

Franklin Resources, Inc.

First Quarter Results

January 30, 2023 | Executive earnings commentary



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Conference call details:

Access to the teleconference at 11:00 AM Eastern will be available via investors.franklinresources.com or by dialing (888) 396-8049 in North America or (416) 764-8646 in other locations using access code 12963587. A replay of the teleconference can also be accessed by calling (877) 674-7070 in North America or (416) 764-8692 in other locations using access code 963587 through February 6, 2023, or via investors.franklinresources.com. Analysts and investors are encouraged to review the Company's recent filings with the US Securities and Exchange Commission for additional information.

Forward-looking statements and non-GAAP financial information:

This commentary contains forward-looking statements that involve a number of known and unknown risks, uncertainties and other important factors. You should see the appendix for important information concerning such matters. This commentary also contains non-GAAP financial measures. For the reconciliations from US GAAP to non-GAAP measures, you should see the appendix to this commentary and the "Supplemental Non-GAAP Financial Measures" section of the earnings release.

First quarter highlights

Key metrics

(\$ in millions, except AUM in billions and per share data)

		% Change (except adj. EFR and margin)	
	Q1 2023	vs. Q4 2022	vs. Q1 2022
Ending AUM ¹	\$1,387.7	7.0%	(12.1%)
Average AUM ¹	1,353.5	(1.5%)	(12.9%)
Adj. operating revenue	1,439.1	(6.1%)	(16.4%)
Adj. operating income	395.1	(20.0%)	(42.4%)
Adj. net income	262.4	(33.5%)	(52.6%)
Adj. diluted EPS	0.51	(34.6%)	(52.8%)
Adj. effective fee rate ² (bps)	39.0	38.8	38.7
Adj. operating margin	27.5%	32.2%	39.8%

Summary highlights

- Adjusted operating income was \$395.1 million and included annual deferred compensation acceleration for retirement eligible-employees of \$37 million. Adjusted operating margin was 27.5% and the annual deferred compensation decreased this quarter's adjusted operating margin by 2.6%.
- Adjusted net income and adjusted diluted earnings per share was \$262.4 million and \$0.51, respectively, and included annual deferred compensation acceleration of \$37 million, primarily unrealized foreign exchange losses of \$26.1 million, and lower adjusted performance fees, partially offset by the addition of Alcentra.
- While a challenging market backdrop, we continued to benefit from the diversity of our business. We generated total net inflows of \$6.6 billion this quarter, inclusive of \$17.5 billion of net inflows from cash management. Long-term net outflows were \$10.9 billion and included reinvested distributions of \$12.1 billion and a \$2 billion fixed income institutional redemption that had minimal impact on revenue.
- This quarter, we saw net inflows into the following key growth areas:
 - Our largest **alternative** managers, Benefit Street Partners, Clarion Partners, and Lexington Partners, generated \$2.4 billion of net inflows;
 - **Multi-asset** strategies had \$2.4 billion of net inflows;
 - **ETFs** had \$1.0 billion of net inflows and reached \$13.3 billion in AUM; and
 - **Canvas@**, our Custom Indexing solution platform, grew AUM by 25% and generated net inflows of \$0.5 billion.
- We were also pleased to see the following positive indicators in our business, including an increase in our institutional won but unfunded pipeline and improving investment performance across our strategies:
 - Our institutional pipeline of won but unfunded mandates increased by \$8.8 billion to \$23.8 billion and included a \$7.5 billion fixed income institutional mandate.
 - Investment performance improved in the 1-, 3- and 5-year time periods. This quarter, 52%, 54%, and 59% of our strategy composite AUM outperformed their respective benchmarks on a 1-, 3- and 5-year basis. For mutual funds, 57%, 56%, and 57% of our mutual funds AUM outperformed their peers on a 1-, 3-, and 5-year basis. In addition, 51% of mutual fund AUM was in funds rated four- or five-star by Morningstar³.
- On November 1, we closed our acquisition of Alcentra, a leading European alternative credit manager, increasing our alternative credit AUM to \$78.5 billion. Alternative assets now account for \$257 billion, or 19% of our AUM, and generate a higher percentage of adjusted revenues.
- Our balance sheet position remains strong with total cash and investments of \$6.6 billion⁴ and reflected the purchase of Alcentra and payment of fiscal year-end cash bonuses.

1. Excludes approximately \$12 billion of AUM in our China joint venture.

2. The adjusted effective fee rate is annualized adjusted investment management fees, excluding performance fees, divided by average AUM for the period.

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4. Includes our direct investments in CIPs of \$1.1 billion and approximately \$300 million of employee-owned and other third-party investments made through partnerships.

First quarter highlights

Financial results

- This quarter's financial results include two months of Alcentra, following the closing on November 1.
- Average AUM decreased by 1.5% to \$1.35 trillion. Ending AUM was \$1.39 trillion, an increase of 7% from the prior quarter primarily due to market appreciation and the addition of Alcentra.
- Adjusted operating revenues of \$1.44 billion decreased 6% and 16% from the prior quarter and from the prior year quarter, respectively, driven by lower adjusted performance fees and lower average AUM. Adjusted performance fees were \$65.1 million, compared to \$133.3 million in the prior quarter and \$139.5 million in the prior year quarter. This quarter's adjusted effective fee rate¹ was 39.0 bps, compared to 38.8 bps in the prior quarter.
- Adjusted operating expenses were \$1.04 billion, in line with the prior quarter and prior year quarter, inclusive of higher compensation and benefits expense primarily due to annual deferred compensation acceleration for retirement eligible-employees of \$37 million and deferred compensation valuation adjustments, partially offset by a decrease in general and administrative expenses and information systems and technology.
- Adjusted operating income was \$395.1 million, a decline of 20% from the prior quarter and 42% from the prior year quarter. Excluding the annual deferred compensation acceleration for retirement eligible-employees, operating income would have declined by 12% from the prior quarter and 39% from the prior year quarter.
- Adjusted operating margin was 27.5% compared to 32.2% in the prior quarter. The annual deferred compensation acceleration for retirement eligible-employees decreased this quarter's adjusted operating margin by 2.6%.
- Adjusted net income and adjusted diluted earnings per share declined by 33% and 35% from the prior quarter to \$262.4 million and \$0.51, respectively.
 - The decline from the prior quarter includes 1) primarily unrealized foreign exchange losses of \$26.1 million compared to gains of \$16.6 million in the prior quarter; 2) annual deferred compensation acceleration of \$37 million; 3) discrete tax benefits in the prior quarter; and 4) lower adjusted performance fees, partially offset by the addition of Alcentra.
- Adjusted net income and adjusted diluted EPS both declined by 53% from the prior year quarter, and included the aforementioned factors, partially offset by the additions of Lexington and Alcentra.

Investment performance

- This quarter 52%, 54%, 59% and 67% of our strategy composite AUM² outperformed their respective benchmarks on a 1-, 3-, 5- and 10-year basis. Our 1-, 3- and 5-year investment performance improved compared to the prior quarter. The 1- and 3-year periods improved primarily due to certain equity strategies, and the 5-year period due to a US taxable fixed income strategy.

