FRANKLIN RESOURCES INC
Form 10-Q
July 27, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(MARK ONE)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-09318
FRANKLIN RESOURCES, INC.
(Exact name of registrant as specified in its charter)

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

(650) 312-2000
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x YES o NO
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). x YES o NO
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act). o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o YES x NO
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.
Outstanding: 527,058,253 shares of common stock, par value $0.10 per share, of Franklin Resources, Inc. as of July 20, 2018.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions, except per share data)	2018	2017	2018	2017
Operating Revenues				
Investment management fees	$1,077.9	$1,097.0	$3,308.6	$3,249.4
Sales and distribution fees	391.4	433.3	1,219.0	1,283.8
Shareholder servicing fees	53.9	56.7	170.1	169.7
Other	35.4	26.9	94.2	72.4
Total operating revenues	1,558.6	1,613.9	4,791.9	4,775.3
Operating Expenses				
Sales, distribution and marketing	499.8	541.2	1,550.0	1,596.0
Compensation and benefits	357.5	342.7	1,045.5	997.6
Information systems and technology	62.5	54.1	175.6	159.8
Occupancy	30.5	30.2	94.0	88.3
General, administrative and other	105.2	81.5	286.9	227.0
Total operating expenses	1,055.5	1,049.7	3,152.0	3,068.7
Operating Income	503.1	564.2	1,639.9	1,706.6
Other Income (Expenses)				
Investment and other income (losses), net	(33.8)	92.2	134.9	222.9
Interest expense	(22.1)	(12.9)	(42.9)	(38.8)
Other income (expenses), net	(55.9)	79.3	92.0	184.1
Income before taxes	447.2	643.5	1,731.9	1,890.7
Taxes on income	91.8	184.1	1,465.5	577.5
Net income	355.4	459.4	266.4	1,313.2
Less: net income (loss) attributable to				
Nonredeemable noncontrolling interests	(1.6)	12.5	22.8	8.6
Redeemable noncontrolling interests	(45.0)	36.3	(18.3)	33.1
Net Income Attributable to Franklin Resources, Inc.	$402.0	$410.6	$261.9	$1,271.5
Earnings per Share				
Basic	$0.75	$0.73	$0.45	$2.25
Diluted	0.75	0.73	0.45	2.25
Dividends Declared per Share	$0.23	$0.20	$3.69	$0.60

See Notes to Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

(in millions)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Net Income	$355.4	$459.4	$266.4	$1,313.2
Other Comprehensive Income (Loss)				
Net unrealized gains (losses) on investments, net of tax	3.3	(1.6)	6.6	1.4
Currency translation adjustments, net of tax	(86.7)	54.0	(64.1)	32.3
Net unrealized gains (losses) on defined benefit plans, net of tax	0.2	(0.2)	(0.5)	(0.2)
Total other comprehensive income (loss)	(83.2)	52.2	(58.0)	33.5
Total comprehensive income	272.2	511.6	208.4	1,346.7
Less: comprehensive income (loss) attributable to				
Nonredeemable noncontrolling interests	(1.6)	12.5	22.8	8.6
Redeemable noncontrolling interests	(45.0)	36.3	(18.3)	33.1
Comprehensive Income Attributable to Franklin Resources, Inc.	$318.8	$462.8	$203.9	$1,305.0

See Notes to Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
Unaudited

(in millions, except share and per share data)	June 30, 2018	September 30, 2017
Assets		
Cash and cash equivalents	$6,422.6	$ 8,523.3
Receivables	814.9	767.8
Investments (including $587.0 and $440.0 at fair value at June 30, 2018 and September 30, 2017)	1,509.5	1,393.6
Assets of consolidated investment products		
Cash and cash equivalents	231.6	226.4
Receivables	132.0	234.1
Investments, at fair value	3,331.1	3,467.4
Property and equipment, net	522.4	517.2
Goodwill and other intangible assets, net	2,352.9	2,227.7
Other	211.0	176.5
Total Assets	$15,528.0	$ 17,534.0
Liabilities		
Compensation and benefits	$405.9	$ 396.6
Accounts payable and accrued expenses	177.5	167.4
Dividends	130.1	113.3
Commissions	291.3	313.3
Income taxes	1,176.2	74.7
Debt	695.7	1,044.2
Liabilities of consolidated investment products		
Accounts payable and accrued expenses	76.3	124.1
Debt	34.1	53.4
Deferred taxes	128.0	170.6
Other	190.9	198.7
Total liabilities	3,306.0	2,656.3
Commitments and Contingencies (Note 11)		
Redeemable Noncontrolling Interests	2,031.6	1,941.9
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; 529,106,446 and 554,865,343 shares issued and outstanding at June 30, 2018 and September 30, 2017	52.9	55.5
Retained earnings	10,153.5	12,849.3
Accumulated other comprehensive loss	(342.9)	(284.8)
Total Franklin Resources, Inc. stockholders’ equity	9,863.5	12,620.0
Nonredeemable noncontrolling interests	326.9	315.8
Total stockholders’ equity	10,190.4	12,935.8
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders’ Equity	$15,528.0	$ 17,534.0

See Notes to Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Nine Months Ended June 30,	
(in millions)	2018	2017
Net Income	$266.4	$1,313.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred sales commissions	60.5	52.9
Depreciation and other amortization	58.7	62.3
Stock-based compensation	89.5	95.0
Income from investments in equity method investees	(41.8)	(88.4)
Net gains on investments of consolidated investment products	(35.1)	(15.7)
Deferred income taxes	(54.5)	(7.0)
Other	28.3	(18.5)
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(79.2)	(39.0)
Decrease (increase) in receivables of consolidated investment products	97.1	(45.7)
Decrease (increase) in trading securities, net	(165.7)	68.6
Decrease (increase) in trading securities of consolidated investment products, net	235.6	(528.9)
Increase (decrease) in accrued compensation and benefits	(18.6)	2.0
Increase (decrease) in commissions payable	(22.0)	11.0
Increase in income taxes payable	1,106.6	68.8
Decrease in accounts payable, accrued expenses and other liabilities	(18.4)	(26.3)
Increase in accounts payable and accrued expenses of consolidated investment products	1.1	54.0
Net cash provided by operating activities	1,508.5	958.3
Purchase of investments	(250.0)	(336.2)
Liquidation of investments	127.5	271.3
Purchase of investments by consolidated investment products	(46.1)	(114.3)
Liquidation of investments by consolidated investment products	72.3	333.9
Additions of property and equipment, net	(71.5)	(49.0)
Adoption of new accounting guidance	—	(49.2)
Acquisitions, net of cash acquired	(97.0)	(14.0)
Net (deconsolidation) consolidation of investment products	(8.0)	22.4
Net cash provided by (used in) investing activities	(272.8)	64.9
Issuance of common stock	13.6	13.0
Dividends paid on common stock	(1,994.9)	(329.4)
Repurchase of common stock	(1,056.0)	(600.6)
Excess tax benefit from stock-based compensation	—	0.6
Payment on debt	(361.9)	—
Payment on loan	—	(22.5)
Proceeds from debt of consolidated investment products	—	0.7
Payments on debt by consolidated investment products	(19.6)	(288.3)
Payments on contingent consideration liability	(21.6)	(31.7)
Noncontrolling interests	123.7	527.4
Net cash used in financing activities	(3,316.7)	(730.8)
Effect of exchange rate changes on cash and cash equivalents	(14.5)	10.5

