



FRANKLIN (BEN)

MOVING TO A BULLISH STANCE



March 2017

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QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

BEN: INTRO – GLOBAL ASSET MGMT

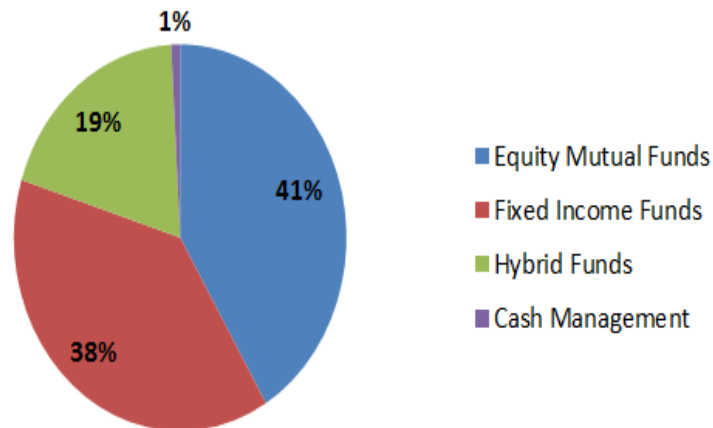
Name:	Franklin Resources
Ticker:	BEN
Market Cap \$MM	\$ 24,444
TTM Revenues \$MM	\$ 6,420
Pretax Margin	38%
AUM \$MM	\$ 720,000
Dividend Yield	1.9%
Short Interest as a % of Float	2.8%
Insider Ownership	35.0%
Cash Balance \$MM	\$ 8,223
Long Term Debt \$MM	\$ 1,394

Largest Global Asset Managers by AUM \$BB			
<u>Rank</u>	<u>Manager</u>	<u>AUM \$BB</u>	
1	BlackRock	\$	4,600
2	Vanguard	\$	3,400
3	State Street	\$	2,200
4	Fidelity	\$	2,000
5	Allianz	\$	1,900
6	JP Morgan	\$	1,700
7	Bank of New York	\$	1,600
8	AXA Group	\$	1,500
9	Capital Group	\$	1,400
10	Goldman Sachs	\$	1,300
11	Deutsche Bank	\$	1,200
12	BNP Paribas	\$	1,200
27	Franklin Resources	\$	720

BEN: INTRO – GLOBAL ASSET MGMT

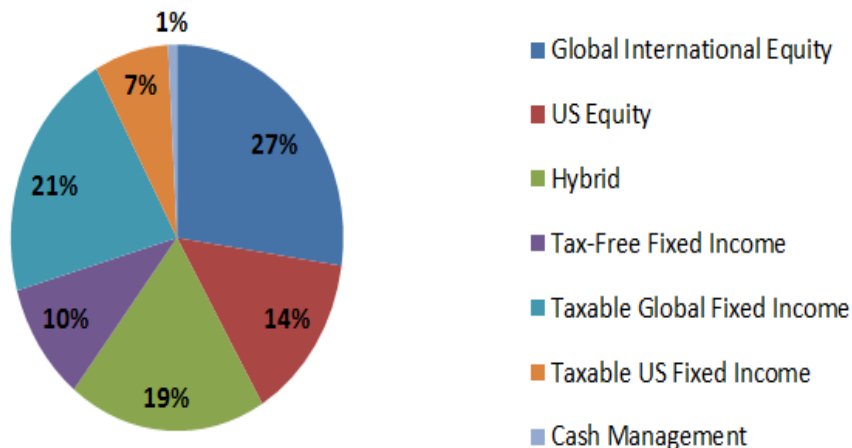
Equity Mutual Funds
Fixed Income Funds
Hybrid Funds
Cash Management
Total AUM

	Total AUM in \$BB	%
\$	298	41%
\$	277	38%
\$	139	19%
\$	6	1%
\$	720	100%



Global International Equity
US Equity
Hybrid
Tax-Free Fixed Income
Taxable Global Fixed Income
Taxable US Fixed Income
Cash Management
Total SMA

	Total AUM in \$BB	%
\$	197	27%
\$	102	14%
\$	138	19%
\$	72	10%
\$	154	21%
\$	52	7%
\$	6	1%
\$	720	100%



SHARES NOW IN AN IMPORTANT PLACE



THESIS: UNDER APPRECIATED IMPROVEMENTS

1

PERFORMANCE STARTING TO PERK UP

Franklin performance across complex is starting to improve with its Top 100 funds according to Morningstar up almost 1 full star rating. The important Templeton franchise is also improving with its Global Bond product again a 5 star rated fund. Historically fund flows improve within 6 months.

2

ACTIVE TO TRUMP PASSIVE – EM REBOUNDING

With correlations starting to break apart and sector divergence the highest since 2009, active managers have the opportunity to outperform again. S&P correlations breaking down has historically boosted active returns and flows. In addition, Emerging Markets rebounded from a Bear Market in 2016 and have started '17 strongly which could really help the Templeton franchise.

3

CASH AND CASH FLOW MONSTER

Franklin is the best resourced asset manager and sports the biggest net cash position with ~\$12 per share in net cash. With ~\$2 billion in annual cash flow to boot, the company can participate in transformational M&A, maintain its buyback, and boost dividends. In 2006, the company repatriated \$2 billion which is an option again if the window opens up.

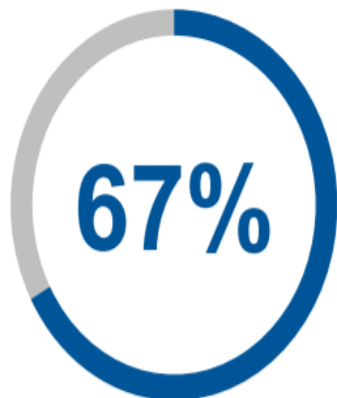
SECTION 1 – PERFORMANCE UP



RATE OF CHANGE IMPROVING

Percentage of Total Long-Term Assets (\$472 billion) in the Top Two Peer Group Quartiles

