5	94.1	1,037.7	2,471.6
Total Cash and Cash Equivalents and Investments	\$ 3,740.2	\$ 554.3	\$ 785.5	\$ 94.1	\$ 1,037.7	\$ 6,211.8

¹ See Note 1 – Significant Accounting Policies and Note 6 – Investments in the notes to consolidated financial statements in Item 8 of Part II of our Form 10-K for fiscal year 2020 for information on investment accounting classifications.

TAXES ON INCOME

Our effective income tax rate was 20.9% and 23.5% for the three and six months ended March 31, 2021, as compared to 42.9% and 25.8% for the three and six months ended March 31, 2020. The rate decreases were primarily due to net income attributable to noncontrolling interests as compared to net losses in the prior fiscal year and decreases in U.S. taxes on foreign earnings. The rate decrease for the six-month period was partially offset by the prior year tax benefit from the statutory rate reduction enacted in India in December 2019, which also resulted in a tax benefit from the revaluation of net deferred tax liabilities.

During the six months ended March 31, 2021, we reversed gross unrecognized tax benefits of \$29.3 million related to the completion of the tax authorities' examination of Legg Mason's fiscal years 2018 and 2019. The reversal of the tax benefits did not significantly impact the effective income tax rate as the benefits were offset by a valuation allowance related to tax attribute carryforwards.

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.

SUPPLEMENTAL NON-GAAP FINANCIAL MEASURES

As supplemental information, we are providing performance measures for “adjusted operating income,” “adjusted operating margin,” “adjusted net income” and “adjusted diluted earnings per share,” each of which is based on methodologies other than generally accepted accounting principles (“non-GAAP measures”). Management believes these non-GAAP measures are useful indicators of our financial performance and may be helpful to investors in evaluating our relative performance against industry peers as these measures exclude the impact of CIPs and mitigate the margin variability related to sales and distribution revenues and expenses across multiple distribution channels globally. These measures also exclude performance-based investment management fees which are fully passed through as compensation and benefits expense per the terms of a previous acquisition by Legg Mason and have no impact on net income. These non-GAAP measures also exclude acquisition-related expenses, certain items which management considers to be nonrecurring, unrealized investment gains and losses included in investment and other income (losses), net, and the related income tax effect of these adjustments, as applicable. These non-GAAP measures also exclude the impact on compensation and benefits expense which is offset by gains and losses in investment and other income (losses), net on investments made to fund deferred compensation plans and on seed investments under certain historical revenue sharing arrangements.

“Adjusted operating income,” “adjusted operating margin,” “adjusted net income” and “adjusted diluted earnings per share” are defined below, followed by reconciliations of operating income, operating margin, net income attributable to Franklin Resources, Inc. and diluted earnings per share on a U.S. GAAP basis to these non-GAAP measures. Non-GAAP measures should not be considered in isolation from, or as substitutes for, any financial information prepared in accordance with U.S. GAAP, and may not be comparable to other similarly titled measures of other companies. Additional reconciling items may be added in the future to these non-GAAP measures if deemed appropriate.

Adjusted Operating Income

We define adjusted operating income as operating income adjusted to exclude the following:

- Elimination of operating revenues upon consolidation of investment products.
- Acquisition-related retention compensation.
- Impact on compensation and benefits expense from gains and losses on investments related to Legg Mason deferred compensation plans and seed investments, which is offset in investment and other income (expense), net.
- Other acquisition-related expenses including professional fees and technology costs.
- Amortization and impairment of intangible assets.
- Special termination benefits related to workforce optimization initiatives related to the acquisition of Legg Mason on July 31, 2020.

Adjusted Operating Margin

We calculate adjusted operating margin as adjusted operating income divided by adjusted operating revenues. We define adjusted operating revenues as operating revenues adjusted to exclude the following:

- Acquisition-related performance-based investment management fees which are passed through as compensation and benefits expense.
- Sales and distribution fees and a portion of investment management fees allocated to cover sales, distribution and marketing expenses paid to the financial advisers and other intermediaries who sell our funds on our behalf.
- Elimination of operating revenues upon consolidation of investment products.

Adjusted Net Income

We define adjusted net income as net income attributable to Franklin Resources, Inc. adjusted to exclude the following:

- Activities of CIPs, including investment and other income (losses), net, and income (loss) attributable to noncontrolling interests, net of revenues eliminated upon consolidation of investment products.

