

FRANKLIN RESOURCES INC  
Form 10-K  
November 14, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2016

or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 001-09318

FRANKLIN RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Delaware

13-2670991

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Franklin Parkway, San Mateo, California

94403

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (650) 312-2000

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

Title of each class Name of each exchange on which registered

Common Stock, par value \$.10 per share New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES  NO

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form

10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the  
Act).  YES  NO

The aggregate market value of the voting common equity (“common stock”) held by non-affiliates of the registrant, as of March 31, 2016 (the last business day of registrant’s second quarter of fiscal year 2016), was \$14.0 billion based upon the last sale price reported for such date on the New York Stock Exchange.

Number of shares of the registrant’s common stock outstanding at October 31, 2016: 568,805,502.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Certain portions of the registrant’s definitive proxy statement for its annual meeting of stockholders, to be filed with the Securities and Exchange Commission within 120 days after September 30, 2016, are incorporated by reference into Part III of this report.

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PART I

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

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

Item 1. Business.

OVERVIEW

Franklin Resources, Inc. (“Franklin”) is a holding company that, together with its various subsidiaries (collectively, the “Company”), operates as Franklin Templeton Investments. We are a global investment management organization that provides investment management and related services to retail, institutional and high net-worth clients in jurisdictions worldwide. We believe in the value of active investment management, as well as in building on our strengths to pursue alternative strategies to meet the evolving needs of our clients. We are committed to delivering strong investment performance for our clients by drawing on the experience and perspective gained through our nearly 70-year history in the investment management business. The common stock of Franklin is traded on the New York Stock Exchange (the “NYSE”) under the ticker symbol “BEN,” and is included in the Standard & Poor’s 500 Index. In this report, words such as “we,” “us,” “our” and similar terms refer to the Company.

We offer our investment products and services under our Franklin<sup>®</sup>, Templeton<sup>®</sup>, Franklin Mutual Series<sup>®</sup>, Franklin Bissett<sup>®</sup>, Fiduciary Trust<sup>™</sup>, Darby Balanced Equity Management<sup>®</sup>, K2<sup>®</sup> and LibertyShares<sup>™</sup> brand names. Unless otherwise indicated, our “funds” means the investment funds offered under our brand names.

As of September 30, 2016, we had \$733.3 billion in assets under management (“AUM”). Our products include investment funds and institutional, high net-worth and separately-managed accounts (collectively, our “sponsored investment products” or “SIPs”). Our investment funds include U.S.-registered funds (“U.S. Funds”), non-U.S.-registered funds (“Non-U.S. Funds”), and unregistered funds. In addition to investment management, our product services include fund administration, sales, distribution, marketing, shareholder servicing, and other fiduciary services. We offer a broad product mix under our equity, hybrid, fixed income and cash management investment objectives and solutions that meet a variety of investment goals and needs for different 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.

In 2016, we introduced our Franklin LibertyShares platform of strategic beta and actively managed exchange-traded funds (“ETFs”). Our new ETF platform generally seeks to provide investors with additional investment options versus traditional market capitalization weighted index products.

Most of the investment funds we manage are registered open-end mutual funds that continuously offer their shares to investors. We also offer registered closed-end funds that issue a set number of shares to investors in a public offering and the shares are then traded on a public stock exchange. The registered funds are independent companies under the

supervision and oversight of the funds' own boards of directors or trustees. Since the funds themselves do not have direct employees to support

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their operations, the funds contract with separate entities, such as our subsidiaries, to provide the investment management and related services they require. An investment advisory entity manages a fund's portfolio of securities in accordance with the fund's stated objectives. Investors may purchase shares of an open-end fund through a broker-dealer, financial adviser, bank or other similar financial intermediary that may provide investment advice to the investor, while investors may purchase shares of a closed-end fund on the stock exchange where the fund is traded. Financial intermediaries may earn fees and commissions and receive other compensation with respect to the fund shares managed or sold to investors.

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

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

### COMPANY HISTORY AND ACQUISITIONS

The Company and its predecessors have been engaged in the investment management and related services business since 1947. Franklin was incorporated in Delaware in November 1969 and originated our mutual fund business with the Franklin family of funds. The Franklin funds are known for U.S. taxable and tax-free fixed income funds, hybrid funds, and growth- and value-oriented equity funds. We have expanded our business, in part, by acquiring companies engaged in the investment management and/or related services business.

In October 1992, we acquired substantially all of the assets and liabilities of the investment management and related services business of Templeton, Galbraith & Hansberger Ltd. This acquisition added the Templeton family of funds to our organization. The Templeton funds are known for their global investment strategies and value style of investing.

In November 1996, we acquired certain assets and liabilities of Heine Securities Corporation, including Mutual Series Fund Inc., which now operates under the name Franklin Mutual Series. Franklin Mutual Series provides investment management services to various accounts and investment companies and is known for its value-oriented equity funds.

In July 2000, we expanded our business in South Korea when we acquired all of the remaining outstanding shares of a South Korean investment management company, Templeton Investment Trust Management Co., Ltd., in which we previously held a partial interest, making us one of the largest independent foreign asset managers in South Korea at that time. The company has been renamed Franklin Templeton Investment Trust Management Co., Ltd.

In October 2000, we expanded our business in Canada when we acquired all of the outstanding shares of Bissett & Associates Investment Management Ltd., which now operates under the name Franklin Bissett Investment Management as part of our Canadian subsidiary, Franklin Templeton Investments Corp. With this acquisition, we added Bissett's family of Canadian taxable fixed income and growth-oriented equity investment funds to our Canadian-based funds.

In April 2001, we acquired all of the outstanding shares of Fiduciary Trust Company International ("Fiduciary Trust"). Fiduciary Trust is currently a New York state-chartered limited purpose trust company that performs trust and fiduciary activities. Fiduciary Trust, together with its subsidiaries, also provides investment management and related services to, among others, high net-worth individuals and families, foundations and institutional clients.

In July 2002, we expanded our business in India when we acquired all of the outstanding shares of an Indian investment management company, Pioneer ITI AMC Limited, through our majority-owned subsidiary Franklin Templeton Asset Management (India) Private Limited ("FTAM India"). In April 2007, we completed the purchase of the remaining 25% interest in each of FTAM India, which provides asset management and investment advisory services, and Franklin Templeton Trustee Services Private Limited, a regulated trust company, each located in India.

In October 2003, we expanded our private equity investment management services in emerging markets when we acquired all of the remaining outstanding shares of Darby Overseas Investments, Ltd. and all of the remaining outstanding limited partnership interests of Darby Overseas Partners, L.P. (collectively, "Darby"), in which we previously held a partial interest. Darby, based in Washington, D.C., sponsors and manages funds for institutional investors and high net-worth individuals that invest primarily in emerging markets through private equity, private debt

and infrastructure investment transactions, including regional and specialized sector funds.

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In July 2006, we expanded our business in Brazil when we completed the purchase of all of the remaining interests in a Brazilian investment management company, Bradesco Templeton Asset Management Ltda., in which we previously held a partial interest. The company has been renamed Franklin Templeton Investimentos (Brasil) Ltda. and provides investment management services.

In January 2011, we acquired all of the outstanding shares of a specialty United Kingdom (“U.K.”) equity manager, Rensburg Fund Management Limited (“Rensburg”). Rensburg has been renamed Franklin Templeton Fund Management Limited and serves as a U.K.-based equity manager.

In July 2011, we expanded our business in Australia when we acquired all of the outstanding shares of a specialty Australian equity manager, Balanced Equity Management Pty. Limited, which provides investment management services.

In November 2012, we acquired approximately 69% of the equity of K2 Advisors Holdings LLC (“K2”), a fund of hedge funds solutions provider. We also agreed to acquire K2’s remaining equity interests over a multi-year period beginning in 2017.

**OUR INVESTMENT MANAGEMENT BUSINESS**

We are committed to providing active investment management and strategic advice. Through our SIPs, we serve a variety of retail, institutional and high net-worth clients in regions and jurisdictions worldwide. We derive our revenues and net income from providing investment management and related services to our SIPs and the sub-advised products that we service. Our investment management fees, which represent the majority of our revenues, depend to a large extent on the level and mix of our AUM and the types of services provided. Sales and distribution fees, also a significant source of our revenues, consist of sales charges and commissions derived from sales and distribution of our SIPs.

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

**AUM by Investment Objective**

We offer a broad product mix under our equity, hybrid, fixed income and cash management investment objectives and solutions. Our fees for providing investment management services are generally based on a percentage of the market value of AUM in the accounts that we advise, the investment objectives of the accounts and the types of services that we provide for the accounts. As of September 30, 2016, AUM by investment objective on a worldwide basis was as follows:

Investment Objective	Value in Billions	Percentage of Total AUM
Equity		
Growth potential, income potential, value or various combinations thereof	\$ 303.7	41 %
Hybrid		
Asset allocation, balanced, flexible, alternative and income-mixed funds	137.4	19 %
Fixed Income		
Global/international, U.S. tax-free and U.S. taxable	286.1	39 %
Cash Management		
Short-term liquid assets	6.1	1 %
Total	\$ 733.3	100 %

Broadly speaking, the change in the net assets of our SIPs depends primarily upon two factors: (1) the increase or decrease in the market value of the securities held in the portfolio of investments; and (2) the level of sales as compared to the level of redemptions. We are subject to the risk of asset volatility resulting from changes in the global capital markets. In addition, changing market conditions and the evolving needs of our clients may cause a shift in our asset mix, potentially resulting in an increase or decrease in our revenues and income depending upon the nature of



our AUM and the level of management fees we earn based on our AUM. Despite such market risks, we believe that we have a competitive advantage as a result of the diversity of our SIPs available to our clients.

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### Summary of Services

#### 1. Investment Management Services

We provide our investment management services pursuant to agreements in effect with each of our SIPs and the products for which we provide sub-advisory services. Our investment management services include services to managed accounts for which we have full investment discretion, and to advisory accounts for which we have no investment discretion. Advisory accounts for which we have no investment discretion may or may not include the authority to trade for the account. Our services include fundamental investment research and valuation analyses, including original economic, political, industry and company research, and analyses of suppliers, customers and competitors. Our company research utilizes such sources as company public records and other publicly available information, management interviews, company prepared information, and company visits and inspections. Research services provided by brokerage firms are also used to support our findings. Our management fee on an account varies with the types of services that we provide for the account, among other things.

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

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

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

Under the majority of our investment management agreements globally, the funds pay us a monthly fee in arrears based upon the fund's average daily net assets. Annual fee rates under our various agreements are often reduced as net assets exceed various threshold levels. Annual rates also vary by investment objective and type of services provided. Our agreements generally permit us to provide services to more than one fund and to other clients so long as our

ability to render services to each of the funds is not impaired, and so long as purchases and sales of portfolio securities for various advised funds are made on an equitable basis.

We use a “master/feeder” fund structure in certain situations. This structure allows an investment adviser to manage a single portfolio of securities at the “master fund” level and have multiple “feeder funds” that invest substantially all of their respective assets into the master fund. Individual and institutional shareholders generally invest in the “feeder funds,” which

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can offer a variety of service and distribution options. A management fee may be charged either at the master fund level or the feeder fund level depending on the specific requirements of the fund, although funds also involving performance fees or carried interest will typically charge these together with management fees at the master fund level. Administrative, shareholder servicing and custodian fees are often waived at the feeder fund level and only charged at the master fund level, although the feeder funds will indirectly bear their pro-rata share of the expenses of the master fund as an investor in the master fund. Fees and expenses specific to a feeder fund may be charged at the level of that feeder fund.

Our services also include management of our strategic beta and actively managed ETFs. ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETF's net asset value.

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

### 2. Alternative Strategies Investment Management

We offer and support alternative investment strategies, products and solutions through various subsidiaries as alternatives to our traditional equity and fixed income products and related management services for our clients. Our alternative investment products include, among other capabilities, hedge funds, private equity funds, real estate funds and commodities funds. Examples of some of these offerings are listed below.

K2, a fund of hedge funds solutions provider, offers and supports alternative investments and multi-asset solutions platforms for institutional and other qualified investors. K2 provides risk management, manager selection and asset allocation capabilities in various global jurisdictions. Products offered include discretionary and non-discretionary custom-tailored investment programs, commingled funds of hedge funds and hedge fund investment advisory services. By active allocation to selected third-party sub-advisers, K2 also provides access to multiple non-traditional and alternative strategies as an adviser to a number of U.S. and Non-U.S. Funds.

Darby is primarily engaged in sponsoring and managing funds that invest in private equity, private debt and infrastructure investment transactions in emerging markets in Asia, Latin America and Central/Eastern Europe. Darby offers these investment funds through private placements to institutional and high net-worth individual investors.

Templeton Asset Management Ltd. sponsors and manages a limited number of investment funds that also invest primarily in emerging markets in Asia, Latin America and Central/Eastern Europe.

Franklin Templeton Institutional, LLC manages investment partnerships that invest in funds with exposure to global real estate opportunities.

Franklin Advisers, Inc. manages various privately offered funds with strategies that include the use of fixed income and other financial instruments as well as derivatives across the global interest rate, currency and credit markets.

### 3. Institutional Investment Management

We provide a broad array of investment management services to institutional clients, which include corporations, endowments, charitable foundations, and pension and defined contribution plans. Our subsidiaries offer a wide range of equity, fixed income and alternative strategies through a variety of investment vehicles, including separate accounts, registered open-end and closed-end funds, and unregistered funds. We distribute and market globally our different capabilities under our brand names through various subsidiaries. In the U.S., we generally operate our institutional business under the trade name "Franklin Templeton Institutional."

We primarily attract new institutional business through our relationships with pension, defined contribution and management consultants, direct sales efforts and additional mandates from our existing client relationships, as well as from our responses to requests for proposals. We also market and distribute our SIPs to institutional investors with separately-managed accounts through various subsidiaries. A few of our subsidiaries also serve as direct marketing broker-dealers for institutional investors for certain of our institutional investment funds and private funds.



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

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

Through our various trust company subsidiaries, including Fiduciary Trust, we also provide trust, custody and related services, including administration, performance measurement, estate planning and tax planning. We provide planned giving administration and related custody services for non-profit organizations, including pooled income funds, charitable remainder trusts, charitable lead trusts and gift annuities, for which we may or may not act as trustee.

5. Sales, Distribution and Marketing

A significant portion of our revenues are generated from providing sales and distribution services. Our registered open-end mutual funds and certain other products generally pay us distribution fees in return for sales, distribution and marketing efforts on their behalf. Fund shares are sold primarily through a large network of independent financial intermediaries, including broker-dealers, financial advisers, banks and other third parties. We pay substantially all of our sales and distribution fees to the financial intermediaries who sell our SIPs to the public on our behalf.

Our subsidiary Franklin/Templeton Distributors, Inc. (“FTDI”) acts as the principal underwriter and distributor of shares of most of our open-end U.S. Funds. Certain of our non-U.S. subsidiaries provide sales, distribution and marketing services to our Non-U.S. Funds distributed outside the U.S. Some of our Non-U.S. Funds, particularly the Luxembourg-domiciled Franklin Templeton Investment Funds Société d’Investissement à Capital Variable (“SICAV”), are distributed globally on a cross-border basis, while others are distributed exclusively in local markets. We earn sales and distribution fees primarily by distributing our funds pursuant to distribution agreements between FTDI or our non-U.S. subsidiaries and the funds. Under each distribution agreement, we offer and sell the fund’s shares on a continuous basis and pay certain costs associated with selling, distributing and marketing the fund’s shares, including the costs of developing and producing sales literature, shareholder reports and prospectuses.

Our U.S. retirement business is conducted through divisions of FTDI that work closely with sponsors, consultants, record keepers and financial advisers of defined contribution plans, including 401(k) plans, variable annuity products and individual retirement accounts (“IRAs”). We offer our capabilities to the U.S. retirement industry through a number of investment options, including sub-advised portfolios, funds, education savings plans and variable insurance funds. In the U.S., most of our retail funds are distributed with a multi-class share structure. We adopted this share structure to provide investors with more sales charge alternatives for their investments. Class A shares are sold with a front-end sales charge to investors, except for when certain investment criteria are met. Class C shares have no front-end sales charges, although our distribution subsidiaries pay an up-front commission to financial intermediaries on these sales. Class C shares have a contingent deferred sales charge for redemptions within 12 months from the date of purchase. Although Class C shares are generally more costly to us in the year of sale, they allow us to be more competitive by providing a fixed percentage annual charge option. Class R and Class R6 shares, available in the U.S. as retirement share classes, also have no front-end sales charges. Class R shares are available to certain retirement and health savings plan accounts, and Class R6 shares are available to employer sponsored retirement plans where plan level or omnibus accounts are held on the books of our transfer agent. We no longer offer Class B shares to clients in the U.S. In the U.S., we also offer Advisor Class shares in many of our Franklin and Templeton funds, and we offer Class Z shares in the Franklin Mutual Series funds, both of which have no sales charges. Advisor and Class Z shares are offered to certain qualified financial intermediaries, institutions and high net-worth clients (both affiliated and unaffiliated) who have assets held in accounts managed by a subsidiary of Franklin and are also available to our full-time employees, current and former officers, trustees and directors, and certain of their family members. We also offer money market funds to investors in the U.S. without a sales charge. Under the terms and conditions described in the prospectuses or the statements of additional information for some funds, certain investors can purchase shares at net asset value or at reduced sales charges. Our insurance



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product funds sold in the U.S. offer a multi-class share structure, and are offered at net asset value without a sales charge directly to insurance company separate accounts, certain qualified plans and other investment funds (funds of funds).

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

The distribution agreements with our open-end U.S. Funds generally provide for FTDI to pay commission expenses for sales of our fund shares to qualifying broker-dealers and other independent financial intermediaries. These financial intermediaries receive various sales commissions and other fees from FTDI for services in matching investors with funds whose investment objectives match such investors' goals and risk profiles. Such intermediaries may also receive fees for their assistance in explaining the operations of the funds and in servicing and maintaining investors' accounts, and for reporting and various other distribution services. We are heavily dependent upon these third-party distribution and sales channels and business relationships. FTDI may also make payments to certain broker-dealers who provide marketing support services, as described further below. There is increasing competition for access to these channels, which has caused our distribution costs to rise and could cause further increases in the future as competition continues and service expectations increase. As of September 30, 2016, approximately 1,300 local, regional and national banks, securities firms and financial adviser firms offered shares of our open-end U.S. Funds for sale to the U.S. investing public, and approximately 2,900 banks, securities firms and financial adviser firms offered shares of our cross-border Non-U.S. Funds for sale outside of the U.S.

Most of our open-end U.S. Funds, with the exception of certain money market funds, have adopted distribution plans under Rule 12b-1 (the "Rule 12b-1 Plans") promulgated under the Investment Company Act ("Rule 12b-1"). Under the Rule 12b-1 Plans, the funds pay FTDI for marketing, marketing support, advertising, printing and sales promotion services relating to the distribution of their shares, subject to the Rule 12b-1 Plans' limitations based on average daily net AUM. In 2010, the SEC proposed changes to Rule 12b-1 which, if adopted, could limit our ability to recover expenses relating to the distribution of our funds.

The Rule 12b-1 Plans are established for one-year terms and must be approved annually by a vote of each fund's board of directors or trustees as a whole and separately by a majority of its directors or trustees who are not interested persons of the fund under the Investment Company Act. All of these Rule 12b-1 Plans are subject to termination at any time by a majority vote of the disinterested fund directors or trustees or by the particular fund shareholders. Fees from the Rule 12b-1 Plans that FTDI receives as revenues are paid primarily to third-party broker-dealers who sell our funds to the public on our behalf. Similar arrangements exist with the distribution of our Non-U.S. Funds where, generally, our subsidiary that distributes the funds receives maintenance fees from the funds and pays commissions and certain other fees to banks and other intermediaries.

FTDI and/or its affiliates may make the following additional payments to broker-dealers that sell shares of our funds: Marketing support payments. FTDI may make payments to certain broker-dealers who are holders or dealers of record for accounts in one or more of our open-end U.S. Funds. A broker-dealer's marketing support services may include business planning assistance, advertising, educating broker-dealer personnel about the funds and shareholder financial planning needs, placement on the broker-dealer's list of offered funds, and access to sales meetings, sales representatives and management representatives of the broker-dealer. FTDI compensates broker-dealers differently depending upon, among other factors, sales and asset levels, and the level and/or type of marketing and educational activities provided by the broker-dealer. Such compensation may include financial assistance to broker-dealers that enables FTDI to participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other broker-dealer-sponsored events. These payments may vary depending upon the nature of the event. FTDI periodically reviews its marketing support arrangements to determine whether to continue such payments. The statement of additional information for each retail



U.S. Fund, provided to investors in such funds upon request, provides a list of broker-dealers that receive such marketing support payments and the maximum payments received. FTDI may also make marketing support payments to financial intermediaries that serve as plan service providers to certain employer sponsored retirement plans in connection with activities intended to assist in the sale of our open-end U.S. Funds to such plans. Certain of our non-U.S. subsidiaries may also make marketing support or similar payments to intermediaries located outside the U.S. with respect to investments in Non-U.S. Funds.

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

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

### 6. Shareholder Servicing

We receive shareholder servicing fees as compensation for providing transfer agency services, which include providing customer statements, transaction processing, customer service and tax reporting. Our subsidiary Franklin Templeton Investor Services, LLC ("FTIS") serves as shareholder servicing and dividend-paying agent for our open-end U.S. Funds. FTIS is registered with the SEC as a transfer agent under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). FTIS is compensated pursuant to transfer agency service agreements with the funds. These fees are generally fixed annual charges per shareholder account that vary with the particular type of fund and the services being rendered. FTIS also is reimbursed for out-of-pocket expenses. Other non-U.S. subsidiaries provide similar services to our Non-U.S. Funds, and may be compensated based on a combination of similar per account fees and fees based on the level of AUM in the accounts that we serve.

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

### Summary of SIPs

#### 1. Investment Objectives Overview

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

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

Our equity investment products include some that are considered value-oriented, others that are considered growth-oriented, and some that use a combination of growth and value characteristics, generally identified as blend or core products. Value investing focuses on identifying companies that our research analysts and portfolio managers believe are undervalued based on a number of different factors, usually put in the context of historical ratios such as price-to-earnings or price-to-book value; however, we also consider the future earnings potential of each individual company on a multi-year basis. Growth investing focuses on identifying companies that our research analysts and portfolio managers believe have sustainable growth characteristics, meeting our criteria for sustainable growth potential, quality and valuation. In this effort, the key variables we examine include: market opportunity (overall size and growth); competitive positioning of the company; assessment of management (strength, breadth, depth, and

integrity) and execution of plans; and the general financial strength and profitability of the enterprise, to determine whether the growth and quality aspects are properly reflected in the current share price. Paramount

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to all of our different equity products is the incorporation of independent, fundamental research through our own collaborative in-house group of investment professionals. Our approach across the variety of equity products we manage emphasizes bottom-up stock selection within a disciplined portfolio construction process, and is complemented by our ongoing assessment of risk at both the security and portfolio levels.

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

2. Types of SIPs

As of September 30, 2016, our total AUM was \$733.3 billion and the types of SIPs we offered were as follows:

U.S. Funds - Our U.S. Funds (including open-end and closed-end funds and our insurance products trust) accounted for \$419.1 billion of AUM. Our five largest U.S. Funds and their AUM were: FCF-Franklin Income Fund (\$79.7 billion), TIT-Templeton Global Bond Fund (\$42.1 billion), FMSF-Franklin Mutual Global Discovery Fund (\$22.0 billion), FMT-Franklin Rising Dividends Fund (\$17.6 billion) and Franklin California Tax-Free Fixed Income Fund (\$15.2 billion). These five funds represented, in the aggregate, 24% of total AUM.

Cross-Border Funds - Our cross-border products, which are comprised of a variety of investment funds principally domiciled in Luxembourg and registered for sale to non-U.S. investors in 39 countries, accounted for \$107.2 billion of AUM. Our five largest cross-border funds and their AUM were: FTIF-Templeton Global Bond Fund (\$20.1 billion), FTIF-Templeton Global Total Return Fund (\$19.5 billion), FTIF-Templeton Growth (Euro) Fund (\$7.7 billion), FTIF-Templeton Asian Growth Fund (\$4.8 billion) and FTIF-Templeton Emerging Markets Bond Fund (\$4.0 billion). These five funds represented, in the aggregate, 8% of total AUM.

Local/Regional Funds - In addition to our cross-border products, in some countries we offer products for the particular local market. These local/regional funds accounted for \$41.8 billion of AUM.

Other Managed Accounts, Alternative Investment Products and Trusts - Our managed accounts, alternative investment products and trusts accounted for \$165.2 billion of AUM, of which \$10.3 billion were K2 investment products and funds, and \$6.4 billion included Darby products and real estate, emerging markets and certain global fixed income investment funds.

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## 3. AUM by Investment Objective and Types of SIPs

The following table shows our AUM by investment objective and types of SIPs as of September 30, 2016:

(in billions)	U.S. Funds	Cross-Border Funds	Local/Regional Funds	Other Managed Accounts, Alternative Investment Products and Trusts	Total
<b>INVESTMENT OBJECTIVE</b>					
<b>Equity</b>					
Asia-Pacific	\$0.8	\$ 10.7	\$ 6.4	\$ 19.2	\$37.1
Canada	—	—	4.0	5.2	9.2
Europe, the Middle East and Africa	2.5	4.2	5.7	0.3	12.7
U.S.	89.1	8.3	1.7	4.2	103.3
Emerging markets <sup>1</sup>	3.3	4.3	2.9	4.1	14.6
Global/international <sup>2</sup>	62.3	12.3	4.2	48.0	126.8
Total equity	158.0	39.8	24.9	81.0	303.7
<b>Hybrid</b>					
Asia-Pacific	—	—	0.4	4.0	4.4
Canada	—	—	0.7	0.9	1.6
Europe, the Middle East and Africa	—	2.2	—	0.4	2.6
U.S.	94.4	2.4	0.1	22.1	119.0
Global/international <sup>2</sup>	3.3	3.6	1.4	1.5	9.8
Total hybrid	97.7	8.2	2.6	28.9	137.4
<b>Fixed Income</b>					
Asia-Pacific	—	0.8	4.9	0.6	6.3
Canada	—	—	2.9	2.2	5.1
Europe, the Middle East and Africa	—	1.9	—	1.1	3.0
U.S. tax-free	71.8	—	0.2	4.5	76.5
U.S. taxable	34.0	9.8	2.4	7.2	53.4
Emerging markets <sup>1</sup>	1.1	5.4	0.1	10.9	17.5
Global/international <sup>2</sup>	51.6	40.8	3.1	28.8	124.3
Total fixed income	158.5	58.7	13.6	55.3	286.1
Cash Management	4.9	0.5	0.7	—	6.1
Total	\$419.1	\$ 107.2	\$ 41.8	\$ 165.2	\$733.3

<sup>1</sup> Emerging markets include developing countries worldwide.

<sup>2</sup> Global/international includes entities doing business either worldwide or only outside of the U.S.

**FINANCIAL INFORMATION ABOUT SEGMENT AND GEOGRAPHIC AREAS**

Certain financial information about the Company's business segment and geographic areas is contained in Note 14 – Segment and Geographic Information in the notes to consolidated financial statements in Item 8 of Part II of this Form 10-K, which is incorporated herein by reference.

**REGULATORY CONSIDERATIONS**

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



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### U.S. Regulation

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

As a global investment management organization, certain of our subsidiaries are also subject to the rules and regulations promulgated by the SEC, FINRA, the U.S. Commodity Futures Trading Commission (“CFTC”), the National Futures Association, the U.S. Department of Treasury and the U.S. Department of Labor (“DOL”), and to various securities, compliance, corporate governance, disclosure, privacy, anti-money laundering, anti-terrorist financing, and economic, trade and sanctions laws and regulations, both domestically and internationally. Given our global operations, we are also subject to securities laws and other laws of various non-U.S. jurisdictions and to regulation by non-U.S. regulators. In some cases, our non-U.S. operations may also be subject to regulation by U.S. regulators, such as the Department of Justice, the CFTC and the SEC (for example with respect to the Foreign Corrupt Practices Act of 1977). We are also subject not only to the sanctions programs administered by the U.S. Department of Treasury’s Office of Foreign Assets Control, but also to sanctions programs adopted and administered by non-U.S. jurisdictions where our investment management services and products are offered. Further, we are also subject to the laws and regulations of states and other jurisdictions regarding the reporting and escheatment of unclaimed or abandoned property.

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

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

In April 2016, the DOL issued a new fiduciary rule that will subject financial professionals who provide investment advice to certain U.S. retirement clients to a new fiduciary duty intended to address conflicts of interests. We believe that the rule could significantly impact the ability of financial professionals to provide investment advice and recommendations for retirement accounts about funds for which they receive a fee from the fund or its affiliates. This rule may impact the compensation paid to the financial intermediaries who sell our funds to their retirement clients and may negatively impact our business. Implementation of the rule will be phased in beginning in April 2017, and will generally become fully effective in January 2018.