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See Notes to Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

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	Nine Months Ended June 30,	
(in millions)	2018	2017
Increase (decrease) in cash and cash equivalents	$(2,095.5)	$302.9
Cash and cash equivalents, beginning of period	8,749.7	8,483.3
Cash and Cash Equivalents, End of Period	$6,654.2	$8,786.2
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	$414.9	$520.5
Cash paid for interest	34.2	34.4
Cash paid for interest by consolidated investment products	1.9	10.3

See Notes to Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Note 1 – Basis of Presentation

The unaudited interim financial statements of Franklin Resources, Inc. (“Franklin”) and its consolidated subsidiaries (collectively, the “Company”) included herein have been prepared by the Company in accordance with the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission. Under these rules and regulations, some information and footnote disclosures normally included in financial statements prepared under accounting principles generally accepted in the United States of America have been shortened or omitted. Management believes that all adjustments necessary for a fair statement of the financial position and the results of operations for the periods shown have been made. All adjustments are normal and recurring. These financial statements should be read together with the Company’s audited financial statements included in its Form 10-K for the fiscal year ended September 30, 2017 (“fiscal year 2017”). 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 June 30, 2018.

Note 2 – New Accounting Guidance

Recently Adopted Accounting Guidance

On October 1, 2017, the Company adopted an amendment to the existing stock-based compensation guidance issued by the Financial Accounting Standards Board (“FASB”). The amendment requires all income tax effects of stock-based awards to be recognized as income tax expense when the awards vest or settle and clarifies the classification of these transactions within the statement of cash flows. The amendment also provides an election to account for forfeitures as they occur, which the Company made using the modified retrospective approach which did not require the restatement of prior-year periods and did not result in a material impact on retained earnings. The income tax effect and statement of cash flow changes were adopted on a prospective basis. The adoption of the amendment will increase the volatility of income tax expense as a result of fluctuations in the Company’s stock price.

Accounting Guidance Not Yet Adopted

The FASB issued new guidance in May 2014 that requires use of a single principles-based model for recognition of revenue from contracts with customers. The core principle of the model is that revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the expected consideration to be received for the goods or services. The guidance also changes the accounting for certain contract costs and revises the criteria for determining if an entity is acting as a principal or agent in certain arrangements. The guidance is effective for the Company on October 1, 2018 and allows for either a full or modified retrospective approach at adoption. While the Company’s implementation efforts are ongoing, it does not expect adoption of the guidance to have a significant impact on the timing of recognition or presentation for substantially all of its operating revenue or the accounting for its contract costs. The impact upon adoption may differ based on further evaluation of the Company’s arrangements. The Company will elect the modified retrospective approach and recognize a cumulative effect adjustment to retained earnings at adoption.

There were no other significant updates to the new accounting guidance not yet adopted by the Company as disclosed in its Form 10-K for fiscal year 2017.

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Note 3 – Stockholders' Equity

Changes in total stockholders' equity were as follows:

(in millions) for the nine months ended June 30, 2018	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity
Balance at October 1, 2017	$ 12,620.0	$ 315.8	$ 12,935.8
Adoption of new accounting guidance	0.4	—	0.4
Net income	261.9	22.8	284.7
Other comprehensive loss	(58.0)		(58.0)
Cash dividends declared on common stock	(2,011.7)		(2,011.7)
Repurchase of common stock	(1,078.8)		(1,078.8)
Stock-based compensation	102.7		102.7
Acquisition	27.0		27.0
Net redemptions and other		(14.1)	(14.1)
Net consolidation of investment products		2.4	2.4
Balance at June 30, 2018	$ 9,863.5	$ 326.9	$ 10,190.4

(in millions) for the nine months ended June 30, 2017	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity
Balance at October 1, 2016	$ 11,935.8	$ 592.4	$ 12,528.2
Adoption of new accounting guidance	(1.3)	(324.6)	(325.9)
Net income	1,271.5	8.6	1,280.1
Other comprehensive income	33.5		33.5
Cash dividends declared on common stock	(338.5)		(338.5)
Repurchase of common stock	(603.1)		(603.1)
Stock-based compensation	102.1		102.1
Net subscriptions and other		38.0	38.0
Deconsolidation of investment product		(9.3)	(9.3)
Balance at June 30, 2017	$ 12,400.0	$ 305.1	$ 12,705.1

During the three and nine months ended June 30, 2018, the Company repurchased 13.4 million and 29.1 million shares of its common stock at a cost of $446.2 million and $1,078.8 million under its stock repurchase program. At June 30, 2018, 82.5 million shares remained available for repurchase under the program, which is not subject to an expiration date. On April 11, 2018, the Company's Board of Directors authorized the Company to repurchase, from time to time, up to an additional 80.0 million shares of its common stock in either open market or private transactions. Shares repurchased under the stock repurchase program are retired. During the three and nine months ended June 30, 2017, the Company repurchased 4.1 million and 15.2 million shares of its common stock at a cost of $174.6 million and $603.1 million.

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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 June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Net income attributable to Franklin Resources, Inc.	$402.0	$410.6	$261.9	$1,271.5
Less: allocation of earnings to participating nonvested stock and stock unit awards	3.3	3.5	17.1	9.9
Net Income Available to Common Stockholders	$398.7	$407.1	$244.8	$1,261.6
Weighted-average shares outstanding – basic	533.0	556.2	542.9	560.5
Dilutive effect of nonparticipating nonvested stock unit awards	0.5	0.5	0.7	0.3
Weighted-Average Shares Outstanding – Diluted	533.5	556.7	543.6	560.8
Earnings per Share				
Basic	$0.75	$0.73	$0.45	$2.25
Diluted	0.75	0.73	0.45	2.25

Nonparticipating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been antidilutive were 0.8 million and 0.3 million for the three and nine months ended June 30, 2018, and 0.2 million and 0.7 million for the three and nine months ended June 30, 2017.