AUM and flows

- Average AUM decreased by 1.5% to \$1.35 trillion from the prior quarter and 13% from the prior year quarter. Ending AUM was \$1.39 trillion, an increase of 7% from the prior quarter primarily due to market appreciation and the addition of Alcentra, and a decrease of 12% from the prior year quarter.
- Long-term inflows of \$70.5 billion increased by 18% from the prior quarter of \$59.9 billion and decreased by 34% from the prior year quarter of \$107.0 billion. Reinvested distributions were \$12.1 billion this quarter, compared to \$2.5 billion in the prior quarter and \$23.5 billion in the prior year quarter. Excluding reinvested distributions, long-term inflows increased by 2% from the prior quarter.
- Long-term outflows of \$81.4 billion increased by 1% from the prior quarter and improved by 2% from the prior year quarter.
- Long-term net outflows were \$10.9 billion and included a \$2.0 billion fixed income institutional redemption that had minimal impact on revenue, compared to net outflows of \$20.4 billion in the prior quarter and net inflows of \$24.1 billion from the prior year quarter. Excluding reinvested distributions, long-term net outflows were \$23.0 billion compared to net outflows of \$22.9 billion in the prior quarter and net inflows of \$0.6 billion in the prior year quarter.

1. The adjusted effective fee rate is annualized adjusted investment management fees, excluding performance fees, divided by average AUM for the period.
2. Composite AUM measured for the 1-, 3-, 5-, and 10-year periods represent 56%, 56%, 55%, and 47%, respectively of the firm's total AUM as of December 31, 2022.

First quarter highlights

AUM and Flows, Cont'd.

- Our long-term net flows continued to benefit from a diversified mix of assets in the quarter:
 - **Alternative:** Benefit Street Partners, Clarion Partners, and Lexington Partners each had net inflows, with a combined total of \$2.4 billion, which were offset by outflows in liquid alternative strategies for total net outflows of \$0.3 billion.
 - **Multi-asset** net inflows were \$2.4 billion, compared to \$0.5 billion in the prior quarter, driven by the Franklin Income Fund, Fiduciary Trust International, and Canvas®, our Custom Indexing solution platform.
 - **Fixed income** net outflows of \$13.3 billion were primarily due to certain US taxable and global opportunistic strategies. Client interest continued and we benefitted from having a broad range of fixed income strategies with non-correlated investment philosophies, including net inflows into certain Core Bond, US Income, and Tax-Efficient strategies.
 - **Equity** net inflows were \$0.3 billion and included \$9.0 billion in reinvested distributions. This quarter, the risk-off environment continued to impact investor sentiment on certain growth strategies but were offset by positive net flows into Large Cap Value, Large Cap Core, All Cap Value, Smart Beta ETFs, Emerging Markets, and Global equity strategies.
- **Cash Management**, which is excluded from long-term AUM and flows, generated net inflows of \$17.5 billion, the highest in over a decade, driven by institutional demand for low-risk assets at a higher risk-free rate and was diversified across clients.
- We further diversified our business across products, vehicles, and asset classes to create broader sources of revenue.
 - 12 of our top 20 funds¹ by AUM generated net inflows. In addition, 11 of our top 20 net inflow generating funds were outside our largest 20 funds¹ by AUM and represented a broad range of investment strategies.

Other highlights

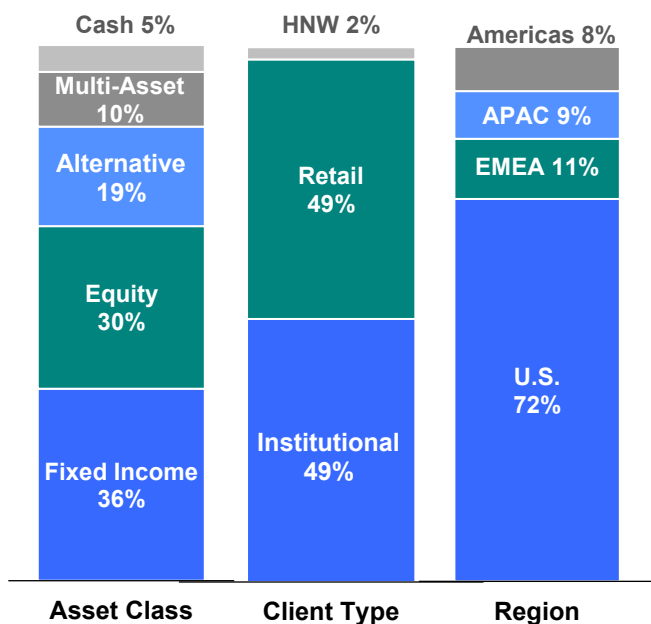
- **Alternatives:** We made progress to diversify and increase our alternative asset strategies, which continue to drive strong investor demand.
 - We globalized and nearly doubled our alternative credit AUM to \$78.5 billion with the closing of Alcentra, a leading European alternative credit manager.
 - In secondary private equity, Lexington Partners has raised \$12.8 billion for its latest fund as of November 30 and is continuing fundraising efforts.
- **Wealth Management Alternatives:** As investors seek uncorrelated returns amid market volatility, we continue to see democratization of alternatives as an attractive opportunity and continue to make progress. For example, in October, Benefit Street Partners announced the launch of Franklin BSP Private Credit Fund, investing in US middle market private credit seeking to generate strong current income and superior risk-adjusted returns across market cycles.
- **SMA** AUM was \$105 billion at quarter-end. We made progress in High Yield Muni and Muni Ladder portfolios.
 - Canvas®, our Custom Indexing solution platform, has achieved net inflows each quarter since the platform launched in September 2019, and AUM increased over 25% in the quarter.
- **ETFs** had net inflows of \$1.0 billion and totaled \$13.3 billion in AUM. Smart Beta ETF AUM increased 29% over the prior quarter driven by net inflows of \$0.5 billion. We also launched the ClearBridge Sustainable Infrastructure ETF.
- **Private Wealth Management** AUM ended the quarter at \$31.5 billion. Fiduciary Trust International experienced its 9th quarter of consecutive long-term net inflows.
- We celebrated the **75th anniversary** of our founding by ringing the opening bell at the New York Stock Exchange in November and launching a special “Impact Week” with several “75-themed” philanthropic initiatives, including charitable donations selected by employees and 75 ways for employees to give back during the week.