- Acquisition-related retention compensation.
- Other acquisition-related expenses including professional fees and technology costs.
- Amortization and impairment of intangible assets.
- Special termination benefits related to workforce optimization initiatives related to the acquisition of Legg Mason on July 31, 2020.
- Net gains or losses on investments related to Legg Mason deferred compensation plans which are not offset by compensation and benefits expense.
- Unrealized investment gains and losses other than those that are offset by compensation and benefits expense.
- Interest expense for amortization of Legg Mason debt premium from acquisition-date fair value adjustment.
- Net income tax expense of the above adjustments based on the respective blended rates applicable to the adjustments.

Adjusted Diluted Earnings Per Share

We define adjusted diluted earnings per share as diluted earnings per share adjusted to exclude the per share impacts of the adjustments applied to net income in calculating adjusted net income.

In calculating adjusted operating income, adjusted operating margin, adjusted net income and adjusted diluted earnings per share, we adjust for activities of CIPs because the impact of consolidated products is not considered reflective of the underlying results of our operations. We adjust for acquisition-related retention compensation, other acquisition-related expenses, amortization and impairment of intangible assets and interest expense for amortization of the Legg Mason debt premium to facilitate comparability of our operating results with the results of other asset management firms. We adjust for special termination benefits related to workforce optimization initiatives related to the acquisition of Legg Mason because these items are deemed nonrecurring. In calculating adjusted net income and adjusted diluted earnings per share, we adjust for unrealized investment gains and losses included in investment and other income (losses), net and net gains or losses on investments related to Legg Mason deferred compensation plans which are not offset by compensation and benefits expense because these items primarily relate to seed and strategic investments which have been and are generally expected to be held long term.

The calculations of adjusted operating income, adjusted operating margin, adjusted net income and adjusted diluted earnings per share are as follows:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Operating income	\$ 456.3	\$ 339.9	\$ 865.4	\$ 712.8
Add (subtract):				
Elimination of operating revenues upon consolidation of investment products ¹	5.8	6.2	11.5	12.9
Acquisition-related retention	46.6	27.2	90.1	48.5
Compensation and benefits expense from gains on deferred compensation and seed investments, net	0.2	—	14.3	—
Other acquisition-related expenses	3.8	5.4	15.7	5.2
Amortization of intangible assets	57.9	4.4	116.1	9.2
Impairment of intangible assets	—	2.8	—	2.8
Special termination benefits	10.5	—	17.9	—
Adjusted operating income	\$ 581.1	\$ 385.9	\$ 1,131.0	\$ 791.4
Total operating revenues	\$ 2,076.5	\$ 1,311.2	\$ 4,071.6	\$ 2,700.4
Add (subtract):				
Acquisition-related pass through performance fees	(9.3)	—	(25.3)	—
Sales and distribution fees	(413.6)	(341.7)	(810.5)	(693.2)
Allocation of investment management fees for sales, distribution and marketing expenses	(128.2)	(82.2)	(237.8)	(174.6)
Elimination of operating revenues upon consolidated of investment products ¹	5.8	6.2	11.5	12.9
Adjusted operating revenues	\$ 1,531.2	\$ 893.5	\$ 3,009.5	\$ 1,845.5
Operating margin	22.0%	25.9%	21.3%	26.4%
Adjusted operating margin	38.0%	43.2%	37.6%	42.9%

<i>(in millions, except per share data)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Net income attributable to Franklin Resources, Inc.	\$ 381.8	\$ 79.1	\$ 727.1	\$ 429.6
Add (subtract):				
Net (income) loss of consolidated investment products ¹	(6.3)	(16.4)	14.9	(11.8)
Acquisition-related retention	46.6	27.2	90.1	48.5
Other acquisition-related expenses	3.7	5.4	13.8	5.2
Amortization of intangible assets	57.9	4.4	116.1	9.2
Impairment of intangible assets	—	2.8	—	2.8
Special termination benefits	10.5	—	17.9	—
Net gains on deferred compensation plan investments not offset by compensation and benefits expense	(0.2)	—	(1.4)	—
Unrealized investment (gains) losses	(60.6)	257.6	(156.5)	221.2
Interest expense for amortization of debt premium	(16.9)	—	(22.9)	—
Net income tax expense of adjustments	(13.0)	(27.3)	(22.2)	(33.6)
Adjusted net income	\$ 403.5	\$ 332.8	\$ 776.9	\$ 671.1
Diluted earnings per share	\$ 0.74	\$ 0.16	\$ 1.42	\$ 0.86
Adjusted diluted earnings per share	0.79	0.66	1.51	1.34