Note 5 – Investments

The disclosures below include details of the Company’s investments, excluding those of consolidated investment products. See Note 8 – Consolidated Investment Products for information related to the investments held by these entities.

Investments consisted of the following:

(in millions)	June 30, 2018	September 30, 2017
Investment securities, trading		
Sponsored funds	$203.7	$ 31.1
Debt and other equity securities	269.6	283.4
Total investment securities, trading	473.3	314.5
Investment securities, available-for-sale		
Sponsored funds	100.9	110.8
Debt and other equity securities	1.0	1.9
Total investment securities, available-for-sale	101.9	112.7
Investments in equity method investees	858.8	893.5
Other investments	75.5	72.9
Total	$1,509.5	$ 1,393.6

Debt and other equity trading securities consist primarily of corporate debt.

Investment securities with aggregate carrying amounts of $1.2 million and $0.8 million were pledged as collateral at June 30, 2018 and September 30, 2017.

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Gross unrealized gains and losses relating to investment securities, available-for-sale were as follows:

(in millions)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
as of June 30, 2018				
Sponsored funds	$ 93.0	$9.7	$(1.8)	$ 100.9
Debt and other equity securities	1.0	—	—	1.0
Total	$ 94.0	$9.7	$(1.8)	$ 101.9
as of September 30, 2017				
Sponsored funds	$ 107.9	$9.4	$(6.5)	$ 110.8
Debt and other equity securities	1.9	—	—	1.9
Total	$ 109.8	$9.4	$(6.5)	$ 112.7

Gross unrealized losses relating to investment securities, available-for-sale aggregated by length of time that individual securities have been in a continuous unrealized loss position were as follows:

(in millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
as of June 30, 2018						
Sponsored funds	$20.3	$ (1.3)	$21.3	$ (0.5)	$41.6	$ (1.8)
as of September 30, 2017						
Sponsored funds	$28.4	$ (6.3)	$2.4	$ (0.2)	$30.8	$ (6.5)

The Company recognized other-than-temporary impairment of $0.3 million and $0.9 million during the three and nine months ended June 30, 2018, and $0.5 million and $0.8 million during the three and nine months ended June 30, 2017.

Note 6 – Fair Value Measurements

The disclosures below include details of the Company’s fair value measurements, excluding those of consolidated investment products. See Note 8 – Consolidated Investment Products for information related to fair value measurements of the assets and liabilities of these entities.

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

(in millions) as of June 30, 2018	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading				
Sponsored funds	$203.7	$ —	$—	$203.7
Debt and other equity securities	19.4	58.1	192.1	269.6
Investment securities, available-for-sale				
Sponsored funds	100.9	—	—	100.9
Debt and other equity securities	0.2	0.5	0.3	1.0
Life settlement contracts	—	—	11.8	11.8
Total Assets Measured at Fair Value	$324.2	$ 58.6	$204.2	$587.0
Liability				
Contingent consideration liability	$—	$ —	$35.6	$35.6

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(in millions) as of September 30, 2017	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading				
Sponsored funds	$31.1	$—	$—	$31.1
Debt and other equity securities	18.2	78.4	186.8	283.4
Investment securities, available-for-sale				
Sponsored funds	110.8	—	—	110.8
Debt and other equity securities	1.0	0.6	0.3	1.9
Life settlement contracts	—	—	12.8	12.8
Total Assets Measured at Fair Value	$161.1	$ 79.0	$199.9	$440.0
Liability				
Contingent consideration liability	$—	$—	$51.0	$51.0

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

The fair value of the contingent consideration liability is determined using an income-based method which considers the net present value of anticipated future cash flows.

Transfers into Level 2 from Level 1 were nil and $0.5 million for the three and nine months ended June 30, 2018, and transfers into Level 1 from Level 2 were $0.5 million for both periods. The transfers into Level 2 from Level 1 were securities for which the quoted market prices were adjusted as of March 31, 2018 due to significant price changes in U.S.-traded market proxies resulting from global market volatility. The adjustments were made after the close of foreign markets and were based on third-party factors derived from model-based valuation techniques for which the significant assumptions were observable in the market. The transfers into Level 1 from Level 2 were securities that were valued using unadjusted quoted market prices. There were no transfers between Level 1 and Level 2 during the nine months ended June 30, 2017. There were no transfers into or out of Level 3 during the nine months ended June 30, 2018, and there were no transfers into Level 3 for the nine months ended June 30, 2017.

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

(in millions) for the three months ended June 30,	2018 Investments	2018 Contingent Consideration Liability	2017 Investments	2017 Contingent Consideration Liabilities
Balance at beginning of period	$208.1	$ (31.2)	$211.0	$ (60.4)
Total realized and unrealized gains (losses)				
Included in investment and other income, net	1.0	—	1.7	—
Included in general, administrative and other expense	—	(4.4)	—	5.6
Purchases	5.4	—	1.3	—
Sales	(0.4)	—	—	—
Settlements	(1.1)	—	(0.1)	—
Foreign exchange revaluation and other	(8.8)	—	0.9	—
Balance at End of Period	$204.2	$ (35.6)	$214.8	$ (54.8)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at end of period	$0.4	$ (4.4)	$2.2	$ (0.1)

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(in millions) for the nine months ended June 30,	2018 Investments	2018 Contingent Consideration Liability	2017 Investments	2017 Contingent Consideration Liabilities
Balance at beginning of period	$199.9	$ (51.0)	$205.1	$ (98.1)
Acquisition	—	—	—	(5.7)
Total realized and unrealized gains (losses)				
Included in investment and other income, net	4.0	—	7.3	—
Included in general, administrative and other expense	—	(10.0)	—	13.6
Purchases	12.1	—	2.1	—
Sales	(0.4)	—	(2.4)	—
Settlements	(3.0)	32.4	(2.6)	35.4
Transfers out of Level 3	—	—	(0.4)	—
Foreign exchange revaluation and other	(8.4)	(7.0)	5.7	—
Balance at End of Period	$204.2	$ (35.6)	$214.8	$ (54.8)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at end of period	$2.4	$ (10.0)	$6.2	$ 7.9