1. Excludes closed funds.

AUM and investment performance

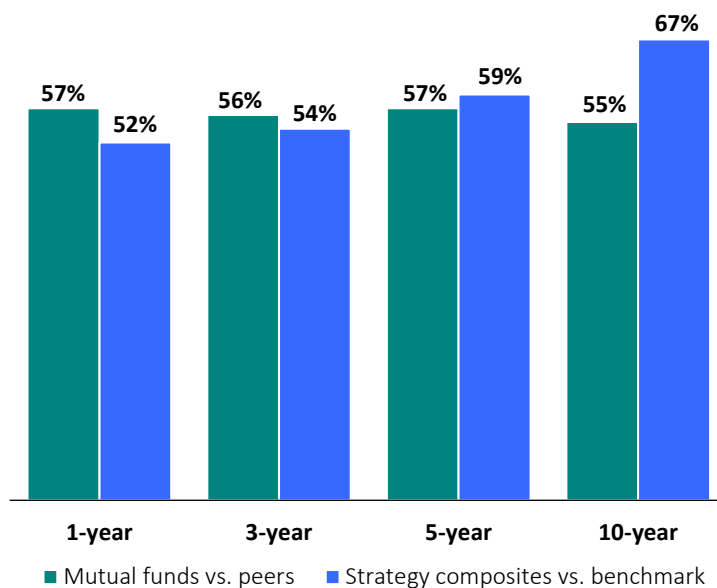
Diversified by asset class, client type and region

AUM of \$1.39 trillion as December 31, 2022



Percentage of AUM above peer median and benchmark¹

As of December 31, 2022



- AUM of approximately \$1.39 trillion are diversified across asset classes, client types, and regions.
- This quarter 52%, 54%, 59%, and 67% of our strategy composite AUM outperformed their respective benchmarks on a 1-, 3-, 5-, and 10-year basis. Our 1-, 3- and 5- year investment performance improved compared to the prior quarter. The 1- and 3-year periods improved primarily due to certain equity strategies, and the 5-year due to a US taxable fixed income strategy.
- Investment performance resulted in 57%, 56%, 57%, and 55% of our mutual funds AUM outperforming their peers on a 1-, 3-, 5-, and 10-year basis. Mutual fund performance significantly improved from the prior quarter in the 1-, 3-, and 5-year periods primarily due to an improvement in equity performance. An improvement in tax-free fixed income performance supported the 1- and 5-year periods. This quarter, we had 51% of mutual fund AUM in funds rated four- or five-star by Morningstar², compared to 26% in the prior quarter.

1. Benchmark comparisons are based on each strategy's composite returns (composites may include retail SMA and mutual fund assets managed as part of the same strategy) as compared to a market index that has been selected to be generally consistent with the investment objectives of the account. Multi-asset strategies that lack benchmarks consistent with their investment objectives are excluded. Composite AUM measured for the 1-, 3-, 5-, and 10-year periods represent 56%, 56%, 55%, and 47%, respectively of the firm's total AUM as of December 31, 2022. Mutual fund performance is sourced from Morningstar and measures the percentage of ranked fund AUM in the top two quartiles of their peer groups. Mutual Fund AUM measured for the 1-, 3-, 5- and 10-year periods represents 35%, 35%, 35% and 33%, respectively of the firm's total AUM as of December 31, 2022.

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AUM and flows

(In US\$ billions) ¹	Dec 31, 2022	Sept 30, 2022	% Change	Dec 31, 2021	% Change
Beginning AUM	\$1,297.4	\$1,379.8	(6%)	\$1,530.1	(15%)
Long-term inflows	70.5	59.9	18%	107.0	(34%)
Long-term outflows	(81.4)	(80.3)	(1%)	(82.9)	2%
Long-term net flows	(10.9)	(20.4)	47%	24.1	NM
Cash management net flows	17.5	0.1	NM	5.8	NM
Total net flows	6.6	(20.3)	NM	29.9	(78%)
Acquisitions	34.9	-	NM	7.7	NM
Net market change, dist. & other	48.8	(62.1)	NM	10.4	NM
Ending AUM	\$1,387.7	\$1,297.4	7%	\$1,578.1	(12%)
Average AUM	\$1,353.5	\$1,373.6	(1%)	\$1,554.2	(13%)

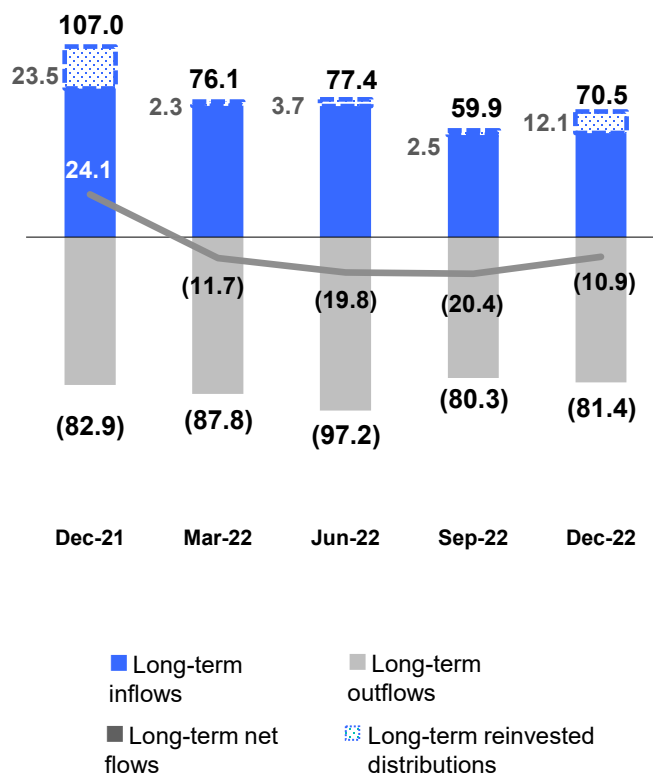
1. Excludes approximately \$12 billion of AUM in our China joint venture.

Average AUM decreased by 1.5% to \$1.35 trillion. Ending AUM was \$1.39 trillion, an increase of 7% from the prior quarter primarily due to market appreciation and the addition of Alcentra.

- Long-term inflows of \$70.5 billion increased by 18% from the prior quarter of \$59.9 billion while long-term outflows remained relatively flat quarter-over-quarter. Excluding reinvested distributions of \$12.1 billion, long-term inflows increased by 2% from the prior quarter.
- Long-term net outflows were \$10.9 billion, inclusive of a \$2.0 billion fixed income institutional redemption that had minimal impact on revenue. Our long-term net flows continued to benefit from a diversified mix of assets in the quarter:
 - **Alternative:** Benefit Street Partners, Clarion Partners, and Lexington Partners each had net inflows, with a combined total of \$2.4 billion, which were offset by outflows in liquid alternative strategies for total net outflows of \$0.3 billion.
 - **Multi-asset** net inflows were \$2.4 billion, compared to \$0.5 billion in the prior quarter, driven by the Franklin Income Fund, Fiduciary Trust International, and Canvas®.
 - **Fixed income** net outflows of \$13.3 billion were primarily due to certain US taxable and global opportunistic strategies. Client interest continued and we benefitted from having a broad range of fixed income strategies with non-correlated investment philosophies, including net inflows into certain Core Bond, US Income, and Tax-Efficient strategies.
 - **Equity** net inflows were \$0.3 billion and included \$9.0 billion in reinvested distributions. This quarter, the risk-off environment continued to impact investor sentiment on certain growth strategies but were offset by positive net flows into Large Cap Value, Large Cap Core, All Cap Value, Smart Beta ETFs, Emerging Markets, and Global equity strategies.
- **Cash Management**, which is excluded from long-term AUM and flows, generated net inflows of \$17.5 billion, the highest in over a decade, driven by institutional demand for low-risk assets at a higher risk-free rate and was diversified across clients.