¹ The impact of CIPs is summarized as follows:

<i>(in millions)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Elimination of operating revenues upon consolidation	\$ (5.8)	\$ (6.2)	\$ (11.5)	\$ (12.9)
Other income (expenses), net	95.6	(0.7)	115.9	(0.9)
Less: income (loss) attributable to noncontrolling interests	83.5	(23.3)	119.3	(25.6)
Net income (loss)	\$ 6.3	\$ 16.4	\$ (14.9)	\$ 11.8

LIQUIDITY AND CAPITAL RESOURCES

Cash flows were as follows:

<i>(in millions)</i>	Six Months Ended March 31,	
	2021	2020
Operating cash flows	\$ 505.4	\$ 141.0
Investing cash flows	(773.0)	6.1
Financing cash flows	659.9	(64.1)

Net cash provided by operating activities increased during the six months ended March 31, 2021 primarily due to higher net income, lower payments of accrued compensation and benefits and a higher adjustment for amortization of intangible assets, partially offset by adjustments for gains from CIPs as compared to losses in the prior year and income from investments in equity method investees as compared to losses in the prior year. Net cash used in investing activities, as compared to net cash provided in the prior year, primarily resulted from net purchases of investments by CLOs and net deconsolidation of CIPs as compared to net consolidation in the prior year. Net cash provided by financing activities, as compared to net cash used in the prior year, primarily resulted from proceeds from issuance of debt and debt of CIPs, partially offset by higher payments on debt.

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>	March 31, 2021	September 30, 2020
Assets		
Cash and cash equivalents	\$ 3,740.2	\$ 3,026.8
Receivables	1,193.6	1,114.8
Investments	1,253.3	982.2
Total Liquid Assets	<u>\$ 6,187.1</u>	<u>\$ 5,123.8</u>
Liability		
Debt	\$ 3,486.5	\$ 3,017.1

Liquidity

Liquid assets consist of cash and cash equivalents, receivables and certain investments. Cash and cash equivalents at March 31, 2021 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 cash and/or capital, and may be restricted in their ability to transfer cash to their parent companies. Liquid assets used to satisfy these purposes were \$3,899.3 million and \$3,290.9 million at March 31, 2021 and September 30, 2020, including \$315.6 million and \$316.6 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 commercial paper private placement program.

On March 15, 2021, we redeemed all of the outstanding \$250.0 million 6.375% junior notes due in March 2056 issued by Legg Mason at the principal amount plus accrued and unpaid interest of \$4.0 million.

On October 19, 2020, we completed the offering and sale of the 1.600% senior unsecured unsubordinated notes due 2030 with a principal amount of \$750.0 million. 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. In prior fiscal years, we issued senior unsecured unsubordinated notes for general corporate purposes, to redeem outstanding notes and to finance an acquisition. At March 31, 2021, \$699.6 million of the notes were outstanding with an aggregate principal amount due of \$700.0 million. The notes were issued at fixed interest rates and consist of \$300.0 million at 2.800% per annum which mature in 2022 and \$400.0 million at 2.850% per annum which mature in 2025. At March 31, 2021, \$1,448.0 million of the notes were outstanding with an aggregate principal amount of \$1,450.0 million.

At March 31, 2021, Legg Mason's outstanding senior unsecured unsubordinated notes and junior unsecured subordinated notes had an aggregate principal amount due of \$1,750.0 million. The notes have fixed interest rates from 3.950% to 5.625% with interest payable semi-annually for senior notes and quarterly for junior notes, and have an aggregate carrying value, inclusive of unamortized premium, of \$2,046.8 million at March 31, 2021.

The senior 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 senior 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. In addition, the indentures 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 March 31, 2021.

The junior notes due September 2056 may only be redeemed in whole on or after September 15, 2021. The Company currently expects to call these notes in September 2021, subject to Board approval.

At March 31, 2021, 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, pay stockholder dividends, invest in our products, pay income taxes and operating expenses of the business, enhance technology infrastructure and business processes, repurchase shares of our common stock, fund property and equipment purchases, and repay and service debt. While we expect to continue to repurchase shares to offset dilution from share-based compensation, and expect to continue to repurchase shares opportunistically from time to time, we will likely spend more of our post-dividend free cash flow investing in our business, including seed capital and acquiring resources to help grow our investment teams, affiliates and operations.