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

(in millions) as of June 30, 2018	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Investment securities, trading – debt and other equity securities	$171.3	Market pricing	Redemption price Discount rate	$73 per $100 of par 18.7%
	20.8	Discounted cash flow	Discount rate Risk premium	3.4%–6.6% (5.4%) 2.0%–4.7% (3.1%)
Life settlement contracts	11.8	Discounted cash flow	Life expectancy Discount rate	20–117 months (62) 8.0%–20.0% (13.1%)
Contingent consideration liability	35.6	Discounted cash flow	AUM growth rate Discount rate	(3.4%) 13.8%

(in millions) as of September 30, 2017	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Investment securities, trading – debt and other equity securities	$175.7	Market pricing	Redemption price Discount rate	$73 per $100 of par 18.6%
	11.1	Discounted cash flow	Discount rate Risk premium	4.1%–6.7% (5.7%) 2.0%–4.1% (2.9%)
Life settlement contracts	12.8	Discounted cash flow	Life expectancy Discount rate	20–123 months (62) 8.0%–20.0% (13.2%)
Contingent consideration liability	51.0	Discounted cash flow	AUM growth rate Discount rate	1.3%–9.4% (5.3%) 14.6%

For investment securities, trading – debt and other equity securities using the market pricing technique, a significant increase (decrease) in the redemption price in isolation would result in a significantly higher (lower) fair value measurement, while a significant increase (decrease) in the discount rate in isolation would result in a significantly lower (higher) fair value measurement.

For investment securities, trading – debt and other equity securities using the discounted cash flow technique, a significant increase (decrease) in the discount rate or risk premium in isolation would result in a significantly lower (higher) fair value measurement.

For life settlement contracts, a significant increase (decrease) in the life expectancy or the discount rate in isolation would result in a significantly lower (higher) fair value measurement.

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For the contingent consideration liability, a significant increase (decrease) in the assets under management ("AUM") growth rate, or decrease (increase) in the discount rate, in isolation would result in a significantly higher (lower) fair value measurement.

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

(in millions)	Fair Value Level	June 30, 2018 Carrying Value	June 30, 2018 Estimated Fair Value	September 30, 2017 Carrying Value	September 30, 2017 Estimated Fair Value
Financial Assets					
Cash and cash equivalents	1	$6,422.6	$6,422.6	$8,523.3	$8,523.3
Other investments					
Time deposits	2	12.2	12.2	13.4	13.4
Cost method investments	3	51.5	73.7	46.7	67.7
Financial Liability					
Debt	2	$695.7	$685.0	$1,044.2	$1,073.5

Note 7 – Debt

The disclosures below include details of the Company's debt, excluding that of consolidated investment products. See Note 8 – Consolidated Investment Products for information related to the debt of these entities.

Debt consisted of the following:

(in millions)	June 30, 2018	Effective Interest Rate	September 30, 2017	Effective Interest Rate
Senior Notes				
$350 million 4.625% notes due May 2020	$—	N/A	$ 349.9	4.74 %
$300 million 2.800% notes due September 2022	299.7	2.93 %	299.6	2.93 %
$400 million 2.850% notes due March 2025	399.5	2.97 %	399.5	2.97 %
Total senior notes	699.2		1,049.0	
Debt issuance costs	(3.5)		(4.8)	
Total	$695.7		$ 1,044.2	

At June 30, 2018, the Company's outstanding senior unsecured unsubordinated notes had an aggregate face value of $700.0 million. The notes have fixed interest rates with interest payable semi-annually and 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 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. The indentures also 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.

On May 21, 2018, the Company redeemed its outstanding 4.625% notes due in May 2020 at a make-whole redemption price of $361.9 million, which resulted in the recognition of $12.5 million of accelerated interest expense.

The Company was in compliance with all debt covenants at June 30, 2018.

At June 30, 2018, 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.

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Note 8 – Consolidated Investment Products

Consolidated investment products (“CIPs”) consist of mutual and other investment funds, limited partnerships and similar structures, substantially all of which are sponsored by the Company, and include both voting interest entities and variable interest entities. The Company had 55 and 58 CIPs as of June 30, 2018 and September 30, 2017.

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

(in millions)	June 30, 2018	September 30, 2017
Assets		
Cash and cash equivalents	$231.6	$ 226.4
Receivables	132.0	234.1
Investments, at fair value	3,331.1	3,467.4
Other assets	1.0	0.9
Total Assets	$3,695.7	$ 3,928.8
Liabilities		
Accounts payable and accrued expenses	$76.3	$ 124.1
Debt	34.1	53.4
Other liabilities	8.9	8.7
Total liabilities	119.3	186.2
Redeemable Noncontrolling Interests	2,031.6	1,941.9
Stockholders’ Equity		
Franklin Resources, Inc.’s interests	1,244.2	1,511.8
Nonredeemable noncontrolling interests	300.6	288.9
Total stockholders’ equity	1,544.8	1,800.7
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders’ Equity	$3,695.7	$ 3,928.8

The CIPs did not have a significant impact on net income attributable to the Company during the three and nine months ended June 30, 2018 and 2017.

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

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

Investments

Investments of CIPs consisted of the following:

(in millions)	June 30, 2018	September 30, 2017
Investment securities, trading	$2,861.3	$ 3,017.2
Other equity securities	346.9	306.9
Other debt securities	122.9	143.3
Total	$3,331.1	$ 3,467.4

Investment securities, trading consist of debt and equity securities that are traded in active markets. Other equity securities consist of equity securities of entities in emerging markets and fund products. Other debt securities consist of debt securities of entities in emerging markets and other debt instruments.

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Fair Value Measurements

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

(in millions) as of June 30, 2018	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Investments					
Equity securities	$307.1	$307.1	$187.5	$ 160.8	$962.5
Debt securities	3.4	2,242.3	122.9	—	2,368.6
Total Assets Measured at Fair Value	$310.5	$2,549.4	$310.4	$ 160.8	$3,331.1
Liabilities					
Other liabilities	$0.6	$8.3	$—	$ —	$8.9

(in millions) as of September 30, 2017	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Investments					
Equity securities	$331.4	$128.1	$160.7	$ 155.2	$775.4
Debt securities	1.4	2,555.2	135.4	—	2,692.0
Total Assets Measured at Fair Value	$332.8	$2,683.3	$296.1	$ 155.2	$3,467.4
Liabilities					
Other liabilities	$0.4	$8.3	$—	$ —	$8.7

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

The fair value of other liabilities, which consist of short positions in debt and equity securities, is determined based on the fair value of the underlying securities using quoted market prices, or independent third-party broker or dealer price quotes if quoted market prices are not available.