3-Year



Equity & Hybrid - \$275 billion

63%

Fixed Income - \$197 billion

73%

5-Year



66%

69%

10-Year

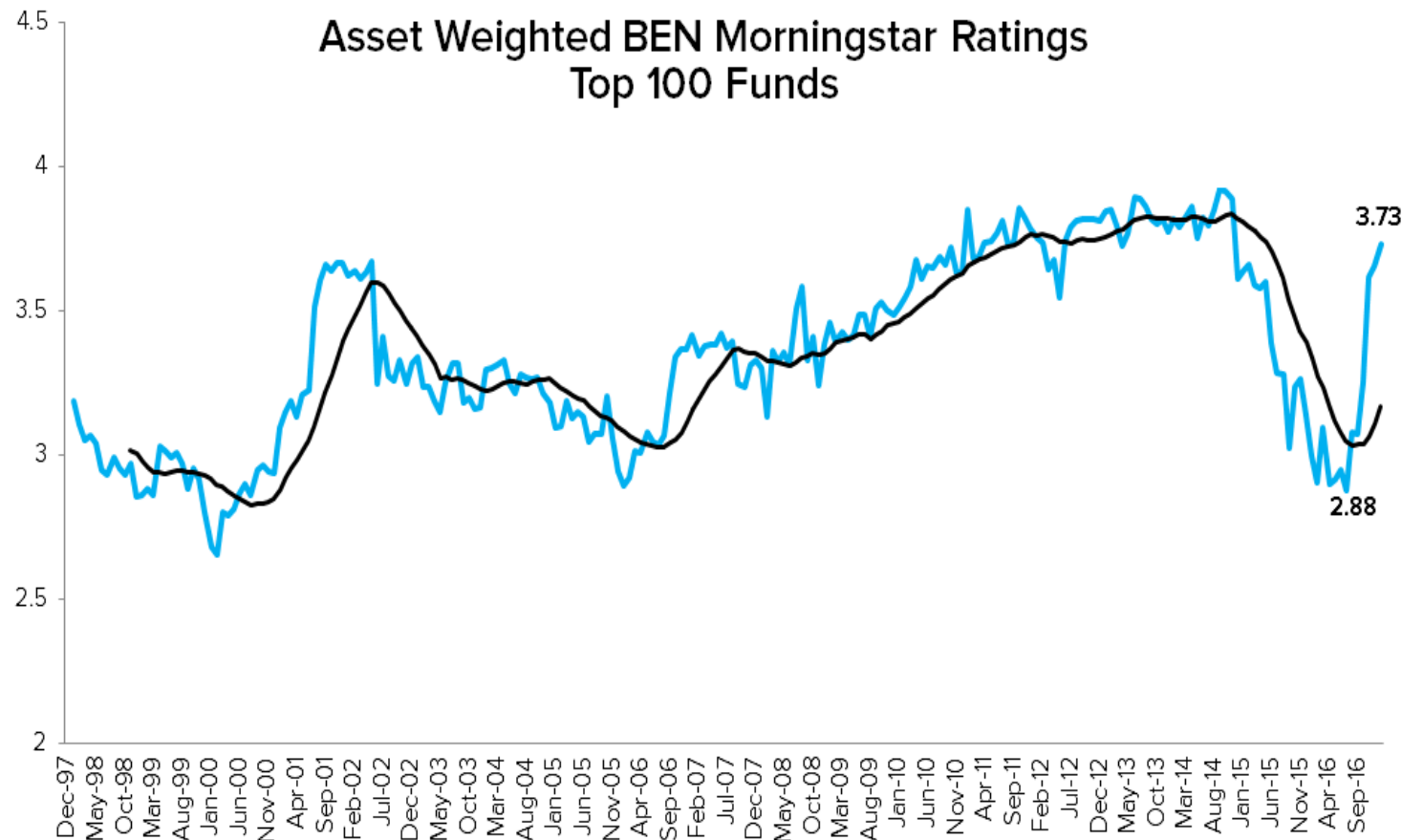


77%

89%

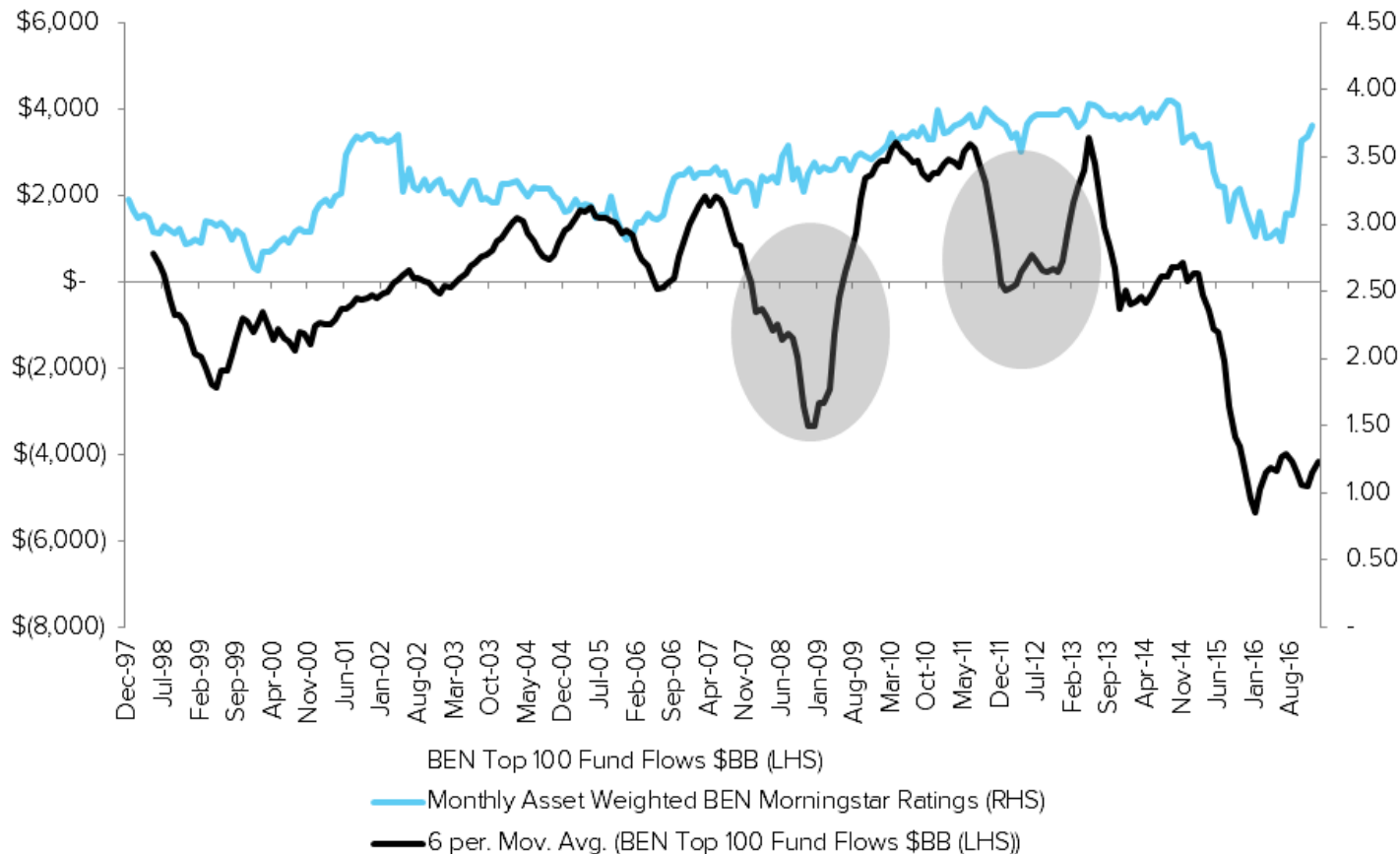
While the disclosure is **well intended**, top 2 quartile placement **isn't overly helpful**. We think most asset management performance is **understated**.

RATE OF CHANGE IMPROVING



Asset weighted Morningstar ratings for the firm's **top 100 funds** (>\$400 BB) in AUM show a more **drastic improvement**. The firm is up almost **1 full Morningstar rating** entering '17.

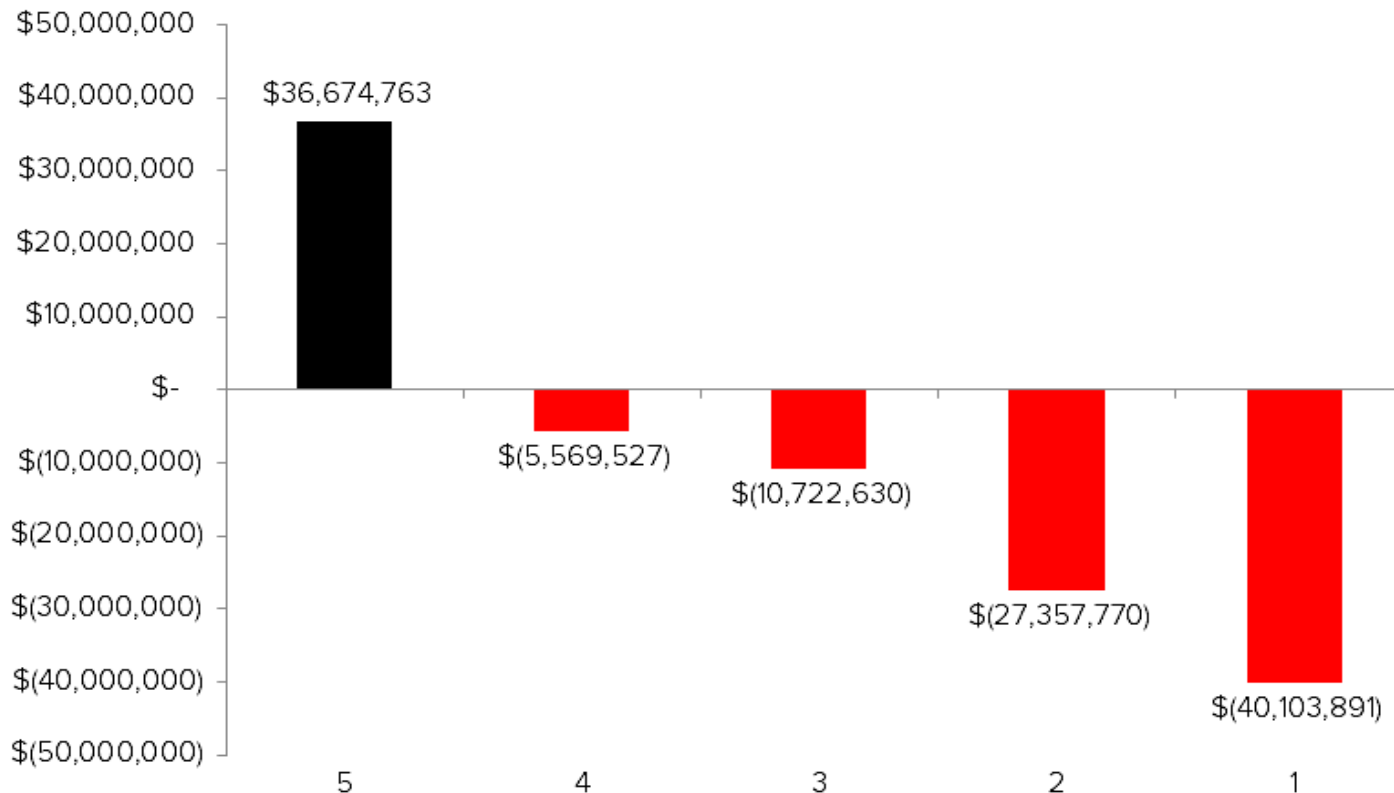
RATE OF CHANGE IMPROVING



The **response rate** of improved Morningstar ratings is **~6 months** as 6 month moving averages of monthly inflows **follow the path of MSD ratings**.