Long-term flows¹

(In US\$ billions, for the three months ended)

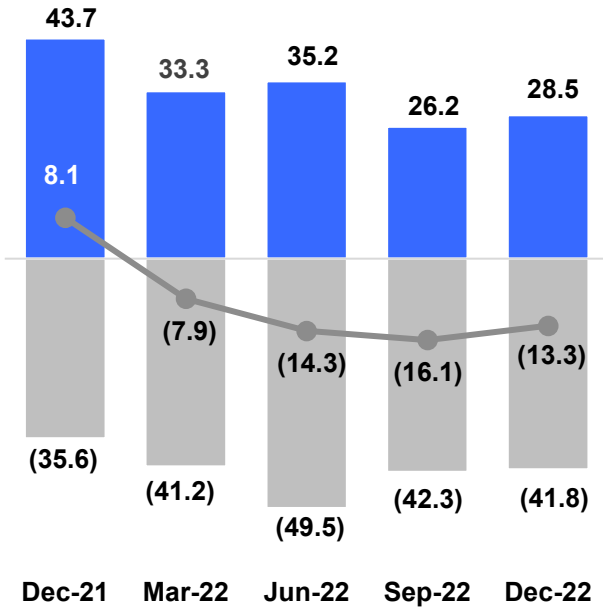


1. Excludes money market funds.

- Our institutional pipeline of won but unfunded mandates increased by \$8.8 billion to \$23.8 billion, driven by wins in fixed income and broader multi-asset solutions strategies.

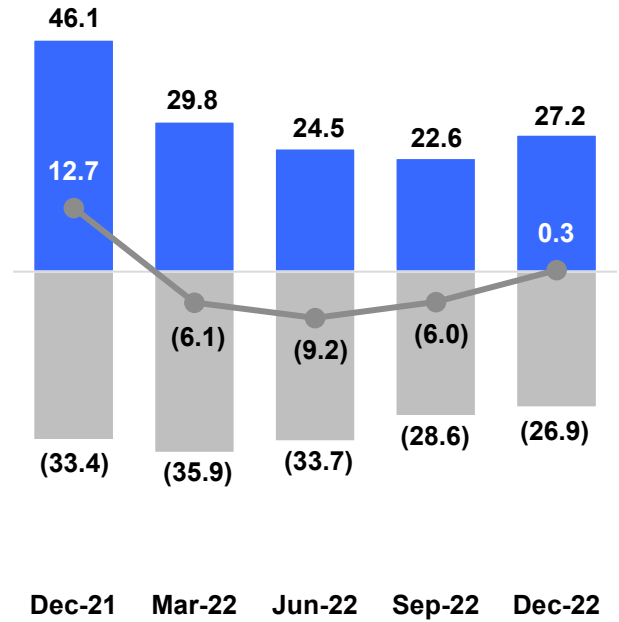
Fixed Income: \$495 billion

(in US\$ billions, for the three months ended)



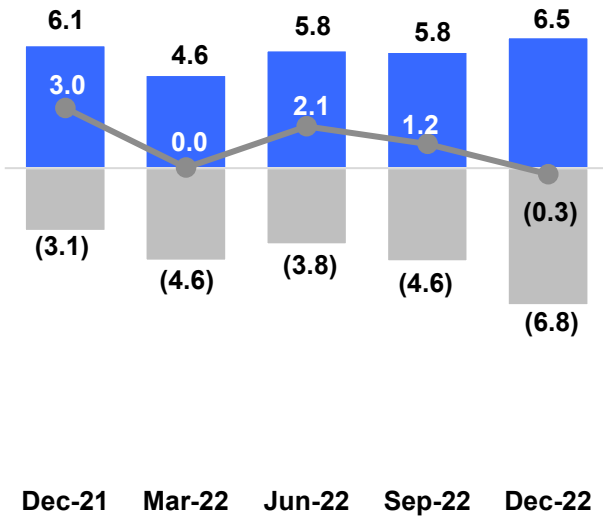
Equity: \$419 billion

(in US\$ billions, for the three months ended)



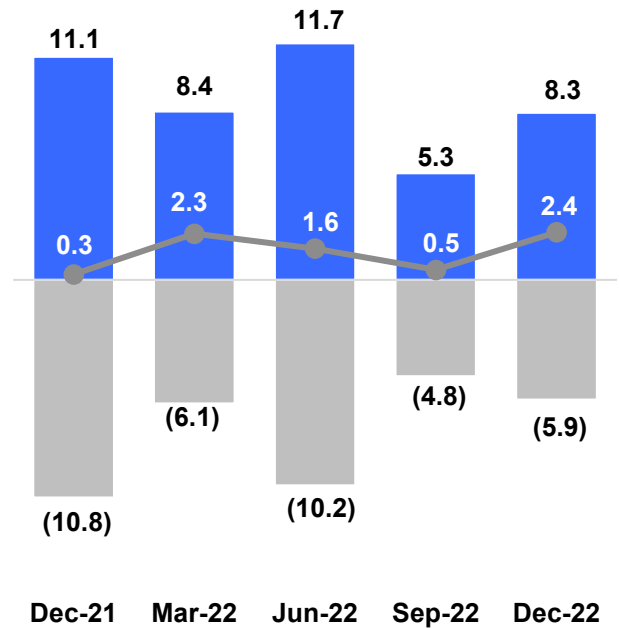
Alternative: \$257 billion

(in US\$ billions, for the three months ended)



Multi-Asset: \$141 billion

(in US\$ billions, for the three months ended)



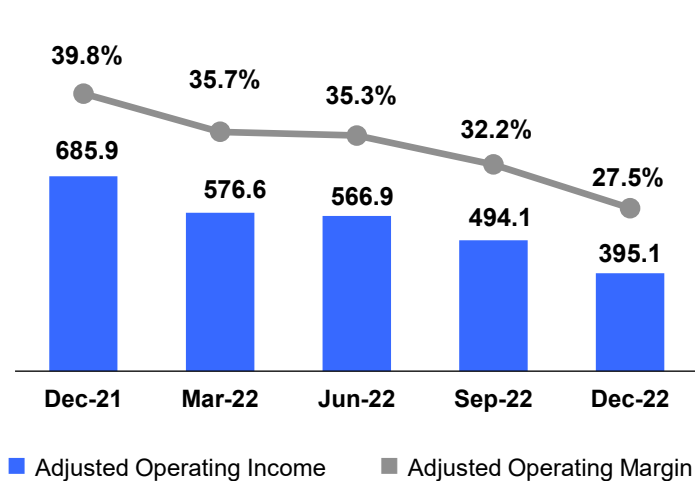
Financial results¹

(GAAP and non-GAAP in US\$ millions except per share data, for the three months ended)