We typically declare cash dividends on a quarterly basis, subject to approval by our Board of Directors. We declared regular dividends of \$0.56 per share (\$0.28 per share per quarter) during the six months ended March 31, 2021 and \$0.54 per share (\$0.27 per share per quarter) during the six months ended March 31, 2020. 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 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 business conditions, price, market and other factors. During the three and six months ended March 31, 2021, we repurchased 1.7 and 3.8 million shares of our common stock at a cost of \$45.8 million and \$91.4 million. At March 31, 2021, 34.5 million shares remained available for repurchase under the authorization of 80.0 million shares approved by our Board of Directors in April 2018. During the three and six months ended March 31, 2020, we repurchased 2.9 million and 7.5 million shares of our common stock at a cost of \$64.6 million and \$188.2 million.

We invested \$171.9 million, net of redemptions, into our sponsored products during the six months ended March 31, 2021 and redeemed \$11.1 million, net of investments, in the prior-year period.

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. Increased liquidity risks and redemptions have required, and may continue to require, increased cash in the form of loans or other lines of credit to help settle redemptions and for other related purposes. While we have no legal or contractual obligation to do so, we have in certain instances voluntarily elected to provide the funds with direct or indirect financial support based on our business objectives. In April 2020, we authorized loans aggregating up to 5.0 billion Indian Rupees (approximately \$66.2 million) to certain sponsored funds in India that had experienced increased liquidity risks and redemptions and which are in the process of winding up. See Note 12 – Commitments and Contingencies in the notes to consolidated financial statements in Item 1 of Part I of this Form 10-Q for further information. At March 31, 2021, the loans have been fully repaid. We did not provide financial or other support to our sponsored funds during the six months ended March 31, 2021 or during fiscal year 2020.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

On March 15, 2021, we redeemed all of the outstanding \$250.0 million 6.375% junior notes due in March 2056 issued by Legg Mason which will result in a reduction of interest payable of \$16 million per annum.

On October 19, 2020, we completed the offering and sale of \$750.0 million aggregate principal amount of 1.600% senior notes due October 2030. Interest of \$12 million per year is payable semi-annually on April 30 and October 30 of each year, beginning on April 30, 2021.

At March 31, 2021, there were no other material changes in our contractual obligations, commitments and federal transition tax liability as reported in our Form 10-K for fiscal year 2020.

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. Further, global concerns about the COVID-19 pandemic have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations including the estimates and assumptions made by management. 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 2020.

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 March 31, 2021, we were the primary beneficiary of 48 investment product VIEs.

Goodwill and Other Intangible Assets

Subsequent to the annual impairment tests performed as of August 1, 2020, we monitored both macroeconomic and entity-specific factors, including changes in our AUM 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 six months ended March 31, 2021, there were no events or circumstances which would indicate that goodwill, indefinite-lived intangible assets 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 are 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 March 31, 2021, Level 3 assets represented 20% 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 insignificant transfers into and out of Level 3 during the six months ended March 31, 2021.

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.

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

PANDEMIC-RELATED RISKS

Our business and operations are subject to adverse effects from the outbreak and spread of contagious diseases such as COVID-19, which adverse effects may continue.

The outbreak and spread of contagious diseases such as COVID-19, a highly transmissible and pathogenic disease, has adversely affected, and may continue to adversely affect, our business, financial condition and results of operations. The COVID-19 pandemic has resulted in a widespread national and global public health crisis that is continuing. Such infectious illness outbreaks or other adverse public health developments in countries where we operate, as well as local, state and/or national government restrictive measures implemented to control such outbreaks, could adversely affect the economies of many nations or the entire global economy, the financial condition of individual issuers or companies and capital markets, in ways that cannot necessarily be foreseen, and such impacts could be significant and long term. Such extraordinary events and their aftermaths can cause investor fear and panic, which can further adversely affect the operations and performance of companies, sectors, nations, regions and financial markets in general and in ways that cannot necessarily be foreseen. The COVID-19 pandemic has adversely affected global economies and markets, and has resulted in disruptions in commerce that will continue to evolve, including with respect to financial and other economic activities, services, travel and supply chains. Global health concerns and uncertainty regarding the impact of COVID-19 could lead to further and/or increased volatility in global capital and credit markets, adversely affect our key executives and other personnel, clients, investors, providers, suppliers, lessees, and other third parties, and negatively impact our AUM, revenues, income, business and operations.