The Dodd-Frank Act authorized the establishment of the Financial Stability Oversight Council (“FSOC”), the mandate of which is to identify and respond to threats to U.S. financial stability. Similarly, the U.S. and other members of the G-20 group of nations have empowered the Financial Stability Board (“FSB”) to identify and respond, in a coordinated manner, to threats to global financial stability. The FSOC may designate certain non-bank financial companies as

systemically important financial institutions (“SIFIs”), which are subject to supervision and regulation by the Board of Governors of the Federal Reserve System. The FSB may designate certain non-bank financial companies as global systemically important financial institutions (“G-SIFIs”); the additional regulatory requirements triggered by any such designation are not yet established. The FSOC and the FSB, as well as other global regulators, are considering what threats to U.S. and global financial stability, if any, arise from asset management companies and/or the funds that they manage, and whether such threats can be mitigated by treating such entities as SIFIs or G-SIFIs and/or subjecting them to additional regulation. To the extent that we or any of



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our funds are designated as a SIFI or G-SIFI, such regulation, which could include requirements related to risk-based capital, leverage, liquidity, credit exposure, stress testing, resolution plans, early remediation, and certain risk management requirements, could impact our business.

The Dodd-Frank Act, as well as other legislative and regulatory changes, impose other restrictions and limitations on us, resulting in increased scrutiny and oversight of our financial services and products. We continue to analyze the impact of the Dodd-Frank Act as further implementing rules are adopted and become effective. Under the Dodd-Frank Act, which imposes a number of new regulations governing derivative transactions, certain categories of swaps are currently required, and further categories of swaps are likely to be required, to be submitted for clearing by a regulated clearing organization and reported on a swap execution facility, and the posting of collateral will be required for uncleared swaps. These and other requirements are likely to impact how we manage our investment strategies because of, among other things, an increase in the costs and expenses of utilizing swaps and other derivatives. In addition to the rulemaking mandated by the Dodd-Frank Act, rules adopted by the CFTC have removed or limited previously available exemptions and exclusions from registration and regulation as a commodity pool operator and commodity trading advisor on which we had relied, resulting in the imposition of either additional registration, disclosure, reporting and recordkeeping requirements or more stringent requirements to comply with the remaining exemptions or exclusions for operators of certain of our registered investment funds and other pooled vehicles that use or trade in futures, swaps and other derivatives considered commodity interests and subject to regulation by the CFTC. In addition, the SEC has adopted rules that have changed the structure and operation for certain types of money market funds, and has also proposed other rules that (i) would require certain U.S. Funds to adopt liquidity management programs, and (ii) would impose restrictions on the use of derivatives by registered funds. We expect that the complex regulatory requirements and developments applicable to us will cause us to incur additional administrative and compliance costs.

### Non-U.S. Regulation

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

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

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

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

legislation via the FCA rules, as have those other EU member states in which we have a presence. A review of MiFID by the European Commission (the “Commission”) has led to the creation of a replacement directive and a new regulation (together “MiFID II”) to become effective in January 2018 and which extends the scope of the original MiFID in response to issues raised by the financial crisis. Changes will be made to pre- and post-trade reporting obligations

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and there will be an expansion of the types of instruments subject to these requirements, such as bonds, structured products and derivatives. A new concept of trading venue has been created and algorithmic trading will be subject to specific regulations. There will also be changes to conduct of business requirements, including selling practices, intermediary inducements and client categorization, as well as the provision of investment advice and management within the EU by non-EU advisers, including ours. Powers will also be given to EU national regulators to ban certain products and services and to the European Securities and Markets Authority to temporarily restrict certain financial activities within the EU.

One of the most significant developments in MiFID II is the ban on commission and other payments (“inducements”) to independent advisers and discretionary managers, which will result in a major change in the commercial relationships between fund providers and distributors. Arrangements with non-independent advisers will also be affected as narrower rules around the requirement that any commission reflects an enhancement of the service to customers come into effect, along with a prescriptive list of permissible non-monetary benefits. The final interpretation of the inducements rules could also result in major changes to how fund managers pay for investment research, though this is subject to further consultation and interpretation at the level of national authorities. This could result in a reduction in the range and quality of available research, increased costs for fund managers, and a need for revised commercial terms with both brokers and clients to reflect these changes.

During 2016, rules implementing the central clearing obligation in relation to specified derivatives under the European Market Infrastructure Regulation came into effect for the very largest trading counterparties, with the clearing obligation for other large derivatives users (including some of our clients) coming into force in December 2016. A proposal is under consultation to delay later phases of implementation, for the smallest counterparties, for a further two years. Importantly, significant progress was made in achieving mutual recognition of central counterparties between the U.S. and EU regulatory authorities. In addition, rules relating to margin requirements for uncleared over-the-counter derivatives will shortly be finalized, expected to take effect from January or February 2017 for the largest trading counterparties and from March 2017 for all other counterparties, including our clients. Given the international scale of our trading activity, if regulatory coordination is not successful, the various regulatory regimes to which we are subject could potentially result in duplication of administration and increased transaction costs, but the U.S./EU accord will cover the majority of our relevant trading for central clearing purposes.

The EU’s Alternative Investment Fund Managers Directive (“AIFMD”) came into effect in July 2014 and most EU member states have implemented its provisions on a national level. AIFMD regulates managers of, and service providers to, AIFs that are domiciled and offered in the EU and that are not authorized as retail funds under UCITS. The AIFMD also regulates the marketing within the EU of all AIFs, including those domiciled outside the EU. In general, AIFMD has a staged implementation up to 2018. Compliance with the AIFMD’s requirements may restrict AIF marketing and imposes compliance obligations in the form of remuneration policies, capital requirements, reporting requirements, leverage oversight, valuation, stakes in EU companies, the domicile, duties and liability of custodians and liquidity management.

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

The most recent iteration of the Undertakings for Collective Investment in Transferable Securities Directive (“UCITS V”) became effective in March 2016. The main objectives of UCITS V are to expand the responsibilities and potential liabilities of depositaries, to regulate remuneration policies, and to harmonize the sanctions available to regulatory authorities.

Proposals on packaged retail investment and insurance products (“PRIIPs”) are to be implemented through the strengthening of MiFID standards for non-insurance PRIIPs, revisions to the Insurance Mediation Directive’s selling standard for all insurance-based PRIIPs and new investor disclosure requirements for all PRIIPs through the PRIIPs Key Information Document (“KID”) regulation, which was approved by the European Parliament in April 2014. It requires PRIIP manufacturers to draw up a KID which can be no longer than three pages in length and must be written in simple language. The regulation allows UCITS providers, who are already required to produce the UCITS Key

Investor Information Document, a transitional period of five years from enactment during which they will be exempt from its terms. In September 2016, the European Parliament rejected the Commission's proposal for key Level 2 Regulatory Technical Standards governing the detailed implementation of PRIIPs, which may result in a delay to the PRIIPs effective date scheduled for December 2016.

In addition, the Commission's proposal for a financial transaction tax ("FTT") in the EU, which would, if approved by all EU member states, apply to all financial transactions where at least one party is established in an EU member state and either that party or another party to the transaction is a financial institution was a controversial topic for all the EU member

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states to agree upon and after discussions failed to establish unanimous support. Subsequently the Commission has put forward a revised proposal to implement the tax in the eleven EU member states which wished to participate. While the specific terms of the revised FTT proposal remain subject to negotiation, any tax on securities transactions could likely have a negative impact on the liquidity of the derivatives and securities markets in Europe and could adversely impact our European clients' assets and our non-European clients to the extent that they are or want to be invested in European assets.

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

In June 2016, a narrow majority of voters in a U.K. referendum voted to exit the EU ("Brexit"), but it is still unclear exactly what will be the U.K.'s status in relation to the EU when it ultimately leaves (and the negotiation process does not begin until the U.K. formally notifies the EU of its intent pursuant to Article 50 of the EU treaty, which has not yet occurred). While these are unprecedented times for the U.K., and we are monitoring the consequences very closely for our clients from an investment perspective, we believe that Brexit will not have a major impact on the way our firm operates in the U.K. Our long-standing U.K. businesses are expected to continue to provide their services to U.K. customers. Furthermore, we have other regulated subsidiaries across continental Europe such that, in the event of a future restriction on cross-border trade in financial products and services between the U.K. and the new EU, it would be likely to have a limited effect on our business. Moreover, our cross-border SICAV investment fund range, which is the mostly widely-distributed such range in the world, is based in Luxembourg. We have a separate, U.K.-domiciled fund range that is, and will continue to be, distributed only in the U.K.

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

In March 2013, the Canadian Securities Administrators, the umbrella organization of provincial and territorial securities regulatory authorities, released final amendments to its rules regarding registrant obligations that require additional disclosure by registrants to their clients, including enhanced disclosure at account opening of all operating charges and fees a client may be required to pay, pre-trade disclosure of any charges a client may be required to pay, enhanced reporting on client statements that includes charges paid by the client and all compensation received by registrants in respect of a client's account and new reporting regarding the performance of investments held in the account. These new rules, which were phased in over a three-year period, have required us to make changes to our systems to comply with these new disclosure and reporting standards.

In Singapore, our subsidiaries are subject to, among others, the Securities and Futures Act ("SFA"), the Financial Advisers Act ("FAA") and the subsidiary legislation promulgated pursuant to these Acts, which are administered by the Monetary Authority of Singapore ("MAS"). Our asset management subsidiary and its employees conducting regulated

activities specified in the SFA and/or the FAA are required to be licensed with the MAS. Failure to comply with applicable laws, regulations, codes, directives, notices and guidelines issued by the MAS may result in penalties including fines, censures and the suspension or revocation of licenses granted by the MAS.

In Australia, our subsidiaries are subject to various Australian federal and state laws and are regulated by the Australian Securities and Investments Commission (“ASIC”). ASIC regulates companies, financial markets and financial services in

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Australia. ASIC imposes certain conditions on licensed financial services organizations that apply to our subsidiaries, including requirements relating to capital resources, operational capability and controls. Failure to comply with applicable law, regulations or conditions could result in various sanctions being imposed including cancellation, suspension or variation of the licenses held by our Australian subsidiaries.

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

In India, certain of our subsidiaries are primarily subject to relevant regulations promulgated by the Securities and Exchange Board of India (“SEBI”). The Reserve Bank of India (“RBI”), the Ministry of Corporate Affairs (“MCA”) and the Foreign Investment Promotion Board (“FIPB”) are the other major regulatory authorities that are capable of issuing directions of a binding nature to our subsidiaries. A failure to comply with the applicable laws, regulations, codes, notices, directives, guidelines, orders, circulars and schemes issued by SEBI, RBI, MCA or FIPB may result in penalties including fines, censures and/or suspension or revocation of licenses, approvals or registration status.

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

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

## COMPETITION

The financial services industry is a highly competitive global industry. According to data sourced from the Investment Company Institute as of June 30, 2016, there were approximately 11,200 registered open-end funds whose shares were offered to the public in the U.S. and approximately 107,900 registered open-end funds whose shares were offered to the public outside the U.S., in each case including mutual funds, ETFs and funds of funds.

We face strong competition from numerous investment management companies, securities brokerage and investment banking firms, insurance companies, banks and other financial institutions, which offer a wide range of financial and investment management services to the same institutional accounts, separate accounts, retail investors and high net-worth clients that we are seeking to attract. Competition is based on various factors, including, among others, business reputation, investment performance, product mix and offerings, service quality and innovation, distribution relationships, and fees charged.

Due to our international presence and varied product mix, it is difficult to assess our market position relative to other investment managers on a worldwide basis, but we believe that we are one of the more widely diversified asset managers based in the U.S. We believe that our equity and fixed income asset mix coupled with our global presence will serve our competitive needs well over the long term. We continue to focus on the long-term performance of our investment products,



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service to clients and extensive marketing activities through our strong broker-dealer and other financial institution distribution network as well as with high net-worth and institutional clients. We believe that performance, diversity of products and customer service, along with fees and costs, are the primary drivers of competition in the financial services industry.

The periodic establishment of new investment management firms and investment products increases the competition that we face. Many of our competitors have long-standing and established relationships with broker-dealers, investment advisers and their clients. Others have focused on, offer and market specific product lines, which provide strong competition to certain of our asset classes. In addition, consolidation in the financial services industry has created stronger competitors, some with greater financial resources and broader distribution channels than our own. We rely largely on third-party broker-dealers and other similar independent financial intermediaries to distribute and sell our fund shares. We have pursued and continue to pursue sales relationships with all types of financial intermediaries to broaden our distribution network. We have experienced increased costs related to maintaining our distribution channels and we anticipate that this trend will continue. A failure to maintain strong business relationships with the major intermediaries who currently distribute our products may also impair our distribution and sales operations. Additionally, competing broker-dealers whom we rely upon to distribute and sell our SIPs may also sell their own proprietary funds and investment products, which could further limit the distribution of our investment products. Any inability to access and successfully sell our SIPs to clients through third-party distribution channels could have a negative effect on our level of AUM, related revenues and overall business and financial condition. We maintain a technology platform to compete with the rapidly developing and evolving marketplace. However, technology is subject to rapid change and we cannot guarantee that our competitors may not implement more advanced platforms for their products, which could affect our business.

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

### INTELLECTUAL PROPERTY

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

### EMPLOYEES

As of September 30, 2016, we employed approximately 9,100 employees and operated offices in 35 countries. We consider our relations with our employees to be satisfactory.

### AVAILABLE INFORMATION

Franklin files reports with the SEC, including current and periodic reports, proxy statements and other information filed with or furnished to the SEC from time to time. The public may read and copy any of these filings at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including Franklin, that file electronically with the SEC, at [www.sec.gov](http://www.sec.gov). Additional information about the Company's filings can also be obtained at our website at [www.franklinresources.com](http://www.franklinresources.com) under "Investor Relations." We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports



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on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Corporate Governance Guidelines. The Company has adopted Corporate Governance Guidelines. The Corporate Governance Guidelines are posted on the Company's website under "Corporate Governance" and are available in print to any stockholder who requests a copy.

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

Item 1A. Risk Factors.

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

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

fees from our international products than from our U.S. products, and higher sales fees from our U.S. products than from our international products. Additionally, changing market conditions may cause a shift in our asset mix towards fixed income products and away from equity and hybrid products, and a related decline in our revenues and income, as we generally derive higher fee revenues and income from equity and certain hybrid products than from fixed income products we manage. Further, increases in interest rates, in particular if rapid, as well as any uncertainty in the future direction of interest rates, may have a negative impact on our fixed income products. Although the shorter duration of the bond investments in many of these products may help mitigate the

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interest rate risk, rising interest rates or interest rate uncertainty typically decrease the total return on many bond investments due to lower market valuations of existing bonds. Any decrease in the level of our AUM resulting from market declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

We are subject to extensive, complex, overlapping and frequently changing rules, regulations and legal interpretations. There is uncertainty associated with the regulatory environments in which we operate. As described below, our business is subject to extensive and complex, overlapping and/or conflicting, and frequently changing and increasing number of rules, regulations, policies and legal interpretations in the countries in which we operate, including those with respect to securities and other financial instruments, investment and advisory matters, accounting, tax, compensation, ethics, data protection, privacy, sanctions programs, and escheatment laws and regulations.

As a U.S. reporting company, we are subject to U.S. federal securities laws, state laws regarding securities fraud, other federal and state laws and rules and regulations of certain regulatory and self-regulatory organizations, including those rules and regulations promulgated by, among others, the U.S. Securities and Exchange Commission (“SEC”) and the New York Stock Exchange. As a global investment management organization, certain of our subsidiaries are also subject to the rules and regulations promulgated by the SEC, the Financial Industry Regulatory Authority, the U.S. Commodity Futures Trading Commission (“CFTC”), the National Futures Association, the U.S. Department of Treasury and the U.S. Department of Labor (“DOL”). Given our global operations, we are also subject to securities laws and other laws of various non-U.S. jurisdictions and to regulation by non-U.S. regulators including, among others, the United Kingdom (“U.K.”) Financial Conduct Authority, the Luxembourg Commission de Surveillance du Secteur Financier, the Canadian Securities Administrators, the Monetary Authority of Singapore, the Australian Securities and Investments Commission, the Hong Kong Securities and Futures Commission, the Securities and Exchange Board of India, the Japanese Financial Services Agency and various international stock exchanges. In some cases, our non-U.S. operations may also be subject to regulation by U.S. regulators, such as the Department of Justice, the CFTC and the SEC (for example, with respect to the Foreign Corrupt Practices Act of 1977). We are also subject not only to the sanctions programs administered by the U.S. Department of Treasury’s Office of Foreign Assets Control, but also to sanctions programs adopted and administered by non-U.S. jurisdictions where our investment management services and products are offered. Further, we are also subject to the laws and regulations of states and other jurisdictions regarding the reporting and escheatment of unclaimed or abandoned property.

Certain of our subsidiaries are registered with the SEC under the Investment Advisers Act of 1940, the CFTC and/or licensed by various non-U.S. regulators. In addition, many of our funds are registered with the SEC under the Investment Company Act of 1940 (the “Investment Company Act”) or authorized by various European and other non-U.S. regulators pursuant to the European Union’s (“EU”) Undertakings for Collective Investment in Transferable Securities (“UCITS”) Directive, or authorized under other non-U.S. laws in Europe, the Middle East and Africa, Asia-Pacific, Canada and Latin America. These registrations, licenses and authorizations impose numerous obligations, as well as detailed operational requirements, on such subsidiaries and such funds. Our subsidiaries must also comply with complex tax regimes.

Financial reporting requirements, and the processes, controls and procedures that have been put in place to address them, are often comprehensive and complex. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation of existing laws and regulations. While management has focused attention and resources on our compliance policies, procedures and practices, non-compliance with applicable laws, rules, regulations, conflicts of interest requirements or fiduciary principles, or our inability to keep up with, or adapt to, an ever changing, complex regulatory environment, could result in civil liability, criminal liability and/or sanctions against us, including fines and censures, injunctive relief, suspension or expulsion from a particular jurisdiction or market or the revocation of licenses or charters, any of which could adversely affect our reputation, prospects, revenues and income. Moreover, any potential accounting or reporting error, whether financial or otherwise, if material, could damage our reputation and adversely affect our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) authorized the establishment of the Financial Stability Oversight Council (“FSOC”), the mandate of which is to identify and respond to threats to U.S. financial stability. Similarly, the U.S. and other members of the G-20 group of nations have

empowered the Financial Stability Board (“FSB”) to identify and respond, in a coordinated manner, to threats to global financial stability. The FSOC may designate certain non-bank financial companies as systemically important financial institutions (“SIFIs”), which are subject to supervision and regulation by the Board of Governors of the Federal Reserve System. The FSB may designate certain non-bank financial companies as global systemically important financial institutions (“G-SIFIs”); the additional regulatory requirements triggered by any such designation are not yet established. The FSOC and the FSB, as well as other global regulators, are considering what threats to U.S. and global financial stability, if any, arise from asset management companies and/or the funds that they manage, and whether such threats can be mitigated by treating such entities as SIFIs or

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

Our subsidiary Fiduciary Trust Company International (“Fiduciary Trust”) and its subsidiaries remain subject to additional regulation, supervision and examination by their respective regulators. Certain federal and state anti-takeover laws generally provide that no person may acquire control of Franklin Resources, Inc. (“Franklin”), and gain indirect control of Fiduciary Trust or its subsidiaries, without prior regulatory approval. Such federal and state laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Franklin, including through transactions that some shareholders might consider desirable.

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

Global regulatory and legislative actions and reforms have made the regulatory environment in which we operate more costly and future actions and reforms could adversely impact our financial condition and results of operations. The U.S. federal securities laws have been augmented substantially and made significantly more complex by, among other measures, the Dodd-Frank Act, the Sarbanes-Oxley Act of 2002 and the USA Patriot Act of 2001. Similarly, the securities and related laws outside the U.S. have been augmented substantially and made more complex by measures such as the EU’s Alternative Investment Fund Managers Directive (“AIFMD”) and Markets in Financial Instruments Directive II (“MiFID II”). Further, in June 2016, a narrow majority of voters in a U.K. referendum voted to exit the EU (“Brexit”), but it is still unclear exactly what will be the U.K.’s status in relation to the EU when it ultimately leaves. Ongoing changes in the EU’s regulatory framework applicable to our business, including Brexit and any other changes in the composition of the EU’s member states, may add further complexity to our global risks and operations. Moreover, the adoption of new laws, regulations or standards and changes in the interpretation or enforcement of existing laws, regulations or standards have directly affected, and will continue to affect, our business. With new laws and changes in interpretation of existing requirements, the associated time we must dedicate to and related costs we must incur in meeting the regulatory complexities of our business have increased. In particular, certain provisions of the Dodd-Frank Act and MiFID II still require the adoption of implementing rules. We may be required to invest

significant additional management time and resources to address the new regulations being adopted pursuant to the Dodd-Frank Act, MiFID II and other laws. Outlays associated with meeting regulatory complexities have also increased as we expand our business into new jurisdictions.

Further, pursuant to ongoing efforts to encourage global tax compliance, the Organization for Economic Co-operation and Development has adopted a global common reporting standard for the automatic exchange of financial information among participating countries (“CRS”), aimed at ensuring that persons with financial assets located outside of their tax residence



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country pay required taxes. In many cases, intergovernmental agreements between the participating countries will govern implementation of the new rules. CRS will be implemented over a multi-year period and we will continue to monitor the implementing regulations and corresponding intergovernmental agreements to determine our requirements. CRS may subject us to additional reporting, compliance and administrative costs and burdens in jurisdictions where we operate as a qualifying financial institution.

Compliance activities to address these and other new legal requirements have required, and will continue to require, us to expend additional time and resources, and, consequently, we are incurring increased costs of doing business, which potentially negatively impacts our profitability and future financial results. Finally, any further regulatory and legislative actions and reforms affecting the investment management industry, including compliance initiatives, may negatively impact revenues by increasing our costs of accessing or operating in the financial markets or by making certain investment offerings less favorable to our clients.

Failure to comply with the laws, rules or regulations in any of the jurisdictions in which we operate could result in substantial harm to our reputation and results of operations. As with all investment management companies, our activities are highly regulated in almost all countries in which we conduct business. The regulatory environments of the jurisdictions where we conduct our business or where our SIPs are organized or sold are complex, uncertain and subject to change. Local regulatory environments may vary widely and place additional demands on our sales, investment, legal and compliance personnel. Failure to comply with the applicable laws, rules, regulations, codes, directives, notices or guidelines in any of our jurisdictions could result in a wide range of penalties and disciplinary actions, including fines, censures and the suspension or expulsion from a particular jurisdiction or market or the revocation of licenses, any of which could adversely affect our reputation and operations. In recent years, the regulatory environments in which we operate have seen significant increased and evolving regulations, which have imposed and may continue to impose additional compliance and operational requirements and costs on us in the applicable jurisdictions. Regulators could also change their policies or laws in a manner that might restrict or otherwise impede our ability to offer our investment products and services in their respective markets, or we may be unable to keep up with, or adapt to, the ever changing, complex regulatory requirements in such jurisdictions or markets, which could further negatively impact our business.

Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity. We are subject to income taxes as well as non-income based taxes, and are subject to ongoing tax audits, in various jurisdictions in which we operate. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes could have a material impact on our net income or financial condition. Changes in tax laws or tax rulings could materially impact our effective tax rate. For example, proposals for fundamental U.S. corporate tax reform, if enacted, could change the amount of taxes we are required to pay and could have a significant impact on our future results of operations, profitability and financial condition.

Any significant limitation, failure or security breach of our information and cyber security infrastructure, software applications, technology or other systems that are critical to our operations could disrupt our business and harm our operations and reputation. We are highly dependent upon the use of various proprietary and third-party information and security technology, software applications and other technology systems to operate our business. We are also dependent on the continuity and effectiveness of our information and cyber security infrastructure, policies, procedures and capabilities to protect our computer and telecommunications systems and the data that reside on or are transmitted through them and contracted third-party systems. We use technology to, among other things, support our business continuity and operations, store and maintain data, obtain securities pricing information, process client transactions, and provide reports and other customer services to the clients of the products we manage. Any disruptions, inaccuracies, delays, systems failures, data or privacy breaches, or other security breaches (including any cyber security breaches) in these and other processes could subject us to client dissatisfaction and losses and damage our reputation. Although we take protective measures, including measures to effectively secure information through

system security technology, the technology systems we use may still be vulnerable to unauthorized access, computer viruses or other events that have a security impact, such as an external hacker attack by one or more cyber criminals (including phishing attacks attempting to obtain confidential information) or an authorized employee or vendor inadvertently causing us to release confidential information, which could materially harm our operations and reputation. Potential system disruptions, failures or breaches of the technology systems we use, and the costs necessary to address them, could result in: material financial loss or costs; the unauthorized disclosure or modification of sensitive or confidential information; loss of valuable information; breach of client contracts; liability for stolen assets, information or identity; remediation costs to repair

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damage caused by the failure or breach; additional security costs to mitigate against future incidents; reputational harm; regulatory actions; and/or legal claims, liability and litigation costs resulting from the incident. Moreover, loss or unauthorized disclosure or transfer of confidential customer identification information could harm our reputation and subject us to liability under laws that protect confidential personal data, resulting in increased costs or a decline in our revenues or common stock price. Further, although we take precautions to password protect and encrypt our laptops and sensitive information on our other mobile electronic devices, if such devices are stolen, misplaced or left unattended, they may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly actions by us.

Most of the software applications that we use in our business are licensed from, and supported, upgraded and maintained by, third-party vendors. Our third-party applications include enterprise cloud storage and cloud computing application services provided and maintained by third-party vendors. A suspension or termination of certain of these licenses or the related support, upgrades and maintenance could cause temporary system delays or interruption that could adversely impact our business. In addition, the failure to properly manage and operate the data centers we use could have an adverse impact on our business. Although we have in place certain disaster recovery plans, we may experience system delays and interruptions as a result of natural disasters, power failures, acts of war, and third-party failures. Technology is subject to rapid advancements and changes and our competitors may from time to time implement more advanced technology platforms for their products, which could adversely affect our business. Our business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our products and services, or the termination of investment management agreements representing a significant portion of our AUM, could have an adverse effect on our revenues and income. Through our subsidiaries, we provide investment management and related services to our SIPs. In addition to investment management, our services include fund administration, sales, distribution, marketing, shareholder servicing, and other fiduciary services. In order to be competitive and comply with our agreements, we must properly perform our fund and portfolio administration and related responsibilities, including portfolio recordkeeping and accounting, security pricing, corporate actions, investment restrictions compliance, daily net asset value computations, account reconciliations, and required distributions to fund shareholders. In addition, the intentional or unintentional misrepresentation of our products and services in advertising materials, public relations information, social media or other external communications could adversely affect our reputation and business prospects. Our investment management fees, which represent the majority of our revenues, are dependent on fees earned under investment management agreements that we have with our SIPs. Our revenues could be adversely affected if such agreements representing a significant portion of our AUM are terminated or significantly altered. Further, certain of our subsidiaries may act as general partner for various investment partnerships, which may subject them to liability for the partnerships' liabilities. If we fail to properly perform and monitor our operations, our business could suffer and our revenues and income could be adversely affected.

We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries. We sell our SIPs and offer investment management and related services in many different regulatory jurisdictions around the world, and intend to continue to expand our operations internationally. As we do so, we will continue to face challenges to the adequacy of our resources, procedures and controls to consistently and effectively operate our business. In order to remain competitive, we must be proactive and prepared to implement necessary resources when growth opportunities present themselves, whether as a result of a business acquisition or rapidly increasing business activities in particular markets or regions. Local regulatory environments may vary widely in terms of scope, adequacy and sophistication. Similarly, local distributors, and their policies and practices as well as financial viability, may also vary widely, or be inconsistent or less developed or mature than other more internationally focused distributors. Notwithstanding potential long-term cost savings by increasing certain operations, such as transfer agent and other back-office operations, in countries or regions of the world with lower operating costs, growth of our international operations may involve near-term increases in expenses as well as additional capital costs, such as information systems and technology costs and costs related to compliance with particular regulatory or other local requirements or needs. Local requirements or needs may also place additional demands on sales and compliance personnel and resources, such as meeting local language requirements, while also integrating personnel into an

organization with a single operating language. Finding, hiring and retaining additional, well-qualified personnel and crafting and adopting policies, procedures and controls to address local or regional requirements remain a challenge as we expand our operations internationally. Moreover, regulators in non-U.S. jurisdictions could also change their policies or laws in a manner that might restrict or otherwise impede our ability to distribute or authorize investment products or maintain their authorizations in their respective markets. Any of these local requirements, activities, or needs could increase the costs and expenses we incur in a specific jurisdiction without any corresponding increase in revenues and income from operating in the jurisdiction. Certain laws and regulations both inside and outside the U.S. have included extraterritorial application. This may lead to duplicative or conflicting legal or regulatory burdens and additional costs and risks. In addition, from time to time we

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enter into international joint ventures or take minority stakes in companies in which we typically do not have control. These investments may involve risks, including the risk that the controlling stakeholder or our joint venture partner may have business interests, strategies or goals that are inconsistent with ours, and the risk that business decisions or other actions or omissions of the controlling stakeholder, our joint venture partner or the entity itself may result in liability for us or harm to our reputation or adversely affect the value of our investment in the entity.