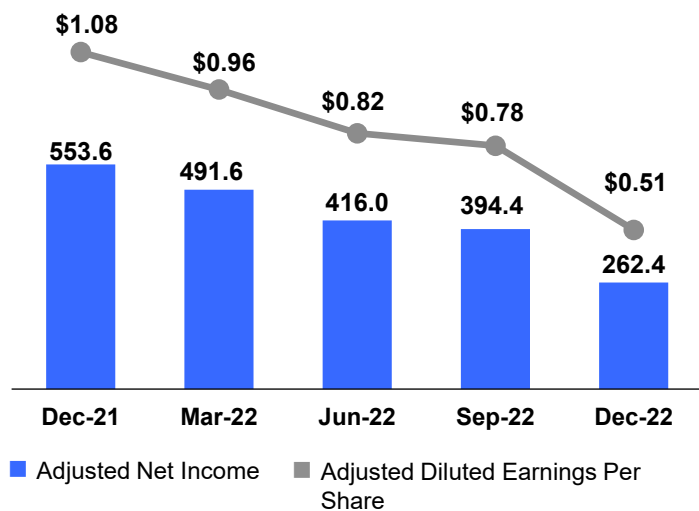
US GAAP	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Operating Income	557.7	463.0	404.7	348.5	194.0
Operating Margin	25.1%	22.2%	19.9%	18.0%	9.9%

US GAAP	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Net Income	453.2	349.6	256.4	232.7	165.6
Diluted EPS	\$0.88	\$0.68	\$0.50	\$0.46	\$0.32

Adjusted operating income and adjusted operating margin



Adjusted net income and adjusted diluted earnings per share



- This quarter's financial results reflect two months of Alcentra.
- Adjusted operating income was \$395 million, a decline of 20% from the prior quarter and 42% from the prior year quarter. Excluding the annual deferred compensation acceleration for retirement eligible-employees, operating income would have declined by 12% from the prior quarter and 39% from the prior year quarter.
- Adjusted operating margin was 27.5% compared to 32.2% in the prior quarter and 39.8% in the prior year quarter. The annual deferred compensation acceleration for retirement eligible-employees decreased this quarter's adjusted operating margin by 2.6%.
- Adjusted net income and adjusted diluted earnings per share declined by 33% and 35% from the prior quarter to \$262.4 million and \$0.51, respectively.
 - The decline from the prior quarter includes 1) primarily unrealized foreign exchange losses of \$26.1 million compared to gains of \$16.6 million in the prior quarter; 2) annual deferred compensation acceleration of \$37 million; 3) discrete tax benefits in the prior quarter; and 4) lower adjusted performance fees, partially offset by the addition of Alcentra.
- Adjusted net income and adjusted EPS both declined by 53% from the prior year quarter, and included the aforementioned factors, partially offset by the additions of Lexington and Alcentra.

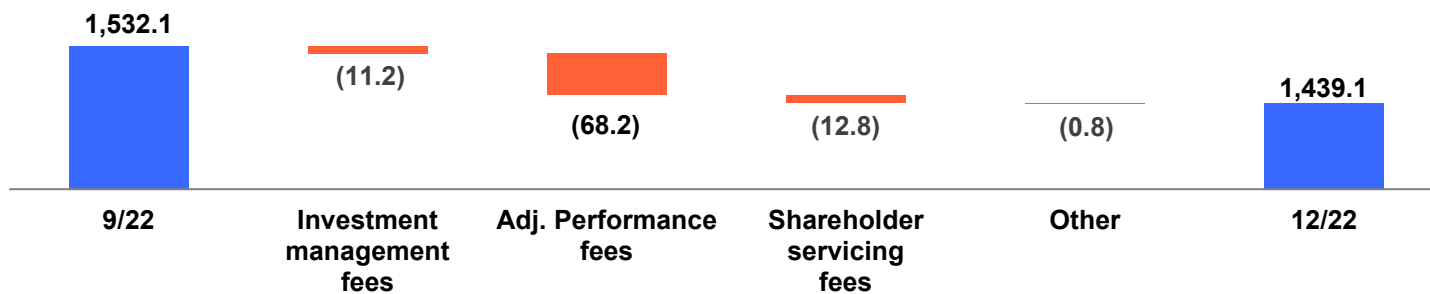
1. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release. For prior periods please refer to historical earnings commentaries available at franklinresources.com.

Revenues¹

(GAAP and non-GAAP in US\$ millions except per share data, for the three months)

	Dec-22 US GAAP	Adjustments	Dec-22 Adjusted	Sep-22 Adjusted	Dec-22 Adjusted vs. Sep-22 Adjusted	Dec-21 Adjusted	Dec-22 Adjusted vs. Dec-21 Adjusted
Investment management fees, ex. performance fees	1,422.8	(92.2)	1,330.6	1,341.8	(1%)	1,517.0	(12%)
Performance fees	209.0	(143.9)	65.1 ²	133.3	(51%)	139.5	(53%)
Sales and distribution fees	291.9	(291.9)	-	-	NM	-	NM
Shareholder servicing fees	33.4	-	33.4	46.2	(28%)	47.7	(30%)
Other	10.0	-	10.0	10.8	(7%)	17.6	(43%)
Total Operating Revenues	1,967.1	(528.0)	1,439.1	1,532.1	(6%)	1,721.8	(16%)
<i>Effective fee rate</i>			<i>39.0 bps</i>	<i>38.8 bps</i>		<i>38.7 bps</i>	

Adjusted Operating Revenues – Quarters Ended September 30, 2022 and December 31, 2022



- Adjusted operating revenues of \$1.44 billion decreased 6% and 16% from the prior quarter and from the prior year quarter, respectively, driven by lower adjusted performance fees and lower average AUM.
- Adjusted investment management fees of \$1.3 billion, excluding performance fees, decreased 1% from the prior quarter and 12% from the prior year quarter primarily due to lower average AUM.
- Adjusted performance fees were \$65.1 million compared to \$133.3 million in the prior quarter and \$139.5 million in the prior year quarter. GAAP performance fees included \$144.5 million earned by Lexington (related to year-end tax distributions), which were fully passed through as compensation under the terms of the acquisition.
- Shareholder servicing fees declined by 28% from the prior quarter primarily due to a reduction in fees charged to our proprietary mutual fund families following the outsourcing of certain Transfer Agency services.
- The adjusted effective fee rate³ was 39.0 bps, excluding performance fees, compared to 38.8 bps in the prior quarter.

1. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release. For prior periods please refer to historical earnings commentaries available at franklinresources.com.

2. The difference between our GAAP performance fees and adjusted performance fees is \$144.5 million of acquisition-related pass-through performance fees and -\$0.6 million related to a consolidated investment product.