Our business has been and may continue to be negatively impacted by the current COVID-19 pandemic, including by the potential reoccurrence of periods of increased spread of COVID-19 and/or COVID-19 variants, and ensuing economic downturn in global financial markets. The global spread of COVID-19, and the various governmental actions and economic effects related to the pandemic, have had, and may continue to have, negative impacts on our business and operations, including volatility in asset values, reduced demand for our products and services, concerns for and restrictions on our personnel (including health concerns, quarantines, shelter-in-place orders and restrictions on travel), and increased privacy and cybersecurity risks. Past economic downturns, including in connection with COVID-19, have caused, and future economic downturns may cause, periods of significant volatility in our stock price, decreases and fluctuations in our AUM, revenues and income, increased liquidity risks and redemptions from our funds and other products, difficulties obtaining cash to settle redemptions, fund closures, poor investment performance of our products and corporate investments, increased focus on expense management, capital resources and related planning, and reputational harm, legal claims, and other factors that may arise or develop. Increased liquidity risks and redemptions in our funds and other products have required, and may at times require, increased cash in the form of loans or other lines of credit for them to draw on to help settle redemptions and for other related purposes. We have in some cases voluntarily determined to, and without obligation could in the future, extend such loans. In addition, such increased liquidity risks and redemptions have caused, and could continue to cause, fund closures and related regulatory and governmental reviews or investigations and legal claims or actions, subjecting us to legal and regulatory risks and potential financial exposure.

Our business operations are complex and conducted in numerous countries around the globe, and in order to remain competitive, we must continue to perform our asset management and related business responsibilities for our clients and investors properly and effectively throughout the course of the COVID-19 pandemic, which, among other matters, is dependent on the health and safety of our personnel, the ability of our personnel to work remotely successfully, and our ability to have our

personnel return to work at our offices safely and effectively in compliance with applicable requirements. We have implemented our business continuity plans globally to manage our business during this pandemic, including broad and extended work-from-home capabilities for our personnel where feasible and, as governmental shelter-in-place or activity restrictions may allow in various jurisdictions based on applicable conditions, we have implemented or may implement measures for the return of a portion of our personnel to certain of our offices. We can provide no assurance that our efforts and planning for either environment will be sufficient to protect the health and safety of our personnel and maintain the success of our business. Further, we depend on a number of third-party providers to support our operations, and any failure of our providers to fulfill their obligations could adversely impact our business. Moreover, since implementing broad work from home measures during the pandemic, we have an increased dependency on remote equipment and connectivity infrastructure to access critical business systems that may be subject to failure, disruption or unavailability that could negatively impact our business operations. Additionally, multiple regions in which we operate have had, and as conditions change may again have or continue to have, movement restrictions on our personnel and third-party vendors and service providers that may impact our ability to satisfy or respond timely to potential technology issues or needs impacting our business and operations. Further, we, like many others during this time, have been subject to increased phishing and other social engineering attempts by malicious actors to manipulate individuals into divulging confidential or personal information. If our cybersecurity diligence and efforts to offset the increased risks associated with greater reliance on mobile, collaborative and remote technologies during this pandemic are not effective or successful, we will be at increased risk for cybersecurity or data privacy incidents.

Any inability to recover successfully following the COVID-19 pandemic with respect to the economic, investment or operational impacts to our company or industry could further negatively impact our business and operations. As of the time of this filing, as the COVID-19 pandemic continues to evolve, it is not possible to predict the full extent to which the pandemic may adversely impact our business, liquidity, capital resources, financial results and operations, which impacts will depend on numerous developing factors that remain uncertain and subject to change. The impacts and risks described herein relating to COVID-19 augment the discussion of overlapping risks in our risk factors below, which may be heightened by COVID-19.

MARKET AND VOLATILITY RISKS

Volatility and disruption of our business and 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 asset management industry continues to experience disruption and challenges, including a shift to lower-fee passively managed products, increased fee pressure, regulatory changes, an increasing and changing role of technology in asset management services, the continuous introduction of new products and services and the consolidation of financial services firms through mergers and acquisitions. Further, the capital and credit markets have and may continue, from time to time, to 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, a material adverse impact on our business. 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, retail separately managed account programs, sub-advised products, and other investment vehicles. 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 based primarily on a percentage 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 asset outflows or 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, war, insurrection or other business, social or

political crises. Global economic conditions, exacerbated by war, terrorism, social, civil or political unrest, natural disasters, public health crises, such as epidemics or pandemics, 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 and fund closures.