RATE OF CHANGE IMPROVING

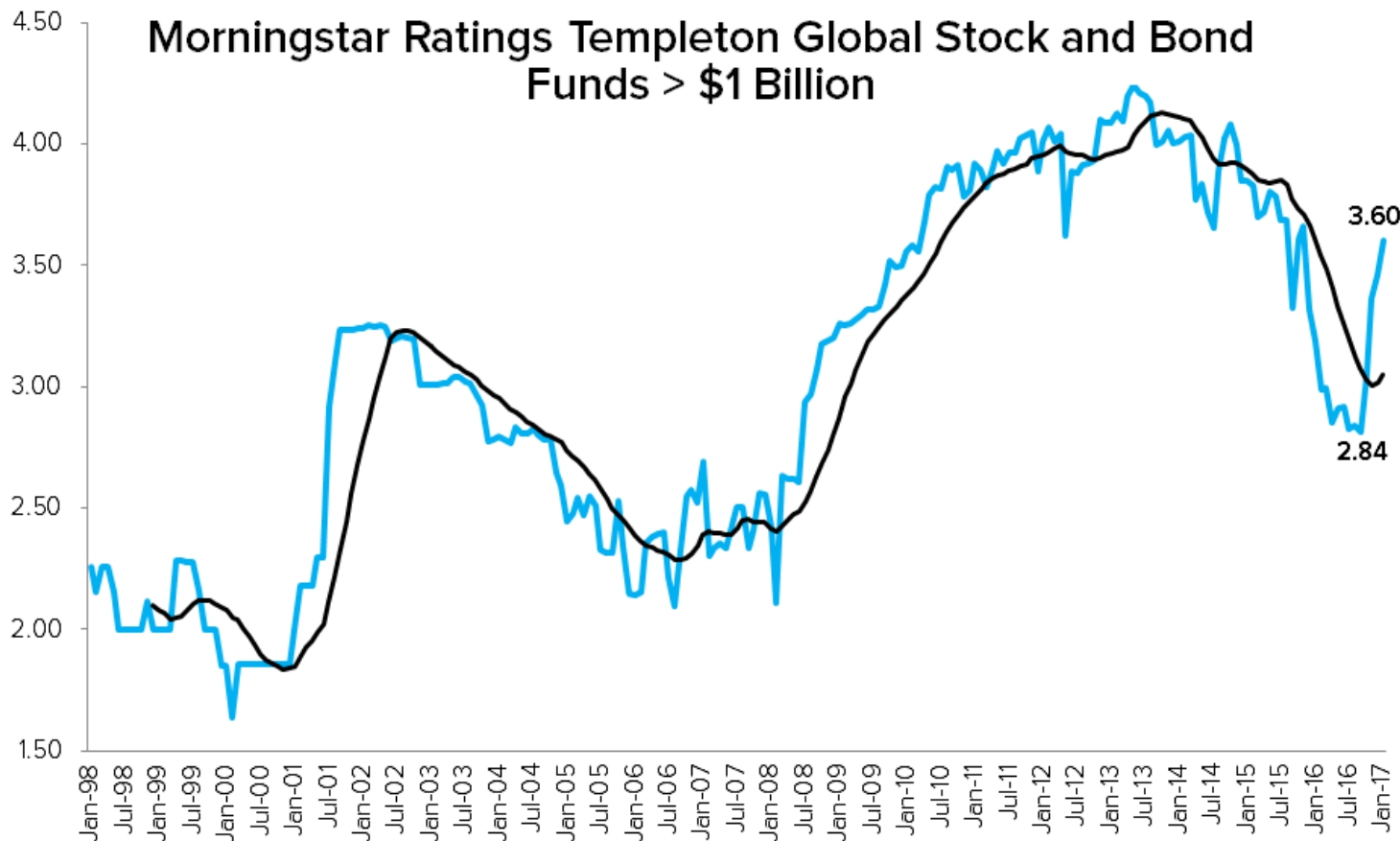
Avg. Monthly BEN Flow By Morningstar Rating



Which starts the firm along the path of a **positive linear improvement** in flows. This is **20 years of monthly data** for those same **top 100 BEN mutual funds**.

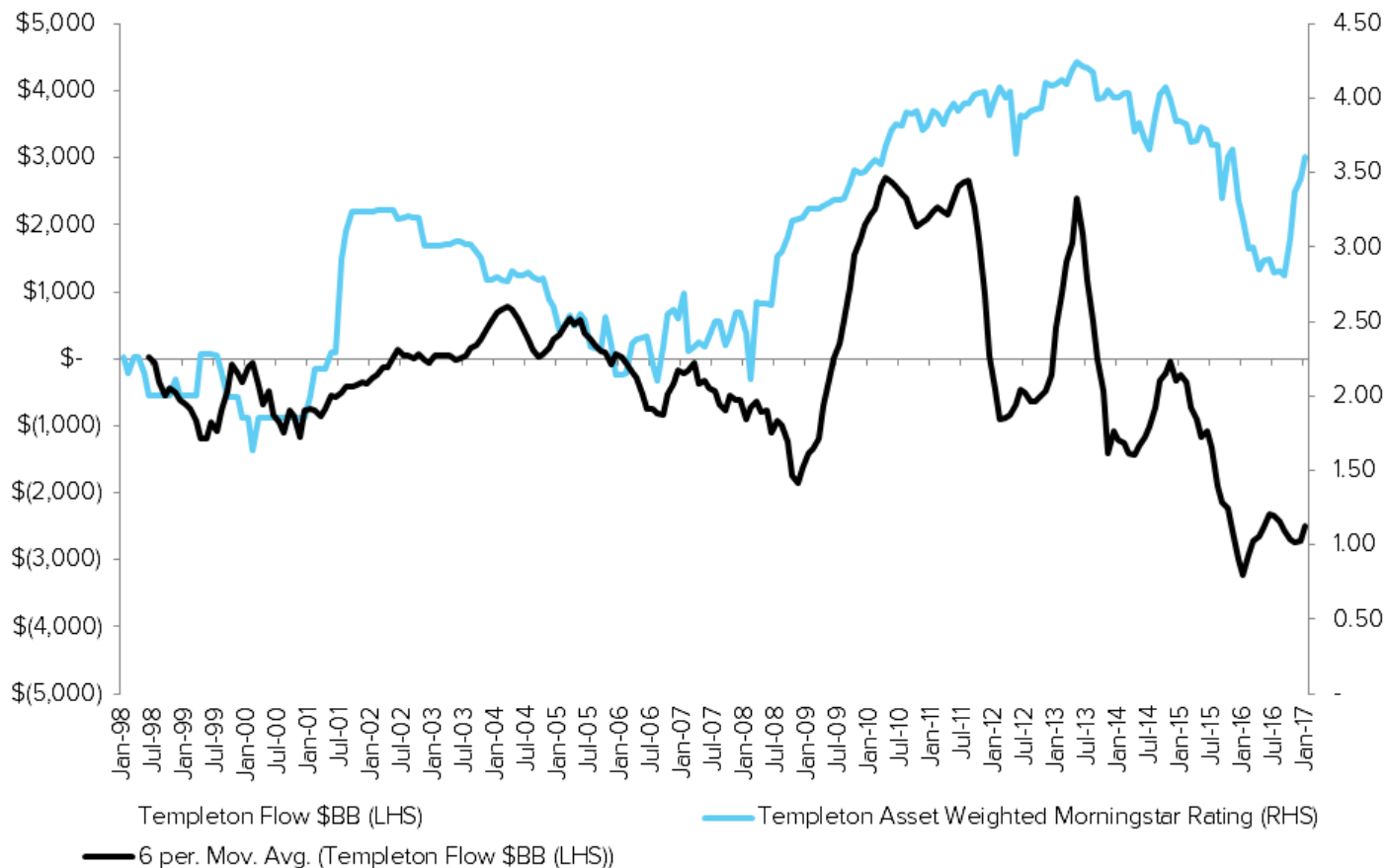
RATE OF CHANGE IMPROVING

Morningstar Ratings Templeton Global Stock and Bond Funds > \$1 Billion



The firm still **leads with its Templeton Global Stock and Bond products**, and although not as drastic, is also experiencing a **solid rebound** on weighted Morningstar assets.