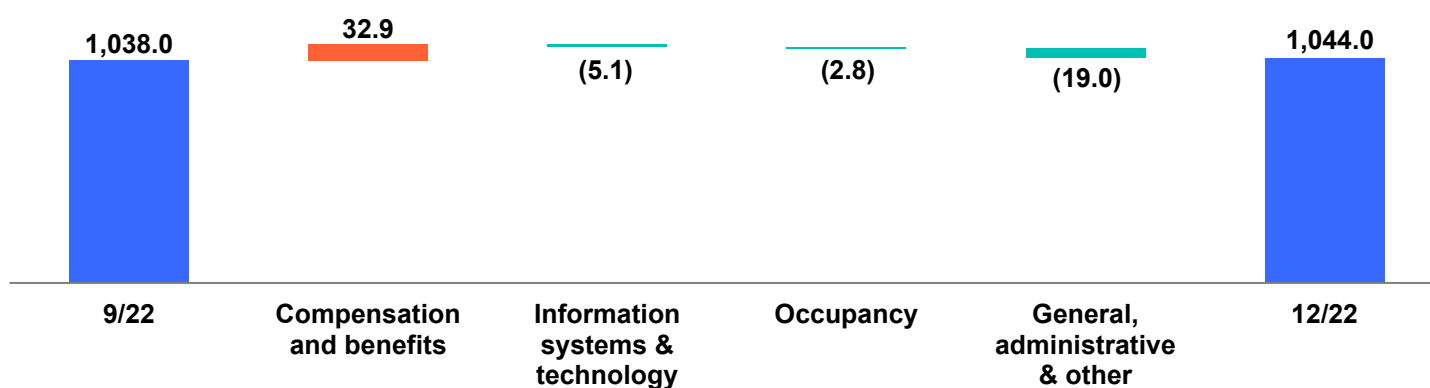
3. The adjusted effective fee rate is annualized adjusted investment management fees, excluding performance fees, divided by average AUM for the period.

Expenses¹

(GAAP and non-GAAP in US\$ millions except per share data, for the three months)

	Dec-22		Dec-22 Adjusted	Sep-22 Adjusted	Dec-22 Adjusted vs. Sep-22 Adjusted	Dec-21 Adjusted	Dec-22 Adjusted vs. Dec-21 Adjusted
	US GAAP	Adjustments					
Compensation & benefits	979.2	(234.7)	744.5	711.6	5%	755.3	(1%)
Sales, distribution & marketing	388.6	(388.6)	-	-	NM	-	NM
Information systems & technology	121.4	(5.4)	116.0	121.1	(4%)	117.5	(1%)
Occupancy	54.5	-	54.5	57.3	(5%)	52.9	3%
Amortization of intangible assets	83.2	(83.2)	-	-	NM	-	NM
General, administrative & other	146.2	(17.2)	129.0	148	(13%)	110.2	17%
Total Operating Expenses	1,773.1	(729.1)	1,044.0	1,038.0	1%	1,035.9	1%

Adjusted Operating Expenses – Quarters Ended September 30, 2022 and December 31, 2022



- Adjusted operating expenses were \$1.04 billion, in line with the prior quarter and the prior year quarter.
- Adjusted compensation and benefits expenses increased 5% from prior quarter and decreased by 1% from the prior year quarter. This quarter included annual deferred compensation acceleration for retirement eligible-employees of \$37 million, deferred compensation valuation adjustments, and the addition of two months of Alcentra, partially offset by lower incentive compensation accruals.
- Adjusted compensation and benefits was approximately 51.7% of adjusted revenues this quarter compared to 46.4% in the prior quarter and 43.9% in the prior year quarter. Excluding the deferred compensation acceleration, adjusted compensation and benefits were approximately 49.2% of adjusted revenues this quarter.
- Non-compensation adjusted expenses were \$299.5 million, an 8% decrease from the prior quarter (which included \$8 million of episodic general and administrative costs), and a 7% increase from the prior year quarter.

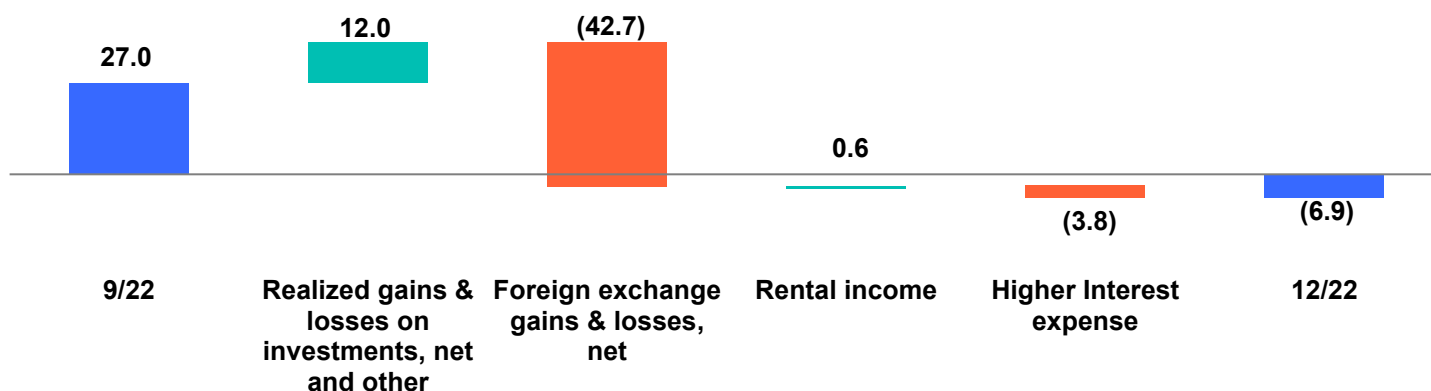
1. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release. For prior periods please refer to historical earnings commentaries available at franklinresources.com.

Other Income (Expense), Net¹

(GAAP and non-GAAP in US\$ millions except per share data, for the three months)

	Dec-22		Dec-22	Sep-22	Dec-22	Dec-22	Dec-22
	US GAAP	Adjustments	Adjusted	Adjusted	Adjusted vs. Sep-22	Adjusted	Adjusted vs. Dec-21
Investment and other income, net	91.1	(66.9)	24.2	54.3	(55%)	83.9	(71%)
Interest expense	(30.9)	(0.2)	(31.1)	(27.3)	(14%)	(25.6)	(21%)
Investment and other income (losses) of CIPs	(13.6)	13.6	-	-	NM	-	NM
Expenses of CIPs	(11.5)	11.5	-	-	NM	-	NM
Other Income (Expense), Net	35.1	(42.0)	(6.9)	27.0	(126%)	58.3	(112%)