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

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

Changes in the third-party distribution and sales channels on which we depend could reduce our income and hinder our growth. We derive nearly all of our fund sales through third-party broker-dealers, banks, investment advisers and other financial intermediaries. Increasing competition for these distribution channels and regulatory initiatives have caused our distribution costs to rise and could cause further increases in the future or could otherwise negatively impact the distribution of our products. Pursuant to the Dodd-Frank Act, the SEC may establish different standards for broker-dealers in their interaction with retail customers, which could have an impact on sales and/or distribution costs. In addition, the SEC has proposed changes to Rule 12b-1 promulgated under the Investment Company Act which, if

adopted, could limit our ability to recover expenses relating to the distribution of our U.S.-registered funds. Higher distribution costs lower our income; consolidations in the broker-dealer industry could also adversely impact our income. Moreover, if several of the major financial advisers who distribute our products were to cease operations or limit or otherwise end the distribution of our products, it could have a significant adverse impact on our income. In April 2016, the DOL issued a new fiduciary rule that will subject financial professionals who provide investment advice to certain U.S. retirement clients to a new fiduciary duty intended to address conflicts of interests. We believe that the rule could significantly impact the ability of financial professionals to provide investment advice and recommendations for retirement accounts about funds for which they receive a fee from the fund or its affiliates. This rule may impact the compensation paid to the financial intermediaries who sell our funds to their retirement

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clients and may negatively impact our business. Implementation of the rule will be phased in beginning in April 2017, and will generally become fully effective in January 2018. In addition, the U.K., the Netherlands, Sweden and the EU in MiFID II have adopted regimes which ban, or may limit, the payment of commissions and other inducements to intermediaries in relation to certain sales to retail customers in those jurisdictions, and similar regimes are under consideration in several other jurisdictions. Depending on their exact terms, such regimes may result in existing flows of business moving to less profitable channels or even to competitors providing substitutable products outside the regime. There is no assurance we will continue to have access to the third-party broker-dealers, banks, investment advisers and other financial intermediaries that currently distribute our products, or continue to have the opportunity to offer all or some of our existing products through them. A failure to maintain strong business relationships with such distributors may also impair our distribution and sales operations. Because we use broker-dealers, banks, investment advisers and other financial intermediaries to sell our products, we do not control the ultimate investment recommendations given to clients. Any inability to access and successfully sell our products to clients through third-party distribution channels could have a negative effect on our level of AUM, income and overall business and financial condition.

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

Harm to our reputation or poor investment performance of our products could reduce the level of our AUM or affect our sales, and negatively impact our revenues and income. Our reputation is critical to the success of our business. We believe that our brand names have been, and continue to be, well received both in our industry and with our clients, reflecting the fact that our brands, like our business, are based in part on trust and confidence. If our reputation is harmed, existing clients may reduce amounts held in, or withdraw entirely from, our SIPs or our SIPs may terminate their management agreements with us, which could reduce the amount of our AUM and cause us to suffer a corresponding loss in our revenues and income. Our investment performance, along with achieving and maintaining superior distribution and client service, is also critical to the success of our business. Strong investment performance often stimulates sales of our investment products. Poor investment performance as compared to third-party benchmarks or competitive products has in the past and could in the future lead to a decrease in sales of investment products we manage and stimulate redemptions from existing products, generally lowering the overall level of AUM

and reducing the management fees we earn. There is no assurance that past or present investment performance in the investment products we manage will be indicative of future performance. Any poor investment performance may negatively impact our revenues and income. Reputational harm or poor investment performance may cause us to lose current clients and we may be unable to continue to attract new clients or develop new business. If we fail to address, or appear to fail to address, successfully and promptly the underlying causes of any reputational harm or poor investment performance, we may be unsuccessful in repairing any existing harm to our reputation or performance and our future business prospects would likely be affected.



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

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

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

Regulatory and governmental examinations and/or investigations, litigation and the legal risks associated with our business, could adversely impact our AUM, increase costs and negatively impact our profitability and/or our future financial results. From time to time we may receive requests for documents or other information from governmental authorities or regulatory bodies. We may also become the subject of governmental or regulatory investigations and/or examinations, or governmental or regulatory investigations and/or examinations that have been inactive could become active. In addition, we may be named as a party in litigation. We may be obligated, and under our certificate of incorporation, by-laws and standard form of director indemnification agreement we are obligated under certain conditions, or we may choose, to indemnify directors, officers or employees against liabilities and expenses they may incur in connection with such matters to the extent permitted under applicable law. Even if claims made against us are without merit, litigation typically is an expensive process. Risks associated with legal liability often are difficult to

assess or quantify and their existence and magnitude can remain unknown for significant periods of time. Eventual exposures from and expenses incurred relating to any litigation, investigations, examinations and settlements could adversely impact our AUM, increase costs and/or negatively impact our profitability and financial results. Judgments, findings or allegations of wrongdoing by regulatory or governmental authorities, or in litigation against us or settlements with respect thereto, could affect our reputation, increase our costs of doing business and/or negatively impact our revenues, any of which could have a material negative impact on our financial results.

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Our ability to meet cash needs depends upon certain factors, including the market value of our assets, operating cash flows and our perceived creditworthiness. Our ability to meet anticipated cash needs depends upon factors such as the market value of our assets, our operating cash flows and our creditworthiness as perceived by lenders. If we are unable to obtain cash, financing or access to the capital markets in a timely manner, we may be forced to incur unanticipated costs or revise our business plans, and our business could be adversely impacted. Further, our access to the capital markets depends significantly on our credit ratings. A reduction in our long- or short-term credit ratings could increase our borrowing costs and limit our access to the capital markets. Volatility in the global financing markets may also impact our ability to access the capital markets should we seek to do so, and may have an adverse effect on investors' willingness to purchase our securities, interest rates, credit spreads and/or the valuation levels of equity markets. We are dependent on the earnings of our subsidiaries. Substantially all of our operations are conducted through our subsidiaries. As a result, our cash flow and our ability to fund operations are dependent upon the earnings of our subsidiaries and the distribution of earnings, loans or other payments by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to fund our payment obligations, whether by dividends, distributions, loans or other payments. Any payments to us by our subsidiaries could be subject to statutory or contractual restrictions and are contingent upon our subsidiaries' earnings and business considerations. Certain of our subsidiaries are subject to regulatory restrictions which may limit their ability to transfer assets to their parent companies and/or our ability to repatriate assets to the U.S. Our financial condition could be adversely affected if certain of our subsidiaries are unable to distribute assets to us.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

We lease space in various states in the U.S., including California, Connecticut, Delaware, Florida, Massachusetts, New Jersey, New York, Utah and Washington, D.C., and in various non-U.S. locations, including Australia, Austria, Belgium, Brazil, Canada, the People's Republic of China (including Hong Kong), Colombia, France, Germany, Hungary, India, Isle of Man, Italy, Japan, Luxembourg, Malaysia, Mexico, the Netherlands, Poland, Romania, Russia, Singapore, Slovakia, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, United Arab Emirates, the U.K. (including England and Scotland) and Vietnam. As of September 30, 2016, we leased and occupied approximately 1,155,000 square feet of space. We have also leased and subsequently subleased to third parties approximately 22,000 square feet of excess leased space.

In addition, we own buildings in San Mateo, Rancho Cordova and Stockton, California; St. Petersburg and Ft. Lauderdale, Florida; Hyderabad, India; and Nassau, The Bahamas, as well as space in office buildings in Argentina, India and Singapore. The buildings we own consist of approximately 2,118,000 square feet of space. We have leased to third parties approximately 389,000 square feet of excess owned space.

Item 3. Legal Proceedings.

The information set forth in response to this Item 3 of Regulation S-K under "Legal Proceedings" is incorporated by reference from the "Legal Proceedings" section in Note 11 – Commitments and Contingencies in the notes to consolidated financial statements in Item 8 of Part II of this Form 10-K, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

### EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) to Form 10-K, the following description of our executive officers is included as an unnumbered item in Part I of this report in lieu of being included in our definitive proxy statement for our annual meeting of stockholders. Set forth below are the name, age, present title, and certain other information for each of our executive officers



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as of November 14, 2016. Each executive officer is appointed by Franklin's Board of Directors and holds his/her office until the earlier of his/her death, resignation, retirement, disqualification or removal.

Vijay C. Advani

Age 55

Co-President of Franklin since October 2015; formerly, Executive Vice President–Global Advisory Services of Franklin from March 2011 to September 2015, Executive Vice President–Global Distribution of Franklin from June 2008 to March 2011, and Executive Vice President–Global Advisor Services of Franklin from December 2005 to June 2008; officer and/or director of certain subsidiaries of Franklin.

Gregory E. Johnson

Age 55

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

Jennifer M. Johnson

Age 52

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

Rupert H. Johnson, Jr.

Age 76

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

Kenneth A. Lewis

Age 55

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

Craig S. Tyle

Age 56

Executive Vice President and General Counsel of Franklin since August 2005; formerly, a partner at Shearman & Sterling LLP (a law firm) from March 2004 to July 2005 and General Counsel for the Investment Company Institute (a trade group for the U.S. fund industry) from September 1997 through March 2004; officer and/or director of certain subsidiaries of Franklin; officer of certain registered investment companies managed or advised by subsidiaries of Franklin.

Family Relationships

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

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## PART II

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

Our common stock is traded on the NYSE under the ticker symbol "BEN." On September 30, 2016, the closing price of our common stock on the NYSE was \$35.57 per share. At October 31, 2016, there were 3,287 stockholders of record of our common stock.

The following table sets forth the high and low sales prices for our common stock on the NYSE for each quarterly period of the two most recently completed fiscal years:

Quarter	Fiscal Year 2016		Fiscal Year 2015	
	High	Low	High	Low
October-December	\$42.23	\$34.62	\$59.43	\$49.12
January-March	\$39.94	\$31.00	\$55.91	\$50.49
April-June	\$41.24	\$30.56	\$52.76	\$48.69
July-September	\$36.99	\$31.59	\$49.96	\$36.15

We declared regular cash dividends of \$0.72 per share (\$0.18 per share per quarter) in the fiscal year ended September 30, 2016 ("fiscal year 2016"). We declared regular cash dividends of \$0.60 per share (\$0.15 per share per quarter) and a special cash dividend of \$0.50 per share in the fiscal year ended September 30, 2015 ("fiscal year 2015"). We currently expect to continue paying comparable regular cash dividends on a quarterly basis to holders of our common stock depending upon earnings and other relevant factors.

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

The following table provides information with respect to the shares of our common stock that we repurchased during the three months ended September 30, 2016.

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 2016	979,592	\$ 33.98	979,592	56,903,314
August 2016	3,137,858	\$ 36.21	3,137,858	53,765,456
September 2016	3,080,527	\$ 35.49	3,080,527	50,684,929
Total	7,197,977		7,197,977	

Under our stock repurchase program, we can repurchase shares of our common stock from time to time in the open market and in private transactions in accordance with applicable laws and regulations, including without limitation applicable federal securities laws. In order to pay taxes due in connection with the vesting of employee and executive officer stock and stock unit awards, we may repurchase shares under our program using a net stock issuance method. In June 2016 and October 2015, we announced that our Board of Directors authorized the repurchase of up to 50.0 million and 30.0 million additional shares of our common stock under the stock repurchase program. At September 30, 2016, 50.7 million shares remained available for repurchase under the program, which is not subject to an expiration date. There were no unregistered sales of equity securities during fiscal years 2016 and 2015.



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## Item 6. Selected Financial Data.

## FINANCIAL HIGHLIGHTS

as of and for the fiscal years ended September 30,	2016	2015	2014	2013	2012
Summary of Operations (in millions)					
Operating revenues	\$6,618.0	\$7,948.7	\$8,491.4	\$7,985.0	\$7,101.0
Operating income	2,365.7	3,027.6	3,221.2	2,921.3	2,515.2
Operating margin	35.7	% 38.1	% 37.9	% 36.6	% 35.4
Net income attributable to Franklin Resources, Inc.	1,726.7	2,035.3	2,384.3	2,150.2	1,931.4
Financial Data (in millions)					
Total assets	\$16,098.8	\$16,335.7	\$16,357.1	\$15,390.3	\$14,751.5
Debt	1,401.2	1,348.0	1,198.2	1,197.7	1,566.1
Debt of consolidated sponsored investment products and variable interest entities	682.2	807.3	950.8	1,097.4	1,211.1
Franklin Resources, Inc. stockholders' equity	11,935.8	11,841.0	11,584.1	10,073.1	9,201.3
Operating cash flows	1,727.7	2,252.0	2,138.0	2,035.7	1,066.2
Investing cash flows	192.2	248.9	390.6	232.9	873.4
Financing cash flows	(1,800.7 )	(1,612.2 )	(1,195.3 )	(2,018.1 )	(1,084.9 )
Assets Under Management (in billions)					
Ending	\$733.3	\$770.9	\$898.0	\$844.7	\$749.9
Average <sup>1</sup>	749.3	869.5	887.9	808.2	705.7
Per Common Share <sup>2</sup>					
Earnings					
Basic	\$2.94	\$3.29	\$3.79	\$3.37	\$2.99
Diluted	2.94	3.29	3.79	3.37	2.98
Cash dividends declared	0.72	1.10	0.48	1.39	1.03
Book value	20.93	19.62	18.60	15.97	14.45
Employee Headcount	9,059	9,489	9,266	9,002	8,558

<sup>1</sup> Represents simple monthly average AUM.

All per share amounts for the fiscal year ending September 30, 2012 have been adjusted retroactively to reflect a

<sup>2</sup> three-for-one split of common stock distributed to common stockholders in the form of a stock dividend in July 2013.



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

### FORWARD-LOOKING STATEMENTS

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

### OVERVIEW

We are a global investment management organization and derive our operating revenues and net income from providing investment management and related services to investors in jurisdictions worldwide through products that include investment funds and institutional, high net-worth and separately-managed accounts (collectively, our "sponsored investment products" or "SIPs"). In addition to investment management, our services include fund administration, sales, distribution, marketing, shareholder servicing, and other fiduciary services. Our SIPs and investment management and related services are distributed or marketed to investors globally under nine distinct brand names: Franklin<sup>®</sup>, Templeton<sup>®</sup>, Franklin Mutual Series<sup>®</sup>, Franklin Bissett<sup>®</sup>, Fiduciary Trust<sup>™</sup>, Darby Balanced Equity Management<sup>®</sup>, K2<sup>®</sup> and LibertyShares<sup>™</sup>. We offer a broad range of SIPs under equity, hybrid, 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 above in Item 1A of Part I of this Annual Report on Form 10-K, the amount and mix of our AUM are subject to significant fluctuations and can negatively impact our revenues and income. The level of our revenues also depends on mutual fund sales, the number of mutual fund shareholder accounts and the fee rates charged for our services, which are based on contracts with our SIPs or our clients. These arrangements could change in the future.

During the fiscal year ended September 30, 2016 ("fiscal year 2016"), the global equity financial markets experienced volatility amid ongoing concerns about economic growth in Europe, China and emerging markets, as well as continued weakness in oil prices. Volatility increased significantly in late June following the U.K.'s referendum to leave the European Union but eased during our fiscal fourth quarter. Overall equity market returns for the fiscal year were positive, evidenced by increases of 15.4% in the S&P 500 Index and 12.0% in the MSCI World Index. The global bond markets also had positive results, with the Bloomberg Barclays Global Aggregate Index increasing 8.8% for the fiscal year.

Our total AUM at September 30, 2016 was \$733.3 billion, 5% lower than at September 30, 2015, primarily due to \$86.5 billion of net new outflows partially offset by \$53.4 billion of market appreciation and other. Simple monthly average AUM ("average AUM") decreased 14% during fiscal year 2016.

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

Uncertainties regarding economic stabilization and improvement 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 SIPs and on providing high quality customer service to our clients. We continuously perform reviews of our business model. As a result of such reviews, during fiscal year 2016 we implemented changes that we believe will strengthen future investment performance and position ourselves for future success. While we remain focused on expense management, we will also seek to attract, retain and develop employees and invest strategically in systems and technology that will provide a secure and stable environment. We will continue to seek to protect and further our brand recognition while developing and maintaining broker-dealer and client relationships. The success of these and other strategies may be influenced by the factors discussed in the "Risk Factors" section in Part I of this

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## RESULTS OF OPERATIONS

(in millions, except per share data)	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
for the fiscal years ended September 30,					
Operating revenues	\$6,618.0	\$7,948.7	\$8,491.4	(17 %)	(6 %)
Operating income	2,365.7	3,027.6	3,221.2	(22 %)	(6 %)
Net income attributable to Franklin Resources, Inc.	1,726.7	2,035.3	2,384.3	(15 %)	(15 %)
Diluted earnings per share	\$2.94	\$3.29	\$3.79	(11 %)	(13 %)
Operating margin <sup>1</sup>	35.7	% 38.1	% 37.9	%	

<sup>1</sup> Defined as operating income divided by total operating revenues.

Operating income decreased \$661.9 million in fiscal year 2016 as a 17% decrease in operating revenues was partially offset by a 14% decrease in operating expenses. Net income attributable to Franklin Resources, Inc. decreased \$308.6 million primarily due to the decrease in operating income, partially offset by a \$143.6 million increase in investment and other income, net.

Operating income decreased \$193.6 million in the fiscal year ended September 30, 2015 (“fiscal year 2015”) as a 6% decrease in operating revenues was partially offset by a 7% decrease in operating expenses. Net income attributable to Franklin Resources, Inc. decreased \$349.0 million primarily due to the decrease in operating income and a \$195.4 million decrease in investment and other income, net.

Diluted earnings per share decreased in fiscal years 2016 and 2015, consistent with the decreases in net income and the impacts of 5% and 2% decreases in diluted average common shares outstanding primarily resulting from the repurchase of shares of our common stock.

## ASSETS UNDER MANAGEMENT

AUM by investment objective was as follows:

(in billions)	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
as of September 30,					
Equity					
Global/international	\$200.4	\$212.1	\$261.5	(6 %)	(19 %)
United States	103.3	100.8	109.5	2 %	(8 %)
Total equity	303.7	312.9	371.0	(3 %)	(16 %)
Hybrid	137.4	138.3	159.0	(1 %)	(13 %)
Fixed Income					
Tax-free	76.5	71.7	72.1	7 %	(1 %)
Taxable					
Global/international	156.2	182.7	225.1	(15 %)	(19 %)
United States	53.4	58.5	63.8	(9 %)	(8 %)
Total fixed income	286.1	312.9	361.0	(9 %)	(13 %)
Cash Management	6.1	6.8	7.0	(10 %)	(3 %)
Total	\$733.3	\$770.9	\$898.0	(5 %)	(14 %)
Average for the Year	\$749.3	\$869.5	\$887.9	(14 %)	(2 %)

AUM at September 30, 2016 decreased 5% from September 30, 2015, primarily due to \$86.5 billion of net new outflows partially offset by \$53.4 billion of market appreciation and other. Average AUM was impacted by the same factors, decreasing 14% during fiscal year 2016.

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AUM at September 30, 2015 decreased 14% from September 30, 2014, primarily due to \$57.9 billion of market depreciation, \$48.8 billion of net new outflows and a \$15.1 billion decrease due to foreign exchange revaluation. Average AUM was also impacted by market depreciation, which primarily occurred in the fourth fiscal quarter, decreasing 2% during fiscal year 2015.

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

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

(in billions)	Average AUM			2016	2015
for the fiscal years ended September 30,	2016	2015	2014	vs. 2015	vs. 2014
Equity					
Global/international	\$205.1	\$247.5	\$262.1	(17 %)	(6 %)
United States	101.1	112.4	107.6	(10 %)	4 %
Total equity	306.2	359.9	369.7	(15 %)	(3 %)
Hybrid	135.5	155.3	152.7	(13 %)	2 %
Fixed Income					
Tax-free	74.0	73.1	71.0	1 %	3 %
Taxable					
Global/international	172.6	211.7	227.7	(18 %)	(7 %)
United States	54.5	62.4	60.2	(13 %)	4 %
Total fixed income	301.1	347.2	358.9	(13 %)	(3 %)
Cash Management	6.5	7.1	6.6	(8 %)	8 %
Total	\$749.3	\$869.5	\$887.9	(14 %)	(2 %)
Mix of Average AUM					
for the fiscal years ended September 30,	2016	2015	2014		
Equity					
Global/international	27 %	28 %	30 %		
United States	14 %	13 %	12 %		
Total equity	41 %	41 %	42 %		
Hybrid	18 %	18 %	17 %		
Fixed Income					
Tax-free	10 %	9 %	8 %		
Taxable					
Global/international	23 %	24 %	25 %		
United States	7 %	7 %	7 %		
Total fixed income	40 %	40 %	40 %		
Cash Management	1 %	1 %	1 %		
Total	100%	100%	100%		

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Components of the change in AUM were as follows:

(in billions)				2016	2015
for the fiscal years ended September 30,	2016	2015	2014	vs. 2015	vs. 2014
Beginning AUM	\$770.9	\$898.0	\$844.7	(14 %)	6 %
Long-term sales	101.7	161.4	192.6	(37 %)	(16 %)
Long-term redemptions	(186.9 )	(209.0 )	(197.5 )	(11 %)	6 %
Net cash management	(1.3 )	(1.2 )	0.3	8 %	NM
Net new flows	(86.5 )	(48.8 )	(4.6 )	77 %	961 %
Reinvested distributions	23.3	28.5	21.6	(18 %)	32 %
Net flows	(63.2 )	(20.3 )	17.0	211 %	NM
Distributions	(27.8 )	(33.8 )	(26.1 )	(18 %)	30 %
Appreciation (depreciation) and other <sup>1</sup>	53.4	(73.0 )	62.4	NM	NM
Ending AUM	\$733.3	\$770.9	\$898.0	(5 %)	(14 %)

<sup>1</sup> Includes foreign exchange revaluation.

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

(in billions)	Equity			Fixed Income			Cash	Total
for the fiscal year ended September 30, 2016	Global/International	United States	Hybrid	Tax-Free	Taxable Global/International	Taxable United States	Management	
AUM at October 1, 2015	\$212.1	\$100.8	\$138.3	\$71.7	\$182.7	\$58.5	\$6.8	\$770.9
Long-term sales	21.9	13.7	14.3	8.9	34.2	8.7	—	101.7
Long-term redemptions	(48.9 )	(24.1 )	(26.8 )	(8.8 )	(62.5 )	(15.8 )	—	(186.9 )
Net exchanges	(1.1 )	0.6	(0.4 )	0.8	(0.5 )	0.1	0.5	—
Net cash management	—	—	—	—	—	—	(1.3 )	(1.3 )
Net new flows	(28.1 )	(9.8 )	(12.9 )	0.9	(28.8 )	(7.0 )	(0.8 )	(86.5 )
Reinvested distributions	4.3	5.8	5.8	2.0	4.2	1.2	—	23.3
Net flows	(23.8 )	(4.0 )	(7.1 )	2.9	(24.6 )	(5.8 )	(0.8 )	(63.2 )
Distributions	(5.0 )	(6.3 )	(6.5 )	(2.4 )	(5.7 )	(1.9 )	—	(27.8 )
Appreciation and other <sup>1</sup>	17.1	12.8	12.7	4.3	3.8	2.6	0.1	53.4
AUM at September 30, 2016	\$200.4	\$103.3	\$137.4	\$76.5	\$156.2	\$53.4	\$6.1	\$733.3

<sup>1</sup> Includes foreign exchange revaluation.

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(in billions) for the fiscal year ended September 30, 2015	Equity			Fixed Income			Cash Management	Total
	Global/International	United States	Hybrid	Tax-Free	Taxable Global/International	Taxable United States		
AUM at October 1, 2014	\$ 261.5	\$ 109.5	\$ 159.0	\$ 72.1	\$ 225.1	\$ 63.8	\$ 7.0	\$ 898.0
Long-term sales	40.3	19.2	24.1	8.2	56.1	13.5	—	161.4
Long-term redemptions	(55.3 )	(26.3 )	(28.4 )	(10.3 )	(72.8 )	(15.9 )	—	(209.0 )
Net exchanges	0.2	1.1	(0.5 )	—	(1.6 )	(0.1 )	0.9	—
Net cash management	—	—	—	—	—	—	(1.2 )	(1.2 )
Net new flows	(14.8 )	(6.0 )	(4.8 )	(2.1 )	(18.3 )	(2.5 )	(0.3 )	(48.8 )
Reinvested distributions	5.6	5.7	6.0	2.0	7.5	1.7	—	28.5
Net flows	(9.2 )	(0.3 )	1.2	(0.1 )	(10.8 )	(0.8 )	(0.3 )	(20.3 )
Distributions	(6.6 )	(6.0 )	(6.8 )	(2.6 )	(9.5 )	(2.3 )	—	(33.8 )
Appreciation (depreciation) and other <sup>1</sup>	(33.6 )	(2.4 )	(15.1 )	2.3	(22.1 )	(2.2 )	0.1	(73.0 )
AUM at September 30, 2015	\$ 212.1	\$ 100.8	\$ 138.3	\$ 71.7	\$ 182.7	\$ 58.5	\$ 6.8	\$ 770.9

<sup>1</sup> Includes foreign exchange revaluation.

(in billions) for the fiscal year ended September 30, 2014	Equity			Fixed Income			Cash Management	Total
	Global/International	United States	Hybrid	Tax-Free	Taxable Global/International	Taxable United States		
AUM at October 1, 2013	\$ 243.9	\$ 97.2	\$ 137.5	\$ 72.4	\$ 228.8	\$ 58.3	\$ 6.6	\$ 844.7
Long-term sales	51.5	24.3	31.5	8.2	60.8	16.3	—	192.6
Long-term redemptions	(54.1 )	(24.7 )	(23.4 )	(13.2 )	(66.7 )	(15.4 )	—	(197.5 )
Net exchanges	0.5	0.6	1.8	(1.0 )	(2.1 )	—	0.2	—
Net cash management	—	—	—	—	—	—	0.3	0.3
Net new flows	(2.1 )	0.2	9.9	(6.0 )	(8.0 )	0.9	0.5	(4.6 )
Reinvested distributions	3.9	3.5	5.3	2.4	4.9	1.6	—	21.6
Net flows	1.8	3.7	15.2	(3.6 )	(3.1 )	2.5	0.5	17.0
Distributions	(4.4 )	(3.7 )	(6.1 )	(2.9 )	(6.8 )	(2.2 )	—	(26.1 )
Appreciation (depreciation) and other <sup>1</sup>	20.2	12.3	12.4	6.2	6.2	5.2	(0.1 )	62.4
AUM at September 30, 2014	\$ 261.5	\$ 109.5	\$ 159.0	\$ 72.1	\$ 225.1	\$ 63.8	\$ 7.0	\$ 898.0

<sup>1</sup> Includes foreign exchange revaluation.

AUM decreased \$37.6 billion or 5% during fiscal year 2016, primarily due to \$86.5 billion of net new outflows partially offset by \$53.4 billion of market appreciation and other, which includes a \$2.4 billion increase due to foreign exchange revaluation. Long-term sales decreased 37% to \$101.7 billion from the prior year, and long-term redemptions decreased 11% to \$186.9 billion. Both declines occurred in all long-term investment objectives, primarily in global/international products, with the exception of tax-free fixed income sales. The market appreciation occurred in all investment objectives and reflected positive returns in global markets, as evidenced by increases in the MSCI World index of 12.0%, the S&P 500 index of 15.4% and the Bloomberg Barclays Global Aggregate Index of 8.8%. The foreign exchange revaluation resulted from AUM in products that are not U.S. dollar denominated, which represented approximately 14% of total AUM as of September 30, 2016.

AUM decreased \$127.1 billion or 14% during fiscal year 2015, primarily due to \$73.0 billion of market depreciation and other, which includes a \$15.1 billion decrease due to foreign exchange revaluation, and \$48.8 billion of net new outflows. The market depreciation occurred in all long-term investment objectives with the exception of tax-free fixed

income, and reflected negative returns in global markets, as evidenced by decreases in the MSCI World and S&P 500 indexes of 4.6% and 0.6%. The foreign exchange revaluation resulted from AUM in products that are not U.S. dollar denominated, which represented

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approximately 13% of total AUM as of September 30, 2015, and was primarily due to strengthening of the U.S. dollar against the Canadian dollar, Australian dollar and Euro. Long-term sales decreased 16% to \$161.4 billion from the prior year due to lower sales of products in all long-term investment objectives with the exception of tax-free fixed income. Long-term redemptions increased 6% to \$209.0 billion primarily due to higher redemptions in global/international fixed income and hybrid products.

Average AUM by sales region is shown below.

(in billions)				2016	2015
for the fiscal years ended September 30,	2016	2015	2014	vs. 2015	vs. 2014
United States	\$507.4	\$577.9	\$578.8	(12 %)	0 %
International					
Europe, the Middle East and Africa	108.9	137.9	149.5	(21 %)	(8 %)
Asia-Pacific	82.7	90.0	91.6	(8 %)	(2 %)
Canada	31.3	36.2	39.0	(14 %)	(7 %)
Latin America <sup>1</sup>	19.0	27.5	29.0	(31 %)	(5 %)
Total international	\$241.9	\$291.6	\$309.1	(17 %)	(6 %)
Total	\$749.3	\$869.5	\$887.9	(14 %)	(2 %)

<sup>1</sup> Latin America sales region includes North America-based advisers serving non-resident clients.

The percentage of average AUM in the United States sales region was 68%, 66% and 65% for fiscal years 2016, 2015 and 2014.

Due to the global nature of our business operations, investment management and related services may be performed in locations unrelated to the sales region.

#### Investment Performance Overview

A key driver of our overall success is the long-term investment performance of our SIPs. A standard measure of the performance of these investment products is the percentage of AUM exceeding benchmarks and peer group medians. Our global/international fixed income products generated notable long-term results with at least 84% of AUM exceeding the benchmarks and at least 90% of AUM exceeding the peer group medians for the five- and ten-year periods ended September 30, 2016. The comparisons for these products to the benchmark and peer group median for the three-year period decreased significantly from September 30, 2015, primarily due to lower performance by three funds which collectively represent approximately 60% of this category. However, the comparisons have increased significantly from the prior year for our hybrid products versus the one-year period benchmark and one-year and five-year period peer group medians, and for our taxable U.S. fixed income products versus the one-year period benchmark and peer group median. The hybrid products increase was primarily due to higher performance by a fund which represents approximately 70% of this category. The performance of our equity products has mostly lagged the benchmarks during the periods presented.