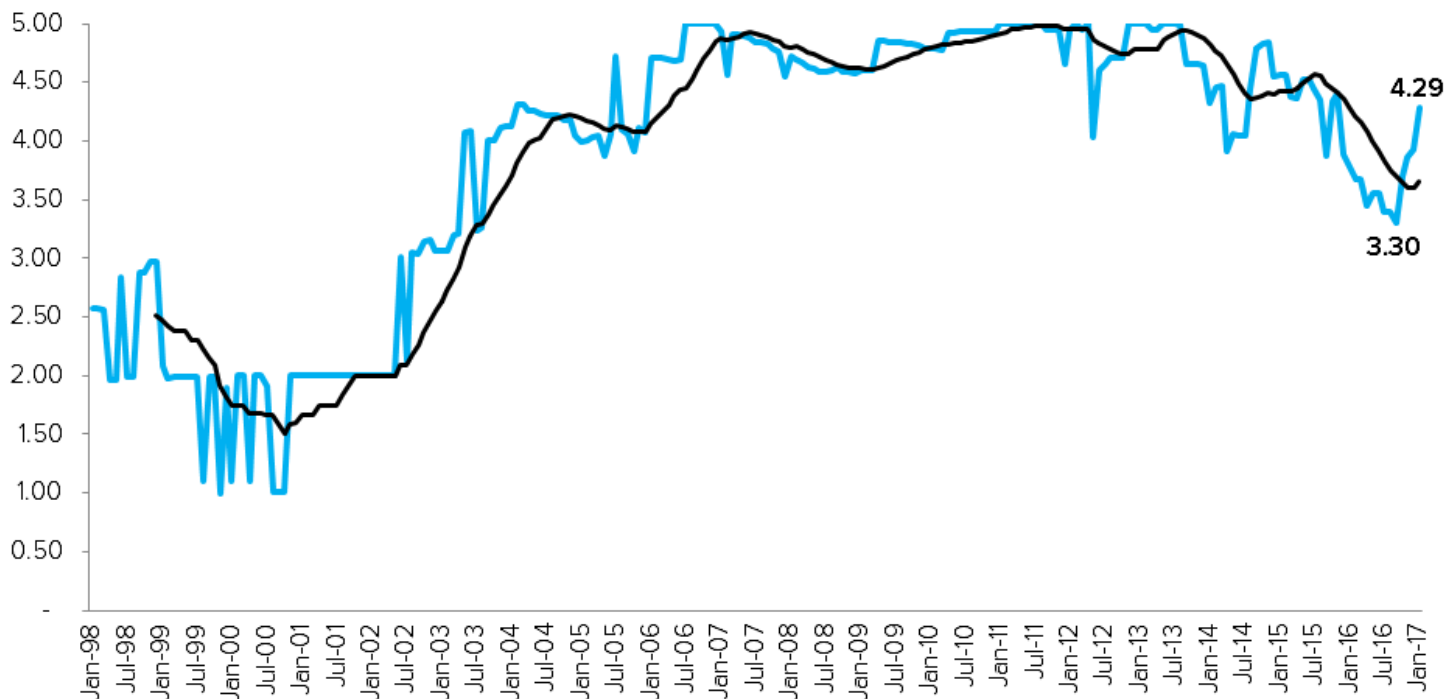
RATE OF CHANGE IMPROVING



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RATE OF CHANGE IMPROVING

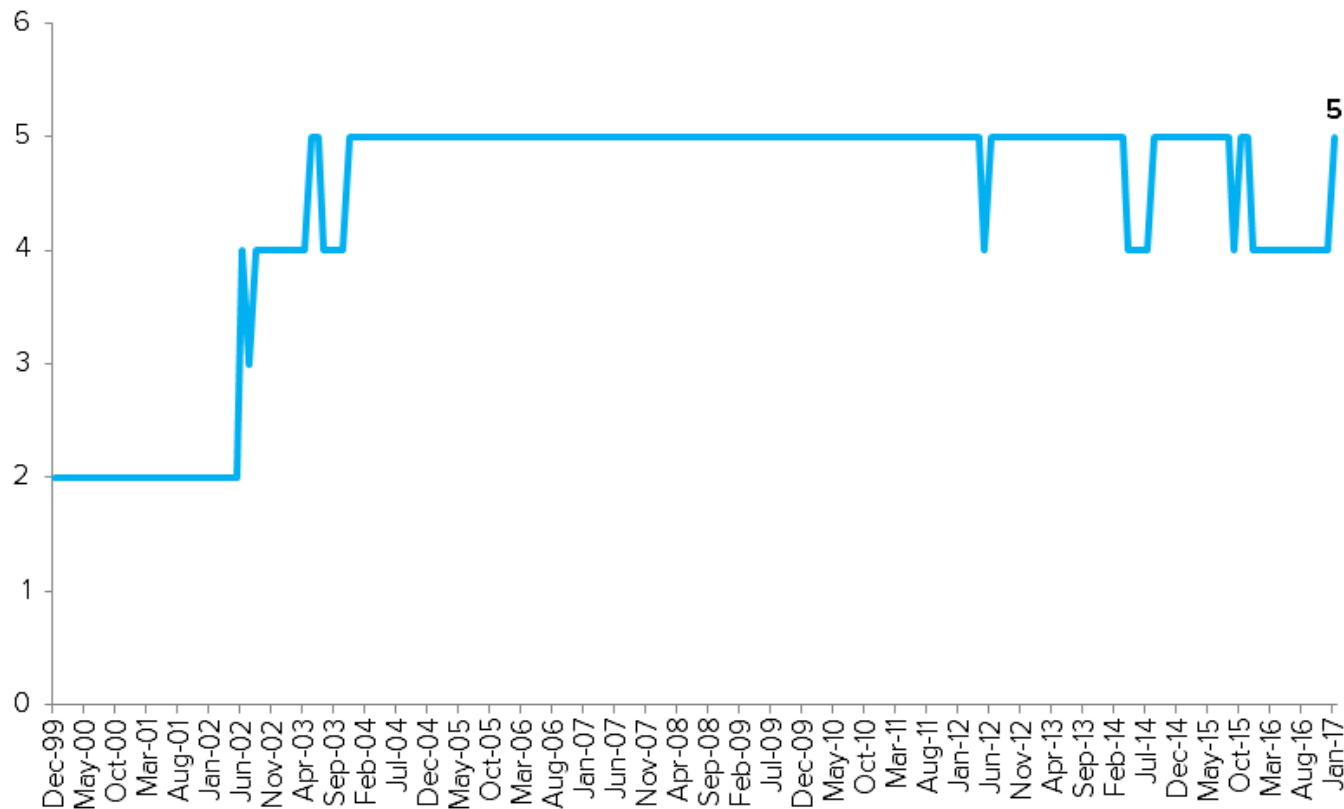
Morningstar Ratings Templeton Global Bond Funds Family



Templeton Global Bond is much improved with a rating moving well into the 4 Morningstar range. This strategy is the biggest at the firm with \$120 BB in AUM.

RATE OF CHANGE IMPROVING

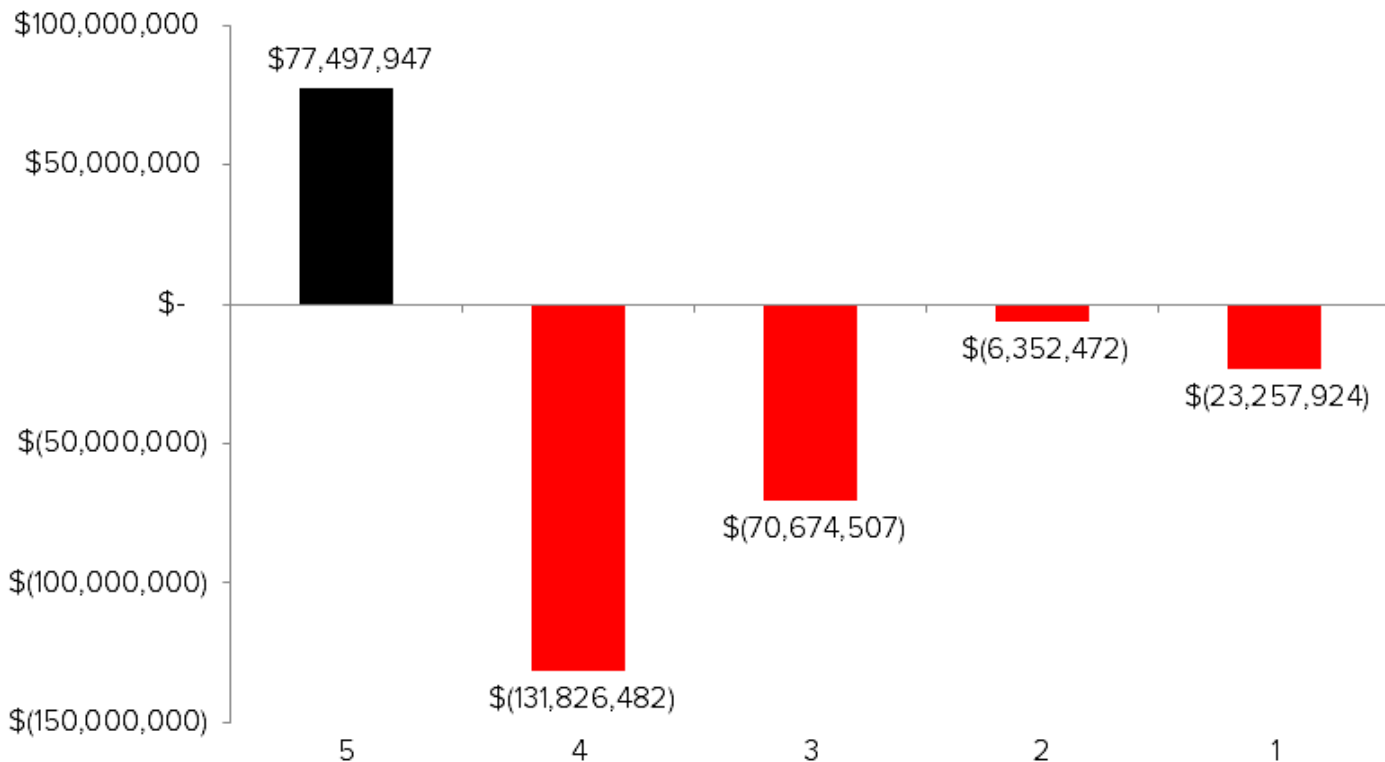
Templeton Global Bond Fund Advisor Class



And **Global Bond Advisor class** has just recaptured its **5 star** rating to start **2017**.

RATE OF CHANGE IMPROVING

Avg. Monthly Templeton Bond Fund Flow By Morningstar Rating

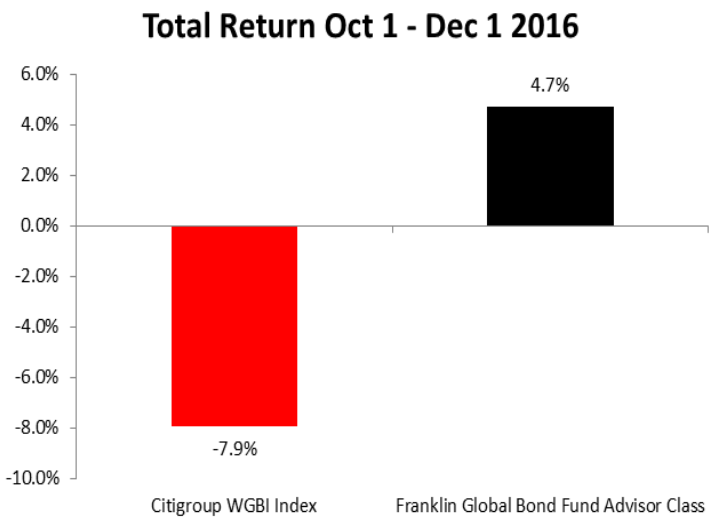


And the firm's Global Bond fund **does not garner** assets on a monthly basis **unless it is 5 stars** which is an important milestone.