Adjusted Other Income – Quarters Ended September 30, 2022 and December 31, 2022



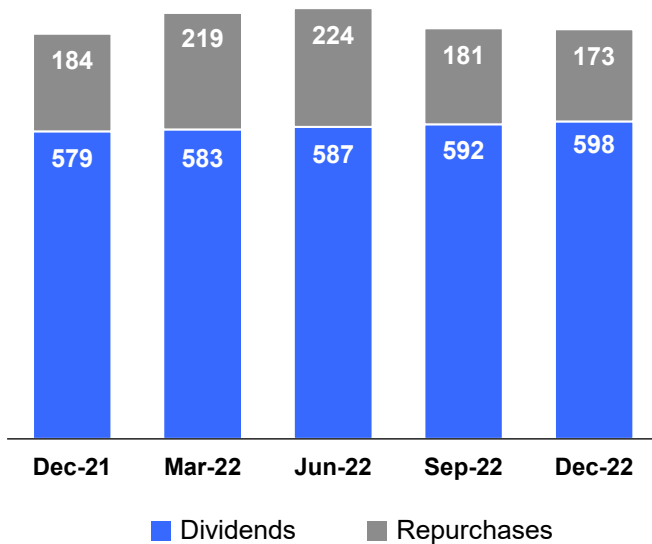
- Adjusted other expense was \$6.9 million compared to adjusted other income of \$27.0 million in the prior quarter and \$58.3 million in the prior year quarter. This quarter's decline was due to primarily unrealized foreign exchange losses of \$26.1 million due to the weakening of the US dollar on cash and cash equivalents denominated in US dollars held by our European subsidiaries compared to gains of \$16.6 million in the prior quarter. This quarter also reflects higher dividend and interest income.
- Interest due to debt holders was \$28.4 million, compared to \$27.1 million in the prior quarter and \$26.9 million in the prior year quarter. Rental income was \$10.6 million, compared to \$10.0 million in the prior quarter and \$9.7 million the prior year quarter.
- This quarter's GAAP tax rate was 26.3% compared to 19.1% in the prior quarter, primarily due to the prior quarter's discrete tax benefits, and 21.7% in the prior year quarter. Assuming our current mix of earnings and without considering proposed changes to corporate tax rates, we expect our annual tax rate to be between 25-27%.

1. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release. For prior periods please refer to historical earnings commentaries available at franklinresources.com.

Capital management

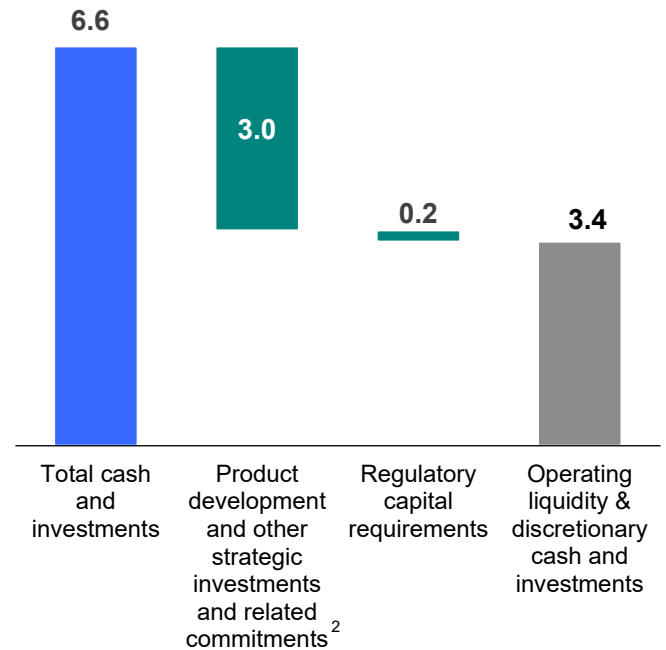
Dividends and share repurchases

(In US\$ millions, for the trailing twelve months ended)



Allocation of cash and investments¹

(In US\$ billions, as of December 31, 2022)



- In December, we announced a quarterly cash dividend of \$0.30 per share, representing a 3.4% increase over the dividends paid for the prior quarter. During the quarter, we returned \$169 million to shareholders including \$154 million in dividends and \$14 million in share repurchases, consistent with our plan to repurchase shares sufficient to offset employee-related equity issuances.
- Total cash and investments were \$6.6 billion as of December 31, 2022 compared to \$6.8 billion at September 30, 2022, and reflected the purchase of Alcentra and the payment of fiscal year-end cash bonuses.

1. Includes our direct investments in CIPS of \$1.1 billion and approximately \$300 million of employee-owned and other third-party investments made through partnerships.
 2. Includes undrawn capital commitments of \$288 million.

Appendix

Reconciliation of US GAAP results to Non-GAAP results: Three months ended December 31, 2022

(in US\$ millions except per share data)	US GAAP Basis	Consolidated Investment Products	Sales, distribution and marketing	Acquisition- related	Special Termination Plan	Unrealized investment (gains) losses	Deferred Comp Plan and other	Non-GAAP Basis
Revenues								
Investment management fees	1,631.8	5.1	(96.7)	(144.5)	-	-	-	1,395.7
Sales and distribution fees	291.9	-	(291.9)	-	-	-	-	-
Shareholder servicing fees	33.4	-	-	-	-	-	-	33.4
Other	10.0	-	-	-	-	-	-	10.0
Total Operating Revenues	1,967.1	5.1	(388.6)	(144.5)	-	-	-	1,439.1
Expenses								
Compensation and benefits	979.2	-	-	(208.1)	(10.9)	-	(15.7)	744.5
Sales, distribution and marketing	388.6	-	(388.6)	-	-	-	-	-
Information systems and technology	121.4	-	-	(5.4)	-	-	-	116.0
Occupancy	54.5	-	-	-	-	-	-	54.5
Amortization of intangible assets	83.2	-	-	(83.2)	-	-	-	-
General, administrative and other	146.2	-	-	(17.2)	-	-	-	129.0
Total Operating Expenses	1,773.1	-	(388.6)	(313.9)	(10.9)	-	(15.7)	1,044.0
Operating Income	194.0	5.1	-	169.4	10.9	-	15.7	395.1
Other Income (Expense)								
Investment and other income (losses) net	91.1	(22.3)	-	-	-	(31.4)	(13.2)	24.2
Interest expense	(30.9)	-	-	(0.2)	-	-	-	(31.1)
Investment and other income (losses) of CIPs, net	(13.6)	13.6	-	-	-	-	-	-
Expenses of CIPs	(11.5)	11.5	-	-	-	-	-	-
Total Other Income (Expense)	35.1	2.8	-	(0.2)	-	(31.4)	(13.2)	(6.9)
Income before taxes	229.1	7.9	-	169.2	10.9	(31.4)	2.5	388.2
Taxes on income	60.3	-	-	41.1	2.6	(2.4)	0.5	102.1
Net income	168.8	7.9	-	128.1	8.3	(29.0)	2.0	286.1
Less: Net income (loss) attributable to noncontrolling interests	3.2	11.5	-	-	-	(0.7)	9.7	23.7
Net Income Attributable to Franklin Resources, Inc.	165.6	(3.6)	-	128.1	8.3	(28.3)	(7.7)	262.4
Less: allocation of earnings to participating nonvested stock and stock unit awards	7.7							11.8
Net Income Available to Franklin Resources, Inc. Common Stockholders	157.9							250.6
Diluted EPS	\$0.32							Adjusted Diluted EPS \$0.51
Avg. Diluted Shares Outstanding	490.2							Avg. Diluted Shares Outstanding 490.2
Operating Margin	9.9%							Adjusted Operating Margin 27.5%