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

as of September 30, 2016	Benchmark Comparison <sup>1, 2</sup>				Peer Group Comparison <sup>1, 3</sup>			
	% of AUM Exceeding Benchmark				% of AUM in Top Two Peer Group Quartiles			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Equity								
Global/international	25%	13%	25%	47%	40%	30%	55%	52%
United States	38%	20%	6%	32%	77%	61%	52%	71%
Total equity	30%	15%	18%	41%	55%	42%	54%	60%
Hybrid	81%	8%	9%	8%	90%	9%	87%	94%
Fixed Income								
Tax-free	44%	63%	55%	39%	44%	60%	48%	88%
Taxable								
Global/international	5%	8%	84%	88%	6%	3%	90%	93%
United States	52%	32%	68%	55%	39%	14%	27%	54%
Total fixed income	24%	29%	72%	66%	24%	24%	64%	84%

<sup>1</sup> AUM measured in the benchmark and peer group rankings represents 89% and 81% of our total AUM as of September 30, 2016.

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

The peer group rankings are sourced from either Lipper, a Thomson Reuters Company, Morningstar or eVestment in each fund's market and were based on an absolute ranking of returns. © 2016 Morningstar, Inc. All rights reserved. The information herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

For products with multiple share classes, rankings for the primary share class are applied to the entire product. Rankings for most institutional separately-managed accounts are as of the prior quarter-end due to timing of availability of information. Private equity funds, certain privately-offered emerging market and real estate funds, cash management funds and funds acquired in fiscal year 2013 are not included. Certain other funds and products were also excluded because of limited benchmark or peer group data. Had this data been available, the results may have been different. These results assume the reinvestment of dividends, are based on data available as of October 18, 2016 and are subject to revision. While we remain focused on achieving strong long-term performance, our future benchmark and peer group rankings may vary from our past performance.

**OPERATING REVENUES**

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

(in millions)	2016		2015		2014	
for the fiscal years ended September 30,	2016	2015	2016	2015	2016	2015
			vs. 2015	vs. 2014		
Investment management fees	\$4,471.7	\$5,327.8	\$5,565.7	(16 %)	(4 %)	
Sales and distribution fees	1,806.4	2,252.4	2,546.4	(20 %)	(12 %)	
Shareholder servicing fees	243.6	262.8	281.1	(7 %)	(7 %)	
Other	96.3	105.7	98.2	(9 %)	8 %	
Total Operating Revenues	\$6,618.0	\$7,948.7	\$8,491.4	(17 %)	(6 %)	

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## Investment Management Fees

Investment management fees are generally calculated under contractual arrangements with our SIPs and the products for which we provide sub-advisory services as a percentage of the market value of AUM. Annual rates vary by investment objective and type of services provided. Rates for products sold outside of the U.S. are generally higher than for U.S. products because they are structured to compensate for certain distribution costs.

Investment management fees decreased \$856.1 million in fiscal year 2016 primarily due to a 14% decrease in average AUM and the impact of a lower effective fee rate. Investment management fees decreased \$237.9 million in fiscal year 2015 primarily due to a 2% decrease in average AUM and the impact of a lower effective fee rate. The decrease in average AUM in fiscal year 2016 occurred in all sales regions and primarily in the global/international and hybrid investment objectives. The decrease in average AUM in fiscal year 2015 primarily occurred in the international sales regions and in the global/international investment objectives, partially offset by slight increases in the other investment objectives.

Our effective investment management fee rate (investment management fees divided by average AUM) was 59.7, 61.3 and 62.7 basis points for fiscal years 2016, 2015 and 2014. The rate decrease in fiscal year 2016 was primarily due to higher weightings of AUM in U.S. products and in lower fee products in the global/international investment objectives in the Europe, Middle East and Africa and Asia-Pacific sales regions, partially offset by higher performance fees. The rate decrease in fiscal year 2015 was primarily due to higher weightings of AUM in U.S. products and in lower fee products in the global/international investment objectives in the Europe, Middle East and Africa sales region, as well as lower performance fees.

Performance-based investment management fees were \$26.5 million, \$19.8 million and \$50.9 million for fiscal years 2016, 2015 and 2014. The higher fees in fiscal year 2014 were primarily related to fund of hedge funds products.

U.S. industry asset-weighted average management fee rates were as follows<sup>1</sup>:

(in basis points)	Industry Average		
	2016	2015	2014
for the fiscal years ended September 30,			
Equity			
Global/international	53	55	58
United States	37	39	41
Hybrid	50	52	53
Fixed Income			
Tax-free	35	35	35
Taxable			
Global/international <sup>2</sup>	43	46	55
United States	33	35	37
Cash Management	10	9	11

U.S. industry asset-weighted average management fee rates were calculated using information available from Lipper, a Thomson Reuters Company, as of September 30, 2016, 2015 and 2014 and include all U.S.-registered open-end funds that reported expense data to Lipper as of the funds' most recent annual report date, and for which<sup>1</sup> expenses were equal to or greater than zero. As defined by Lipper, management fees include fees from providing advisory and fund administration services. The averages combine retail and institutional funds data and include all share classes and distribution channels, without exception. Variable annuity and fund of fund products are not included.

<sup>2</sup> The decreases in the average rate in fiscal years 2016 and 2015 reflect lower weightings of two large higher fee funds and higher weightings of a large low fee fund.

Our actual effective investment management fee rates are generally higher than the U.S. industry average rates as we actively manage our products and have a higher level of international AUM, both of which generate higher fees. Changes to our effective investment management fee rates in the U.S. have not varied significantly from changes in industry rates.

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

Table of Contents**Sales and Distribution Fees**

We earn fees from the sale of certain classes of SIPs on which investors pay a commission at the time of purchase (“commissionable sales”). Sales commissions are reduced or eliminated on some share classes and for some sale transactions depending upon the amount invested and the type of investor. Therefore, sales fees will change with the overall level of gross sales, the size of individual transactions, and the relative mix of sales between different share classes and types of investors.

Globally, our mutual funds and certain other products generally pay us distribution fees in return for sales, marketing and distribution efforts on their behalf. Specifically, the majority of U.S.-registered mutual funds, with the exception of certain of our money market mutual funds, have adopted distribution plans under Rule 12b-1 (the “Rule 12b-1 Plans”) promulgated under the Investment Company Act of 1940. The Rule 12b-1 Plans permit the mutual funds to pay us for marketing, marketing support, advertising, printing and sales promotion services relating to the distribution of their shares, subject to the Rule 12b-1 Plans’ limitations on amounts based on average daily net AUM. Similar arrangements exist for the distribution of our non-U.S. funds.

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

Sales and distribution fees by revenue driver are presented below.

(in millions)				2016	2015
for the fiscal years ended September 30,	2016	2015	2014	vs. 2015	vs. 2014
Asset-based fees	\$1,410.6	\$1,698.9	\$1,823.3	(17 %)	(7 %)
Sales-based fees	386.4	542.8	711.7	(29 %)	(24 %)
Contingent sales charges	9.4	10.7	11.4	(12 %)	(6 %)
Sales and Distribution Fees	\$1,806.4	\$2,252.4	\$2,546.4	(20 %)	(12 %)

Asset-based distribution fees decreased \$288.3 million and \$124.4 million in fiscal years 2016 and 2015, primarily due to decreases of \$273.1 million and \$118.9 million from 14% and 5% decreases in the related average AUM. The decrease in fiscal year 2016 also includes \$11.3 million from the implementation of lower Rule 12b-1 Plan fee rates for certain funds effective August 1, 2015.

Sales-based fees decreased \$156.4 million and \$168.9 million in fiscal years 2016 and 2015, primarily due to decreases of \$158.5 million and \$193.9 million from 29% and 28% decreases in total commissionable sales. The decrease in fiscal year 2015 was partially offset by a \$30.5 million increase due to a higher mix of U.S. product commissionable sales. U.S. products typically generate higher sales fees than non-U.S. products. Commissionable sales represented 12% of total sales for fiscal years 2016 and 2014, and 10% for fiscal year 2015.

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

**Shareholder Servicing Fees**

We receive shareholder servicing fees as compensation for providing transfer agency services, which include providing customer statements, transaction processing, customer service and tax reporting. These fees are generally fixed charges per shareholder account that vary with the particular type of fund and the service being rendered. In some instances, we charge SIPs these fees based on the level of AUM. In the U.S., transfer agency service agreements provide that accounts closed in a calendar year generally remain billable at a reduced rate through the second quarter of the following calendar year. In Canada, such agreements that were in place through December 31, 2013 provided that accounts closed in the calendar year remain billable for four months after the end of the calendar year.

Accordingly, the level of fees varies with the change in open accounts and the level of closed accounts that remain billable. Approximately 1.2 million and 0.6 million accounts closed in the U.S. during calendar years 2015 and 2014. A change to the pricing structure in Canada effective January 1, 2014 resulted in the bundling of investment management and servicing fees, therefore shareholder servicing fees are no longer charged to SIPs in Canada.

Other services include tax planning and preparation for individual and trust clients, for which fees are primarily account based, and trust services, for which fees are based on the level of AUM.



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Shareholder servicing fees decreased \$19.2 million in fiscal year 2016, primarily due to decreases of \$9.5 million from SIPs in Europe resulting from lower levels of related AUM and \$9.4 million from SIPs in the U.S. resulting from a decrease in active accounts.

Shareholder servicing fees decreased \$18.3 million in fiscal year 2015. The decrease primarily consisted of \$10.2 million from the change in fee structure in Canada and \$9.2 million related to fees for trust services that are bundled with investment management services and presented in investment management fees effective October 1, 2014.

**Other**

Other revenue decreased \$9.4 million in fiscal year 2016 primarily due to a \$10.5 million decrease in interest and dividend income from consolidated SIPs. Other revenue increased \$7.5 million in fiscal year 2015 primarily due to an \$11.3 million increase in interest and dividend income from consolidated SIPs, partially offset by a \$4.6 million decrease in banking-related net revenues as we terminated our banking business in fiscal year 2014.

**OPERATING EXPENSES**

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

(in millions) for the fiscal years ended September 30,	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Sales, distribution and marketing	\$2,209.9	\$2,762.3	\$3,088.2	(20 %)	(11 %)
Compensation and benefits	1,360.9	1,453.3	1,467.9	(6 %)	(1 %)
Information systems and technology	207.3	224.3	216.3	(8 %)	4 %
Occupancy	134.1	132.7	137.7	1 %	(4 %)
General, administrative and other	340.1	348.5	360.1	(2 %)	(3 %)
Total Operating Expenses	\$4,252.3	\$4,921.1	\$5,270.2	(14 %)	(7 %)

**Sales, Distribution and Marketing**

Sales, distribution and marketing expenses primarily consist of payments to financial advisers, broker-dealers and other third parties for providing services to investors in our SIPs, including marketing support services. Sales expenses are determined as percentages of sales and are incurred from the same commissionable sales transactions that generate sales fee revenues. Distribution expenses are determined as percentages of AUM and are incurred from assets that generate either distribution fees or higher levels of investment management fees. Marketing support expenses are based on AUM, sales or a combination thereof. Also included is the amortization of deferred sales commissions related to up-front commissions on shares sold without a front-end sales charge to investors. The deferred sales commissions are amortized over the periods in which commissions are generally recovered from related revenues.

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

(in millions) for the fiscal years ended September 30,	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Asset-based expenses	\$1,792.7	\$2,161.0	\$2,307.2	(17 %)	(6 %)
Sales-based expenses	342.0	488.5	653.2	(30 %)	(25 %)
Amortization of deferred sales commissions	75.2	112.8	127.8	(33 %)	(12 %)
Sales, Distribution and Marketing	\$2,209.9	\$2,762.3	\$3,088.2	(20 %)	(11 %)

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Asset-based expenses decreased \$368.3 million and \$146.2 million in fiscal years 2016 and 2015 primarily due to \$352.4 million and \$168.5 million of decreases in distribution expense from 14% and 5% decreases in the related average AUM. The decrease in fiscal year 2015 was partially offset by a \$26.6 million increase in marketing support expense primarily due to a change in fee structure for certain service providers effective January 2015 from sales-based fees to asset-based fees. Distribution expenses, which are typically higher for non-U.S. products, are generally not directly correlated with distribution fee revenues due to international fee structures which provide for recovery of certain distribution costs through investment management fees.

Sales-based expenses decreased \$146.5 million in fiscal year 2016 primarily due to \$133.7 million from a 29% decrease in commissionable sales. The decrease also included \$6.7 million in India primarily related to lower sales and regulatory-driven changes in fee structure, and \$6.6 million from lower marketing support expense primarily resulting from the change in fee structure for certain service providers and lower related sales.

Sales-based expenses decreased \$164.7 million in fiscal year 2015 primarily due to \$168.3 million from a 28% decrease in commissionable sales and \$17.1 million from lower marketing support expense from the change in fee structure for certain service providers. These decreases were partially offset by increases of \$14.0 million related to a higher mix of U.S. product commissionable sales and \$12.8 million related to a regulatory-driven change in fee structure in India in effect from November 2014 to May 2015 under which we assumed responsibility for commission expenses previously paid by the local fund products in exchange for offsetting additional investment management fees. U.S. products typically generate higher sales commissions than non-U.S. products.

Amortization of deferred sales commissions decreased \$37.6 million and \$15.0 million in fiscal years 2016 and 2015 primarily due to lower sales of U.S. shares sold without a front-end sales charge to investors. The decrease in fiscal year 2016 also includes \$7.6 million related to accelerated amortization in prior years and \$5.1 million of adjustments related to prior-year amortization expense.

#### Compensation and Benefits

Compensation and benefit expenses decreased \$92.4 million in fiscal year 2016 due to a \$108.4 million decrease in variable compensation, partially offset by a \$16.0 million increase in salaries, wages and benefits. The variable compensation decrease was primarily due to \$81.2 million related to our lower performance, as well as \$8.9 million related to private equity and other product performance fees. The increase in salaries, wages and benefits was primarily due to increases of \$55.7 million in termination benefits and \$18.0 million for annual merit salary adjustments that were effective December 1, 2015, largely offset by decreases of \$35.0 million from lower staffing levels and \$16.2 million from favorable currency impacts. The increase in termination benefits is primarily due to special benefits related to the voluntary separation of approximately 300 employees. We may incur additional termination benefit expenses as we continue to implement changes to our business.

Compensation and benefit expenses decreased \$14.6 million in fiscal year 2015 due to a \$22.9 million decrease in variable compensation, partially offset by an \$8.3 million increase in salaries, wages and benefits. The variable compensation decrease was primarily due to decreases of \$22.0 million in bonus expense based on our lower performance and \$16.8 million from lower market valuations of mutual fund awards, partially offset by increases of \$12.3 million in amortization of stock and stock unit awards and \$3.5 million related to private equity and other product performance fees. The increase in salaries, wages and benefits was primarily due to a \$29.0 million increase from higher staffing levels and annual merit salary adjustments that were effective December 1, 2014, largely offset by \$19.0 million of favorable currency impacts.

Variable compensation as a percentage of compensation and benefits was 33%, 38% and 39% for fiscal years 2016, 2015 and 2014. At September 30, 2016, our global workforce had decreased to approximately 9,100 employees from approximately 9,500 employees at September 30, 2015.

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





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## Information Systems and Technology

Information systems and technology expenses decreased \$17.0 million in fiscal year 2016 primarily due to lower technical consulting costs. Information systems and technology expenses increased \$8.0 million in fiscal year 2015 primarily due to higher software, technical consulting and external data service costs.

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

(in millions)

for the fiscal years ended September 30,	2016	2015	2014
Net carrying value at beginning of year	\$89.8	\$85.5	\$93.5
Additions, net of disposals	46.2	50.8	37.4
Amortization	(47.9 )	(46.5 )	(45.4 )
Net Carrying Value at End of Year	\$88.1	\$89.8	\$85.5

## Occupancy

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

Occupancy expenses increased \$1.4 million in fiscal year 2016 primarily due to higher rent expense, substantially offset by lower building maintenance costs and depreciation. Occupancy expenses decreased \$5.0 million in fiscal year 2015 primarily due to lower building maintenance costs and property taxes.

## General, Administrative and Other

General, administrative and other operating expenses primarily consist of fund-related service fees payable to external parties, professional fees, advertising and promotion costs, corporate travel and entertainment, and other miscellaneous expenses. Effective January 1, 2014, we assumed responsibility for certain operating expenses of our Canadian funds in exchange for an AUM-based administration fee.

General, administrative and other operating expenses decreased \$8.4 million in fiscal year 2016 primarily due to lower levels of travel and entertainment, contingent consideration expense, and advertising and promotion, partially offset by higher levels of net intangible asset expenses, consolidated SIPs expenses, professional fees and third-party servicing fees. Corporate cost reduction initiatives resulted in decreases of \$14.7 million in corporate travel and entertainment expenses and \$10.6 million in advertising and promotion expenses. The change in the fair value of the contingent consideration liability for the K2 Advisors Holdings, LLC (“K2”) acquisition decreased \$14.5 million primarily due to lowered estimates of K2’s future revenues and profits. Net expenses from definite-lived intangible assets, primarily related to the K2 acquisition, increased \$10.3 million as \$20.0 million of increased impairment due to higher investor redemptions, lower estimates of future sales and renegotiations of certain investment management fees was offset by a related \$9.7 million decrease in amortization. Consolidated SIPs expenses increased \$9.0 million, professional fees increased \$6.2 million related to various corporate activities, and third-party service fees increased \$5.5 million primarily due to higher sub-advisory expenses.

General, administrative and other operating expenses decreased \$11.6 million in fiscal year 2015 primarily due to lower professional fees, consolidated SIPs expenses, third-party service fees and non-executive directors’ compensation, partially offset by intangible asset impairment and higher contingent consideration and Canadian fund expenses. Professional fees decreased \$13.2 million primarily due to fees incurred in the prior year for various corporate activities including the winding down of our banking business. Consolidated SIPs expenses decreased \$11.8 million. Third-party service fees decreased \$5.1 million primarily due to lower AUM and fund-related service fees. Non-executive directors’ compensation decreased \$4.4 million primarily due to the impact of a decrease in our stock price on the deferred portion. The decreases were partially offset by \$8.2 million of impairment of definite-lived intangible assets, a \$7.0 million increase in the change in the fair value of the contingent consideration liability for K2 primarily due to revised estimates of K2’s future revenues and profits, and a \$6.6 million increase in Canadian fund expenses.



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

**OTHER INCOME (EXPENSES)**

Other income (expenses) were as follows:

(in millions)				2016	2015
for the fiscal years ended September 30,	2016	2015	2014	vs. 2015	vs. 2014
Investment and other income, net	\$184.0	\$40.4	\$235.8	355 %	(83 %)
Interest expense	(49.9 )	(39.6 )	(47.4 )	26 %	(16 %)
Other Income, Net	\$134.1	\$0.8	\$188.4	NM	(100 %)

Investment and other income, net consists primarily of interest and dividend income, income (losses) from equity method investees, gains (losses) on trading investment securities and investments of consolidated SIPs, realized gains (losses) on sale of available-for-sale investment securities, and foreign currency exchange gains (losses).

Other income, net increased \$133.3 million in fiscal year 2016 primarily due to higher market valuations, which resulted in net investment income and gains, and higher interest income, partially offset by unfavorable impacts from foreign currency exchange and investments of consolidated SIPs. Equity method investees generated income of \$56.7 million as compared to losses of \$63.2 million in the prior year, and trading investment securities generated net gains of \$50.1 million as compared to net losses of \$22.3 million in the prior year. Interest income increased \$25.7 million primarily due to higher levels of debt securities and cash equivalents. These increases were partially offset by \$2.9 million of foreign currency exchange net losses as compared to net gains of \$57.0 million in the prior year primarily from strengthening of the U.S. dollar against the Euro, and \$13.5 million of net losses on investments of consolidated SIPs as compared to net gains of \$18.0 million in the prior year.

Other income, net decreased \$187.6 million in fiscal year 2015 primarily due to lower market valuations, which resulted in net losses and lower net gains on our investments. Equity method investees generated losses of \$63.2 million as compared to income of \$68.1 million in the prior year, net realized gains on sale of available-for-sale securities decreased \$32.7 million, trading investment securities incurred net losses of \$22.3 million as compared to net gains of \$10.4 million in the prior year, and net gains on investments of consolidated SIPs decreased \$15.9 million. The market valuation decreases were partially offset by a \$24.9 million increase in foreign currency exchange net gains primarily from strengthening of the U.S. dollar against the Euro.

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

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

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The consolidated cash, cash equivalents and investments portfolio by investment objective at September 30, 2016, including assets of consolidated SIPs and variable interest entities (“VIEs”), was as follows:

(in millions)	Total Portfolio	Percent of Total Portfolio	Trading Securities Included in Portfolio	Percent of Total Trading Securities	Assets of Consolidated SIPs and VIEs Included in Total Portfolio	Percent of Total
Cash and Cash Equivalents	\$8,483.3	68 %	\$ —	0 %	\$ 236.2	14 %
Investment Securities						
Equity						
Global/international	692.4	6 %	6.1	0 %	657.4	37 %
United States	4.3	0 %	0.3	0 %	2.7	0 %
Total equity	696.7	6 %	6.4	0 %	660.1	37 %
Hybrid	224.2	2 %	75.3	7 %	81.5	5 %
Fixed Income						
Tax-free	1.6	0 %	—	0 %	—	0 %
Taxable						
Global/international	1,022.3	8 %	578.9	52 %	264.7	15 %
United States	991.9	8 %	461.3	41 %	507.1	29 %
Total fixed income	2,015.8	16 %	1,040.2	93 %	771.8	44 %
Total investment securities	2,936.7	24 %	1,121.9	100 %	1,513.4	86 %
Other Investments	993.3	8 %	—	0 %	—	0 %
Total Cash and Cash Equivalents and Investments	\$12,413.3	100 %	\$1,121.9	100 %	\$1,749.6	100 %

Investments of consolidated SIPs and VIEs are generally assigned a classification in the table above based on the investment objective of the consolidated entity holding the securities. Other investments include \$709.6 million of investments in equity method investees that hold securities that are subject to market valuation risks and primarily have a global/international equity investment objective.

**TAXES ON INCOME**

As a multi-national corporation, we provide many of our services from locations outside the U.S. Some of these jurisdictions have lower tax rates than the U.S. Additionally, in certain countries our income is subject to reduced tax rates due to tax rulings. The mix of pre-tax income subject to these lower rates, when aggregated with income originating in the U.S., produces a lower overall effective income tax rate than existing U.S. federal and state income tax rates.

Our effective income tax rate for fiscal year 2016 was 29.7% as compared to 30.5% in fiscal year 2015 and 29.3% in fiscal year 2014. The rate decrease in fiscal year 2016 was primarily due to a higher mix of earnings in lower tax jurisdictions partially offset by a decrease in net income attributable to noncontrolling interests. The rate increase in fiscal year 2015 was primarily due to a higher mix of earnings in higher tax jurisdictions and higher non-U.S. taxes following an income tax ruling effective October 1, 2014, partially offset by the recognition of tax benefits as a result of the expiration of statutes of limitations in various U.S. and non-U.S. jurisdictions and an increase in net income attributable to noncontrolling interests.

The effective income tax rate for future reporting periods will continue to reflect the relative contributions of non-U.S. earnings that are subject to reduced tax rates and that are not currently included in U.S. taxable income. Changes in tax rates in these jurisdictions may affect our effective income tax rate and net income.



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## LIQUIDITY AND CAPITAL RESOURCES

Cash flows were as follows:

(in millions)

for the fiscal years ended September 30,	2016	2015	2014
Cash Flow Data			
Operating cash flows	\$1,727.7	\$2,252.0	\$2,138.0
Investing cash flows	192.2	248.9	390.6
Financing cash flows	(1,800.7 )	(1,612.2 )	(1,195.3 )

Net cash provided by operating activities decreased in fiscal year 2016 primarily due to a decrease in net income and losses from investments in equity method investees as compared to income in the prior year. Net cash provided by investing activities decreased mainly due to lower liquidations, net of purchases, of the Company's investments and investments of consolidated SIPs, and higher net additions of property and equipment, partially offset by higher net liquidations of investments by consolidated VIEs. Net cash used in financing activities increased primarily due to higher repurchases of common stock, prior-year proceeds from issuance of debt, net of repayments, and net distributions from consolidated SIPs by noncontrolling interests as compared to net subscriptions in the prior year, partially offset by lower dividends paid on common stock.

Net cash provided by operating activities increased in fiscal year 2015, despite a decrease in net income, primarily due to a lower net increase in trading securities of consolidated SIPs, a decrease in receivables, prepaid expenses and other as compared to an increase in the prior year and losses from investments in equity method investees as compared to income in the prior year, partially offset by a decrease in other liabilities as compared to an increase in the prior year which primarily resulted from the consolidation impact of short positions of consolidated SIPs. Net cash provided by investing activities decreased mainly due to proceeds from the sale of, and net decreases in, loans receivable in the prior year, and lower liquidations, net of purchases, of the Company's investments and investments of consolidated VIEs, partially offset by net liquidations of investments by consolidated SIPs as compared to net purchases in the prior year, and an increase in cash and cash equivalents from net consolidation of SIPs as compared to a decrease from net deconsolidation in the prior year. Net cash used in financing activities increased primarily due to higher repurchases of, and dividends paid on, common stock, and lower subscriptions in consolidated SIPs by noncontrolling interests, partially offset by a decrease in deposits in the prior year and proceeds from issuance of debt, net of repayments.

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

Our liquid assets and debt consisted of the following:

(in millions)

as of September 30,	2016	2015	2014
Assets			
Cash and cash equivalents	\$8,247.1	\$8,184.9	\$7,476.8
Receivables	746.4	816.5	910.8
Investments	1,896.7	2,105.8	2,239.2
Total Liquid Assets	\$10,890.2	\$11,107.2	\$10,626.8
Liability			
Debt	\$1,401.2	\$1,348.0	\$1,198.2

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## Liquidity

Liquid assets consist of cash and cash equivalents, receivables and certain investments. Cash and cash equivalents primarily consist of debt instruments with original maturities of three months or less at the purchase date, money market funds, time deposits with maturities of three months or less, and deposits with financial institutions. Liquid investments consist of trading and available-for-sale securities, investments in equity method investees consisting of mutual fund SIPs, direct investments in redeemable consolidated SIPs, and time deposits with maturities greater than three months.

Cash and cash equivalents at September 30, 2016 increased primarily due to net cash provided by operating and investing activities, partially offset by net cash used in financing activities. The percentages of cash and cash equivalents held by our U.S. and non-U.S. operations were 28% and 72% at September 30, 2016, and 33% and 67% at September 30, 2015.

We utilize a significant portion of our liquid assets to satisfy operational and regulatory requirements and fund capital contributions relating to our SIPs. Certain of our subsidiaries are required by our internal policy or regulation to maintain minimum levels of capital which are partially maintained by retaining cash and cash equivalents. As a result, such subsidiaries may be restricted in their ability to transfer cash to their parent companies. Also, as a multi-national corporation, we operate in various locations outside of the U.S. Certain of our non-U.S. subsidiaries are subject to regulatory or contractual repatriation restrictions or requirements. Such restrictions and requirements limit our ability to transfer cash between various international jurisdictions, including repatriation to the U.S. Should we require more capital in the U.S. than is generated domestically, we could elect to reduce the level of discretionary activities, such as share repurchases, or we could elect to repatriate future earnings from non-U.S. jurisdictions or raise capital through debt or equity issuance. Certain of these alternatives could result in higher effective tax rates, increased interest expense or other dilution to our earnings. At September 30, 2016, our U.S. and non-U.S. subsidiaries held \$874.6 million and \$2,220.8 million of liquid assets to satisfy operational and regulatory requirements and fund capital contributions to our SIPs, as compared to \$1,152.0 million and \$1,732.7 million held at September 30, 2015. Included in these amounts were U.S. and non-U.S. liquid assets that were restricted from transfer to Franklin and other subsidiaries of \$4.7 million and \$345.7 million at September 30, 2016 and \$105.8 million and \$404.0 million at September 30, 2015.

## Capital Resources

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

In prior fiscal years, we issued senior unsecured unsubordinated notes for general corporate purposes, to redeem outstanding notes and to finance an acquisition. At September 30, 2016, \$1,348.5 million of the notes were outstanding with an aggregate face value of \$1,350.0 million. The notes were issued at fixed interest rates and consist of \$300.0 million at 1.375% per annum which mature in 2017, \$350.0 million at 4.625% per annum which mature in 2020, \$300.0 million at 2.800% per annum which mature in 2022, and \$400.0 million at 2.850% per annum which mature in 2025.

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

In March 2016, we borrowed 6.3 billion Indian Rupees (\$93.4 million) at a fixed interest rate of 9.89% to purchase certain securities from SIPs domiciled in India. Interest on the loan is payable monthly, and the loan may be prepaid without penalty. To secure the loan, we concurrently entered into a standby letter of credit for 6.5 billion Indian Rupees (\$96.6 million) collateralized by a \$116.0 million time deposit. The loan agreement requires that the borrowing entity, a subsidiary located in India, maintain a specified minimum level of capital. In September 2016, we prepaid 2.8 billion Indian Rupees (\$41.2 million) of the loan. The loan had a carrying value of \$52.7 million at

September 30, 2016.