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. Increased market volatility and changes in investor preferences also increase the risk of fund closures. 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 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 products than from our fixed income products. Increases in interest rates, particularly if rapid, as well as 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 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 ETFs. 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. products, potentially resulting in a decline in our revenues and income depending upon the nature of our AUM and the level of 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. The publication of LIBOR is therefore not guaranteed beyond 2021, and it appears highly likely that LIBOR will be discontinued or modified by the end of 2021. At this time, no consensus exists as to which reference rate or rates or benchmarks may become acceptable alternatives to LIBOR, although the Alternative Reference Rates Committee, a group of market participants convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has identified the Secured Overnight Financing Rate (“SOFR”) as the recommended alternative to LIBOR. The selection of SOFR as the alternative reference rate, however, currently presents certain market concerns because a term structure for SOFR has not yet developed, and there is not yet a generally accepted methodology for adjusting SOFR. 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 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. We can provide 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 poor investment performance, we may be unsuccessful in repairing any existing or continuing 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 brands or reputation are 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 completed acquisition of Legg Mason, Inc. remains subject to integration risks.

On July 31, 2020, we completed our acquisition of Legg Mason, Inc. pursuant to the terms and conditions of an agreement and plan of merger, and Legg Mason became a wholly-owned subsidiary of Franklin. Important ongoing integration-related risks related to our completed acquisition of Legg Mason include the risks that the anticipated benefits of the transaction, including the realization of revenue, tax benefits, financial benefits or returns and expense and other synergies, may not be fully realized, or may take longer to realize than expected, and that the integration may cost more than expected. In addition, the COVID-19 pandemic-related risks may result in unanticipated regulatory, planning and/or operational delays that may adversely impact the anticipated timeline and achievement of our ongoing integration goals. The ongoing integration of Legg Mason is a time-consuming and expensive process that, without adequate planning and effective and timely implementation, could significantly disrupt our business. Our failure to meet the challenges involved in successfully integrating the operations of Legg Mason or to otherwise realize any of the anticipated benefits of the acquisition could adversely impair our business and operations as noted above.

Our business operations are complex and a failure to perform operational tasks properly or comply with applicable regulatory requirements 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 personnel, as well as others involved in our business, such as third-party vendors, providers and other intermediaries, and subject to potential human errors. Our personnel 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.

Failure to establish adequate controls and risk management policies, or the circumvention of controls and policies, could have an adverse effect on our global operations, reputation and financial position.

Although we have adopted risk management, operational and financial controls and compliance policies, procedures and programs that are subject to regular review and update, we cannot ensure that these measures will enable us effectively to identify and manage internal and external risks including those related to fraudulent activity and dishonesty. We are subject to the risk that our personnel, contractors, vendors and other third parties may deliberately or recklessly circumvent or violate our controls to commit fraud against our business, products and/or client accounts, pay or solicit bribes, or otherwise act in ways inconsistent with our controls, policies, workplace culture and business principles. Continued attempts to circumvent our policies and controls or repeated incidents involving violation of controls and policies, fraud or conflicts of interests could negatively impact our business and reputation and result in adverse publicity, regulatory investigations and actions, legal proceedings and losses and adversely affect our operations, reputation, AUM and financial results.

We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries.

We sell our products and offer our strategies and 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. Growth of our international operations has involved and may continue to 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 also may 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, with respect to Brexit, although the U.K. formally left the EU in January 2020, and the transition period ended on December 31, 2020, dialogue between the U.K. and the EU concerning equivalency recognition for financial services is ongoing such that we are continuing to monitor 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 focus on international markets as a source of investments and sales of our products subjects us to increased exchange rate and market-specific political, economic or other risks that may adversely impact our revenues and income generated overseas.

While we maintain a significant portion of our operations in the U.S., we also provide services and earn revenues in Europe, Middle East and Africa, Asia-Pacific, Latin America and Canada. 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. Any ongoing and future business, economic, political or social unrest affecting these markets, in addition to any direct consequences such as unrest may have on our personnel and facilities located in the affected area, also may have a 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.

COMPETITION AND DISTRIBUTION RISKS

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, including our recent acquisition of Legg Mason, and related transactions pose the risk that any business we acquire may result in the loss of clients, customers or personnel or could underperform relative to expectations. We also may not realize the anticipated benefits of an acquisition, including with respect to revenue, tax benefits, financial benefits or returns, and expense and other synergies. We could also experience financial or other setbacks if transactions encounter unanticipated problems, including problems related to execution or integration. Entries into material 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 also may further increase our leverage or, if we issue equity securities to pay for acquisitions, dilute the holdings of our existing stockholders.