Appendix

Reconciliation of US GAAP results to Non-GAAP results: Three months ended September 30, 2022

(in US\$ millions except per share data)	US GAAP Basis	Consolidated Investment Products	Sales, distribution and marketing	Acquisition- related	Special Termination Plan	Unrealized investment (gains) losses	Deferred Comp Plan and other	Non-GAAP Basis
Revenues								
Investment management fees	1,571.0	9.7	(101.8)	(3.8)	-	-	-	1,475.1
Sales and distribution fees	311.0	-	(311.0)	-	-	-	-	-
Shareholder servicing fees	46.2	-	-	-	-	-	-	46.2
Other	10.8	-	-	-	-	-	-	10.8
Total Operating Revenues	1,939.0	9.7	(412.8)	(3.8)	-	-	-	1,532.1
Expenses								
Compensation and benefits	768.0	-	-	(52.6)	(0.4)	-	(3.4)	711.6
Sales, distribution and marketing	412.8	-	(412.8)	-	-	-	-	-
Information systems and technology	123.6	-	-	(2.5)	-	-	-	121.1
Occupancy	55.8	-	-	1.5	-	-	-	57.3
Amortization of intangible assets	81.5	-	-	(81.5)	-	-	-	-
General, administrative and other	148.8	-	-	(0.8)	-	-	-	148.0
Total Operating Expenses	1,590.5	-	(412.8)	(135.9)	(0.4)	-	(3.4)	1,038.0
Operating Income	348.5	9.7	-	132.1	0.4	-	3.4	494.1
Other Income (Expense)								
Investment and other income (losses) net	(6.6)	(36.0)	-	-	-	90.2	6.7	54.3
Interest expense	(27.1)	-	-	(0.2)	-	-	-	(27.3)
Investment and other income (losses) of CIPs, net	(51.0)	51.0	-	-	-	-	-	-
Expenses of CIPs	(9.6)	9.6	-	-	-	-	-	-
Total Other Income (Expense)	(94.3)	24.6	-	(0.2)	-	90.2	6.7	27.0
Income before taxes	254.2	34.3	-	131.9	0.4	90.2	10.1	521.1
Taxes on income	48.5	-	-	30.4	-	9.8	2.3	91.0
Net income	205.7	34.3	-	101.5	0.4	80.4	7.8	430.1
Less: Net income (loss) attributable to noncontrolling interests	(27.0)	37.8	-	-	-	16.1	8.8	35.7
Net Income Attributable to Franklin Resources, Inc.	232.7	(3.5)	-	101.5	0.4	64.3	(1.0)	394.4
Less: allocation of earnings to participating nonvested stock and stock unit awards	8.9							15.5
Net Income Available to Franklin Resources, Inc. Common Stockholders	223.8							378.9
Diluted EPS	\$0.46							Adjusted Diluted EPS
Avg. Diluted Shares Outstanding	488.2							Avg. Diluted Shares Outstanding
Operating Margin	18.0%							Adjusted Operating Margin
								32.2%

Appendix

Reconciliation of US GAAP results to Non-GAAP results: Three months ended December 31, 2021

(in US\$ millions except per share data)	US GAAP Basis	Consolidated Investment Products	Sales, distribution and marketing	Acquisition- related	Special Termination Benefits	Unrealized investment (gains) losses	Deferred Comp Plan	Non-GAAP Basis
Revenues								
Investment management fees	1,760.5	8.3	(111.9)	(0.4)	-	-	-	1,656.5
Sales and distribution fees	398.2	-	(398.2)	-	-	-	-	-
Shareholder servicing fees	47.7	-	-	-	-	-	-	47.7
Other	17.6	-	-	-	-	-	-	17.6
Total Operating Revenues	2,224.0	8.3	(510.1)	(0.4)	-	-	-	1,721.8
Expenses								
Compensation and benefits	802.6	-	-	(40.4)	(2.7)	-	(4.2)	755.3
Sales, distribution and marketing	510.1	-	(510.1)	-	-	-	-	-
Information systems and technology	123.8	-	-	(6.3)	-	-	-	117.5
Occupancy	56.3	-	-	(3.4)	-	-	-	52.9
Amortization of intangible assets	58.3	-	-	(58.3)	-	-	-	-
General, administrative and other	115.2	-	-	(5.0)	-	-	-	110.2
Total Operating Expenses	1,666.3	-	(510.1)	(113.4)	(2.7)	-	(4.2)	1,035.9
Operating Income	557.7	8.3	-	113.0	2.7	-	4.2	685.9
Other Income (Expense)								
Investment and other income (losses) net	57.0	28.0	-	0.4	-	3.0	(4.5)	83.9
Interest expense	(19.3)	-	-	(6.3)	-	-	-	(25.6)
Investment and other income of CIPs	104.7	(104.7)	-	-	-	-	-	-
Expenses of CIPs	(4.2)	4.2	-	-	-	-	-	-
Total Other Income (Expense)	138.2	(72.5)	-	(5.9)	-	3.0	(4.5)	58.3
Income before taxes	695.9	(64.2)	-	107.1	2.7	3.0	(0.3)	744.2
Taxes on income	151.1	-	-	25.3	0.6	(4.9)	(0.1)	172.0
Net income	544.8	(64.2)	-	81.8	2.1	7.9	(0.2)	572.2
Less: Net income (loss) attributable to noncontrolling interests	91.6	(74.2)	-	-	-	1.2	-	18.6
Net Income Attributable to Franklin Resources, Inc.	453.2	10.0	-	81.8	2.1	6.7	(0.2)	553.6
Less: allocation of earnings to participating nonvested stock and stock unit awards	19.3							23.4
Net Income Available to Franklin Resources, Inc. Common Stockholders	433.9							530.2
Diluted EPS	\$0.88				Adjusted Diluted EPS			\$1.08
Diluted Shares Outstanding	490.6				Diluted Shares Outstanding			490.6
Operating Margin	25.1%				Adjusted Operating Margin			39.8%

Appendix

Some of the statements herein may include forward-looking statements that reflect our current views with respect to future events, financial performance and market conditions. 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, including pandemic-related risks, market and volatility risks, investment performance and reputational risks, global operational risks, competition and distribution risks, third-party risks, technology and security risks, human capital risks, cash management risks, and legal and regulatory risks. 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.

These and other risks, uncertainties and other important factors are described in more detail in our recent filings with the US Securities and Exchange Commission, including, without limitation, in Risk Factors and Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022 and our subsequent Quarterly Reports on Form 10-Q. If a circumstance occurs after the date of this presentation 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.

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