We were in compliance with all debt covenants at September 30, 2016.

At September 30, 2016, we had \$500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program which has been inactive since 2012.



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

Uses of Capital

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

We declare dividends on a quarterly basis. We declared regular cash dividends of \$0.72 per share (\$0.18 per share per quarter) in fiscal year 2016, and regular cash dividends of \$0.60 per share (\$0.15 per share per quarter) and a special cash dividend of \$0.50 per share in fiscal year 2015. We currently expect to continue paying comparable regular cash dividends on a quarterly basis to holders of our common stock depending upon earnings and other relevant factors.

We maintain a stock repurchase program to manage our equity capital with the objective of maximizing shareholder value. Our stock repurchase program is effected through regular open-market purchases and private transactions in accordance with applicable laws and regulations.

During fiscal years 2016 and 2015, we repurchased 36.6 million and 22.5 million shares of our common stock at a cost of \$1,324.3 million and \$1,059.8 million. In June 2016 and October 2015, our Board of Directors authorized the repurchase of up to 50.0 million and 30.0 million additional shares of our common stock under the stock repurchase program. At September 30, 2016, 50.7 million shares remained available for repurchase under the program, which is not subject to an expiration date.

During fiscal years 2016 and 2015, we redeemed \$514.2 million and \$70.0 million, net of investments, from our SIPs. The funds that we manage have their own resources available for purposes of providing liquidity to meet shareholder redemptions, including securities that can be sold or provided to investors as in-kind redemptions, and lines of credit. While we have no contractual obligation to do so, we may voluntarily elect to provide the funds with direct or indirect financial support based on our business objectives. During fiscal year 2016, we purchased \$182.7 million of certain debt securities from six SIPs domiciled in India in order to provide additional liquidity to the SIPs.

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The following table summarizes our contractual obligations, commitments and contingent liability.

(in millions) as of September 30, 2016	Payments Due by Fiscal Year						Total
	2017	2018	2019	2020	2021	There-after	
<b>Debt</b>							
Principal <sup>1</sup>	\$352.4	\$—	\$—	\$349.9	\$—	\$ 698.9	\$1,401.2
Interest	42.9	36.0	36.0	36.0	19.8	48.3	219.0
Operating leases	44.7	43.1	39.0	31.6	28.0	190.2	376.6
Purchase obligations <sup>2</sup>	119.9	116.3	63.1	11.9	4.7	7.2	323.1
Total Contractual Obligations	559.9	195.4	138.1	429.4	52.5	944.6	2,319.9
Committed capital contributions <sup>3</sup>	35.2	—	—	—	—	—	35.2
Contingent consideration liability <sup>4</sup>	38.1	37.9	40.2	—	—	—	116.2
Total Contractual Obligations, Commitments and Contingent Liability	\$633.2	\$233.3	\$178.3	\$429.4	\$52.5	\$ 944.6	\$2,471.3

<sup>1</sup> Debt principal represents carrying amount.

Purchase obligations include contractual amounts that will be due to purchase goods and services to be used in our operations and may be canceled at earlier times than those indicated under certain conditions that may include termination fees.

Committed capital contributions relate to discretionary commitments to invest in SIPs and other investment products. Generally, the timing of the funding of these commitments is unknown as they are callable on demand at any time prior to the expiration of the commitment periods.

<sup>4</sup> Contingent consideration liability relates to the Company's commitment to acquire the remaining interests in K2. The debt holders of consolidated SIPs and consolidated VIEs have no recourse to our assets beyond the level of our direct investments, therefore we bear no risks associated with these entities' liabilities and have not included them in the table above. See Note 9 – Variable Interest Entities and Consolidated Sponsored Investment Products in the notes to consolidated financial statements in Item 8 of Part II of this Form 10-K.

At September 30, 2016, our consolidated balance sheet included liabilities for unrecognized tax benefits of \$82.1 million and related accrued interest of \$9.6 million (see Note 10 – Taxes on Income in the notes to consolidated financial statements in Item 8 of Part II of this Form 10-K). Because of the high degree of uncertainty regarding the timing and amounts of future cash outflows, unrecognized tax benefits and related accrued interest have not been included in the table above.

**CRITICAL ACCOUNTING POLICIES**

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. These estimates, judgments and assumptions are affected by our application of accounting policies. Actual results may differ from those estimates under different assumptions. Described below are the accounting policies that we believe are most critical to understanding our financial position and results of operations. For additional information about our accounting policies, see Note 1 – Significant Accounting Policies in the notes to consolidated financial statements in Item 8 of Part II of this Form 10-K.

**Consolidation**

We consolidate our subsidiaries and SIPs in which we have a controlling financial interest. We have a controlling financial interest when we own a majority of the voting interest in an entity or are the primary beneficiary of a VIE. We also consolidate non-VIE limited partnerships and similar structures that we control.



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A VIE is an entity in which the equity investment holders have not contributed sufficient capital to finance its activities or the equity investment holders do not have defined rights and obligations normally associated with an equity investment. The assessment of whether an entity is a VIE or voting interest entity (“VOE”) involves judgment and analysis on a structure by structure basis. When performing the assessment we consider factors such as the entity’s legal organization and capital structure, the rights of the equity investment holders and our contractual involvement with and ownership interest in the entity. Our VIEs are all investment entities and our variable interests consist of our equity ownership in and/or investment management fees earned from these entities.

A limited partnership or similar structure entity for which we are the general partner or managing member, our aggregate investment is not substantive and the limited partners or other investors do not have the substantive ability to remove us as the general partner or managing member or otherwise participate in the decision making of the entity is a VIE. Otherwise the entity is a VOE and we are presumed to control the entity unless the limited partners or other investors have the substantive ability to remove us as the general partner or managing member or otherwise participate in the decision-making of the entity.

We use two models for determining whether we are the primary beneficiary of VIEs. For all VIEs with the exception of CLOs, we are the primary beneficiary if we have the majority of the risks or rewards of ownership, which we determine using expected cash flows scenarios. For CLOs, we are the primary beneficiary if we have the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses of or right to receive benefits from the VIE that could potentially be significant to the VIE.

Under both models, the key estimates and assumptions used in the analyses include the amount of AUM, investment management fee rates, the life of the investment product, prepayment rates, and the discount rate. These estimates and assumptions are subject to variability. For example, AUM is impacted by market volatility and the level of sales, redemptions, contributions, withdrawals and dividend reinvestments of mutual fund shares that occur daily. In addition, third-party purchases and redemptions, which are outside of our control, can impact our evaluation. Collateralized assets of CLOs are impacted by market volatility and prepayment rates. There is judgment involved in assessing whether we have the power to direct the activities that most significantly impact VIEs’ economic performance and the obligation to absorb losses of or right to receive benefits from VIEs that could potentially be significant to the VIEs. As of September 30, 2016, we were the primary beneficiary of three CLOs and one other SIP VIE.

Fair Value Measurements

We use a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on whether the inputs to those valuation techniques are observable or unobservable. The three levels of fair value hierarchy are set forth below. Our assessment of the hierarchy level of the assets or liabilities measured at fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Observable inputs other than Level 1 quoted prices, such as non-binding quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data. Level 2 quoted prices are generally obtained from two independent third-party brokers or dealers, including prices derived from model-based valuation techniques for which the significant assumptions are observable in the market or corroborated by observable market data. Quoted prices are validated through price variance analysis, subsequent sales testing, stale price review, price comparison across pricing vendors and due diligence reviews of third-party vendors.

Unobservable inputs that are supported by little or no market activity. These inputs require significant Level 3 management judgment and reflect our estimation of assumptions that market participants would use in pricing the asset or liability.

The fair values for Level 3 assets and liabilities are determined using various methodologies in accordance with our global valuation and pricing policy which defines valuation and pricing conventions for each security type. When

available, we measure fair value based on the reported net asset value (“NAV”) of underlying investments or independent third-party broker or dealer price quotes. These inputs are evaluated for reasonableness through various procedures which include due diligence reviews of the third parties, price comparisons across pricing vendors, stale price reviews and subsequent sales testing. If these inputs are not available, we primarily employ a market-based method, using purchase multiples observed for comparable third-party transactions, valuations of comparable entities, projected operating results of the investee entity or

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subsequent financing transactions entered into by the investee entity. If the inputs for a market-based method are not available, we utilize an income-based method, which considers the net present value of anticipated future cash flows of the investment. A discount may be applied due to the nature or duration of any restrictions on the disposition of the investment. We review and approve the market-based and income-based methods on a periodic basis for changes that would impact the unobservable inputs incorporated into the valuation process. The fair value measurements from these methods are further validated through price variance analysis, subsequent sales testing and market comparable sales.

We record a substantial amount of our investments at fair value or amounts that approximate fair value on a recurring basis. The financial assets and financial liabilities of consolidated CLOs are measured using the more observable fair value of either the financial assets or financial liabilities. Fair values are estimated for disclosure purposes for financial instruments that are not measured at fair value.

As of September 30, 2016, Level 3 assets represented 30% of total assets measured at fair value, substantially all of which related to consolidated SIPs' investments in equity and debt securities and our direct investments in debt securities that are not traded in active markets. There was one Level 3 liability, a contingent consideration liability which represented 92% of total liabilities measured at fair value. There were no transfers into or out of Level 3 during fiscal year 2016.

Following are descriptions of the significant assets and liabilities measured at fair value, including the fair value methodologies used and hierarchy levels.

Investment Securities, Trading consist primarily of nonconsolidated SIPs and to a lesser extent, debt and other equity securities. The fair value of the SIPs is determined based on their published NAV and they are classified as Level 1. The fair values of certain debt and the other equity securities are primarily determined using quoted market prices, if available, or independent third-party broker or dealer price quotes, which are evaluated for reasonableness, and they are classified Level 2. The fair value of other debt securities is determined using discounted cash flow techniques and they are classified as Level 3.

Investment Securities, Available-for-Sale consist primarily of nonconsolidated SIPs and to a lesser extent, debt and other equity securities. The fair value of the SIPs is determined based on their published NAV and they are classified as Level 1. The fair value of the debt securities is primarily determined using independent third-party broker or dealer price quotes and they are classified as Level 2. The fair value of other equity securities is determined using quoted market prices and they are classified as Level 1.

Investment securities, available-for-sale are evaluated for other-than-temporary impairment on a quarterly basis when the cost of an investment exceeds its fair value. We consider many factors, including the severity and duration of the decline in fair value below cost, our intent and ability to hold the security for a period of time sufficient for an anticipated recovery in fair value, and the financial condition and specific events related to the issuer.

Investments of Consolidated SIPs consist of trading securities and other investments that are not generally traded in active markets. The fair value of the trading securities is determined using quoted market prices, or independent third-party broker or dealer price quotes if quoted market prices are not available. These securities are classified as Level 1 or Level 2. The quoted market prices may be adjusted if events occur, such as significant price changes in U.S.-traded market proxies after the close of corresponding foreign markets, trade halts or suspensions, or unscheduled market closures. The market proxies consist of correlated country-specific exchange-traded securities such as futures, American Depositary Receipts indices or exchange-traded funds. The price adjustments are primarily determined based on third-party factors derived from model-based valuation techniques for which the significant assumptions are observable in the market.

The investments that are not generally traded in active markets consist of debt and equity securities of entities in emerging markets and fund products. The fair values of the debt and equity securities are determined using significant unobservable inputs in either a market-based or income-based approach and they are classified as Level 3. The fair value of the fund products is determined using NAV as a practical expedient. These investments are classified as Level 2 if they are redeemable without restriction on at least a quarterly basis, or Level 3 if they have a redemption frequency greater than quarterly, are subject to redemption restrictions, or are nonredeemable.

Investments of Consolidated VIEs consist substantially of corporate debt securities. The fair value is primarily obtained from independent third-party broker or dealer price quotes and they are classified as Level 2.

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### Goodwill and Other Intangible Assets

Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. Other intangible assets consist of investment management contracts resulting from business acquisitions. We amortize these intangible assets over their estimated useful lives, which range from six to 15 years, using the straight-line method, unless the asset is determined to have an indefinite useful life. Indefinite-lived intangible assets represent contracts to manage investment assets for which there is no foreseeable limit on the contract period.

We make significant estimates and assumptions when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity, as well as when evaluating impairment of goodwill and other intangible assets on an ongoing basis.

Goodwill and indefinite-lived intangible assets are tested for impairment annually and when an event occurs or circumstances change that more likely than not reduce the fair value of the related reporting unit or indefinite-lived intangible asset below its carrying value. We have one reporting unit, investment management and related services, consistent with our single operating segment, to which all goodwill has been assigned.

We may first assess goodwill and indefinite-lived intangible assets for qualitative factors to determine whether it is necessary to perform a quantitative impairment test. The qualitative analysis considers entity-specific and macroeconomic factors and their potential impact on the key assumptions used in the determination of the fair value of the reporting unit or indefinite-lived intangible asset. A quantitative impairment test is performed if the results of the qualitative assessment indicate that it is more likely than not that the fair value of the related reporting unit is less than its carrying value or an indefinite-lived intangible asset is impaired, or if a qualitative assessment is not performed.

The quantitative goodwill impairment test involves a two-step process. The first step compares the fair value of the reporting unit to its carrying value. If the carrying value is less than the fair value, no impairment exists and the second step is not performed. If the carrying value is higher than the fair value, there is an indication that impairment may exist and the second step is performed to compute the amount of the impairment. In the second step, impairment is computed by comparing the implied fair value of the reporting unit goodwill with the carrying value of the goodwill.

The quantitative indefinite-lived intangible assets impairment test compares the fair value of the asset to its carrying value. If the carrying value is higher than the fair value, impairment is recognized in the amount of the difference in values.

In estimating the fair value of the reporting unit and indefinite-lived intangible assets, we use valuation techniques based on an income approach under which future cash flows are discounted. Our future cash flow estimates include assumptions about revenue and AUM growth rates, the pre-tax profit margin, the average effective fee rate, the effective tax rate, and the discount rate, which is based on our weighted average cost of capital. The most relevant of these assumptions to the determination of estimated fair value are the AUM growth rate and the discount rate.

We performed our annual impairment tests for goodwill and indefinite-lived intangible assets as of August 1, 2016. We did not recognize any impairment on goodwill or indefinite-lived intangible assets because the estimated fair values of our reporting unit and our indefinite-lived intangible assets exceeded their carrying values by more than 100%. We estimated the discounted future cash flows for goodwill and 81% of our indefinite-lived intangible assets using 4.0% and 1.5% compounded annual AUM growth rates, which were developed taking into account ongoing volatility in the capital markets, and a discount rate of 11.2%. A hypothetical 500 basis point decline in the AUM growth rate or a 500 basis point increase in the discount rate would not reduce the estimated fair values of our reporting unit or indefinite-lived intangible assets below their carrying values.

We subsequently monitor market conditions and their potential impact on the assumptions used in the annual calculations of fair value to determine whether circumstances have changed that would more likely than not reduce the fair value of our reporting unit below its carrying value, or indicate that our indefinite-lived intangible assets might be impaired. We considered, among other things, changes in our AUM and weighted-average cost of capital by assessing whether these changes would impact the reasonableness of the assumptions used in our impairment tests as of August 1, 2016. We also monitored fluctuations of our common stock per share price to evaluate our market capitalization relative to the reporting unit as a whole. Subsequent to August 1, 2016, there were no impairments to



goodwill or indefinite-lived intangible assets as no events occurred or circumstances changed that would indicate these assets might be impaired.

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We test definite-lived intangible assets for impairment quarterly. Impairment is indicated when the carrying value of the asset is not recoverable and exceeds its fair value. In evaluating the recoverability of definite-lived intangible assets, we estimate the undiscounted future cash flows to be derived from these assets. Our future undiscounted cash flow projections include assumptions about revenue and AUM growth rates, effective fee rates, investor redemptions, the pre-tax profit margin, and expected useful lives, which are developed taking into consideration ongoing market conditions. The most relevant of these assumptions to determine future cash flows is the AUM growth rate. If the carrying value of an asset is not recoverable through the related undiscounted cash flows, the impairment loss is measured based on the amount by which the carrying value of the asset exceeds its fair value. The fair value of the asset is determined by discounted cash flows or other methods as appropriate for the asset type.

As of September 30, 2016, the undiscounted future cash flow projections for substantially all of our definite-lived intangible assets exceeded their carrying values by at least 60%. We estimated the future undiscounted cash flows for these assets using AUM growth rates ranging from (12.0%) to 2.0%. As of September 30, 2016, a decline in these assets' related AUM of 43% could cause us to evaluate whether their fair value is below the carrying value. We recognized \$28.2 million of impairment of definite-lived intangible assets during fiscal year 2016 due to declines in AUM growth rate and effective fee rate assumptions.

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

**Revenues**

Investment management, distribution and shareholder servicing fees are recognized as earned over the period in which services are rendered, except for performance-based investment management fees, which are recognized when earned. Sales commissions related to the sale of shares of SIPs are recognized on trade date. Investment management fees, other than performance-based fees, and distribution fees are determined based on a percentage of AUM, primarily on a monthly basis using average daily AUM. Performance-based investment management fees are based on performance targets established in the related investment management contracts. Shareholder servicing fees are generally calculated based on the number and type of accounts serviced.

AUM is generally based on the fair value of the underlying securities held by SIPs and is calculated using fair value methods derived primarily from unadjusted quoted market prices, unadjusted independent third-party broker or dealer price quotes in active markets, or market prices or price quotes adjusted for observable price movements after the close of the primary market. The fair values of the underlying securities for which market prices are not readily available are internally valued using various methodologies which incorporate unobservable inputs as appropriate for each security type.

Pricing of the securities held by SIPs is governed by our global valuation and pricing policy, which defines valuation and pricing conventions for each security type, including practices for responding to unexpected or unusual market events. As of September 30, 2016, our total AUM by fair value hierarchy level was 52% Level 1, 47% Level 2 and 1% Level 3.

As substantially all of our AUM is valued based on observable market prices or inputs, market risk is the most significant risk underlying the valuation of our AUM. While recent economic conditions have resulted in ongoing market volatility, the fair value of substantially all of the securities held by SIPs continues to be derived from observable market inputs.

**Income Taxes**

Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and the reported amounts in the consolidated financial statements using the statutory tax rates in effect for the year when the reported amount of the asset or liability is expected to be recovered or settled, respectively. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying values of deferred tax assets to the amount that is more likely than not to be realized. For each tax position taken or expected to be taken in a tax return, we determine whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize. The tax

position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. We recognize the accrual of interest on uncertain tax positions in interest expense and penalties in other operating expenses.

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As a multinational corporation, we operate in various locations outside the U.S. and generate earnings from our non-U.S. subsidiaries. We indefinitely reinvest the undistributed earnings of our non-U.S. subsidiaries, except for income previously taxed in the U.S., subject to regulatory or legal repatriation restrictions or requirements, and the excess net earnings reduced by cash needs for operational and regulatory capital requirements, capital management plans and capital expenditure plans of our Canadian and U.K. subsidiaries. As a result, we have not recognized a provision for U.S. income taxes and a deferred income tax liability on \$8.5 billion of cumulative undistributed non-U.S. earnings that are indefinitely reinvested at September 30, 2016. Changes to our policy of reinvestment or repatriation of non-U.S. earnings may have a significant effect on our financial condition and results of operations.

**Loss Contingencies**

We are involved in various lawsuits and claims encountered in the normal course of business. When such a matter arises and periodically thereafter, we consult with our legal counsel and evaluate the merits of the claims based on the facts available at that time. In management's opinion, an adequate accrual has been made as of September 30, 2016 to provide for probable losses that may arise from these matters for which we could reasonably estimate an amount. See also Note 11 – Commitments and Contingencies in the notes to consolidated financial statements in Item 8 of Part II of this Form 10-K.

**NEW ACCOUNTING GUIDANCE**

See Note 2 – New Accounting Guidance in the notes to consolidated financial statements in Item 8 of Part II of this Form 10-K.

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## Selected Quarterly Financial Data (Unaudited)

(in millions, except per share data)

Quarter ended	December 31	March 31	June 30	September 30
Fiscal year 2016				
Operating revenues	\$ 1,758.0	\$ 1,613.9	\$ 1,634.3	\$ 1,611.8
Operating income	653.6	537.3	595.4	579.4
Net income attributable to Franklin Resources, Inc.	447.8	360.4	446.4	472.1
Earnings per share				
Basic	\$ 0.74	\$ 0.61	\$ 0.77	\$ 0.82
Diluted	0.74	0.61	0.77	0.82
Dividends declared per share	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18
Common stock price per share				
High	\$ 42.23	\$ 39.94	\$ 41.24	\$ 36.99
Low	34.62	31.00	30.56	31.59
AUM (in billions)				
Ending	\$ 763.9	\$ 742.6	\$ 732.1	\$ 733.3
Average	781.5	737.1	739.8	736.4
Fiscal year 2015				
Operating revenues	\$ 2,064.3	\$ 2,009.8	\$ 2,000.8	\$ 1,873.8
Operating income	782.0	757.7	769.8	718.1
Net income attributable to Franklin Resources, Inc.	566.4	606.5	504.2	358.2
Earnings per share				
Basic	\$ 0.91	\$ 0.98	\$ 0.82	\$ 0.59
Diluted	0.91	0.98	0.82	0.59
Dividends declared per share	\$ 0.65	<sup>1</sup> \$ 0.15	\$ 0.15	\$ 0.15
Common stock price per share				
High	\$ 59.43	\$ 55.91	\$ 52.76	\$ 49.96
Low	49.12	50.49	48.69	36.15
AUM (in billions)				
Ending	\$ 880.1	\$ 880.6	\$ 866.5	\$ 770.9
Average	894.1	881.6	882.6	824.5

<sup>1</sup> Includes a special cash dividend of \$0.50 per share.

## Risk Factors

For a description of certain risk factors and other important factors that may affect us, our subsidiaries and our business, please see the description of the risk factors set forth under Item 1A of Part I of this Form 10-K, which is incorporated herein by reference.

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### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of business, our financial position is subject to market risk, including, but not limited to, potential loss due to changes in the value of financial instruments including those resulting from adverse changes in interest rates, foreign currency exchange rates and market valuation. Financial instruments include, but are not limited to, investment securities and debt obligations. Management is responsible for managing market risk. Our Enterprise Risk Management Committee is responsible for providing a framework to assist management to identify, assess and manage market and other risks.

Our market risk from assets and liabilities of consolidated SIPs and consolidated VIEs is limited to that of our direct investments in, and/or investment management fees earned from, these entities. Accordingly, the assets and liabilities of our consolidated SIPs and consolidated VIEs are excluded from the discussion below.

#### AUM Market Price Risk

We are exposed to market risk through our investment management and distribution fees, which are generally calculated as a percentage of the market value of AUM. Changes in equity market prices, interest rates, credit spreads, foreign exchange rates, or a combination of these factors could cause the value of AUM to decline, which would result in lower investment management and distribution fees. Our exposure to these risks is minimized as we sponsor a broad range of investment products in various global jurisdictions, which serves to mitigate the impact of changes in any particular market or region.

Assuming the respective effective fee rates remain unchanged, a proportional 10% change in the value of our average AUM would result in corresponding 10% changes in our investment management fees and asset-based distribution fee revenues and expenses, excluding performance-based investment management fees. Such a change for the fiscal year ended September 30, 2016 would have resulted in an increase or decrease in pre-tax earnings of \$406.3 million.

#### Interest Rate Risk

We are exposed to changes in interest rates primarily through our investments in SIPs that invest in debt securities, which were \$1,241.9 million at September 30, 2016. Our exposure to interest rate risks from investments in SIPs is minimized by the low average duration exposure mandate of a substantial majority of the SIPs. The investment mandates of the remaining SIPs consist of a broad range of products in various global jurisdictions, mitigating the impact of changes in any particular market or region. We had no exposure to changes in interest rates from debt obligations at September 30, 2016 as all of our outstanding debt was issued at fixed rates.

As of September 30, 2016, we have considered the potential impact of a 100 basis point movement in market interest rates on our portfolio of SIPs that invest in debt securities. Based on our analysis, we do not expect that such a change would have a material impact on our earnings in the next twelve months.

#### Foreign Currency Exchange Risk

We are subject to foreign currency exchange risk through our international operations. While the majority of our revenues are earned in the U.S., we also provide services and earn revenues in Europe, the Middle East and Africa, Canada, Asia-Pacific, The Bahamas and Latin America. Our exposure to foreign currency exchange risk is minimized in relation to our results of operations since a significant portion of these revenues is denominated in U.S. dollars. This situation may change in the future as our business continues to grow outside the U.S. and expenses incurred denominated in foreign currencies increase.

The exposure to foreign currency exchange risk in our consolidated balance sheet mostly relates to cash and cash equivalents and investments that are denominated in foreign currencies, primarily in the Indian Rupee, Euro, Canadian dollar and Pound Sterling. These assets accounted for 8% of the total cash and cash equivalents and investments at September 30, 2016. Changes in the values of these assets resulting from changes in U.S. dollar exchange rates are recorded in accumulated other comprehensive income (loss), except for cash and cash equivalents held by subsidiaries for which the U.S. dollar is the functional currency, for which the changes are recorded in earnings. We also have exposure to foreign exchange revaluation of cash and cash equivalents and investments that are denominated in U.S. dollars and held by non-U.S. subsidiaries for which their local currency is the functional currency. These assets accounted for 5% of the total cash and cash equivalents and investments at September 30, 2016. Changes in the values of these assets resulting from changes in U.S. dollar exchange rates are recorded in earnings.



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A 10% weakening of the U.S. dollar against the various foreign currencies to which we had exposure as described above would result in corresponding 10% increases in the U.S. dollar values of the foreign currency assets and 10% decreases in the foreign currency values of the U.S. dollar assets. Such a weakening as of September 30, 2016 would result in a \$78.2 million increase in accumulated other comprehensive income (loss) and a \$41.4 million decrease in pre-tax earnings. We generally do not use derivative financial instruments to manage foreign currency exchange risk exposure. As a result, both positive and negative currency fluctuations against the U.S. dollar may affect our results of operations and accumulated other comprehensive income (loss).

**Market Valuation Risk**

We are exposed to market valuation risks related to securities we hold that are carried at fair value. To mitigate the risks we maintain a diversified investment portfolio and, from time to time, we may enter into derivative agreements. The following is a summary of the effect of a 10% increase or decrease in the carrying values of our financial instruments subject to market valuation risks at September 30, 2016. If such a 10% increase or decrease in carrying values were to occur, the changes from trading investment securities and direct investments in consolidated SIPs and consolidated VIEs would result in a \$153.6 million increase or decrease in our pre-tax earnings. The changes from available-for-sale investment securities would not result in a change to other-than-temporary impairment charges that would be material to our pre-tax earnings.

(in millions)	Carrying Value	Carrying Value	Carrying Value
		Assuming a 10% Increase	Assuming a 10% Decrease
Investment securities, trading	\$1,121.9	\$1,234.1	\$1,009.7
Investment securities, available-for-sale	301.4	331.5	271.3
Direct investments in consolidated SIPs and consolidated VIEs	413.7	455.1	372.3
Total	\$1,837.0	\$2,020.7	\$1,653.3



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Item 8. Financial Statements and Supplementary Data.

Index of Consolidated Financial Statements for the fiscal years ended September 30, 2016, 2015 and 2014.

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All schedules have been omitted as the information is provided in the financial statements or in related notes thereto or is not required to be filed, as the information is not applicable.

Certain required quarterly information is included in Item 7 of Part II of this Form 10-K report under the heading "Selected Quarterly Financial Data (Unaudited)" and incorporated herein by reference.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Franklin Resources, Inc. and its consolidated subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2016, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on that assessment, management concluded that, as of September 30, 2016, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of September 30, 2016 has been audited by PricewaterhouseCoopers LLP, the independent registered public accounting firm that audits the Company's consolidated financial statements, as stated in their report immediately following this report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of September 30, 2016.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors  
and Stockholders of Franklin Resources, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Franklin Resources, Inc. and its subsidiaries (the "Company") at September 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
San Francisco, California  
November 14, 2016

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## FRANKLIN RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

for the fiscal years ended September 30,	2016	2015	2014
Operating Revenues			
Investment management fees	\$4,471.7	\$5,327.8	\$5,565.7
Sales and distribution fees	1,806.4	2,252.4	2,546.4
Shareholder servicing fees	243.6	262.8	281.1
Other	96.3	105.7	98.2
Total operating revenues	6,618.0	7,948.7	8,491.4
Operating Expenses			
Sales, distribution and marketing	2,209.9	2,762.3	3,088.2
Compensation and benefits	1,360.9	1,453.3	1,467.9
Information systems and technology	207.3	224.3	216.3
Occupancy	134.1	132.7	137.7
General, administrative and other	340.1	348.5	360.1
Total operating expenses	4,252.3	4,921.1	5,270.2
Operating Income	2,365.7	3,027.6	3,221.2
Other Income (Expenses)			
Investment and other income, net	184.0	40.4	235.8
Interest expense	(49.9 )	(39.6 )	(47.4 )
Other income, net	134.1	0.8	188.4
Income before taxes	2,499.8	3,028.4	3,409.6
Taxes on income	742.1	923.7	997.9
Net income	1,757.7	2,104.7	2,411.7
Less: net income (loss) attributable to			
Nonredeemable noncontrolling interests	29.4	75.5	6.8
Redeemable noncontrolling interests	1.6	(6.1 )	20.6
Net Income Attributable to Franklin Resources, Inc.	\$1,726.7	\$2,035.3	\$2,384.3
Earnings per Share			
Basic	\$2.94	\$3.29	\$3.79
Diluted	2.94	3.29	3.79
Dividends Declared per Share	\$0.72	\$1.10	\$0.48

See Notes to Consolidated Financial Statements.