Failure to properly address the increased transformative pressures affecting the asset management industry could negatively impact our business.

The asset management industry is facing transformative pressures and trends from a variety of different sources including increased fee pressure; a continued shift away from actively managed core equities and fixed income strategies towards alternative, passive and smart beta strategies; increased demands from clients and distributors for client engagement and services; a trend towards institutions developing fewer relationships and partners and reducing the number of investment managers they work with; increased regulatory activity and scrutiny of many aspects of the asset management industry, including transparency/unbundling of fees, inducements, conflicts of interest, capital, liquidity, solvency, leverage, operational risk management, controls and compensation; addressing the key emerging markets in the world, such as China and India, which often have populations with different needs, preferences and horizons than the more developed U.S. and European markets; and advances in technology and increasing client interest in interacting digitally with their investment portfolios. As a result of the trends and pressures discussed above, the asset management industry is facing an increased level of disruption. If we are unable to adapt our strategy and business to address adequately these trends and pressures, we may be unable to meet client needs satisfactorily, our competitive position may weaken, and our business results and operations may be adversely affected.

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 ETFs, to the extent that there is a trend among existing or potential clients in favor of lower fee index and other ETFs, 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, also may 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, we can provide 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, Canada, 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, technology, 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 have outsourced certain administration services for our funds to third-party providers. 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 privacy or 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, including personal employee and/or client data.

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, including in connection with our recent Legg Mason acquisition. 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. On an ongoing basis, we need to upgrade and improve our technology, 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 risks, breaches and/or attacks, as well as attempts to co-opt our brand. Although we take protective measures, including measures to secure and protect information through system security technology and our internal security procedures, we can provide no assurance that any of these measures will prove effective. The technology systems we use remain vulnerable to denial of service attacks, unauthorized access, computer viruses, potential human errors and other events and circumstances that may 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 system and service disruption and other damage) or our personnel or vendors 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 could result in: (i) material financial loss or costs, (ii) delays in clients' ability to access account information or in our ability to process transactions, (iii) the unauthorized disclosure or modification of sensitive or confidential client and business information, (iv) loss of valuable information, (v) breach of client and vendor contracts, (vi) liability for stolen assets, information or identity, (vii) remediation costs to repair damage caused by the failure or breach, (viii) additional security and organizational costs to mitigate against future incidents, (ix) reputational harm, (x) loss of confidence in our business and products, (xi) liability for failure to review and disclose applicable incidents or provide relevant updated disclosure properly and timely, (xii) regulatory investigations or actions, and/or (xiii) legal claims, litigation, and liability costs, any one or more of which may be material. 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, public health crisis, 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. See “Pandemic-Related Risks” above for risks relating to COVID-19. 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 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, 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.

CASH MANAGEMENT RISKS

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 also may 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

For a more extensive discussion of certain laws, regulations (including certain pending regulatory reforms) and regulators to which we are subject, as well as certain defined terms referenced below, see "Item 1 – Business – Regulation" in Part I of our Form 10-K for fiscal year 2020.

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, intellectual property, 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.

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, in the U.S. and other jurisdictions.

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, and laws in other jurisdictions, 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. and other jurisdictions that may impact or relate to our business, and may cause us to incur additional obligations, include regulatory matters related to systemically important financial institutions, derivatives and other financial products, privacy and data protection, retail and other investor protections, and other asset management disclosure and compliance requirements. 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 compliance in 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 continue 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, such as the corporate tax rate increase proposed in President Biden's American Job's Plan, or tax rulings may at times materially impact our effective tax rate.

Further, pursuant to ongoing efforts to encourage global tax compliance, the OECD has adopted certain common reporting standards aimed at ensuring that persons with financial assets located outside of their tax residence country pay required taxes. Such standards may subject us to additional reporting, compliance and administrative costs, and burdens in jurisdictions where we operate as a qualifying financial institution.

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.