GLOBAL BOND POSITIONED FOR RATES

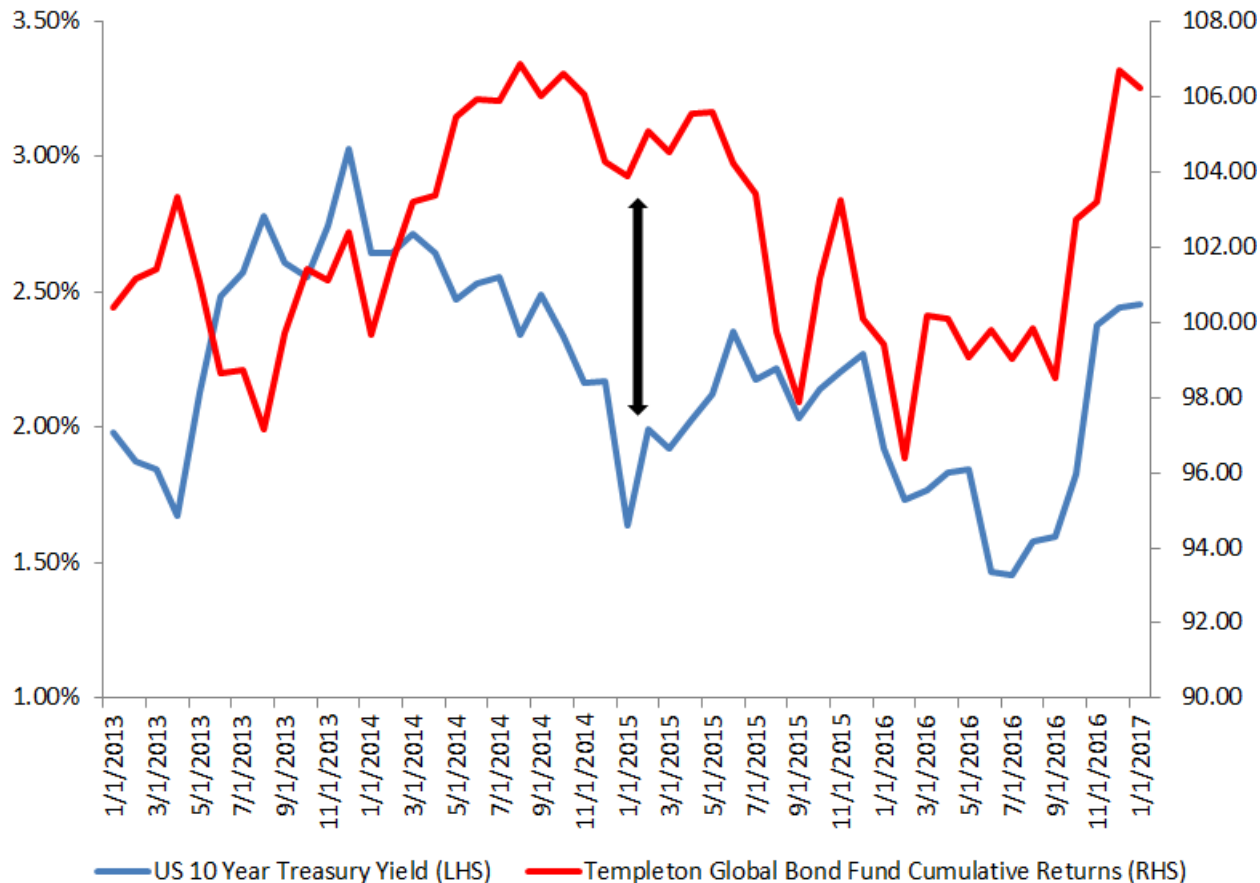
10-Year Treasury Yield's Surge Vindicates Bond Bears

Some investors shared a conviction that U.S. rates couldn't stay as low as they were in the summer



Franklin's Global Bond fund has had a **watershed period** recently outperforming its benchmark by over **+1,200 basis points** benefiting from **higher US rates**.

GLOBAL BOND POSITIONED FOR RATES

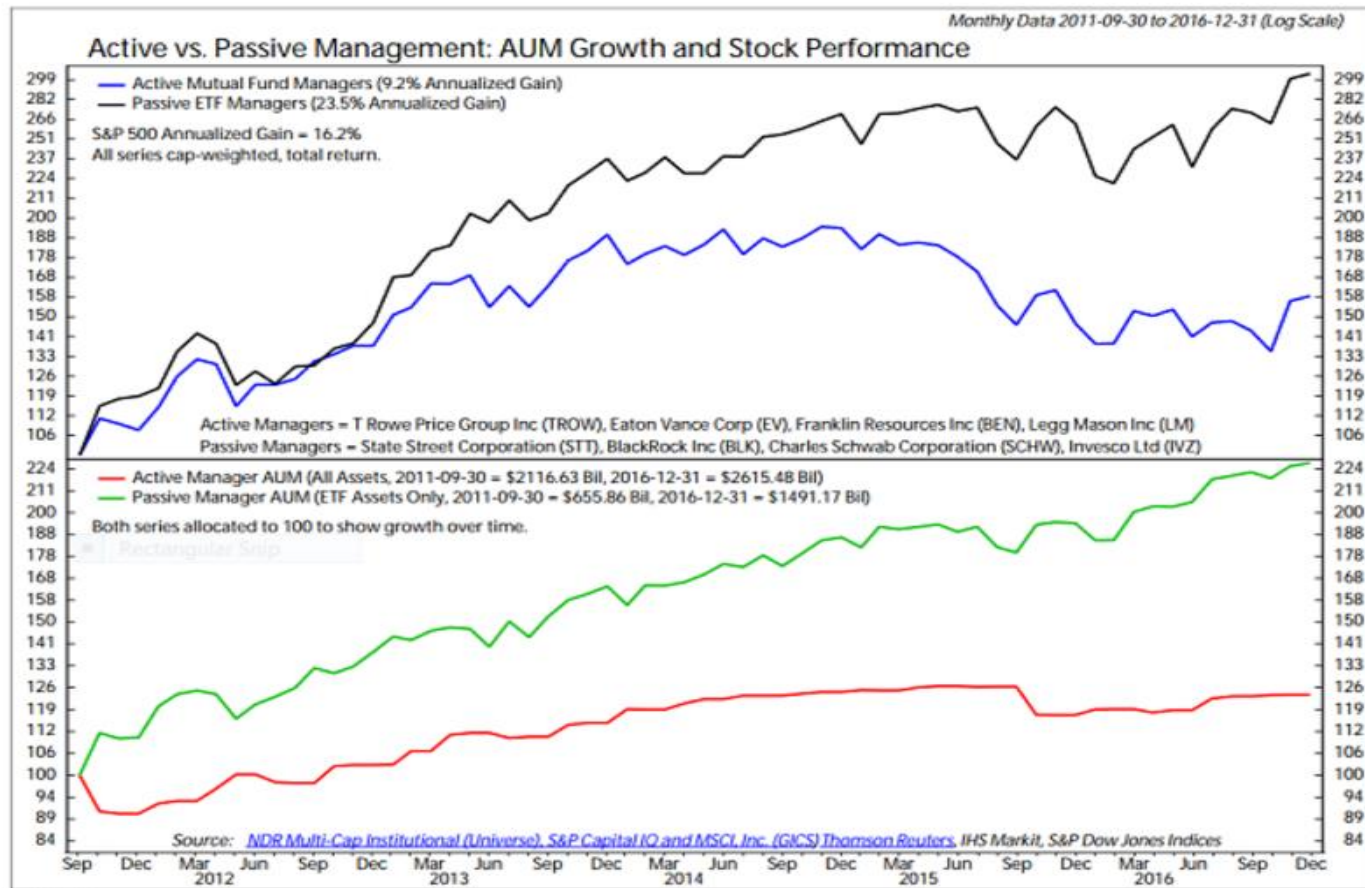


In addition, what used to be an **inverse correlation** to rates is now a **positive correlation** with Global Bond returns increasing with US Treasury yields.

SECTION 2 – ACTIVE MGMT IMPROVING

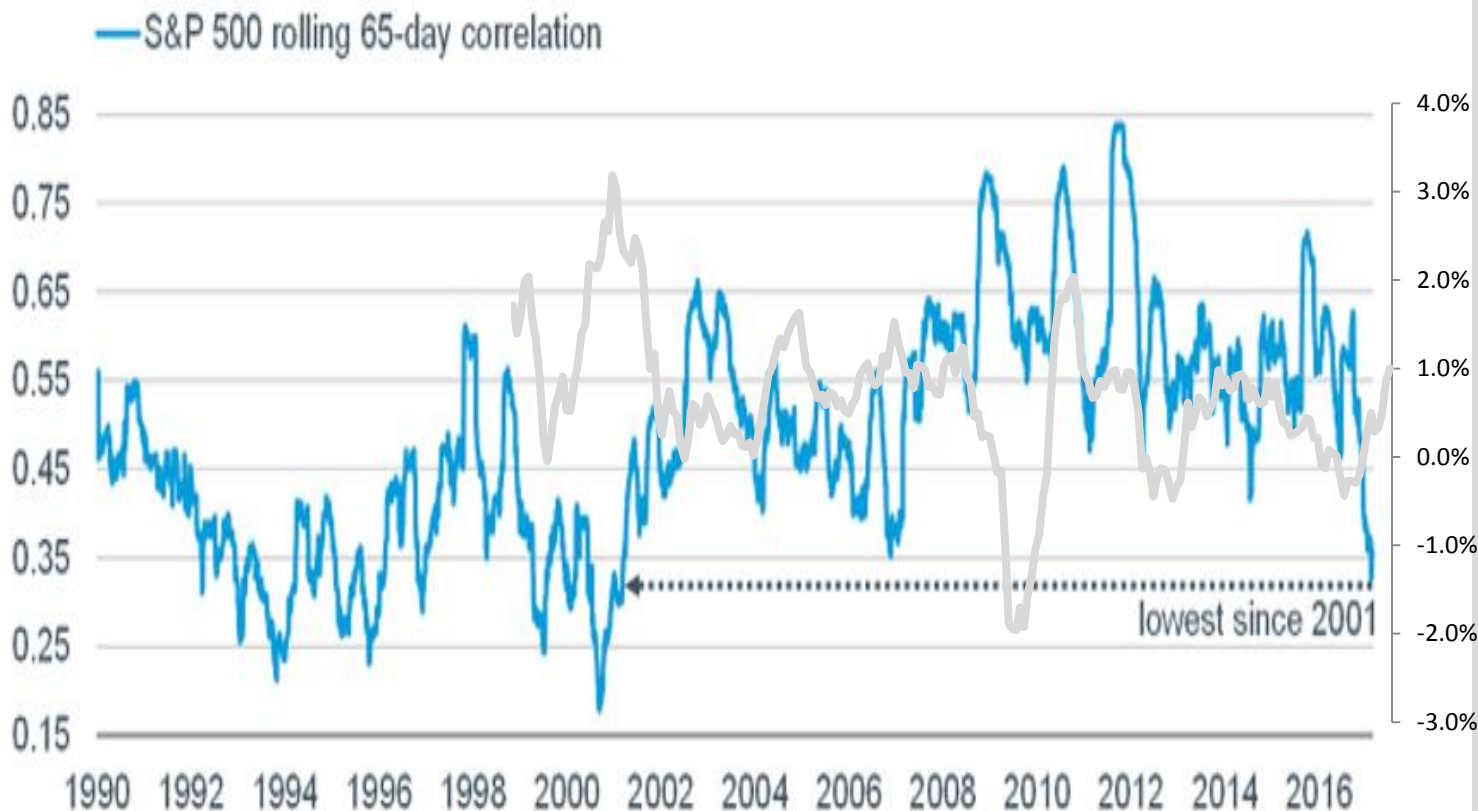


ACTIVE MGMT TO IMPROVE?