Transfers into Level 2 from Level 1 were nil and $3.5 million for the three and nine months ended June 30, 2018, and transfers into Level 1 from Level 2 were $2.8 million for both periods. The transfers into Level 2 from Level 1 were securities for which the quoted market prices were adjusted as of March 31, 2018 due to significant price changes in U.S.-traded market proxies resulting from global market volatility. The impacted securities trade in 11 different countries in Asia-Pacific, Europe and Latin America. The adjustments were made after the close of the foreign markets and were based on third-party factors derived from model-based valuation techniques for which the significant assumptions were observable in the market. The transfers into Level 1 from Level 2 were securities that were valued using unadjusted quoted market prices. There were no transfers between Level 1 and Level 2 during the nine months ended June 30, 2017. There were no transfers into or out of Level 3 during the nine months ended June 30, 2018 and 2017.

Investments for which fair value was estimated using reported NAV as a practical expedient consisted of nonredeemable real estate and private equity funds. These investments are expected to be returned through distributions as a result of liquidations of the funds' underlying assets over a weighted-average period of 3.7 years and 4.4 years at June 30, 2018 and September 30, 2017. The CIPs' unfunded commitments to these funds totaled $1.9 million, of which the Company was contractually obligated to fund $0.4 million based on its ownership percentage in the CIPs, at both June 30, 2018 and September 30, 2017.

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Changes in Level 3 assets were as follows:

(in millions) for the three months ended June 30,	2018 Equity Securities	2018 Debt Securities	2018 Total Level 3 Assets	2017 Equity Securities	2017 Debt Securities	2017 Total Level 3 Assets
Balance at beginning of period	$188.4	$ 112.2	$300.6	$140.7	$ 114.4	$255.1
Realized and unrealized gains (losses) included in investment and other income, net	5.4	0.3	5.7	(10.3)	18.3	8.0
Purchases	0.1	5.0	5.1	4.7	15.5	20.2
Sales	(2.6)	(0.1)	(2.7)	(0.5)	(4.7)	(5.2)
Settlements	—	(0.5)	(0.5)	—	(0.6)	(0.6)
Consolidation	—	7.0	7.0	—	—	—
Foreign exchange revaluation	(3.8)	(1.0)	(4.8)	2.4	2.4	4.8
Balance at End of Period	$187.5	$ 122.9	$310.4	$137.0	$ 145.3	$282.3
Change in unrealized gains (losses) included in net income relating to assets held at end of period	$0.9	$ 0.2	$1.1	$(10.3)	$ 18.2	$7.9

(in millions) for the nine months ended June 30,	2018 Equity Securities	2018 Debt Securities	2018 Total Level 3 Assets	2017 Equity Securities	2017 Debt Securities	2017 Total Level 3 Assets
Balance at beginning of period	$160.7	$ 135.4	$296.1	$160.3	$ 132.3	$292.6
Adoption of new accounting guidance	—	—	—	(45.4)	(0.5)	(45.9)
Realized and unrealized gains (losses) included in investment and other income, net	22.9	2.4	25.3	(9.4)	3.8	(5.6)
Purchases	22.7	15.5	38.2	30.2	23.3	53.5
Sales	(17.5)	(37.8)	(55.3)	(0.6)	(13.0)	(13.6)
Settlements	—	(0.5)	(0.5)	—	(0.6)	(0.6)
Consolidation	—	7.0	7.0	—	—	—
Foreign exchange revaluation	(1.3)	0.9	(0.4)	1.9	—	1.9
Balance at End of Period	$187.5	$ 122.9	$310.4	$137.0	$ 145.3	$282.3
Change in unrealized gains (losses) included in net income relating to assets held at end of period	$17.5	$ (2.1)	$15.4	$0.7	$ 3.2	$3.9

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

(in millions) as of June 30, 2018	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Equity securities	$159.8	Market comparable companies	EBITDA multiple	5.9–13.6 (9.4)
	27.7	Discounted cash flow	Discount rate	8.1%–16.5% (14.1%)
Debt securities	76.9	Discounted cash flow	Discount rate	7.0%–14.8% (10.7%)
	30.9	Comparable trading multiple	Price to earnings ratio	10.0
			Enterprise value/ EBITDA multiple	20.9
	12.0	Discounted cash flow	Loss-adjusted discount rate	3.0%–62.3% (10.7%)
	3.1	Market pricing	Private sale pricing	$33 per $100 of par

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(in millions)

as of September 30, 2017	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Equity securities	$ 101.9	Market comparable companies	EBITDA multiple	5.5–12.3 (9.0)
	44.4	Discounted cash flow	Discount rate	5.7%–17.9% (14.3%)
	14.4	Market pricing	Price to earnings ratio	10.0
Debt securities	112.7	Discounted cash flow	Discount rate	5.0%–33.0% (9.5%)
			Risk premium	0.0%–25.0% (8.4%)
	22.7	Market pricing	Private sale pricing	$33–$57 ($52) per $100 of par

For securities using the market comparable companies valuation technique, a significant increase (decrease) in the EBITDA multiple in isolation would result in a significantly higher (lower) fair value measurement.
For securities using the discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, loss-adjusted discount rate or risk premium in isolation would result in a significantly lower (higher) fair value measurement.
For securities using the comparable trading multiple valuation technique, a significant increase (decrease) in the price to earnings ratio or enterprise value/EBITDA multiple in isolation would result in a significantly higher (lower) fair value measurement.
For securities using the market pricing valuation technique, a significant increase (decrease) in the private sale pricing or price to earnings ratio in isolation would result in a significantly higher (lower) fair value measurement.
Financial instruments of CIPs that were not measured at fair value were as follows:

(in millions)	Fair Value Level	June 30, 2018		September 30, 2017	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Asset					
Cash and cash equivalents	1	$231.6	$ 231.6	$226.4	$ 226.4
Financial Liability					
Debt	3	$34.1	$ 33.9	$53.4	$ 53.1

Debt
Debt of CIPs totaled $34.1 million and $53.4 million at June 30, 2018 and September 30, 2017. The debt had fixed and floating interest rates ranging from 3.07% to 7.63% with a weighted-average effective interest rate of 6.65% at June 30, 2018, and from 2.84% to 6.75% with a weighted-average effective interest rate of 5.15% at September 30, 2017. The debt carried at June 30, 2018 matures in fiscal year 2019.
Redeemable Noncontrolling Interests
Changes in redeemable noncontrolling interests of CIPs were as follows:

(in millions)		
for the nine months ended June 30,	2018	2017
Balance at beginning of period	$1,941.9	$61.1
Adoption of new accounting guidance	—	824.7
Net income (loss)	(18.3)	33.1
Net subscriptions and other	137.8	489.4

Net consolidations (deconsolidations)	(29.8)	422.3
Balance at End of Period	$2,031.6	$1,830.6

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Note 9 – 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 investment management fee receivables and equity investments as follows:

(in millions)	June 30, 2018	September 30, 2017
Receivables	$ 147.3	$ 155.6
Investments	84.7	129.3
Total	$ 232.0	$ 284.9

While the Company has no contractual obligation to do so, it routinely makes cash investments in the course of launching sponsored funds. 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 nine months ended June 30, 2018 or fiscal year 2017.