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## FRANKLIN RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

for the fiscal years ended September 30,	2016	2015	2014
Net Income	\$1,757.7	\$2,104.7	\$2,411.7
Other Comprehensive Income (Loss)			
Net unrealized losses on investments, net of tax	(12.5 )	(11.7 )	(40.9 )
Currency translation adjustments, net of tax	(18.3 )	(184.2 )	(80.4 )
Net unrealized losses on defined benefit plans, net of tax	(2.4 )	(0.6 )	(2.5 )
Total other comprehensive loss	(33.2 )	(196.5 )	(123.8 )
Total comprehensive income	1,724.5	1,908.2	2,287.9
Less: comprehensive income (loss) attributable to			
Nonredeemable noncontrolling interests	29.4	75.5	6.8
Redeemable noncontrolling interests	1.6	(6.1 )	20.6
Comprehensive Income Attributable to Franklin Resources, Inc.	\$1,693.5	\$1,838.8	\$2,260.5

See Notes to Consolidated Financial Statements.

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## FRANKLIN RESOURCES, INC.

## CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data)

as of September 30,

	2016	2015
Assets		
Cash and cash equivalents	\$8,247.1	\$8,184.9
Receivables	794.3	838.0
Investments (including \$1,437.6 and \$1,712.3 at fair value at September 30, 2016 and 2015)	2,416.6	2,459.2
Assets of consolidated sponsored investment products		
Cash and cash equivalents	89.8	108.5
Investments, at fair value	1,025.6	977.4
Assets of consolidated variable interest entities		
Cash and cash equivalents	146.4	74.7
Investments, at fair value	487.8	672.5
Property and equipment, net	523.2	510.1
Goodwill and other intangible assets, net	2,211.3	2,257.0
Other	156.7	253.4
Total Assets	\$16,098.8	\$16,335.7
Liabilities		
Compensation and benefits	\$357.4	\$433.2
Accounts payable and accrued expenses	233.3	232.1
Dividends	104.6	92.6
Commissions	302.0	359.9
Debt	1,401.2	1,348.0
Debt of consolidated sponsored investment products	75.0	81.2
Debt of consolidated variable interest entities	607.2	726.1
Deferred taxes	161.5	241.4
Other	267.3	265.8
Total liabilities	3,509.5	3,780.3
Commitments and Contingencies (Note 11)		
Redeemable Noncontrolling Interests	61.1	59.6
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; 570,345,156 and 603,517,181 shares issued and outstanding at September 30, 2016 and 2015	57.0	60.4
Retained earnings	12,226.2	12,094.8
Accumulated other comprehensive loss	(347.4 )	(314.2 )
Total Franklin Resources, Inc. stockholders' equity	11,935.8	11,841.0
Nonredeemable noncontrolling interests	592.4	654.8
Total stockholders' equity	12,528.2	12,495.8
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity	\$16,098.8	\$16,335.7

See Notes to Consolidated Financial Statements.





Table of ContentsFRANKLIN RESOURCES, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in millions) as of and for the fiscal years ended September 30, 2016, 2015 and 2014	Franklin Resources, Inc.			Appropriated		Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Retained Earnings of Consolidated Variable Interest Entities	Accumulated Other Compre- hensive Income (Loss)				
Balance at October 1, 2013	630.9	\$ 63.1	\$ —	\$ 9,991.2	\$ 12.7	\$ 6.1	\$ 10,073.1	\$ 612.4	\$ 10,685.5
Net income				2,384.3			2,384.3	6.8	2,391.1
Net income reclassified to appropriated retained earnings					1.2		1.2	(1.2 )	
Other comprehensive loss						(123.8 )	(123.8 )		(123.8 )
Cash dividends declared on common stock				(301.7 )			(301.7 )		(301.7 )
Repurchase of common stock	(11.5 )	(1.1 )	(172.9 )	(448.2 )			(622.2 )		(622.2 )
Issuance of common stock	3.5	0.3	148.9				149.2		149.2
Tax benefit from stock-based compensation			13.3				13.3		13.3
Stock-based compensation			10.7				10.7		10.7
Net subscriptions							10.3		10.3
Balance at September 30, 2014	622.9	\$ 62.3	\$ —	\$ 11,625.6	\$ 13.9	\$ (117.7 )	\$ 11,584.1	\$ 628.3	\$ 12,212.4
Adjustment for adoption of new accounting guidance				(0.3 )	(13.9 )		(14.2 )		(14.2 )
Net income				2,035.3			2,035.3	75.5	2,110.8
Other comprehensive loss						(196.5 )	(196.5 )		(196.5 )
Cash dividends declared on common stock				(682.1 )			(682.1 )		(682.1 )
Repurchase of common stock	(22.5 )	(2.2 )	(173.9 )	(883.7 )			(1,059.8 )		(1,059.8 )
Issuance of common stock	3.1	0.3	154.5				154.8		154.8
Tax benefit from stock-based			10.9				10.9		10.9

compensation									
Stock-based compensation			8.5			8.5			8.5
Net distributions							(49.0 )	(49.0 )	
Balance at September 30, 2015	603.5	\$ 60.4	\$ —	\$12,094.8	\$ —	\$ (314.2 )	\$ 11,841.0	\$ 654.8	\$ 12,495.8

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See Notes to Consolidated Financial Statements.

Table of ContentsFRANKLIN RESOURCES, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

[Table continued from previous page]

(in millions) as of and for the fiscal years ended September 30, 2016, 2015 and 2014	Franklin Resources, Inc.			Appropriated Retained Earnings of Consolidated Variable Interest Entities	Accumulated Other Compre- hensive Income (Loss)	Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	
	Common Stock	Capital in Excess of Par Value	Retained Earnings						
Balance at September 30, 2015	603.5	\$ 60.4	\$ —	\$ 12,094.8	\$ —	(314.2 )	\$ 11,841.0	\$ 654.8	\$ 12,495.8
Net income			1,726.7				1,726.7	29.4	1,756.1
Other comprehensive loss					(33.2 )	(33.2 )			(33.2 )
Cash dividends declared on common stock			(420.7 )				(420.7 )		(420.7 )
Repurchase of common stock	(36.6 )	(3.7 )	(146.0)	(1,174.6 )			(1,324.3 )		(1,324.3 )
Issuance of common stock	3.4	0.3	149.8				150.1		150.1
Tax shortfall from stock-based compensation			(5.9)				(5.9 )		(5.9 )
Stock-based compensation			2.1				2.1		2.1
Net distributions								(91.8 )	(91.8 )
Balance at September 30, 2016	570.3	\$ 57.0	\$ —	\$ 12,226.2	\$ —	(347.4 )	\$ 11,935.8	\$ 592.4	\$ 12,528.2

See Notes to Consolidated Financial Statements.



Table of ContentsFRANKLIN RESOURCES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

for the fiscal years ended September 30,

	2016	2015	2014
Net Income	\$1,757.7	\$2,104.7	\$2,411.7
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred sales commissions	75.2	112.8	127.8
Depreciation and other amortization	87.1	97.4	94.6
Impairment of intangible assets	28.2	8.2	—
Stock-based compensation	131.5	140.0	127.7
Excess tax benefit from stock-based compensation	(0.8)	(11.0)	(12.2)
Gains on sale of assets	(29.7)	(31.6)	(59.7)
Losses (income) from investments in equity method investees	(56.7)	63.2	(68.1)
Net losses (gains) on other investments of consolidated sponsored investment products	19.7	(28.9)	(16.9)
Net gains of consolidated variable interest entities	(5.4)	(6.0)	(6.1)
Other	20.5	9.1	6.1
Changes in operating assets and liabilities:			
Decrease (increase) in receivables, prepaid expenses and other	(10.8)	45.2	(113.7)
Decrease (increase) in trading securities, net	120.4	23.3	(80.2)
Increase in trading securities of consolidated sponsored investment products, net	(242.3)	(181.1)	(482.9)
Originations of loans held for sale	—	—	(38.3)
Proceeds from sale of loans originated for resale	—	—	38.4
Increase (decrease) in accrued compensation and benefits	(76.7)	(16.7)	24.3
Increase (decrease) in commissions payable	(57.9)	(80.4)	2.6
Increase (decrease) in income taxes payable	(14.0)	20.0	15.8
Increase (decrease) in other liabilities	(18.3)	(16.2)	167.1
Net cash provided by operating activities	1,727.7	2,252.0	2,138.0
Purchase of investments	(367.8)	(297.2)	(303.2)
Liquidation of investments	405.2	405.5	583.9
Purchase of investments by consolidated sponsored investment products	(78.5)	(164.1)	(324.2)
Liquidation of investments by consolidated sponsored investment products	125.4	241.6	181.0
Purchase of investments by consolidated variable interest entities	(254.8)	(274.8)	(259.4)
Liquidation of investments by consolidated variable interest entities	471.9	402.3	488.9
Decrease in loans receivable, net	—	—	38.0
Decrease in loans transferred to held for sale	—	—	8.2
Proceeds from sale of loans transferred to held for sale	—	—	181.3
Additions of property and equipment, net	(97.6)	(68.8)	(53.1)
Net (deconsolidation) consolidation of sponsored investment products	(11.6)	4.4	(150.8)
Net cash provided by investing activities	192.2	248.9	390.6

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See Notes to Consolidated Financial Statements.

Table of ContentsFRANKLIN RESOURCES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

[Table continued from previous page]

(in millions)

for the fiscal years ended September 30,

	2016	2015	2014
Decrease in deposits	\$—	\$(0.3 )	\$(587.5 )
Issuance of common stock	24.1	25.5	32.6
Dividends paid on common stock	(408.7 )	(666.4 )	(290.4 )
Repurchase of common stock	(1,308.0 )	(1,059.8 )	(622.2 )
Excess tax benefit from stock-based compensation	0.8	11.0	12.2
Proceeds from loan	93.4	—	—
Payment on loan	(41.2 )	—	—
Proceeds from issuance of debt	—	395.7	—
Payments on debt	—	(250.0 )	—
Proceeds from debt of consolidated sponsored investment products	33.8	571.8	793.6
Payments on debt by consolidated sponsored investment products	(40.1 )	(611.2 )	(779.3 )
Payments on debt by consolidated variable interest entities	(139.7 )	(121.0 )	(194.3 )
Payments on contingent consideration liabilities	(3.2 )	(7.9 )	(6.3 )
Noncontrolling interests	(11.9 )	100.4	446.3
Net cash used in financing activities	(1,800.7 )	(1,612.2 )	(1,195.3 )
Effect of exchange rate changes on cash and cash equivalents	(4.0 )	(116.6 )	(60.4 )
Increase in cash and cash equivalents	115.2	772.1	1,272.9
Cash and cash equivalents, beginning of year	8,368.1	7,596.0	6,323.1
Cash and Cash Equivalents, End of Year	\$8,483.3	\$8,368.1	\$7,596.0
Supplemental Disclosure of Cash Flow Information			
Cash paid for income taxes	\$758.6	\$925.0	\$979.3
Cash paid for interest	47.4	44.6	40.2
Cash paid for interest by consolidated variable interest entities and consolidated sponsored investment products	28.3	33.0	43.6

See Notes to Consolidated Financial Statements.





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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Significant Accounting Policies

Business. Franklin Resources, Inc. (“Franklin”) is a holding company that, together with its various subsidiaries (collectively, the “Company”) is referred to as Franklin Templeton Investments. The Company provides investment management and related services to investors globally through products that include investment funds and institutional, high net-worth and separately-managed accounts (collectively, the “sponsored investment products” or “SIPs”). In addition to investment management, the Company’s services include fund administration, sales, distribution, marketing, shareholder servicing, and trust, custody and other fiduciary services.

Basis of Presentation. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Management believes that the accounting estimates are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in making estimates, actual amounts may differ from these estimates. Certain comparative amounts for prior fiscal years have been reclassified to conform to the financial statement presentation as of and for the fiscal year ended September 30, 2016 (“fiscal year 2016”).

Consolidation. The consolidated financial statements include the accounts of Franklin and its subsidiaries and SIPs in which it has a controlling financial interest. The Company has a controlling financial interest when it owns a majority of the voting interest in an entity or when it is the primary beneficiary of a variable interest entity (“VIE”). The Company also consolidates non-VIE limited partnerships and similar structures that it controls. All material intercompany accounts and transactions have been eliminated.

A VIE is an entity in which the equity investment holders have not contributed sufficient capital to finance its activities or the equity investment holders do not have defined rights and obligations normally associated with an equity investment. The Company’s VIEs are all investment entities, and its variable interests consist of its equity ownership interest in and/or investment management fees earned from these entities.

The Company uses two models for determining whether it is the primary beneficiary of VIEs. For all VIEs with the exception of collateralized loan obligations (“CLOs”), the Company is the primary beneficiary if it has the majority of the risks or rewards of ownership, which it determines using expected cash flow scenarios. For CLOs, the Company is the primary beneficiary if it has the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses of or right to receive benefits from the VIE that could potentially be significant to the VIE. Under both models, the key estimates and assumptions used in the analyses include the amount of assets under management (“AUM”), investment management fee rates, the life of the investment product, prepayment rates, and the discount rate.

The Company is presumed to control non-VIE limited partnerships and similar structures for which it is the general partner or managing member unless the limited partners or other investors have the substantive ability to remove the Company as general partner or managing member or otherwise participate in the decision-making of the entity. The Company’s risk of loss in these entities is limited to its investments in the entities as the general partner and managing member entities are structured as limited liability companies.

Related Parties include the investment funds sponsored by the Company as a result of the Company’s advisory relationship and equity method investees. The Company’s operating revenues and receivables are primarily from related parties.

Earnings per Share. Basic and diluted earnings per share are computed using the two-class method, which considers participating securities as a separate class of shares. The Company’s participating securities consist of its nonvested stock and stock unit awards that contain nonforfeitable rights to dividends or dividend equivalents. Basic earnings per share is computed by dividing net income available to the Company’s common shareholders, adjusted to exclude earnings allocated to participating securities, by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period.



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Fair Value Measurements. The Company uses a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on whether the inputs to those valuation techniques are observable or unobservable. The three levels of fair value hierarchy are set forth below. The Company's assessment of the hierarchy level of the assets or liabilities measured at fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels are recognized at the end of each quarter.

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Observable inputs other than Level 1 quoted prices, such as non-binding quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data.

Level 2 Level 2 quoted prices are generally obtained from two independent third-party brokers or dealers, including prices derived from model-based valuation techniques for which the significant assumptions are observable in the market or corroborated by observable market data. Quoted prices are validated through price variance analysis, subsequent sales testing, stale price review, price comparison across pricing vendors and due diligence reviews of third-party vendors.

Level 3 Unobservable inputs that are supported by little or no market activity. These inputs require significant management judgment and reflect the Company's estimation of assumptions that market participants would use in pricing the asset or liability.

The fair values for Level 3 assets and liabilities are determined using various methodologies in accordance with the Company's global valuation and pricing policy which defines valuation and pricing conventions for each security type. When available, fair value is measured based on the reported net asset value ("NAV") of underlying investments or independent third-party broker or dealer price quotes. These inputs are evaluated for reasonableness through various procedures which include due diligence reviews of the third parties, price comparisons across pricing vendors, stale price reviews and subsequent sales testing. If these inputs are not available, the Company primarily employs a market-based method, using purchase multiples observed for comparable third-party transactions, valuations of comparable entities, projected operating results of the investee entity or subsequent financing transactions entered into by the investee entity. If the inputs for a market-based method are not available, the Company utilizes an income-based method, which considers the net present value of anticipated future cash flows of the investment. A discount may be applied due to the nature or duration of any restrictions on the disposition of the investment. The Company reviews and approves the market-based and income-based methods on a periodic basis for changes that would impact the unobservable inputs incorporated into the valuation process. The fair value measurements from these methods are further validated through price variance analysis, subsequent sales testing and market comparable sales.

The Company records a substantial amount of its investments at fair value or amounts that approximate fair value on a recurring basis. The financial assets and financial liabilities of consolidated CLOs are measured using the more observable fair value of either the financial assets or financial liabilities. Fair values are estimated for disclosure purposes for financial instruments that are not measured at fair value.

Cash and Cash Equivalents primarily consist of debt instruments with original maturities of three months or less at the purchase date, nonconsolidated SIP money market funds, time deposits with maturities of three months or less, and deposits with financial institutions. Cash and cash equivalents are carried at cost, except for debt instruments which are carried at amortized cost. Due to the short-term nature and liquidity of these financial instruments, the carrying values of these assets approximate fair value and, for disclosure purposes, they are classified as Level 1.

The Company maintains cash and cash equivalents with financial institutions in various countries, limits the amount of credit exposure with any given financial institution and conducts ongoing evaluations of the creditworthiness of the financial institutions with which it does business.

Receivables consist primarily of fees receivable from SIPs and are carried at invoiced amounts. Due to the short-term nature and liquidity of the receivables, the carrying values of these assets approximate fair value.

Investments consist of investment securities, trading and available-for-sale, investments in equity method investees and other investments.

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Investment Securities, Trading consist primarily of nonconsolidated SIPs and to a lesser extent, debt and other equity securities, and are carried at fair value. Changes in the fair value of trading securities are recognized as gains and losses in earnings. The fair value of the SIPs is determined based on their published NAV and they are classified as Level 1. The fair values of certain debt and the other equity securities are determined using quoted market prices, if available, or independent third-party broker or dealer price quotes, which are evaluated for reasonableness, and they are classified as Level 2. The fair value of other debt securities is determined using discounted cash flow techniques and they are classified as Level 3.

Investment Securities, Available-for-Sale consist primarily of nonconsolidated SIPs and to a lesser extent, debt and other equity securities, and are carried at fair value. Realized gains and losses are included in investment income using the average cost method. Unrealized gains and losses are recorded net of tax as part of accumulated other comprehensive income (loss) until realized. The fair value of the SIPs is determined based on their published NAV and they are classified as Level 1. The fair value of the debt securities is primarily determined using independent third-party broker or dealer price quotes and they are classified as Level 2. The fair value of other equity securities is determined using quoted market prices and they are classified as Level 1.

Investments in Equity Method Investees consist of equity investments in entities, including SIPs, over which the Company is able to exercise significant influence, but not control. Significant influence is generally considered to exist when the Company's ownership interest in the voting stock of the investee is between 20% and 50%, although other factors, such as representation on the investee's board of directors and the impact of commercial arrangements, also are considered in determining whether the equity method of accounting is appropriate. Investments in limited partnerships and limited liability companies for which the Company is not deemed to have control are accounted for using the equity method when the Company's investment is more than minor or when the Company is the general partner. Under the equity method of accounting, the investments are initially carried at cost and subsequently adjusted by the Company's proportionate share of the entities' net income, which is recognized in earnings.

Other Investments consist of time deposits with maturities greater than three months from the date of purchase, equity investments in entities over which the Company is unable to exercise significant influence and are not marketable, and life settlement contracts. The time deposits are carried at cost. Due to the short-term nature and liquidity of these financial instruments, the carrying values of the time deposits approximate fair value, and they are classified as Level 2. The equity investments are accounted for under the cost method. For disclosure purposes, the fair value of these investments is generally estimated based on their NAV and they are classified as Level 3. Life settlement contracts are carried at fair value, which is determined based on discounted cash flows using significant unobservable inputs, and are classified as Level 3.

Impairment of Investments. Investments other than trading securities are evaluated for other-than-temporary impairment on a quarterly basis when the cost of an investment exceeds its fair value. For equity securities, the Company considers many factors, including the severity and duration of the decline in the fair value below cost, the Company's intent and ability to hold the security for a period of time sufficient for an anticipated recovery in fair value, and the financial condition and specific events related to the issuer. When an impairment of an equity security is determined to be other-than-temporary, the impairment is recognized in earnings. For debt securities, if the Company intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost, the entire impairment is recognized in earnings. If the Company does not intend to sell or it is not more likely than not that it will be required to sell the security before anticipated recovery of its amortized cost, the impairment is separated into the amount of the total impairment related to the credit loss and the amount of the total impairment related to all other factors. The credit loss component is the difference between the security's amortized cost and the present value of the expected cash flows, and is recognized in earnings. Losses related to all other factors are recognized in accumulated other comprehensive income (loss).

Cash and Cash Equivalents of Consolidated SIPs consist of deposits with financial institutions and highly liquid investments, including money market funds, which are readily convertible into cash, and are carried at cost. Due to the short-term nature and liquidity of these financial instruments, their carrying values approximate fair value and, for disclosure purposes, they are classified as Level 1.

Investments of Consolidated SIPs consist of trading securities and other investments that are not generally traded in active markets, and are carried at fair value. Changes in the fair value of the investments are recognized as gains and losses in earnings. The fair value of the trading securities is determined using quoted market prices, or independent third-party broker or dealer price quotes if quoted market prices are not available. These securities are classified as Level 1 or Level 2. The quoted market prices may be adjusted if events occur, such as significant price changes in U.S.-traded market proxies after the close of corresponding foreign markets, trade halts or suspensions, or unscheduled market closures. The market proxies

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consist of correlated country-specific exchange-traded securities, such as futures, American Depositary Receipts indices or exchange-traded funds. The price adjustments are primarily determined based on third-party factors derived from model-based valuation techniques for which the significant assumptions are observable in the market.

The investments that are not generally traded in active markets consist of debt and equity securities of entities in emerging markets and fund products. The fair values of the debt and equity securities are determined using significant unobservable inputs in either a market-based or income-based approach and they are classified as Level 3. The fair value of the fund products is determined using NAV as a practical expedient. These investments are classified as Level 2 if they are redeemable without restriction on at least a quarterly basis, or Level 3 if they have a redemption frequency greater than quarterly, are subject to redemption restrictions, or are nonredeemable.

Cash and Cash Equivalents of Consolidated VIEs consist of investments in a money market fund and are carried at fair value. The fair value of the fund is based on its published NAV and it is classified as Level 1.

Investments of Consolidated VIEs consist substantially of corporate debt securities and are carried at fair value. The fair value is primarily obtained from independent third-party broker or dealer price quotes and they are classified as Level 2.

Property and Equipment, net are recorded at cost and are depreciated using the straight-line method over their estimated useful lives which range from three to 35 years. Expenditures for repairs and maintenance are charged to expense when incurred. Leasehold improvements are amortized using the straight-line method over their estimated useful lives or the lease term, whichever is shorter.

Internal and external costs incurred in connection with developing or obtaining software for internal use are capitalized and amortized over the estimated useful lives of the software, which range from three to five years, beginning when the software project is complete and the application is put into production.

Property and equipment is tested for impairment when there is an indication that the carrying value of an asset may not be recoverable. Carrying values are not recoverable when the undiscounted cash flows estimated to be generated by the assets are less than their carrying values. When an asset is determined to not be recoverable, the impairment is measured based on the excess, if any, of the carrying value of the asset over its respective fair value. Fair value is determined by discounted future cash flows models, appraisals or other applicable methods.

Goodwill and Other Intangible Assets, net. Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. Other intangible assets consist of investment management contracts resulting from business acquisitions. These intangible assets are amortized over their estimated useful lives, which range from six to 15 years, using the straight-line method, unless the asset is determined to have an indefinite useful life.

Indefinite-lived intangible assets represent contracts to manage investment assets for which there is no foreseeable limit on the contract period.

Goodwill and indefinite-lived intangible assets are tested for impairment annually as of August 1 and when an event occurs or circumstances change that more likely than not reduce the fair value of the related reporting unit or indefinite-lived intangible asset below its carrying value. The Company has one reporting unit, investment management and related services, consistent with its single operating segment, to which all goodwill has been assigned.

Goodwill and indefinite-lived intangible assets may first be assessed for qualitative factors to determine whether it is necessary to perform a quantitative impairment test. The qualitative analysis considers entity-specific and macroeconomic factors and their potential impact on the key assumptions used in the determination of the fair value of the reporting unit or indefinite-lived intangible asset. A quantitative impairment test is performed if the results of the qualitative assessment indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying value or an indefinite-lived intangible asset is impaired, or if a qualitative assessment is not performed.

The quantitative goodwill impairment test involves a two-step process. The first step compares the fair value of the reporting unit to its carrying value. If the carrying value is less than the fair value, no impairment exists and the second step is not performed. If the carrying value is higher than the fair value, there is an indication that impairment may exist and the second step is performed to compute the amount of any impairment. In the second step, impairment is computed by comparing the implied fair value of the reporting unit goodwill with the carrying value of the goodwill.

The quantitative indefinite-lived intangible assets impairment test compares the fair value of the asset to its carrying value. If the carrying value is higher than the fair value, impairment is recognized in the amount of the difference in values.



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In estimating the fair value of the reporting unit and indefinite-lived intangible assets, the Company uses valuation techniques based on an income approach under which future cash flows are discounted. The future cash flow estimates include assumptions about revenue and AUM growth rates, the pre-tax profit margin, the average effective fee rate, the effective tax rate, and the discount rate, which is based on the Company's weighted average cost of capital. Definite-lived intangible assets are tested for impairment quarterly. Impairment is indicated when the carrying value of the asset is not recoverable and exceeds its fair value. In evaluating the recoverability of definite-lived intangible assets, the Company estimates the undiscounted future cash flows to be derived from these assets. The future undiscounted cash flow projections include assumptions about revenue and AUM growth rates, effective fee rates, investor redemptions, the pre-tax profit margin, and expected useful lives. If the carrying value of an asset is not recoverable through the related undiscounted cash flows, the impairment is measured based on the amount by which the carrying value of the asset exceeds its fair value and recognized in general, administrative and other expense. The fair value of the asset is determined by discounted cash flows or other methods as appropriate for the asset type. Deferred Sales Commissions consist of up-front commissions paid to financial advisers and broker-dealers on shares sold without a front-end sales charge to investors, and are amortized over the periods in which they are generally recovered from related revenues, which range from one to seven years. Deferred sales commissions are included in other assets in the consolidated balance sheet.

Contingent Consideration Liability consists of the expected future payments related to the Company's commitment to acquire the remaining interests in K2 Advisors Holdings, LLC ("K2") and is included in other liabilities in the consolidated balance sheet. The liability is carried at fair value, determined using an income-based method which considers the net present value of anticipated future cash flows based on estimated future revenue and profits and timing of payments, and is classified as Level 3.

Debt consists of senior notes and a loan, and are carried at amortized cost. For disclosure purposes, the fair values are estimated using quoted market prices, independent third-party broker or dealer price quotes, or prices of publicly traded debt with similar maturities, credit risk and interest rates. The notes and loan are classified as Level 2.

Debt of Consolidated SIPs is carried at amortized cost. For disclosure purposes, the fair value is estimated using a discounted cash flow model that considers current interest rate levels, the quality of the underlying collateral and current economic conditions. The debt is classified as Level 3.

Debt of Consolidated VIEs consists of debt of CLOs and is measured based on the fair value of the assets of the consolidated CLOs less the fair value of the Company's own economic interests in the CLOs.

Noncontrolling Interests relate almost entirely to consolidated SIPs. Noncontrolling interests that are currently redeemable or convertible for cash or other assets at the option of the holder are classified as temporary equity.

Nonredeemable noncontrolling interests are classified as a component of equity. Net income (loss) attributable to third-party investors is reflected as net income (loss) attributable to nonredeemable and redeemable noncontrolling interests in the consolidated statements of income. Sales and redemptions of shares of consolidated SIPs by third-party investors are a component of the change in noncontrolling interests included in financing activities in the consolidated statements of cash flows.

Revenues. Fees from providing investment management and fund administration services ("investment management fees"), distribution fees and shareholder servicing fees are recognized as earned, over the period in which services are rendered, except for performance-based investment management fees, which are recognized when earned. Sales commissions related to the sale of shares of SIPs are recognized on trade date. Investment management fees, other than performance-based fees, and distribution fees are determined based on a percentage of AUM, primarily on a monthly basis using average daily AUM. Performance-based investment management fees are based on performance targets established in the related investment management contracts. Shareholder servicing fees are generally calculated based on the number and type of accounts serviced.

AUM is generally based on the fair value of the underlying securities held by SIPs and is calculated using fair value methods derived primarily from unadjusted quoted market prices, unadjusted independent third-party broker or dealer price quotes in active markets, or market prices or price quotes adjusted for observable price movements after the close of the primary market. The fair values of the underlying securities for which market prices are not readily available are internally valued using various methodologies which incorporate significant unobservable inputs as

appropriate for each security type and represent an insignificant percentage of total AUM. Pricing of the securities held by SIPs is governed by the Company's

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global valuation and pricing policy, which defines valuation and pricing conventions for each security type, including practices for responding to unexpected or unusual market events.

Sales commissions and distribution fees are recorded gross of sales and distribution expenses paid to financial advisers and other intermediaries as the Company acts as the principal in its role as primary obligor to the sales and distribution agreements.

Stock-Based Compensation. The fair value of share-based payment awards is estimated on the date of grant based on the market price of the underlying shares of the Company's common stock and is amortized to compensation expense on a straight-line basis over the related vesting period, which is generally three years. Expense relating to awards subject to performance conditions is recognized if it is probable that the performance goals will be achieved. The probability of achievement is assessed on a quarterly basis. The total number of awards expected to vest is adjusted for estimated forfeitures.