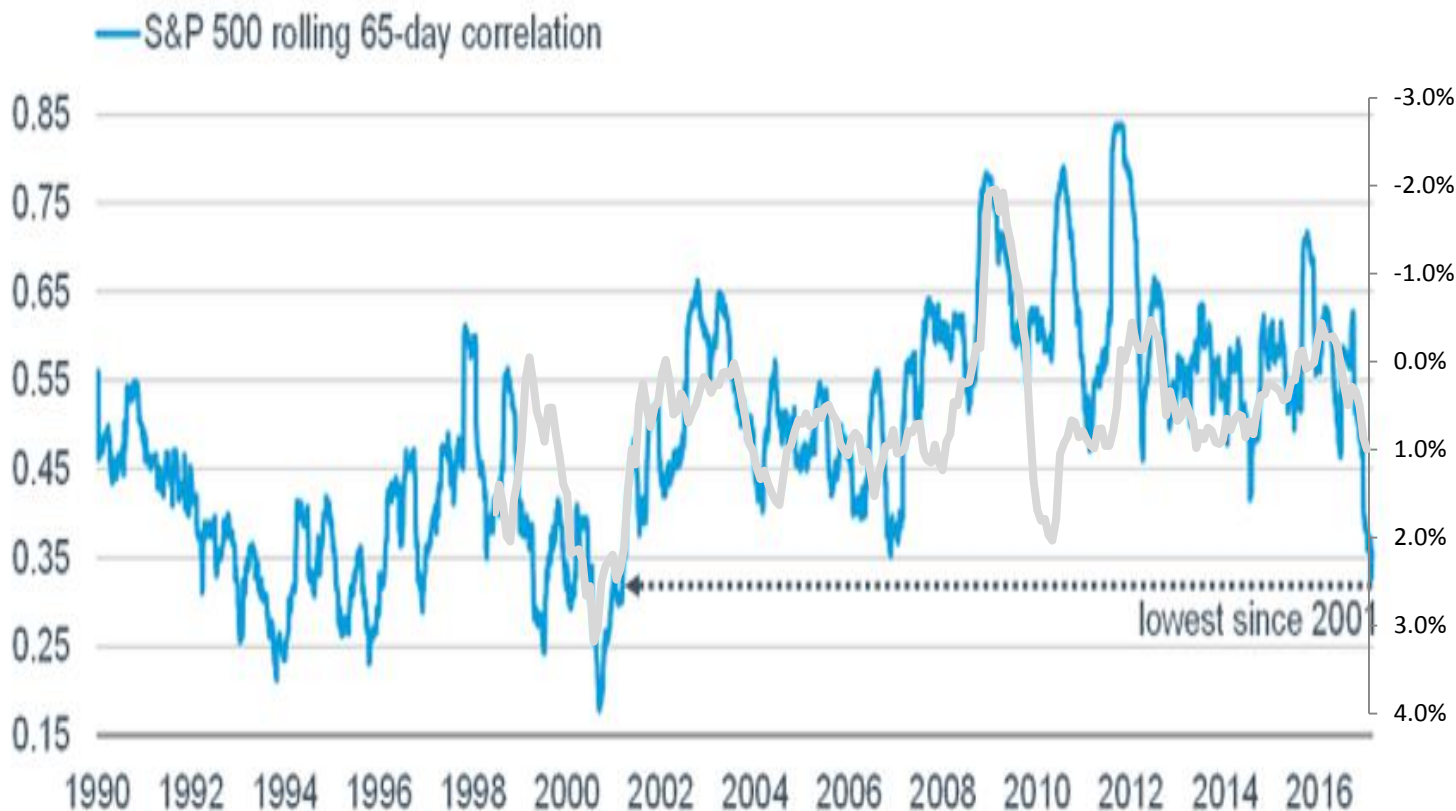
It has been a tough **slog** for active managers in **new asset gathering** and also **stock price performance** since the rapid emergence of the **ETF**.

ACTIVE MGMT SET TO IMPROVE



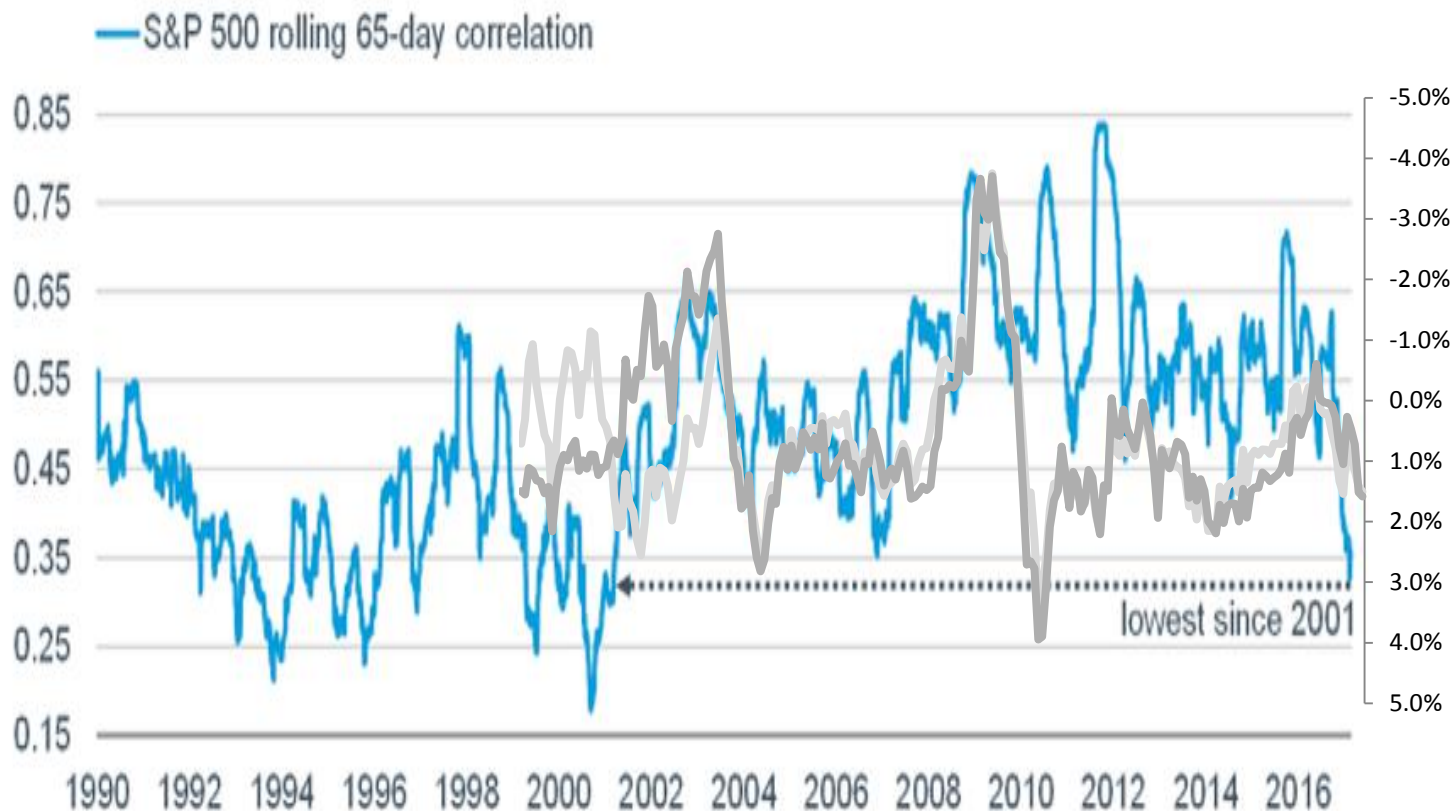
However with S&P 500 correlations (blue series) **crashing to 15 year lows**, this historically has **boosted** active mgmt returns with the Barclays Hedge Index (grey series) **responding positively**.

ACTIVE MGMT SET TO IMPROVE



The **inverse relationship** between **correlation** and **active performance** is easier to see when you **invert performance** on the right axis.

ACTIVE MGMT SET TO IMPROVE



The **inverse relationship** between **correlation** and **active performance** is apparent. This time the grey lines are the performance of **Franklin Growth** and **Franklin Rising Dividend** equity funds.

ACTIVE MGMT SET TO IMPROVE



And Global active management products **have the same relationship with correlation**. Here is Global equity correlation against the **rolling 12 month performance of Templeton Global Bond**.