Note 10 – Taxes on Income

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted into law in the U.S. on December 22, 2017. The Tax Act includes various changes to the tax law, including a permanent reduction in the corporate income tax rate.

The Tax Act imposes a one-time transition tax on the deemed repatriation of post-1986 undistributed foreign subsidiaries’ earnings. During the quarter ended December 31, 2017, the Company recognized an estimated transition tax expense of $1,120.7 million based on information then available. The Company subsequently decreased this estimate by $45.6 million as a result of the completion of the Company’s tax return filings for fiscal year 2017, additional technical guidance from the Department of Treasury, and further refinement of the calculation. The expense may be further adjusted in future quarters upon issuance of additional technical guidance, legislative updates from states on tax reform, and the completion of the Company’s tax return filings for fiscal year 2018. The federal portion of the transition tax liability, estimated to be $1,059.6 million, will be paid over eight years beginning in January 2019, with 8% of the liability payable in each of the first five years, 15% in year six, 20% in year seven and 25% in year eight.

The Tax Act reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Company’s federal statutory rate for the fiscal year ending September 30, 2018 is a blended rate of 24.5%, based on the pre- and post-Tax Act rates, and will be 21% for future fiscal years. During the quarter ended December 31, 2017, the Company recognized the estimated related changes in its deferred tax assets and deferred tax liabilities, which resulted in a $35.7 million decrease in deferred tax assets, an $88.8 million decrease in deferred tax liabilities and a $53.1 million net tax benefit. The Company subsequently increased the estimated net tax benefit by $0.4 million, and the estimate may be further revised in future quarters as the related temporary differences are realized or settled. During the nine months ended June 30, 2018, the Company reclassified $0.1 million from accumulated other comprehensive loss to retained earnings related to stranded tax effects resulting from the change in tax rate.

Deferred tax assets and deferred tax liabilities were as follows:

(in millions)	June 30, 2018	September 30, 2017
Deferred tax assets, net of valuation allowance	$ 92.4	$ 141.3
Deferred tax liabilities	199.4	296.1
Net Deferred Tax Liability	$ 107.0	$ 154.8

Deferred income tax assets and liabilities that relate to the same tax jurisdiction are presented net on the consolidated balance sheets. The components of the net deferred tax liability were classified in the consolidated balance sheets as follows:

(in millions)	June 30, 2018	September 30, 2017
Other assets	$ 21.0	$ 15.8
Deferred tax liabilities	128.0	170.6

Net Deferred Tax Liability	$ 107.0	$ 154.8

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Prior to the Tax Act, the Company indefinitely reinvested the undistributed earnings of all its foreign subsidiaries, except for income previously taxed in the U.S. or subject to regulatory or legal repatriation restrictions or requirements. The Company is currently reconsidering its repatriation policy in light of the changes contained in the Tax Act.

The Company's effective income tax rate was 20.5% and 84.6% for the three and nine months ended June 30, 2018, and is expected to be approximately 71% for the full fiscal year 2018.

Taxes on income and the related impacts on the effective income tax rate were as follows:

(in millions)	Three Months Ended June 30, 2018		Nine Months Ended June 30, 2018	
	Amount	Percentage of Income Before Taxes	Amount	Percentage of Income Before Taxes
Tax expense before one-time charges	$101.5	22.7 %	$407.1	23.5 %
Transition tax on deemed repatriation of undistributed foreign earnings	(45.1)	(10.1 %)	1,075.1	62.1 %
Revaluation of net deferred tax liabilities	0.1	0.0 %	(53.5)	(3.1 %)
Other Tax Act impacts	35.3	7.9 %	36.8	2.1 %
Total	$91.8	20.5 %	$1,465.5	84.6 %

Other Tax Act impacts consist primarily of foreign dividend distribution taxes and tax withholdings.

Note 11 – Commitments and Contingencies

Legal Proceedings

On July 28, 2016, a former employee filed a class action lawsuit captioned Cryer v. Franklin Resources, Inc., et al. in the United States District Court for the Northern District of California against Franklin, the Franklin Templeton 401(k) Retirement Plan ("Plan") Investment Committee ("Investment Committee"), and unnamed Investment Committee members. The plaintiff asserts a claim for breach of fiduciary duty under the Employee Retirement Income Security Act ("ERISA"), alleging that the defendants selected mutual funds sponsored and managed by the Company (the "Funds") as investment options for the Plan when allegedly lower-cost and better performing non-proprietary investment vehicles were available. The plaintiff also claims that the total Plan costs, inclusive of investment management and administrative fees, are excessive. The plaintiff alleges that Plan losses exceed $79.0 million and seeks, among other things, damages, disgorgement, rescission of the Plan's investments in the Funds, attorneys' fees and costs, and pre- and post-judgment interest.

On November 2, 2017, a second former employee, represented by the same law firm, filed another class action lawsuit relating to the Plan in the same court, captioned Fernandez v. Franklin Resources, Inc., et al. The plaintiff filed an amended complaint on February 6, 2018, naming the same defendants as those named in the Cryer action, as well as the Franklin Board of Directors, the Plan Administrative Committee, individual current and former Franklin directors, and individual current and former Investment Committee members. The plaintiff in this second lawsuit asserts the same ERISA breach of fiduciary duty claim asserted in the Cryer action, as well as claims for alleged prohibited transactions by virtue of the Plan's investments in the Funds and for an alleged failure to monitor the performance of the Investment Committee. The plaintiff alleges that Plan losses exceed $60.0 million and seeks the same relief sought in the Cryer action. On April 6, 2018, the court consolidated the Fernandez action with the existing Cryer action. Management strongly believes that the claims asserted in the litigation are without merit. The fact discovery phase in the consolidated action is closed and the parties are currently in the expert discovery phase. Franklin is defending against the consolidated action vigorously. Franklin cannot at this time predict the eventual outcome of the litigation or whether it will have a material negative impact on the Company, or reasonably estimate the possible loss or range of loss that may arise from any negative outcome.