Postretirement Benefits. Defined contribution plan costs are expensed as incurred.

Income Taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and the reported amounts in the consolidated financial statements using the statutory tax rates in effect for the year when the reported amount of the asset or liability is expected to be recovered or settled, respectively. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying values of deferred tax assets to the amount that is more likely than not to be realized. For each tax position taken or expected to be taken in a tax return, the Company determines whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The Company recognizes the accrual of interest on uncertain tax positions in interest expense and penalties in other operating expenses.

As a multinational corporation, the Company operates in various locations outside the United States and generates earnings from its non-U.S. subsidiaries. The Company indefinitely reinvests the undistributed earnings of its non-U.S. subsidiaries, except for income previously taxed in the U.S., subject to regulatory or legal repatriation restrictions or requirements, and the excess net earnings reduced by cash needs for operational and regulatory capital requirements, capital management plans and capital expenditure plans of its Canadian and U.K. subsidiaries.

Foreign Currency Translation and Transactions. Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where that local currency is the functional currency, are translated at current exchange rates as of the end of the accounting period. The related revenues and expenses are translated at average exchange rates in effect during the period. Net exchange gains and losses resulting from translation are excluded from income and are recorded as part of accumulated other comprehensive income (loss). Transactions denominated in a foreign currency are revalued at the current exchange rate at the transaction date and any related gains and losses are recognized in earnings.

### Note 2 – New Accounting Guidance

The Financial Accounting Standards Board ("FASB") issued an amendment to the existing consolidation guidance in February 2015. The amendment modifies the consolidation framework for certain investment entities and all limited partnerships. It also eliminates certain criteria used to determine whether fees paid to a decision maker are a variable interest. The Company will adopt the amended guidance on October 1, 2016 and recognize a cumulative effect adjustment to retained earnings. The adoption is expected to result in the consolidation of SIPs that will change from voting interest entities to VIEs and become subject to a lower threshold for consolidation. In addition, certain CLOs for which the Company will no longer be the primary beneficiary and several limited partnerships are expected to be deconsolidated upon adoption of the amendment.

The FASB issued an amendment to the existing stock-based compensation guidance in March 2016. The amendment requires all income tax effects of stock-based awards to be recognized as income tax expense when the awards vest or settle, provides an election to account for forfeitures as they occur and clarifies the classification of these transactions within the statement of cash flows. The amendment is effective for the Company on October 1, 2017 and requires

varying transition approaches for the different changes to the guidance. The Company is currently evaluating the impact of adopting the amendment.

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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 is effective for the Company on October 1, 2018 and allows for either a full retrospective or modified approach at adoption. The Company is currently evaluating the impact of adopting the guidance.

The FASB issued an amendment to the existing financial instruments guidance in January 2016. The amendment requires substantially all equity investments in nonconsolidated entities to be measured at fair value with changes recognized in net income, except for those accounted for using the equity method of accounting. The amendment also provides an election to measure equity investments that do not have a readily determinable fair value at cost less impairment, if any. The amendment is effective for the Company on October 1, 2018 and requires a cumulative effect adjustment to retained earnings at adoption. The Company is currently evaluating the impact of adopting the amendment.

The FASB issued new guidance for the accounting for leases in February 2016. The new guidance requires lessees to recognize assets and liabilities arising from substantially all leases. The guidance is effective for the Company on October 1, 2019 and requires a modified retrospective approach at adoption. The Company is currently evaluating the impact of adopting the guidance.

The FASB issued new guidance for the accounting for credit losses in June 2016. The new guidance requires the application of a current expected credit loss model for financial assets measured at amortized cost and an allowance for credit loss model for available-for-sale debt securities. The guidance is effective for the Company on October 1, 2020 and requires a cumulative effect adjustment to retained earnings at adoption. The Company is currently evaluating the impact of adopting the guidance.

## Note 3 – Earnings per Share

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

(in millions, except per share data)

for the fiscal years ended September 30,	2016	2015	2014
Net income attributable to Franklin Resources, Inc.	\$1,726.7	\$2,035.3	\$2,384.3
Less: allocation of earnings to participating nonvested stock and stock unit awards	10.9	12.0	14.3
Net Income Available to Common Stockholders	\$1,715.8	\$2,023.3	\$2,370.0
Weighted-average shares outstanding – basic	583.8	614.8	624.8
Dilutive effect of nonparticipating nonvested stock unit awards and common stock options	—	0.1	0.4
Weighted-Average Shares Outstanding – Diluted	583.8	614.9	625.2
Earnings per Share			
Basic	\$2.94	\$3.29	\$3.79
Diluted	2.94	3.29	3.79

Nonparticipating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been antidilutive were 1.3 million for fiscal year 2016, 0.9 million for the fiscal year ended September 30, 2015 (“fiscal year 2015”), and 0.1 million for the fiscal year ended September 30, 2014 (“fiscal year 2014”).

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## Note 4 – Investments

The disclosures below include details of the Company's investments, excluding those of consolidated SIPs and consolidated VIEs. See Note 9 – Variable Interest Entities and Consolidated Sponsored Investment Products for information related to the investments held by these entities.

Investments consisted of the following:

(in millions)	2016	2015
as of September 30,		
Investment securities, trading		
SIPs	\$844.4	\$1,166.0
Debt and other equity securities	277.5	85.2
Total investment securities, trading	1,121.9	1,251.2
Investment securities, available-for-sale		
SIPs	297.7	408.3
Debt and other equity securities	3.7	38.1
Total investment securities, available-for-sale	301.4	446.4
Investments in equity method investees	797.4	655.3
Other investments	195.9	106.3
Total	\$2,416.6	\$2,459.2

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

At September 30, 2016 and 2015, investment securities with aggregate carrying amounts of \$117.3 million and \$4.3 million were pledged as collateral.

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

(in millions)	Cost Basis	Gross Unrealized		Fair Value
as of September 30, 2016		Gains	Losses	
SIPs	\$ 289.6	\$13.7	\$(5.6)	\$ 297.7
Debt and other equity securities	3.6	0.1	—	3.7
Total	\$ 293.2	\$13.8	\$(5.6)	\$ 301.4

(in millions)	Cost Basis	Gross Unrealized		Fair Value
as of September 30, 2015		Gains	Losses	
SIPs	\$ 382.6	\$32.4	\$(6.7)	\$ 408.3
Debt and other equity securities	37.9	0.4	(0.2)	38.1
Total	\$ 420.5	\$32.8	\$(6.9)	\$ 446.4

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
as of September 30, 2016	Gross Unrealized Losses	Gross Unrealized Losses	Gross Unrealized Losses
SIPs	\$75.8 \$ (4.3 )	\$18.0 \$ (1.3 )	\$93.8 \$ (5.6 )

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(in millions) as of September 30, 2015	Less Than 12 Months		12 Months or Greater		Total	
	Gross Fair Value Losses	Unrealized	Gross Fair Value Losses	Unrealized	Gross Fair Value Losses	Unrealized
SIPs	\$99.8	\$ (5.6 )	\$21.0	\$ (1.1 )	\$120.8	\$ (6.7 )
Debt and other equity securities	10.9	(0.2 )	—	—	10.9	(0.2 )
Total	\$110.7	\$ (5.8 )	\$21.0	\$ (1.1 )	\$131.7	\$ (6.9 )

The Company recognized \$11.1 million, \$10.0 million and \$0.6 million of other-than-temporary impairment during fiscal years 2016, 2015 and 2014, of which \$5.8 million, \$8.2 million and \$0.4 million related to available-for-sale SIPs.

## Note 5 – Fair Value Measurements

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

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

(in millions) as of September 30, 2016	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading				
SIPs	\$844.4	\$—	\$—	\$844.4
Debt and other equity securities	2.6	84.1	190.8	277.5
Investment securities, available-for-sale				
SIPs	297.7	—	—	297.7
Debt and other equity securities	1.6	2.1	—	3.7
Life settlement contracts	—	—	14.3	14.3
Total Assets Measured at Fair Value	\$1,146.3	\$86.2	\$205.1	\$1,437.6
Liabilities				
Contingent consideration liability	\$—	\$—	\$98.1	\$98.1

(in millions) as of September 30, 2015	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading				
SIPs	\$1,166.0	\$—	\$—	\$1,166.0
Debt and other equity securities	2.2	77.0	6.0	85.2
Investment securities, available-for-sale				
SIPs	408.3	—	—	408.3
Debt and other equity securities	12.2	25.9	—	38.1
Life settlement contracts	—	—	14.7	14.7
Total Assets Measured at Fair Value	\$1,588.7	\$102.9	\$20.7	\$1,712.3
Liabilities				
Contingent consideration liabilities	\$—	\$—	\$102.9	\$102.9

There were no transfers between Level 1 and Level 2, or into or out of Level 3, during fiscal years 2016 and 2015.





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Changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(in millions) for the fiscal years ended September 30,	2016		2015	
	Investment Liabilities	Contingent Consideration Liabilities	Investment Liabilities	Contingent Consideration Liabilities
Balance at beginning of year	\$20.7	\$ (102.9 )	\$14.0	\$ (98.5 )
Total realized and unrealized gains (losses)				
Included in investment and other income, net	(2.4 )	—	1.6	—
Included in general, administrative and other expense	—	1.0	—	(12.4 )
Other	—	—	—	(0.1 )
Purchases	190.4	—	6.6	—
Sales	(4.0 )	—	—	—
Settlements	(2.8 )	3.8	(1.5 )	7.9
Foreign exchange revaluation	3.2	—	—	0.2
Balance at End of Year	\$205.1	\$ (98.1 )	\$20.7	\$ (102.9 )
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at end of year	\$(4.0 )	\$ 1.0	\$0.8	\$ (12.5 )

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

(in millions) as of September 30, 2016	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Investment securities, trading - debt and other equity securities	\$190.8	Discounted cash flow	Discount rate Risk premium Liquidity discount	3.6%–6.9% (6.7%) 2.0%–17.9% (16.5%) 0.0%–10.0% (9.6%)
Life settlement contracts	14.3	Discounted cash flow	Life expectancy Discount rate	20–132 months (65) 3.3%–18.0% (11.5%)
Contingent consideration liability	98.1	Discounted cash flow	AUM growth rate EBITDA margin Discount rate	2.4%–11.5% (5.9%) 14.3% 13.2%
(in millions) as of September 30, 2015				
Investment securities, trading - debt and other equity securities	\$ 6.0	Discounted cash flow	Discount rate Risk premium	5.2%–6.1% (5.7%) 2.7%–2.8% (2.8%)
Life settlement contracts	14.7	Discounted cash flow	Life expectancy Discount rate	21–141 months (68) 3.3%–19.0% (11.7%)
Contingent consideration liabilities	102.9	Discounted cash flow	AUM growth rate EBITDA margin Discount rate	0.5%–5.8% (4.4%) 19.3%–22.9% (22.0%) 14.0%

For investment securities, trading - debt and other equity securities, a significant increase (decrease) in the discount rate, risk premium or liquidity discount 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 AUM growth rate or EBITDA margin, 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)		2016		2015	
as of September 30,	Fair Value Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets</b>					
Cash and cash equivalents	1	\$8,247.1	\$8,247.1	\$8,184.9	\$8,184.9
<b>Other investments</b>					
Time deposits	2	131.6	131.6	37.0	37.0
Cost method investments	3	50.0	61.3	54.6	60.1
<b>Financial Liabilities</b>					
<b>Debt</b>					
Senior notes	2	1,348.5	1,412.5	1,348.0	1,374.9
Loan	2	52.7	52.7	—	—

#### Note 6 – Property and Equipment

Property and equipment, net consisted of the following:

(in millions)	2016	2015	Useful Lives In Years
as of September 30,			
Furniture, software and equipment	\$756.4	\$733.6	3 – 10
Premises and leasehold improvements	563.5	557.0	5 – 35
Land	74.1	74.2	N/A
Total cost	1,394.0	1,364.8	
Less: accumulated depreciation and amortization	(870.8 )	(854.7 )	
Property and Equipment, Net	\$523.2	\$510.1	

Depreciation and amortization expense related to property and equipment was \$81.0 million, \$81.6 million and \$82.6 million in fiscal years 2016, 2015 and 2014. The Company recognized insignificant impairments of equipment during fiscal years 2016 and 2015, and no impairment during fiscal year 2014.

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## Note 7 – Goodwill and Other Intangible Assets

Goodwill and other intangible assets, net consisted of the following:

(in millions)

as of September 30,	2016	2015
Goodwill	\$1,661.2	\$1,661.2
Indefinite-lived intangible assets	530.9	538.3
Definite-lived intangible assets, net	19.2	57.5
Goodwill and Other Intangible Assets, Net	\$2,211.3	\$2,257.0

Indefinite-lived intangible assets consist of management contracts. No impairment of goodwill or indefinite-lived intangible assets was recognized during fiscal years 2016, 2015 and 2014. The goodwill carrying value changed during fiscal year 2015 due to foreign exchange revaluation.

Definite-lived intangible assets were as follows:

(in millions)	2016			2015		
as of September 30,	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Management contracts	\$60.1	\$ (40.9 )	\$ 19.2	\$89.5	\$ (36.2 )	\$ 53.3
Customer base	—	—	—	164.5	(160.3 )	4.2
Total	\$60.1	\$ (40.9 )	\$ 19.2	\$254.0	\$ (196.5 )	\$ 57.5

Amortization expense related to definite-lived intangible assets was \$10.4 million, \$20.1 million and \$20.8 million for fiscal years 2016, 2015 and 2014.

The Company recognized impairment of management contract definite-lived intangible assets, primarily related to the K2 Advisors Holdings, LLC acquisition, of \$28.2 million and \$8.2 million during fiscal years 2016 and 2015 due to increased investor redemptions and lower estimates of future sales. The impairment in fiscal year 2016 was also due to renegotiations of certain investment management fees. No impairment of definite-lived intangible assets was recognized during fiscal year 2014.

Definite-lived intangible assets had a weighted-average remaining useful life of 7.6 years at September 30, 2016, with estimated remaining amortization expense as follows:

(in millions)

for the fiscal years ending September 30,	Amount
2017	\$ 4.4
2018	4.4
2019	1.6
2020	1.4
2021	1.2
Thereafter	6.2
Total	\$ 19.2

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## Note 8 – Debt

The disclosures below include details of the Company's debt, excluding that of consolidated SIPs and consolidated VIEs. See Note 9 – Variable Interest Entities and Consolidated Sponsored Investment Products for information related to the debt of these entities.

Debt consisted of the following:

(in millions) as of September 30,	2016	Effective Interest Rate	2015	Effective Interest Rate
Senior Notes				
\$300 million 1.375% notes due September 2017	\$299.7	1.66 %	\$299.4	1.66 %
\$350 million 4.625% notes due May 2020	349.9	4.74 %	349.8	4.74 %
\$300 million 2.800% notes due September 2022	299.5	2.93 %	299.5	2.93 %
\$400 million 2.850% notes due March 2025	399.4	2.97 %	399.3	2.97 %
Total senior notes	1,348.5		1,348.0	
Other				
Loan due March 2017	52.7	9.89 %	—	N/A
Total	\$1,401.2		\$1,348.0	

At September 30, 2016, the Company's outstanding senior unsecured unsubordinated notes had an aggregate face value of \$1.4 billion. 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.

In March 2016, the Company borrowed 6.3 billion Indian Rupees (\$93.4 million) at a fixed interest rate of 9.89% to purchase certain securities from SIPs domiciled in India. Interest on the loan is payable monthly, and the loan may be prepaid without penalty. To secure the loan, the Company concurrently entered into a standby letter of credit for 6.5 billion Indian Rupees (\$96.6 million) collateralized by a \$116.0 million time deposit. The loan agreement requires that the borrowing entity, a subsidiary of the Company located in India, maintain a specified minimum level of capital. In September 2016, the Company prepaid 2.8 billion Indian Rupees (\$41.2 million) of the loan.

The Company was in compliance with all debt covenants at September 30, 2016.

At September 30, 2016, maturities for debt were as follows:

(in millions) for the fiscal years ending September 30,	Carrying Amount
2017	\$352.4
2018	—
2019	—
2020	349.9
2021	—
Thereafter	698.9
Total	\$1,401.2

At September 30, 2016, 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 9 – Variable Interest Entities and Consolidated Sponsored Investment Products

The Company sponsors and manages various types of investment products, which consist of both VIEs and non-VIEs. The Company consolidates the VIE products for which it is the primary beneficiary and the non-VIE products which it controls. The Company has no right to the consolidated products' assets, other than its direct equity investment in them, and/or investment management fees earned from them. The debt holders of these consolidated entities 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 entities' liabilities.

The balances of consolidated SIPs and consolidated VIEs included in the Company's consolidated balance sheets were as follows:

(in millions) as of September 30,	2016			2015		
	Consolidated SIPs	VIEs	Total	Consolidated SIPs	VIEs	Total
Assets						
Cash and cash equivalents	\$89.8	\$146.4	\$236.2	\$108.5	\$74.7	\$183.2
Receivables	24.3	23.6	47.9	10.0	11.5	21.5
Investments, at fair value	1,025.6	487.8	1,513.4	977.4	672.5	1,649.9
Other assets	1.4	—	1.4	0.7	—	0.7
Total Assets	\$1,141.1	\$657.8	\$1,798.9	\$1,096.6	\$758.7	\$1,855.3
Liabilities						
Accounts payable and accrued expenses	\$19.5	\$45.7	\$65.2	\$10.8	\$25.3	\$36.1
Debt	75.0	607.2	682.2	81.2	726.1	807.3
Other liabilities	8.5	—	8.5	6.3	—	6.3
Total liabilities	103.0	652.9	755.9	98.3	751.4	849.7
Redeemable Noncontrolling Interests	61.1	—	61.1	59.6	—	59.6
Stockholders' Equity						
Franklin Resources Inc.'s interests	409.2	4.9	414.1	308.8	7.3	316.1
Nonredeemable noncontrolling interests	567.8	—	567.8	629.9	—	629.9
Total stockholders' equity	977.0	4.9	981.9	938.7	7.3	946.0
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity	\$1,141.1	\$657.8	\$1,798.9	\$1,096.6	\$758.7	\$1,855.3

The consolidated SIPs and consolidated VIEs did not have a significant impact on net income attributable to the Company in fiscal years 2016, 2015 and 2014.

## Consolidated SIPs

Consolidated SIPs consist of limited partnerships and similar structures that the Company controls and other fund products in which the Company has a controlling financial interest. The Company consolidated 37 SIPs as of September 30, 2016, and 32 SIPs as of September 30, 2015. SIPs are typically consolidated when the Company makes an initial investment in a newly launched fund or limited partnership entity, and are deconsolidated when the Company redeems its investment in the SIP or its voting interests decrease to a minority percentage. The Company's investments in SIPs subsequent to deconsolidation are accounted for as trading or available-for-sale investment securities, or equity method or cost method investments depending on the nature of the SIP and the Company's level of ownership.

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## Consolidated VIEs

Consolidated VIEs consist of sponsored CLOs, which are asset-backed financing entities collateralized by a pool of corporate debt securities. The Company generally earns senior and subordinated management fees from the CLOs based on the par value of outstanding investments and, in certain instances, may also receive performance-based fees. In addition, the Company holds a residual interest in one of these entities. The debt holders of the CLOs have recourse only to the corresponding collateralized assets, which cannot be used by the Company for any other purpose.

Scheduled debt payments are based on the performance of the CLOs collateral pool and may be prepaid prior to the contractual maturity dates. The Company is the primary beneficiary of the CLOs as it has the power to direct the activities that most significantly impact the CLOs' economic performance in its role as collateral manager and has the right to receive benefits that could potentially be significant to the CLOs.

During fiscal years 2016 and 2015, the Company recognized \$6.2 million and \$8.3 million of net gains related to its own economic interests in the CLOs.

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

(in millions)

as of September 30,	2016	2015
Unpaid principal balance	\$496.0	\$694.5
Difference between unpaid principal balance and fair value	(8.2 )	(22.0 )
Fair Value	\$487.8	\$672.5

There were no investments 90 days or more past due at September 30, 2016 or 2015.

The unpaid principal balance of the debt of the CLOs was \$653.8 million and \$769.3 million at September 30, 2016 and 2015.

## Investments

Investments of consolidated SIPs and consolidated VIEs consisted of the following:

(in millions)	2016			2015		
	Consolidated SIPs	VIEs	Total	Consolidated SIPs	VIEs	Total
as of September 30,						
Investment securities, trading	\$287.8	\$—	\$287.8	\$180.5	\$—	\$180.5
Other debt securities	131.0	487.3	618.3	129.2	672.5	801.7
Other equity securities	606.8	0.5	607.3	667.7	—	667.7
Total	\$1,025.6	\$487.8	\$1,513.4	\$977.4	\$672.5	\$1,649.9

Investment securities, trading held by consolidated SIPs consist of equity and debt securities that are traded in active markets. Other equity and debt securities held by consolidated SIPs primarily consist of direct investments in equity securities and secured and unsecured debt securities of entities in emerging markets, which are generally not traded in active markets. Other equity securities also include investments in funds that are not traded in active markets.

Substantially all investments of consolidated VIEs are corporate debt securities.

## Debt

Debt of consolidated SIPs and consolidated VIEs consisted of the following:

(in millions)	Amount	Effective Interest Rate
as of September 30, 2016		
Debt of consolidated SIPs due fiscal years 2017-2019	\$ 75.0	4.79 %
Debt of consolidated VIEs due fiscal years 2018-2024	607.2	2.24 %
Total	\$ 682.2	

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(in millions)	Amount	Effective Interest Rate
as of September 30, 2015		
Debt of consolidated SIPs due fiscal years 2016-2019	\$ 81.2	4.71 %
Debt of consolidated VIEs due fiscal years 2018-2024	726.1	1.62 %
Total	\$ 807.3	

The debt of consolidated SIPs had fixed and floating interest rates ranging from 2.36% to 6.19% at September 30, 2016, and from 2.30% to 5.81% at September 30, 2015. The repayment of amounts outstanding under the debt agreements is secured by the assets of the consolidated SIPs or a pledge of the right to call capital.

The debt of consolidated VIEs had floating interest rates ranging from 1.02% to 10.16% at September 30, 2016, and from 0.54% to 9.79% at September 30, 2015.

At September 30, 2016, contractual maturities for debt of consolidated SIPs and consolidated VIEs were as follows:

(in millions)	Carrying Amount
for the fiscal years ending September 30,	
2017	\$ 40.4
2018	79.8
2019	280.1
2020	—
2021	—
Thereafter	281.9
Total	\$ 682.2

**Fair Value Measurements**

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

(in millions)	Level 1	Level 2	Level 3	Total
as of September 30, 2016				
<b>Assets</b>				
Cash and cash equivalents of consolidated VIEs	\$ 146.4	\$—	\$—	\$ 146.4
Receivables of consolidated VIEs	—	23.6	—	23.6
Investments of consolidated SIPs				
Equity securities	155.4	1.3	605.5	762.2
Debt securities	—	131.8	131.6	263.4
Investments of consolidated VIEs	—	487.1	0.7	487.8
Total Assets Measured at Fair Value	\$ 301.8	\$ 643.8	\$ 737.8	\$ 1,683.4
<b>Liabilities</b>				
Other liabilities of consolidated SIPs	\$ 0.1	\$ 8.4	\$—	\$ 8.5



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(in millions)	Level 1	Level 2	Level 3	Total
as of September 30, 2015				
Assets				
Cash and cash equivalents of consolidated VIEs	\$74.7	\$—	\$—	\$74.7
Receivables of consolidated VIEs	—	11.5	—	11.5
Investments of consolidated SIPs				
Equity securities	88.9	8.5	656.4	753.8
Debt securities	—	93.8	129.8	223.6
Investments of consolidated VIEs	—	672.1	0.4	672.5
Total Assets Measured at Fair Value	\$163.6	\$785.9	\$786.6	\$1,736.1

## Liabilities

Other liabilities of consolidated SIPs	\$3.3	\$3.0	\$—	\$6.3
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Receivables of consolidated VIEs consist primarily of investment trades pending settlement. The fair value of the assets is obtained from independent third-party broker or dealer quotes.

Other liabilities of consolidated SIPs consist of short positions in debt and equity securities. The fair value of the liabilities 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 securities are not available.

Investments in fund products for which fair value was estimated using NAV as a practical expedient were as follows:

(in millions)	Redemption Frequency	Fair Value Level	2016	2015
as of September 30,				
Real estate and private equity funds	Nonredeemable	3	\$444.2	\$463.6
Hedge funds	Triennially	3	1.0	1.2
Hedge funds	Monthly or quarterly	2	0.8	8.0
Total			\$446.0	\$472.8

The investments in real estate and private equity funds are expected to be returned through distributions as a result of liquidations of the funds' underlying assets over a weighted-average period of 3.2 years and 3.9 years at September 30, 2016 and 2015. The consolidated SIPs' unfunded commitments to these funds totaled \$74.4 million and \$94.5 million at September 30, 2016 and 2015, of which the Company was contractually obligated to fund \$2.2 million and \$2.4 million based on its ownership percentage in the SIPs.

There were no transfers between Level 1 and Level 2, or into or out of Level 3, during fiscal years 2016 and 2015.

Changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(in millions)	Investments of Consolidated SIPs	Investments of Consolidated VIEs	Total Level 3 Assets
for the fiscal year ended September 30, 2016	Equity	Debt	
Balance at October 1, 2015	\$656.4	\$129.8	\$ 0.4
Realized and unrealized losses included in investment and other income, net	(7.3 )	(10.3 )	(0.2 )
Purchases	60.6	26.3	0.5
Sales	(103.5 )	(15.4 )	—
Foreign exchange revaluation	(0.7 )	1.2	—
Balance at September 30, 2016	\$605.5	\$131.6	\$ 0.7
Change in unrealized losses included in net income relating to assets and liabilities held at September 30, 2016	\$(13.3 )	\$(10.7 )	\$ (0.2 )

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(in millions)	Investments of Consolidated SIPs	Debt	Investments of Consolidated VIEs	Total Level 3 Assets	Debt of Consolidated VIEs
for the fiscal year ended September 30, 2015					
Balance at October 1, 2014	\$614.3	\$206.3	\$ 0.5	\$821.1	\$ (47.2 )
Adjustment for adoption of new accounting guidance	—	—	—	—	47.2
Realized and unrealized gains (losses) included in investment and other income, net	39.5	(5.6 )	(0.1 )	33.8	—
Purchases	142.8	25.8	—	168.6	—
Sales	(134.7 )	(88.9 )	—	(223.6 )	—
Settlements	—	(0.6 )	—	(0.6 )	—
Foreign exchange revaluation	(5.5 )	(7.2 )	—	(12.7 )	—
Balance at September 30, 2015	\$656.4	\$129.8	\$ 0.4	\$786.6	\$ —
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at September 30, 2015	\$28.0	\$(10.4 )	\$ (0.1 )	\$17.5	\$ —

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

(in millions) as of September 30, 2016	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Equity securities	\$113.1	Market comparable companies	EBITDA multiple	5.0–14.2 (10.3)
	24.3	Discounted cash flow	Discount for lack of marketability	25.0%–50.0% (36.6%)
	22.9	Market pricing	Discount rate	5.0%–19.0% (13.7%)
			Price to book value ratio	1.8–2.3 (2.0)
Debt securities	119.0	Discounted cash flow	Discount rate	6.0%–15.0% (10.4%)
			Risk premium	0.0%–28.0% (9.7%)
	12.6	Market pricing	EBITDA multiple	5.5
			Private sale pricing	\$57 per \$100 of par
(in millions) as of September 30, 2015	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Equity securities	\$128.8	Market comparable companies	EBITDA multiple	4.2–10.7 (8.8)
	47.7	Market pricing	Discount for lack of marketability	25.0%–50.0% (34.9%)
	15.1	Discounted cash flow	Price to book value ratio	1.8–2.8 (2.3)
			Discount rate	6.3%–19.0% (12.8%)
Debt securities	129.8	Discounted cash flow	Discount rate	3.5%–17.0% (9.4%)
			Risk premium	0.0%–18.0% (4.6%)

Level 3 equity securities held by consolidated SIPs consisted primarily of common and preferred shares, and debt securities consisted of corporate loans and notes and mezzanine loans at September 30, 2016 and 2015.

The fair values of \$445.2 million and \$464.8 million of investments in various funds held by consolidated SIPs for which fair value was estimated using NAV as a practical expedient are excluded from the above two tables at September 30, 2016 and 2015.



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Following are descriptions of the sensitivity of the Level 3 recurring fair value measurements to changes in the significant unobservable inputs presented in the above tables.

For securities utilizing 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. A significant increase (decrease) in the discount for lack of marketability in isolation would result in a significantly lower (higher) fair value measurement. The discount for lack of marketability used to determine fair value may include other factors such as liquidity or credit risk.

For securities utilizing the discounted cash flow valuation technique, a significant increase (decrease) in the discount rate or risk premium in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the discount rate is accompanied by a directionally similar change in the risk premium. A significant increase (decrease) in the EBITDA multiple in isolation would result in a significantly higher (lower) fair value measurement.

For securities utilizing a market pricing valuation technique, a significant increase (decrease) in the price to book value ratio would result in a significantly higher (lower) fair value measurement.