SECTION 3 – EMERGING MKT REVIVAL














EMERGING MARKET REVIVAL



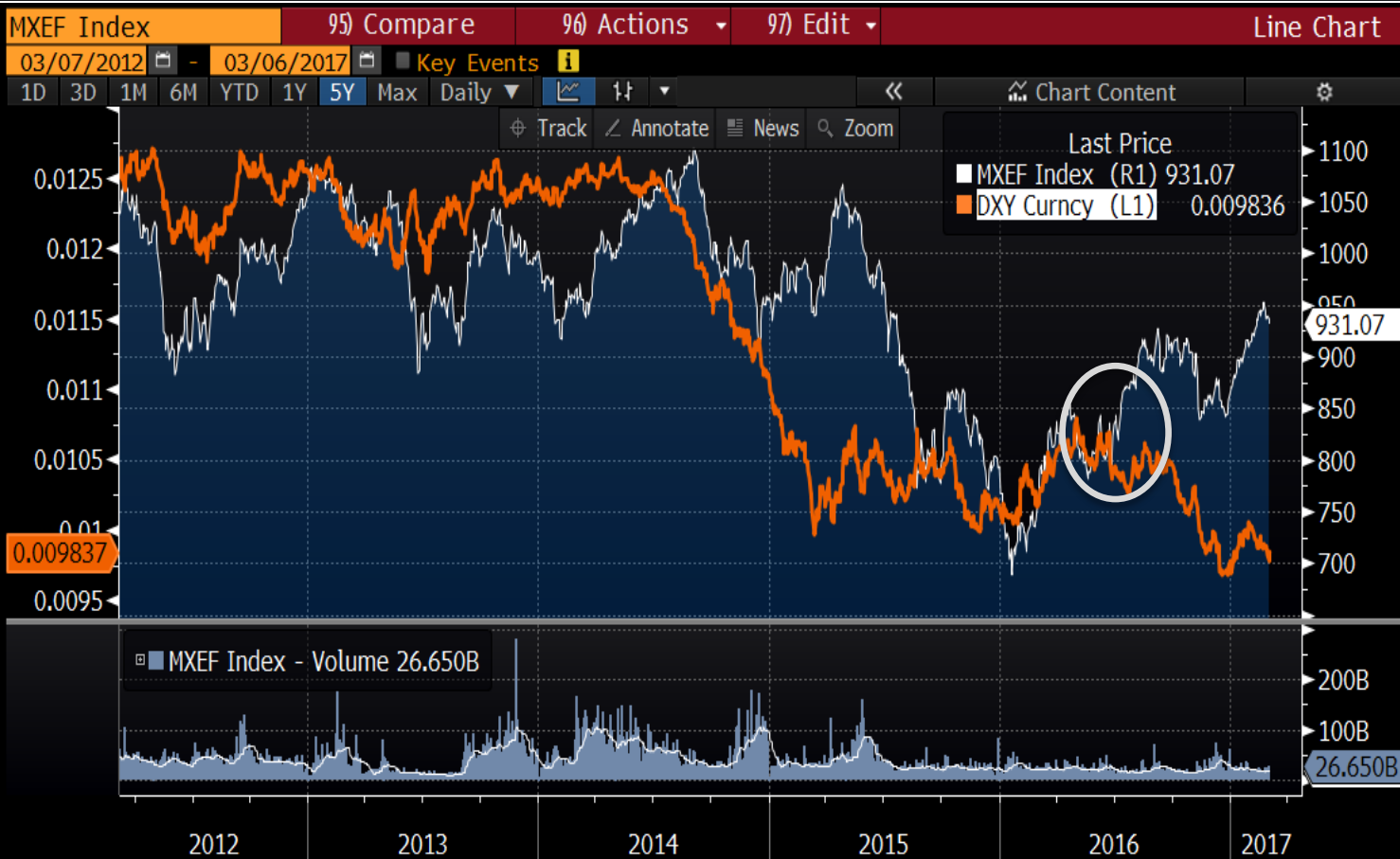
The leading emerging market index, the **MXEF**, is **breaking out** of a downtrend since **2012** and contained some of the **leading** markets in **2016**.

EMERGING MARKET REVIVAL

Period	Cust ▾	12/31/15 📅	-	12/31/16 📅	2) ⚡	Total Return	Currency	USD ▾
Return	Groups (96)		ReturnPositive Total Return					
	Primary Equity Indices		8.09% 					
	Best Performing							
	11) BRAZIL IBOVESPA INDEX		69.07% 					
	12) Kazakhstan KASE Stock Ex		68.85% 					
	13) S&P/BVLPeruGeneralTRPEN		60.93% 					
	14) RUSSIAN RTS INDEX \$		59.42% 					
	15) KARACHI 100 INDEX		46.38% 					
	16) NAMIBIA OVERALL INDEX		43.71% 					
	17) VENEZUELA STOCK MKT INDX		37.43% 					
	18) MASI Free Float Index		34.77% 					
	19) BUDAPEST STOCK EXCH INDX		30.97% 					
	20) COLOMBIA COLCAP INDEX		26.89% 					

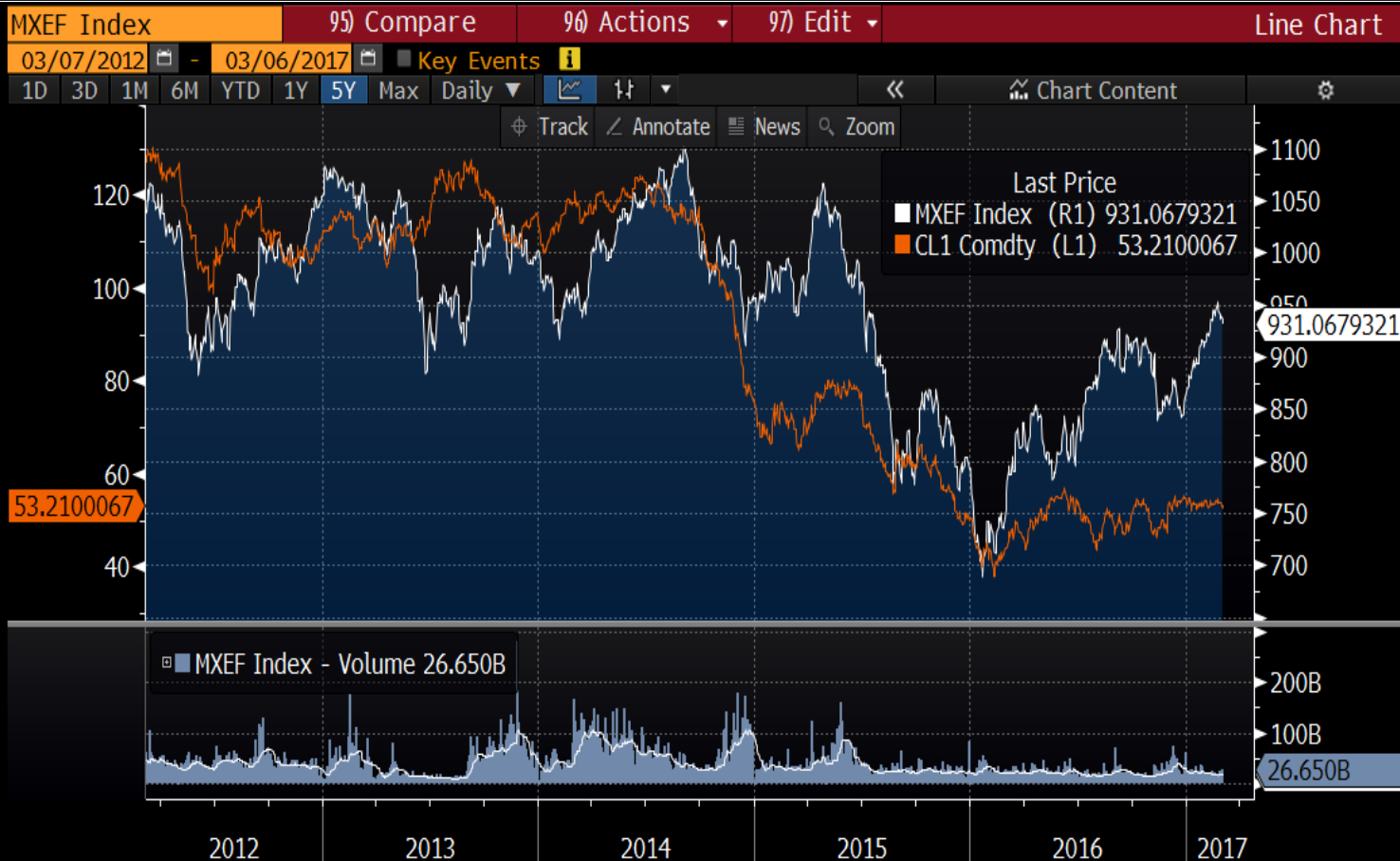
Global primary equity indices were up **+8.0%** in total return in US dollar terms in **2016** but the highest returning markets last year were **EM** with highlights from **Brazil, Russia, Venezuela, and Columbia**

EMERGING MARKET REVIVAL



And **MXEF** is **breaking out** of its Bear Market with an important **decoupling** from the **US** dollar.