We operate in a highly regulated industry and routinely receive and respond to regulatory and governmental requests for documents or other information, subpoenas, examinations and investigations in connection with our business activities. Further, regulatory or governmental examinations or investigations that have been inactive could become active. In addition, we are named as a party in litigation in the ordinary course of business. Even if claims made against us are without merit, they can result in reputational harm and responding to such matters 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. Regulatory enforcement and civil litigation matters can result in the imposition of a range of sanctions or orders, including as applicable, monetary damages, injunctions, disgorgements, fines, penalties, cease and desist orders, censures, reprimands, and the revocation, cancellations, suspension or restriction of licenses, registration status or approvals held by us or our business. In addition, we may be obligated, and under our certificate of incorporation, bylaws and standard form of director indemnification agreement are obligated under certain conditions, or may choose, to indemnify directors, officers or personnel against liabilities and expenses they may incur in connection with such matters to the extent permitted under applicable law. Eventual financial exposures from and expenses incurred relating to any examinations, investigations, enforcement actions, litigation, and/or settlements could adversely impact our AUM, increase costs, and negatively impact our reputation, profitability, and revenue any of which could have a material negative impact on our financial results. For a discussion of certain legal proceedings and regulatory matters in which we are involved, see the “Legal Proceedings” section in Note 12 - Commitments and Contingencies in the notes to consolidated financial statements in Item 1 of Part I of this Form 10-Q.

Our contractual obligations may subject us to indemnification costs and liability to third parties.

In the ordinary course of business, we 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.

Failure to protect our intellectual property may negatively impact our business.

Although we take steps to safeguard and protect our intellectual property, including but not limited to our trademarks, patents, copyrights and trade secrets, there can be no assurance that we will be able effectively to protect our rights. If our intellectual property rights were violated, we could be subject to economic and reputational harm that could negatively impact our business and competitiveness in the marketplace. Conversely, while we take efforts to avoid infringement of the intellectual property of third parties, if we are deemed to infringe on a third party’s intellectual property rights it could expose us to litigation risks, license fees and reputational harm.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the six months ended March 31, 2021, there were no material changes from the market risk disclosures in our Form 10-K for the fiscal year ended September 30, 2020.

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 March 31, 2021. Based on their evaluation, the Company’s principal executive and principal financial officers concluded that the Company’s disclosure controls and procedures as of March 31, 2021 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 March 31, 2021, 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 12 – Commitments and Contingencies in the notes to 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, 2020 filed with the SEC includes a discussion of the risk factors identified by us, which are also described 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 fiscal year 2020.

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 March 31, 2021.

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
January 2021	—	\$ —	—	36,120,342
February 2021	704,808	27.02	704,808	35,415,534
March 2021	950,637	28.18	950,637	34,464,897
Total	1,655,445		1,655,445	

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	<u>Certificate of Incorporation of Registrant, as filed November 28, 1969, incorporated by reference to Exhibit (3)(i) to our Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 001-09318) (the “1994 Annual Report”)</u>
3.2	<u>Certificate of Amendment of Certificate of Incorporation of Registrant, as filed March 1, 1985, incorporated by reference to Exhibit 3(ii) to the 1994 Annual Report</u>
3.3	<u>Certificate of Amendment of Certificate of Incorporation of Registrant, as filed April 1, 1987, incorporated by reference to Exhibit 3(iii) to the 1994 Annual Report</u>
3.4	<u>Certificate of Amendment of Certificate of Incorporation of Registrant, as filed February 2, 1994, incorporated by reference to Exhibit 3(iv) to the 1994 Annual Report</u>
3.5	<u>Certificate of Amendment of Certificate of Incorporation of Registrant, as filed February 4, 2005, incorporated by reference to Exhibit (3)(i)(e) to our Quarterly Report on Form 10-Q for the period ended December 31, 2004 (File No. 001-09318)</u>
3.6	<u>Amended and Restated Bylaws of Registrant (as adopted and effective October 22, 2018), incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on October 24, 2018 (File No. 001-09318)</u>
10.1	<u>2002 Universal Stock Incentive Plan (as amended and restated effective February 9, 2021), incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on February 10, 2021 (File No. 001-09318)*</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
32.1	<u>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)</u>
32.2	<u>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)</u>
101	The following materials from Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, 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: May 4, 2021

By: /s/ Matthew Nicholls

Matthew Nicholls

Executive Vice President and Chief Financial Officer

Date: May 4, 2021

By: /s/ Gwen L. Shaneyfelt

Gwen L. Shaneyfelt

Chief Accounting Officer

CERTIFICATION

I, Jennifer M. 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: May 4, 2021

/s/ Jennifer M. Johnson

Jennifer M. Johnson

President 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: May 4, 2021

/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, Jennifer M. Johnson, President 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 March 31, 2021 (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: May 4, 2021

/s/ Jennifer M. Johnson

Jennifer M. Johnson
President 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 March 31, 2021 (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: May 4, 2021

/s/ Matthew Nicholls

Matthew Nicholls

Executive Vice President and Chief Financial Officer