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 June 30, 2018 to provide for any probable losses that may arise from such matters for which the Company could reasonably estimate an amount.

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Other Commitments and Contingencies

At June 30, 2018, there were no material changes in the other commitments and contingencies as reported in the Company's Form 10-K for fiscal year 2017.

Note 12 – Stock-Based Compensation

Stock and stock unit award activity was as follows:

(shares in thousands) for the nine months ended June 30, 2018	Time-Based Shares	Performance-Based Shares	Total Shares	Weighted-Average Grant-Date Fair Value
Nonvested balance at October 1, 2017	2,783	1,761	4,544	$ 37.23
Granted	2,260	724	2,984	42.67
Vested	(149)	(516)	(665)	39.23
Forfeited/canceled	(202)	(149)	(351)	44.58
Nonvested Balance at June 30, 2018	4,692	1,820	6,512	$ 39.12

Total unrecognized compensation expense related to nonvested stock and stock unit awards was $148.1 million at June 30, 2018. This expense is expected to be recognized over a remaining weighted-average vesting period of 1.7 years.

Note 13 – Other Income (Expenses)

Other income (expenses) consisted of the following:

(in millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Nine Months Ended June 30, 2018	Nine Months Ended June 30, 2017
Investment and Other Income (Losses), Net				
Interest income	$15.4	$20.3	$64.9	$49.9
Dividend income	16.6	3.3	30.0	8.4
Gains (losses) on trading investment securities, net	(2.4)	1.1	0.1	11.5
Realized gains on sale of investment securities, available-for-sale	0.6	2.6	2.7	5.5
Realized losses on sale of investment securities, available-for-sale	(0.4)	(0.4)	(0.8)	(1.6)
Income (losses) from investments in equity method investees	(4.1)	17.9	41.8	88.4
Other-than-temporary impairment of investments	(0.3)	(0.5)	(0.9)	(0.8)
Gains (losses) on investments of CIPs, net	(69.9)	59.8	(15.3)	52.6
Foreign currency exchange gains (losses), net	5.8	(19.2)	(4.9)	(5.6)
Other, net	4.9	7.3	17.3	14.6
Total	(33.8)	92.2	134.9	222.9
Interest Expense	(22.1)	(12.9)	(42.9)	(38.8)
Other Income (Expenses), Net	$(55.9)	$79.3	$92.0	$184.1

Interest income was primarily generated by cash equivalents and trading investment securities. Substantially all of the dividend income and realized gains and losses on sale of available-for-sale securities were generated by investments in nonconsolidated funds. Proceeds from the sale of available-for-sale securities were $6.8 million and $48.2 million for the three and nine months ended June 30, 2018, and $2.5 million and $28.3 million for the three and nine months ended June 30, 2017.

Net gains (losses) recognized on the Company's trading investment securities that were held at June 30, 2018 and 2017 were $(1.1) million and $2.3 million for the three and nine months ended June 30, 2018, and $1.3 million and $3.8 million for the three and nine months ended June 30, 2017. Net gains (losses) recognized on trading investment securities of CIPs that were held at June 30, 2018 and 2017 were $(39.0) million and $(49.7) million for the three and nine months ended June 30, 2018, and $19.9 million and $25.8 million for the three and nine months ended June 30, 2017.

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Note 14 – Accumulated Other Comprehensive Income (Loss)

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

(in millions) for the three months ended June 30, 2018	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
Balance at April 1, 2018	$ 5.5	$ (258.4)	$ (6.8)	$ (259.7)
Other comprehensive income (loss), net of tax	3.3	(86.7)	0.2	(83.2)
Balance at June 30, 2018	$ 8.8	$ (345.1)	$ (6.6)	$ (342.9)

(in millions) for the nine months ended June 30, 2018	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
Balance at October 1, 2017	$ 2.2	$ (281.0)	$ (6.0)	$ (284.8)
Adoption of new accounting guidance	—	—	(0.1)	(0.1)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	8.3	(62.6)	(0.5)	(54.8)
Reclassifications to net investment and other income (losses), net of tax	(1.7)	(1.5)	—	(3.2)
Total other comprehensive income (loss)	6.6	(64.1)	(0.5)	(58.0)
Balance at June 30, 2018	$ 8.8	$ (345.1)	$ (6.6)	$ (342.9)

(in millions) for the three months ended June 30, 2017	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
Balance at April 1, 2017	$ 3.0	$ (368.1)	$ (8.1)	$ (373.2)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	(0.1)	54.0	(0.2)	53.7
Reclassifications to net investment and other income (losses), net of tax	(1.5)	—	—	(1.5)
Total other comprehensive income (loss)	(1.6)	54.0	(0.2)	52.2
Balance at June 30, 2017	$ 1.4	$ (314.1)	$ (8.3)	$ (321.0)

(in millions) for the nine months ended June 30, 2017	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
Balance at October 1, 2016	$ 6.8	$ (346.1)	$ (8.1)	$ (347.4)
Adoption of new accounting guidance	(6.8)	(0.3)	—	(7.1)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	3.9	32.3	(0.2)	36.0
Reclassifications to net investment and other income (losses), net of tax	(2.5)	—	—	(2.5)
Total other comprehensive income (loss)	1.4	32.3	(0.2)	33.5
Balance at June 30, 2017	$ 1.4	$ (314.1)	$ (8.3)	$ (321.0)

There were no reclassifications from accumulated other comprehensive income (loss) for the three months ended June 30, 2018.

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

FORWARD-LOOKING STATEMENTS

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

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

The following discussion should be read in conjunction with our Form 10-K for the fiscal year ended September 30, 2017 (“fiscal year 2017”) filed with the U.S. Securities and Exchange Commission, and the consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

OVERVIEW

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

The level of our revenues depends largely on the level and relative mix of assets under management (“AUM”). As noted in the “Risk Factors” section set forth below, the amount and mix of our AUM are subject to significant fluctuations and can negatively impact our revenues and income. The level of our revenues also depends on mutual fund sales, the number of shareholder transactions and accounts, and the fees charged for our services, which are based on contracts with our funds or our clients. These arrangements could change in the future.

During the first nine months of our fiscal year, the global equity markets experienced volatility but provided overall positive returns as the S&P 500 Index and MSCI World Index increased 9.5% and 6.4%. However, volatility remains amid concerns about rising interest rates and trade sanctions between the U.S. and China, among other things. The global bond markets were negative as the Bloomberg Barclays Global Aggregate Index decreased 2.8% during our third fiscal quarter and 0.4% for the fiscal year to date.