Financial instruments of consolidated SIPs and consolidated VIEs that were not measured at fair value were as follows:

(in millions)	Fair Value Level	September 30, 2016		September 30, 2015	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets</b>					
Cash and cash equivalents of consolidated SIPs	1	\$ 89.8	\$ 89.8	\$ 108.5	\$ 108.5
<b>Financial Liabilities</b>					
Debt of consolidated SIPs	3	75.0	74.6	81.2	77.9
Debt of consolidated VIEs <sup>1</sup>	2 or 3	607.2	594.5	726.1	719.3

<sup>1</sup> Substantially all is Level 2.

**Redeemable Noncontrolling Interests**

Changes in redeemable noncontrolling interests of consolidated SIPs were as follows:

(in millions)	2016	2015	2014
for the fiscal years ended September 30,			
Balance at beginning of year	\$59.6	\$234.8	\$121.8
Net income (loss)	1.6	(6.1 )	20.6
Net subscriptions and other	79.9	149.4	436.0
Net deconsolidations	(80.0 )	(318.5 )	(343.6 )
Balance at End of Year	\$61.1	\$59.6	\$234.8

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## Nonconsolidated VIEs

VIEs for which the Company is not the primary beneficiary consist of sponsored and other investment products from which the Company earns investment management fees and/or in which it has an equity ownership interest.

The carrying values of the investment management fees receivable from and the equity ownership interests in these VIEs included in the Company's consolidated balance sheets are set forth below. These amounts represent the Company's maximum exposure to loss from these investment products.

(in millions)

as of September 30,	2016	2015
Receivables	\$21.4	\$35.5
Investments	77.3	236.6
Total	\$98.7	\$272.1

While the Company has no contractual obligation to do so, it routinely makes cash investments in the course of launching SIPs. The Company also may voluntarily elect to provide its SIPs with additional direct or indirect financial support based on its business objectives. During fiscal year 2016, the Company purchased \$182.7 million of certain debt securities from six SIPs domiciled in India in order to provide additional liquidity to the SIPs. The Company did not provide financial or other support to its SIPs during fiscal year 2015.

## Note 10 – Taxes on Income

Taxes on income were as follows:

(in millions)

for the fiscal years ended September 30,	2016	2015	2014
Current expense			
Federal	\$582.8	\$733.9	\$803.6
State	47.5	83.1	82.4
Non-U.S.	102.8	121.1	114.1
Deferred expense (benefit)	9.0	(14.4)	(2.2)
Total	\$742.1	\$923.7	\$997.9

The tax benefit from the utilization of net operating loss carry-forwards was insignificant in fiscal years 2016, 2015 and 2014. The Company had a tax shortfall of \$5.9 million associated with stock-based compensation plans in fiscal year 2016 and tax benefits of \$10.9 million and \$13.3 million in fiscal years 2015 and 2014 which reduced the amount of income taxes that would have otherwise been payable. The tax shortfall and benefits are reflected as components of stockholders' equity.

Income before taxes consisted of the following:

(in millions)

for the fiscal years ended September 30,	2016	2015	2014
U.S.	\$1,641.7	\$2,026.4	\$2,160.8
Non-U.S.	858.1	1,002.0	1,248.8
Total	\$2,499.8	\$3,028.4	\$3,409.6

The Company's income in certain countries is subject to reduced tax rates due to tax rulings. The impact of the reduced rates on income tax expense was \$34.2 million or \$0.06 per diluted share for fiscal year 2016, \$68.3 million or \$0.11 per diluted share for fiscal year 2015, and \$100.6 million or \$0.16 per diluted share for fiscal year 2014. The tax rulings will expire in fiscal years 2019 and 2022.

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The significant components of deferred tax assets and deferred tax liabilities were as follows:

(in millions)

as of September 30,	2016	2015
Deferred Tax Assets		
Deferred compensation and employee benefits	\$52.9	\$60.8
Stock-based compensation	36.6	38.7
Net operating loss carry-forwards	32.5	40.3
Tax benefit for uncertain tax positions	19.8	29.6
Other	12.5	11.6
Total deferred tax assets	154.3	181.0
Valuation allowance for net operating loss carry-forwards	(24.6 )	(34.0 )
Deferred tax assets, net of valuation allowance	129.7	147.0
Deferred Tax Liabilities		
Goodwill and other purchased intangibles	202.8	217.3
Deferred commissions	18.3	21.2
Depreciation on fixed assets	18.0	13.4
Other	34.4	35.8
Total deferred tax liabilities	273.5	287.7
Net Deferred Tax Liability	\$143.8	\$140.7

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)

as of September 30,	2016	2015
Other assets	\$17.7	\$100.7
Deferred tax liabilities	161.5	241.4
Net Deferred Tax Liability	\$143.8	\$140.7

At September 30, 2016, there were \$135.8 million of non-U.S. net operating loss carry-forwards, \$68.5 million of which expire between 2018 and 2026 with the remaining carry-forwards having an indefinite life. In addition, there were \$74.2 million in state net operating loss carry-forwards that expire between 2017 and 2036. A partial valuation allowance has been provided to offset the related deferred tax assets due to the uncertainty of realizing the benefit of the net operating loss carry-forwards. The valuation allowance decreased \$9.4 million in fiscal year 2016 and increased \$7.7 million in fiscal year 2015.

The Company has made no provision for U.S. income taxes on \$8.5 billion of cumulative undistributed non-U.S. earnings that are indefinitely reinvested at September 30, 2016. Determination of the potential amount of unrecognized deferred U.S. income tax liability related to such reinvested non-U.S. earnings is not practicable because of the numerous assumptions associated with this hypothetical calculation. However, foreign tax credits would be available to reduce some portion of this amount. Changes to the Company's policy of reinvestment or repatriation of non-U.S. earnings may have a significant effect on its financial condition and results of operations.

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A reconciliation of the amount of tax expense at the federal statutory rate and taxes on income as reflected in the consolidated statements of income is as follows:

(in millions)

for the fiscal years ended September 30,	2016		2015		2014	
Federal taxes at statutory rate	\$874.9	35.0%	\$1,059.9	35.0%	\$1,193.4	35.0%
State taxes, net of federal tax effect	42.7	1.7 %	51.6	1.7 %	52.4	1.5 %
Effect of non-U.S. operations	(153.0 )	(6.1 %)	(148.5 )	(4.9 %)	(246.3 )	(7.2 %)
Effect of net income attributable to noncontrolling interests	(10.9 )	(0.4 %)	(24.3 )	(0.8 %)	(9.6 )	(0.3 %)
Other	(11.6 )	(0.5 %)	(15.0 )	(0.5 %)	8.0	0.3 %
Tax Provision	\$742.1	29.7%	\$923.7	30.5%	\$997.9	29.3%

A reconciliation of the beginning and ending balances of gross unrecognized tax benefits is as follows:

(in millions)

for the fiscal years ended September 30,	2016	2015	2014
Balance at beginning of year	\$105.2	\$118.2	\$109.5
Additions for tax positions of prior years	0.6	12.6	3.0
Reductions for tax positions of prior years	(9.0 )	(3.4 )	(2.4 )
Tax positions related to the current year	12.9	16.2	14.1
Settlements with taxing authorities	(5.4 )	(0.1 )	(0.3 )
Expirations of statute of limitations	(22.2 )	(38.3 )	(5.7 )
Balance at End of Year	\$82.1	\$105.2	\$118.2

If recognized, substantially all of the balance, net of any deferred tax benefits, would favorably affect the Company's effective income tax rate in future periods.

Accrued interest on uncertain tax positions at September 30, 2016 and 2015 was \$9.6 million and \$11.2 million, and is not presented in the unrecognized tax benefits table above. Interest expense (benefit) of \$(1.3) million, \$(6.6) million and \$2.4 million was recognized during fiscal years 2016, 2015 and 2014. Accrued penalties at September 30, 2016 and 2015 were insignificant.

The Company files a consolidated U.S. federal income tax return, multiple U.S. state and local income tax returns, and income tax returns in multiple non-U.S. jurisdictions. The Company is subject to examination by the taxing authorities in these jurisdictions. The Company's major tax jurisdictions and the tax years for which the statutes of limitations have not expired are as follows: India 2003 to 2016; Canada 2009 to 2016; Hong Kong 2010 to 2016; Singapore 2011 to 2016; Luxembourg 2012 to 2016; the U.K. 2015 to 2016; U.S. federal 2013 to 2016; the State of California 2008 to 2010, and 2012 to 2016; the State of Minnesota and City of New York 2012 to 2016; and the States of Florida, Massachusetts and New York 2013 to 2016.

The Company has on-going examinations in various stages of completion in the State of Minnesota, City of New York, Canada, Hong Kong, India and South Africa. Examination outcomes and the timing of settlements are subject to significant uncertainty. Such settlements may involve some or all of the following: the payment of additional taxes, the adjustment of deferred taxes and/or the recognition of unrecognized tax benefits. The Company has recognized a tax benefit only for those positions that meet the more-likely-than-not recognition threshold. It is reasonably possible that the total unrecognized tax benefit as of September 30, 2016 could decrease by an estimated \$19.2 million within the next twelve months as a result of the expiration of statutes of limitations in the U.S. federal and certain U.S. state and local and non-U.S. tax jurisdictions, and potential settlements with U.S. states and non-U.S. taxing authorities.

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## Note 11 – Commitments and Contingencies

## Legal Proceedings

On July 28, 2016, a putative class action lawsuit captioned Cryer v. Franklin Resources, Inc., et al. was filed in the United States District Court for the Northern District of California against Franklin, the Franklin Templeton 401(k) Retirement Plan (“Plan”) Investment Committee, and unnamed Investment Committee members. The plaintiff attempts to assert a claim for breach of fiduciary duty under the Employee Retirement Income Security Act, 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 \$88.0 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. Franklin filed a motion to dismiss the complaint and a motion for summary adjudication on October 24, 2016. Management strongly believes that the claims made in the lawsuit are without merit and intends to defend against them vigorously. Franklin cannot predict with certainty, however, the eventual outcome of the lawsuit or whether it will have a material negative impact on the Company.

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 September 30, 2016 to provide for any probable losses that may arise from such matters for which the Company could reasonably estimate an amount.

## Other Commitments and Contingencies

The Company leases office space and equipment under operating leases expiring at various dates through fiscal year 2032. Lease expense was \$69.3 million, \$58.0 million and \$58.2 million in fiscal years 2016, 2015 and 2014. Sublease income totaled \$1.6 million in fiscal year 2016 and \$1.7 million in fiscal years 2015 and 2014.

Future minimum lease payments under long-term non-cancelable operating leases were as follows as of September 30, 2016:

(in millions)

for the fiscal years ending September 30,	Amount
2017	\$ 44.7
2018	43.1
2019	39.0
2020	31.6
2021	28.0
Thereafter	190.2
Total Minimum Lease Payments	\$ 376.6

Future minimum rentals to be received under non-cancelable subleases totaled \$0.8 million at September 30, 2016.

While the Company has no contractual obligation to do so, it routinely makes cash investments in the course of launching SIPs. At September 30, 2016, the Company had \$35.2 million of committed capital contributions which relate to discretionary commitments to invest in SIPs and other investment products. These unfunded commitments are not recorded in the Company’s consolidated balance sheet.



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## Note 12 – Stock-Based Compensation

The Company's stock-based compensation plans consist of the Amended and Restated Annual Incentive Compensation Plan (the "AIP"), the 2002 Universal Stock Incentive Plan, as amended and restated (the "USIP") and the amended and restated Franklin Resources, Inc. 1998 Employee Stock Investment Plan (the "ESIP"). The Compensation Committee of the Board of Directors determines the terms and conditions of awards under the AIP, the USIP and the ESIP.

Stock-based compensation expenses were as follows:

(in millions)

for the fiscal years ended September 30,	2016	2015	2014
Stock and stock unit awards	\$ 125.3	\$ 133.6	\$ 121.1
Employee stock investment plan	6.2	6.4	6.6
Total	\$ 131.5	\$ 140.0	\$ 127.7

## Stock and Stock Unit Awards

Under the terms of the AIP, eligible employees may receive cash, equity awards and/or mutual fund unit awards generally based on the performance of the Company, its funds and the individual employee. The USIP provides for the issuance of the Company's common stock for various stock-related awards to officers, directors and employees. There are 120.0 million shares authorized under the USIP, of which 24.3 million shares were available for grant at September 30, 2016.

Stock awards generally entitle holders to the right to sell the underlying shares of the Company's common stock once the awards vest. Stock unit awards generally entitle holders to receive the underlying shares of common stock once the awards vest. Awards generally vest based on the passage of time or the achievement of predetermined Company financial performance goals. In the event a performance measure is not achieved at or above a specified threshold level, the portion of the award tied to such performance measure is forfeited.

Stock and stock unit award activity was as follows:

(shares in thousands)

for the fiscal year ended September 30, 2016	Time-Based Shares	Performance-Based Shares	Total Shares	Weighted-Average Grant-Date Fair Value
Nonvested balance at September 30, 2015	2,085	1,173	3,258	\$ 53.97
Granted	2,703	679	3,382	40.88
Vested	(2,087)	(402)	(2,489)	49.51
Forfeited/canceled	(332)	(162)	(494)	48.19
Nonvested Balance at September 30, 2016	2,369	1,288	3,657	\$ 45.67

Total unrecognized compensation expense related to nonvested stock and stock unit awards, net of estimated forfeitures, was \$122.5 million at September 30, 2016. This expense is expected to be recognized over a remaining weighted-average vesting period of 1.6 years. The weighted-average grant-date fair values of stock awards and stock unit awards granted during fiscal years 2016, 2015 and 2014 were \$40.88, \$55.65 and \$53.89 per share. The total fair value of stock and stock unit awards vested during the same periods was \$92.8 million, \$115.2 million and \$153.0 million.

The Company generally does not repurchase shares upon vesting of stock and stock unit awards. However, in order to pay taxes due in connection with the vesting of employee and executive officer stock and stock unit awards, shares are repurchased using a net stock issuance method.

## Stock Options

There were no stock options outstanding at September 30, 2016 or 2015, and no stock option activity during fiscal years 2016 or 2015. The total intrinsic value of stock options exercised during fiscal year 2014 was \$17.9 million. The cash received from the exercises was \$7.2 million and the income tax benefits were \$5.9 million.

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## Employee Stock Investment Plan

The ESIP allows eligible participants to buy shares of the Company's common stock at a discount of its market value on defined dates. A total of 0.8 million shares were issued under the ESIP during fiscal year 2016, and 4.4 million shares were reserved for future issuance at September 30, 2016.

## Note 13 – Defined Contribution Plans

The Company sponsors a 401(k) plan that covers substantially all U.S. employees who meet certain employment requirements. Participants may contribute up to 50% of pretax annual compensation and up to 100% of the cash portion of the participant's year-end bonus, as defined by the plan and subject to Internal Revenue Code limitations, each year to the plan. In addition, certain of the Company's non-U.S. subsidiaries sponsor defined contribution plans primarily for the purpose of providing deferred compensation incentives for its employees and to comply with local regulatory requirements. The total expenses recognized for defined contribution plans were \$46.8 million, \$46.4 million and \$47.0 million for fiscal years 2016, 2015 and 2014.

## Note 14 – Segment and Geographic Information

The Company has one operating segment, investment management and related services.

Geographic information was as follows:

(in millions)

for the fiscal years ended September 30,	2016	2015	2014
Operating Revenues			
United States	\$4,063.6	\$4,634.2	\$5,014.4
Luxembourg	1,707.9	2,278.6	2,034.0
Canada	273.8	339.0	357.6
Asia-Pacific	267.9	311.8	420.2
The Bahamas	204.6	250.2	492.7
Europe, the Middle East and Africa, excluding Luxembourg	94.0	126.8	159.8
Latin America	6.2	8.1	12.7
Total	\$6,618.0	\$7,948.7	\$8,491.4

(in millions)

as of September 30,	2016	2015	2014
Property and Equipment, Net			
United States	\$428.0	\$406.9	\$417.0
Asia-Pacific	62.9	68.9	78.0
Europe, the Middle East and Africa	14.9	14.8	13.8
The Bahamas	14.3	14.6	15.1
Canada	3.1	4.5	5.9
Latin America	—	0.4	0.9
Total	\$523.2	\$510.1	\$530.7

Operating revenues are generally allocated to geographic areas based on the location of the office providing services.

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## Note 15 – Other Income (Expenses)

Other income (expenses) consisted of the following:

(in millions)

for the fiscal years ended September 30, Investment and Other Income, Net	2016	2015	2014
Dividend income	\$20.6	\$10.3	\$10.1
Interest income	36.5	10.8	9.1
Gains (losses) on trading investment securities, net	50.1	(22.3 )	10.4
Realized gains on sale of investment securities, available-for-sale	32.1	28.1	57.8
Realized losses on sale of investment securities, available-for-sale	(3.2 )	(4.0 )	(1.0 )
Income (losses) from investments in equity method investees	56.7	(63.2 )	68.1
Other-than-temporary impairment of investments	(11.1 )	(10.0 )	(0.6 )
Gains (losses) on investments of consolidated SIPs, net	(13.5 )	18.0	33.9
Gains from consolidated VIEs, net	6.2	8.3	7.1
Foreign currency exchange gains (losses), net	(2.9 )	57.0	32.1
Other, net	12.5	7.4	8.8
Total	184.0	40.4	235.8
Interest Expense	(49.9 )	(39.6 )	(47.4 )
Other Income, Net	\$134.1	\$0.8	\$188.4

Substantially all of the Company's dividend income and realized gains and losses on sale of available-for-sale securities were generated by investments in its nonconsolidated SIPs. Interest income was primarily generated by trading investment securities and cash equivalents. Proceeds from the sale of available-for-sale securities were \$269.4 million, \$221.3 million and \$380.4 million for fiscal years 2016, 2015 and 2014.

Net gains (losses) recognized on the Company's trading investment securities that were held at September 30, 2016, 2015 and 2014 were \$27.9 million, \$(20.3) million and \$5.2 million. Net gains (losses) recognized on trading investment securities of consolidated SIPs that were held at September 30, 2016, 2015 and 2014 were \$9.4 million, \$(17.7) million and \$3.7 million.

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## Note 16 – Accumulated Other Comprehensive Income (Loss)

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

(in millions)

	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
for the fiscal year ended September 30, 2016				
Balance at October 1, 2015	\$ 19.3	\$ (327.8 )	\$ (5.7 )	\$(314.2)
Other comprehensive income (loss) before reclassifications, net of tax	2.7	(18.3 )	(2.4 )	(18.0 )
Reclassifications to net investment and other income, net of tax	(15.2 )	—	—	(15.2 )
Total other comprehensive loss	(12.5 )	(18.3 )	(2.4 )	(33.2 )
Balance at September 30, 2016	\$ 6.8	\$ (346.1 )	\$ (8.1 )	\$(347.4)
(in millions)				
	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
for the fiscal year ended September 30, 2015				
Balance at October 1, 2014	\$ 31.0	\$ (143.6 )	\$ (5.1 )	\$(117.7)
Other comprehensive income (loss) before reclassifications, net of tax	1.4	(184.2 )	(0.6 )	(183.4 )
Reclassifications to net investment and other income, net of tax	(13.1 )	—	—	(13.1 )
Total other comprehensive loss	(11.7 )	(184.2 )	(0.6 )	(196.5 )
Balance at September 30, 2015	\$ 19.3	\$ (327.8 )	\$ (5.7 )	\$(314.2)

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) as of September 30, 2016. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures as of September 30, 2016 were designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm set forth in Item 8 of Part II of this Form 10-K are incorporated herein by reference.

Item 9B. Other Information.

None.

**PART III**

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 with respect to executive officers of the Company is contained at the end of Part I of this Form 10-K under the heading "Executive Officers of the Registrant."

Code of Ethics. The Company has adopted a Code of Ethics and Business Conduct (the "Code of Ethics") that applies to the Company's principal executive officer, principal financial officer, principal accounting officer, controller, and any persons performing similar functions, as well as all directors, officers and employees of the Company and its subsidiaries and affiliates. The Code of Ethics is posted on the Company's website at [www.franklinresources.com](http://www.franklinresources.com) under "Corporate Governance." A copy of the Code of Ethics is available in print free of charge to any stockholder who requests a copy. Interested parties may address a written request for a printed copy of the Code of Ethics to: Secretary, Franklin Resources, Inc., One Franklin Parkway, San Mateo, California 94403-1906. The Company intends to satisfy the disclosure requirement regarding any amendment to, or a waiver from, a provision of the Code of Ethics for the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on its website.

The other information required by this Item 10 is incorporated by reference from the information provided under the sections entitled "Proposal No. 1 Election of Directors–Nominees," "Information about the Board and its Committees–The Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" from the Company's definitive proxy statement for its annual meeting of stockholders ("2017 Proxy Statement") to be filed with the SEC within 120 days after September 30, 2016.

Item 11. Executive Compensation.

The information required by this Item 11 is incorporated by reference from the information provided under the sections entitled "Director Fees," "Compensation Discussion and Analysis" and "Executive Compensation" of the Company's 2017 Proxy Statement.

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## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item 12 with respect to security ownership of certain beneficial owners and management is incorporated by reference from the information provided under the sections entitled “Stock Ownership of Certain Beneficial Owners” and “Stock Ownership and Stock-Based Holdings of Directors, Director Nominees and Executive Officers” of the Company’s 2017 Proxy Statement.

## Equity Compensation Plan Information.

The following table sets forth certain information as of September 30, 2016 with respect to the shares of the Company’s common stock that may be issued under the Company’s existing compensation plans that have been approved by stockholders and plans that have not been approved by stockholders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)	
Equity compensation plans approved by stockholders <sup>1</sup>	1,879,437	<sup>2</sup> N/A	<sup>3</sup> 28,645,730	<sup>4</sup>
Equity compensation plans not approved by stockholders	—	—	—	
Total	1,879,437	N/A	28,645,730	

<sup>1</sup> Consists of the 2002 Universal Stock Incentive Plan, as amended and restated (the “USIP”) and the amended and restated Franklin Resources, Inc. 1998 Employee Stock Investment Plan (the “ESIP”). Equity securities granted under the USIP may include awards in connection with the Amended and Restated Annual Incentive Compensation Plan and the 2014 Key Executive Incentive Compensation Plan.

Represents restricted stock unit awards under the USIP that may be settled in shares of the Company’s common stock. Excludes options to purchase shares of the Company’s common stock accruing under the Company’s ESIP.

<sup>2</sup> Under the ESIP, each eligible employee is granted a separate option to purchase up to 6,000 shares of common stock each semi-annual accrual period on January 31 and July 31 at a purchase price per share equal to 85% of the fair market value of the common stock on the enrollment date or the exercise date, whichever is lower.

<sup>3</sup> Does not take into account restricted stock unit awards under the USIP.

<sup>4</sup> As of September 30, 2016, 4.4 million shares of common stock were available for future issuance under the ESIP and 24.3 million shares of common stock were available for future issuance under the USIP.

## Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 is incorporated by reference from the information provided under the sections entitled “Proposal No. 1 Election of Directors-General,” “Corporate Governance–Director Independence Standards” and “Certain Relationships and Related Transactions” of the Company’s 2017 Proxy Statement.

## Item 14. Principal Accountant Fees and Services.

The information required by this Item 14 is incorporated by reference from the information provided under the section entitled “Fees Paid to Independent Registered Public Accounting Firm” of the Company’s 2017 Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

- (a)(1) The financial statements filed as part of this report are listed in Item 8 of this Form 10-K.  
 No financial statement schedules are required to be filed as part of this report because all such schedules have been omitted. Such omission has been made on the basis that information is provided in the financial statements, or in the related notes thereto, in Item 8 of this Form 10-K or is not required to be filed as the information is not applicable.
- (a)(2) Exhibits.

Exhibit No.	Description
3(i)(a)	Registrant's Certificate of Incorporation, as filed November 28, 1969, incorporated by reference to Exhibit (3)(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 001-09318) (the "1994 Annual Report")
3(i)(b)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed March 1, 1985, incorporated by reference to Exhibit 3(ii) to the 1994 Annual Report
3(i)(c)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed April 1, 1987, incorporated by reference to Exhibit 3(iii) to the 1994 Annual Report
3(i)(d)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed February 2, 1994, incorporated by reference to Exhibit 3(iv) to the 1994 Annual Report
3(i)(e)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed on February 4, 2005, incorporated by reference to Exhibit (3)(i)(e) to the Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 2004 (File No. 001-09318)
3(ii)	Registrant's Amended and Restated Bylaws (as adopted and effective September 16, 2015), incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed with the SEC on September 17, 2015 (File No. 001-09318)
4.1	Indenture between the Registrant and The Bank of New York Mellon Trust Company, N.A. (as successor to Chemical Bank), as trustee, dated as of May 19, 1994, incorporated by reference to Exhibit 4 to the Registrant's Registration Statement on Form S-3 filed with the SEC on April 14, 1994 (File No. 033-53147)
4.2	First Supplemental Indenture, dated October 9, 1996, between the Registrant and The Bank of New York Mellon Trust Company, N.A. (as successor to The Chase Manhattan Bank), as trustee, incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-3 filed with the SEC on October 4, 1996 (File No. 333-12101)
4.3	Second Supplemental Indenture, dated May 20, 2010, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the SEC on May 20, 2010 (File No. 001-09318)
4.4	Third Supplemental Indenture, dated September 24, 2012, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the SEC on September 24, 2012 (File No. 001-09318)
4.5	Fourth Supplemental Indenture, dated March 30, 2015, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the SEC on March 30, 2015 (File No. 001-09318)
10.1	Representative Form of Amended and Restated Indemnification Agreement with directors of the Registrant, incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 001-09318)*
10.2	Representative Form of Notice of Restricted Stock Award and Restricted Stock Award Agreement (RSA) under the Registrant's 2002 Universal Stock Incentive Plan for certain executive officers of the Registrant,

incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2014 (File No. 001-09318) (the "2014 Annual Report")\*

10.3 Representative Form of Notice of Restricted Stock Unit Award and Restricted Stock Unit Award Agreement (RSU) under the Registrant's 2002 Universal Stock Incentive Plan for long-term performance awards for certain executive officers of the Registrant, incorporated by reference to Exhibit 10.3 to the 2014 Annual Report\*



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Exhibit No.	Description
10.4	2006 Directors Deferred Compensation Plan, as amended and restated effective March 13, 2013, incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2013 (File No. 001-09318)*
10.5	1998 Employee Stock Investment Plan (as amended and restated February 1, 2012), incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 2011 (File No. 001-09318)*
10.6	2002 Universal Stock Incentive Plan (as amended and restated effective December 15, 2015), incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2015 (File No. 001-09318)*
10.7	Amended and Restated Annual Incentive Compensation Plan (as amended and restated effective June 14, 2016), incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2016 (File No. 001-09318)*
10.8	2014 Key Executive Incentive Compensation Plan (as adopted and effective December 10, 2013), incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 13, 2014 (File No. 001-09318)*
10.9	Non-Employee Director Compensation as of September 30, 2015, incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (File No. 001-09318)*
10.10	Named Executive Officer Compensation as of September 30, 2016 (filed herewith)*
12	Computation of Ratios of Earnings to Fixed Charges (filed herewith)
21	List of Subsidiaries (filed herewith)
23	Consent of Independent Registered Public Accounting Firm (filed herewith)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following materials from the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2016, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes (filed herewith)

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\* Management Contract or Compensatory Plan or Arrangement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRANKLIN RESOURCES, INC.

Date: November 14, 2016 By: /s/ Kenneth A. Lewis

Kenneth A. Lewis, Chief Financial Officer and Executive Vice President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Date: November 14, 2016 By: /s/ Peter K. Barker

Peter K. Barker, Director

Date: November 14, 2016 By: /s/ Mariann Byerwalter

Mariann Byerwalter, Director

Date: November 14, 2016 By: /s/ Charles E. Johnson

Charles E. Johnson, Director

Date: November 14, 2016 By: /s/ Gregory E. Johnson

Gregory E. Johnson, Chairman, Director and Chief Executive Officer  
(Principal Executive Officer)

Date: November 14, 2016 By: /s/ Rupert H. Johnson, Jr.

Rupert H. Johnson, Jr., Vice Chairman and Director

Date: November 14, 2016 By: /s/ Kenneth A. Lewis

Kenneth A. Lewis, Chief Financial Officer and Executive Vice President  
(Principal Financial and Accounting Officer)

Date: November 14, 2016 By: /s/ Mark C. Pigott

Mark C. Pigott, Director

Date: November 14, 2016 By: /s/ Chutta Ratnathicam

Chutta Ratnathicam, Director

Date: November 14, 2016 By: /s/ Laura Stein

Laura Stein, Director

Date: November 14, 2016 By: /s/ Seth H. Waugh

Seth H. Waugh, Director

Date: November 14, 2016 By: /s/ Geoffrey Y. Yang

Geoffrey Y. Yang, Director



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EXHIBIT INDEX

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3(i)(e)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed on February 4, 2005, incorporated by reference to Exhibit (3)(i)(e) to the Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 2004 (File No. 001-09318)
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10.6 2002 Universal Stock Incentive Plan (as amended and restated effective December 15, 2015), incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2015 (File No. 001-09318)\*

10.7 Amended and Restated Annual Incentive Compensation Plan (as amended and restated effective June 14, 2016), incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2016 (File No. 001-09318)\*

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Exhibit No.	Description
10.8	2014 Key Executive Incentive Compensation Plan (as adopted and effective December 10, 2013), incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 13, 2014 (File No. 001-09318)*
10.9	Non-Employee Director Compensation as of September 30, 2015, incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (File No. 001-09318)*
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\* Management Contract or Compensatory Plan or Arrangement