Our total AUM at June 30, 2018 was $724.1 billion, 4% lower than at September 30, 2017 and 3% lower than at June 30, 2017. Simple monthly average AUM ("average AUM") for the three and nine months ended June 30, 2018 decreased 1% and increased 2% from the same periods in the prior fiscal year.

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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 customer service to our clients. We continuously perform reviews of our business model. While we remain focused on expense management, we will also seek to attract, retain and develop employees and invest strategically in systems and technology that will provide a secure and stable environment. We will continue to seek to protect and further our brand recognition while developing and maintaining broker-dealer and client relationships. The success of these and other strategies may be influenced by the factors discussed in the "Risk Factors" section set forth below.

RESULTS OF OPERATIONS

(in millions, except per share data)	Three Months Ended June 30, 2018	2017	Percent Change	Nine Months Ended June 30, 2018	2017	Percent Change
Operating revenues	$1,558.6	$1,613.9	(3 %)	$4,791.9	$4,775.3	0 %
Operating income	503.1	564.2	(11 %)	1,639.9	1,706.6	(4 %)
Net income attributable to Franklin Resources, Inc.	402.0	410.6	(2 %)	261.9	1,271.5	(79 %)
Diluted earnings per share	$0.75	$0.73	3 %	$0.45	$2.25	(80 %)
Operating margin [1]	32.3 %	35.0 %		34.2 %	35.7 %	

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

Operating income decreased $61.1 million for the three months ended June 30, 2018, as compared to the same period in the prior fiscal year, as operating revenues decreased 3% while operating expenses increased 1%. Operating income decreased $66.7 million for the nine months ended June 30, 2018 primarily due to a 3% increase in operating expenses.

Net income attributable to Franklin Resources, Inc. decreased $8.6 million for the three months ended June 30, 2018 due to the decrease in operating income, investment and other losses, net, as compared to investment and other income, net, in the prior-year period, less the portion attributable to noncontrolling interests, and higher interest expense, partially offset by lower taxes on income. Net income attributable to Franklin Resources, Inc. decreased $1.0 billion for the nine months ended June 30, 2018 primarily due to an estimated income tax charge of $1.1 billion resulting from enactment of the Tax Cuts and Jobs Act of 2017.

Diluted earnings per share increased for the three months ended June 30, 2018 despite the decrease in net income and decreased for the nine-month period consistent with net income. The amounts were impacted by 4% and 3% decreases in diluted average common shares outstanding primarily resulting from repurchases of shares of our common stock during the twelve-month period ended June 30, 2018.

ASSETS UNDER MANAGEMENT

AUM by investment objective was as follows:

(in billions)	June 30, 2018	June 30, 2017	Percent Change
Equity			
Global/international	$ 201.0	$ 206.8	(3 %)
United States	109.6	105.7	4 %
Total equity	310.6	312.5	(1 %)
Multi-Asset/Balanced	137.7	141.2	(2 %)
Fixed Income			
Tax-free	65.6	71.2	(8 %)
Taxable			
Global/international	154.5	159.8	(3 %)
United States	46.6	52.1	(11 %)
Total fixed income	266.7	283.1	(6 %)
Cash Management	9.1	6.0	52 %

Total	$ 724.1	$ 742.8	(3 %)

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AUM at June 30, 2018 decreased 3% from June 30, 2017 as $30.3 billion of net outflows were partially offset by $9.8 billion from an acquisition and $1.8 billion of net market change, distributions and other.

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

(in billions)	Average AUM		Percent Change	Mix of Average AUM	
for the three months ended June 30,	2018	2017		2018	2017
Equity					
Global/international	$202.4	$206.3	(2 %)	28 %	28 %
United States	108.2	105.7	2 %	15 %	14 %
Total equity	310.6	312.0	0 %	43 %	42 %
Multi-Asset/Balanced	137.9	141.7	(3 %)	19 %	19 %
Fixed Income					
Tax-free	66.3	71.4	(7 %)	9 %	10 %
Taxable					
Global/international	160.2	158.3	1 %	22 %	21 %
United States	47.4	52.5	(10 %)	6 %	7 %
Total fixed income	273.9	282.2	(3 %)	37 %	38 %
Cash Management	9.3	6.2	50 %	1 %	1 %
Total	$731.7	$742.1	(1 %)	100%	100%

(in billions)	Average AUM		Percent Change	Mix of Average AUM	
for the nine months ended June 30,	2018	2017		2018	2017
Equity					
Global/international	$207.9	$201.8	3 %	28 %	28 %
United States	108.9	103.7	5 %	14 %	14 %
Total equity	316.8	305.5	4 %	42 %	42 %
Multi-Asset/Balanced	140.9	139.5	1 %	19 %	19 %
Fixed Income					
Tax-free	68.1	72.6	(6 %)	9 %	10 %
Taxable					
Global/international	162.9	156.2	4 %	22 %	21 %
United States	49.0	52.6	(7 %)	7 %	7 %
Total fixed income	280.0	281.4	0 %	38 %	38 %
Cash Management	7.7	6.2	24 %	1 %	1 %
Total	$745.4	$732.6	2 %	100%	100%

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

(in billions)	Three Months Ended June 30,		Percent Change	Nine Months Ended June 30,		Percent Change
	2018	2017		2018	2017	
Beginning AUM	$737.5	$740.0	0 %	$753.2	$733.3	3 %
Long-term sales	25.8	29.8	(13 %)	82.5	84.8	(3 %)
Long-term redemptions	(41.8)	(41.1)	2 %	(122.9)	(132.3)	(7 %)
Long-term net exchanges	(0.1)	0.2	NM	(0.3)	(0.1)	200 %
Long-term reinvested distributions	4.0	3.8	5 %	16.3	14.9	9 %

Net flows	(12.1)	(7.3)	66 %	(24.4)	(32.7)	(25 %)
Acquisitions	9.8	—	NM	9.8	0.4	NM
Net market change, distributions and other	(11.1)	10.1	NM	(14.5)	41.8	NM
Ending AUM	$724.1	$742.8	(3 %)	$724.1	$742.8	(3 %)

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

(in billions)	Equity			Fixed Income				
for the three months ended June 30, 2018	Global/ International	United States	Multi-Asset/ Balanced	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at April 1, 2018	$202.7	$106.6	$ 137.6	$67.0	$ 165.0	$ 48.2	$ 10.4	$737.5
Long-term sales	6.0	4.4	4.0	1.2	8.3	1.9		