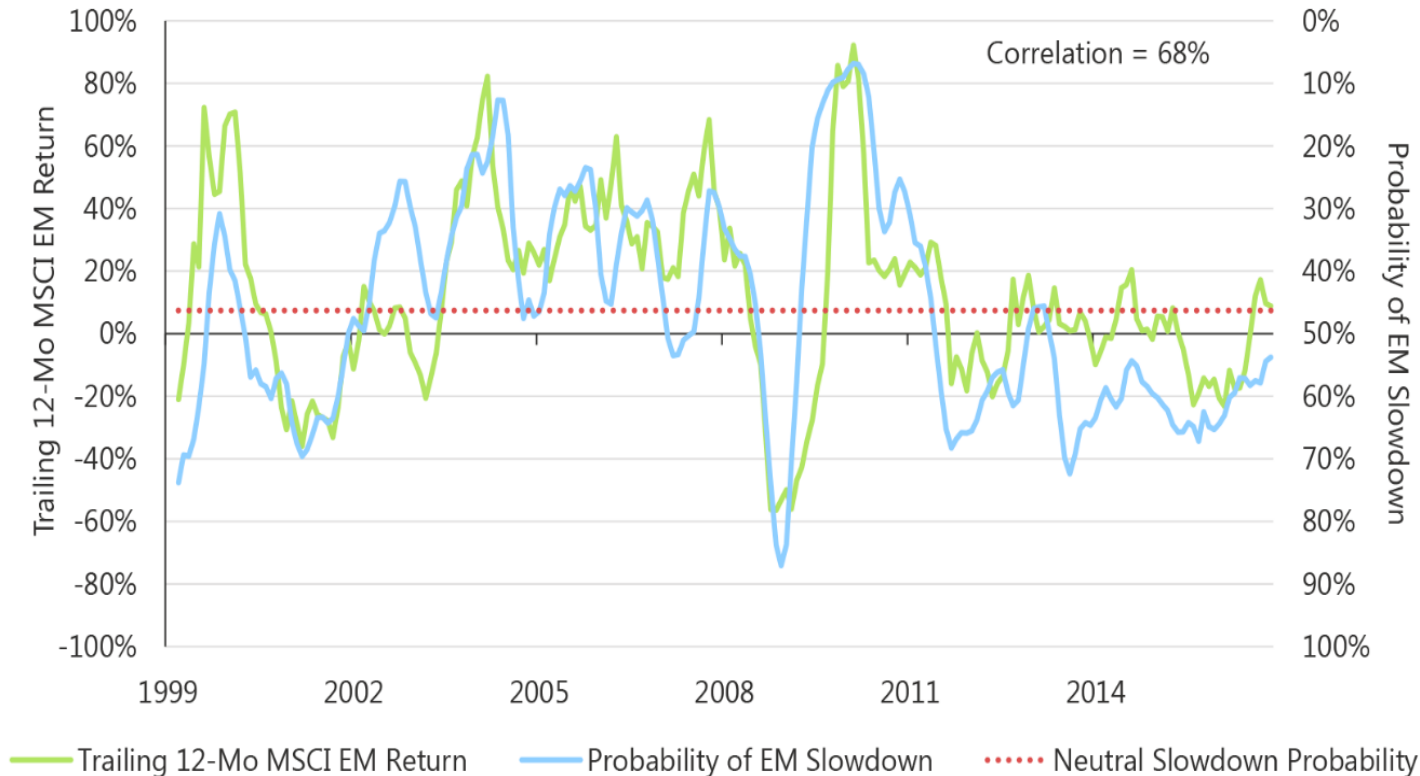
EMERGING MARKET REVIVAL



And EM **bottomed** with **crude oil** and equity prices have **rebounded strongly** with the **global commodity**.

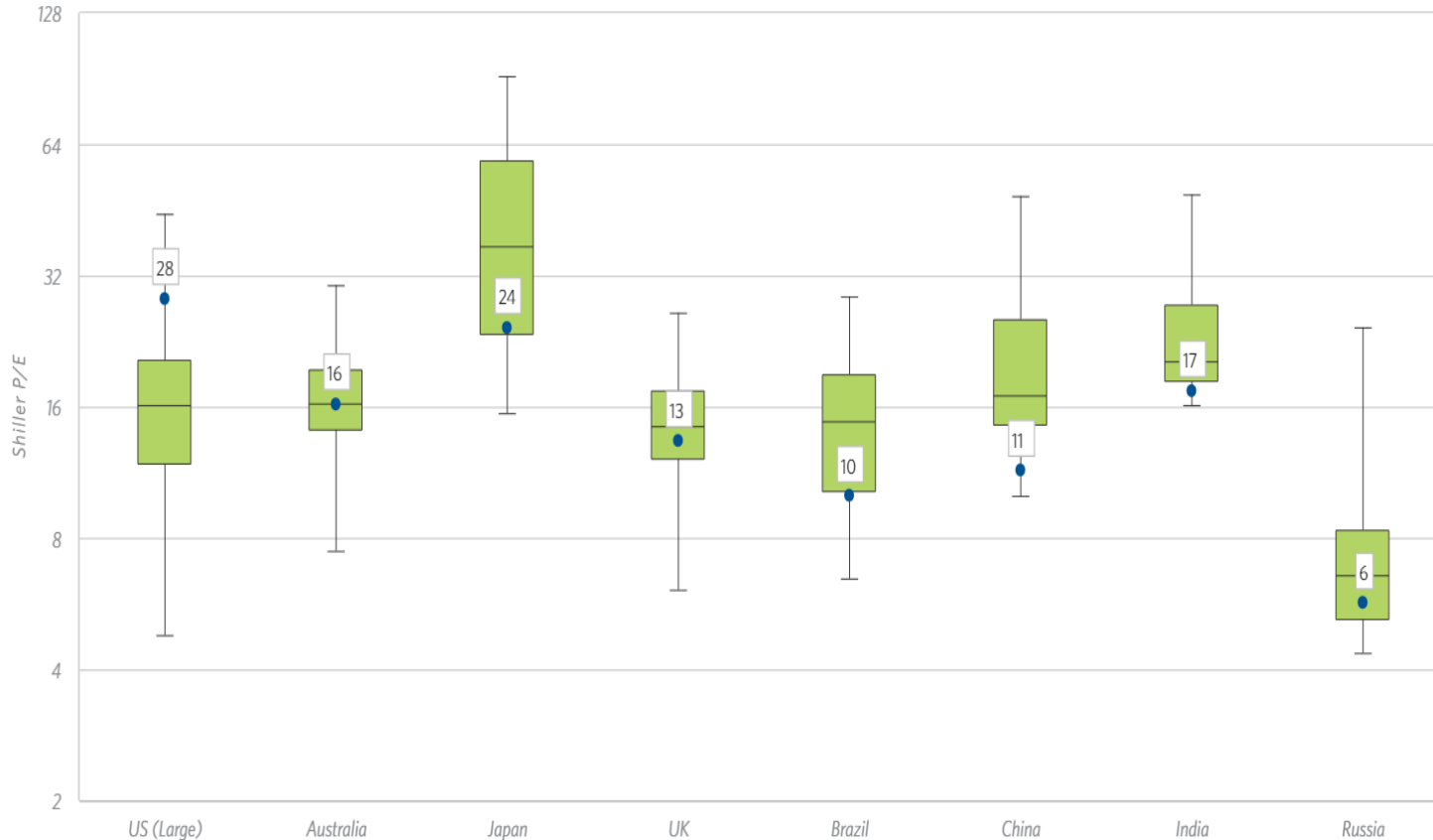
EMERGING MARKET REVIVAL

Trailing 12-Month MSCI EM Returns vs. EM Probability of Economic Slowdown,
Mar 1999–Nov 2016



Other **quantitative** measures are **improving** with the probability of an EM slowdown (right inverted scale) moving **off** of recent **high**s.

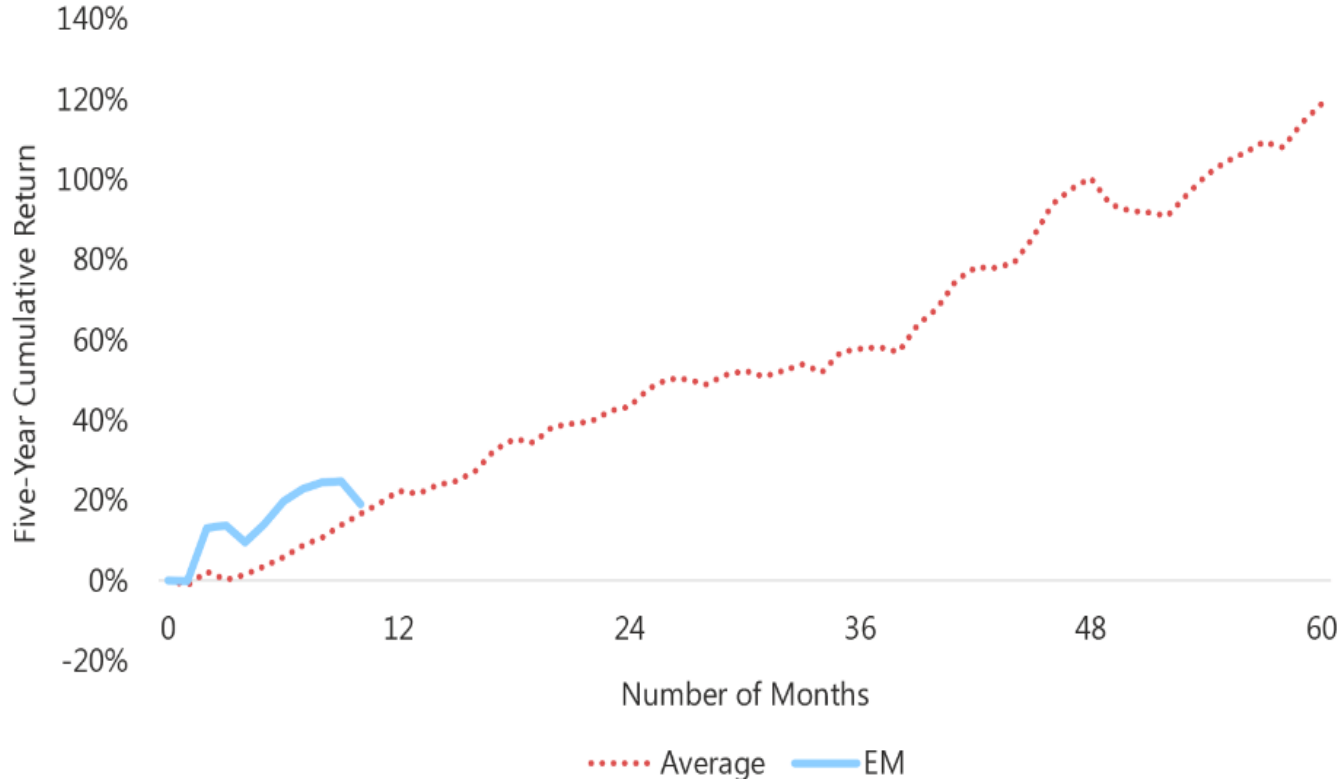
EMERGING MARKET REVIVAL



Relative value of EM markets is stark versus Developed Markets (DM). The **US and **Japan** are **28** and **24** on a Schiller CAPE ratio. Conversely, **China**, **Brazil**, and **Russia** are **11**, **10**, and **6** on **Schiller CAPE**.**

EMERGING MARKET REVIVAL

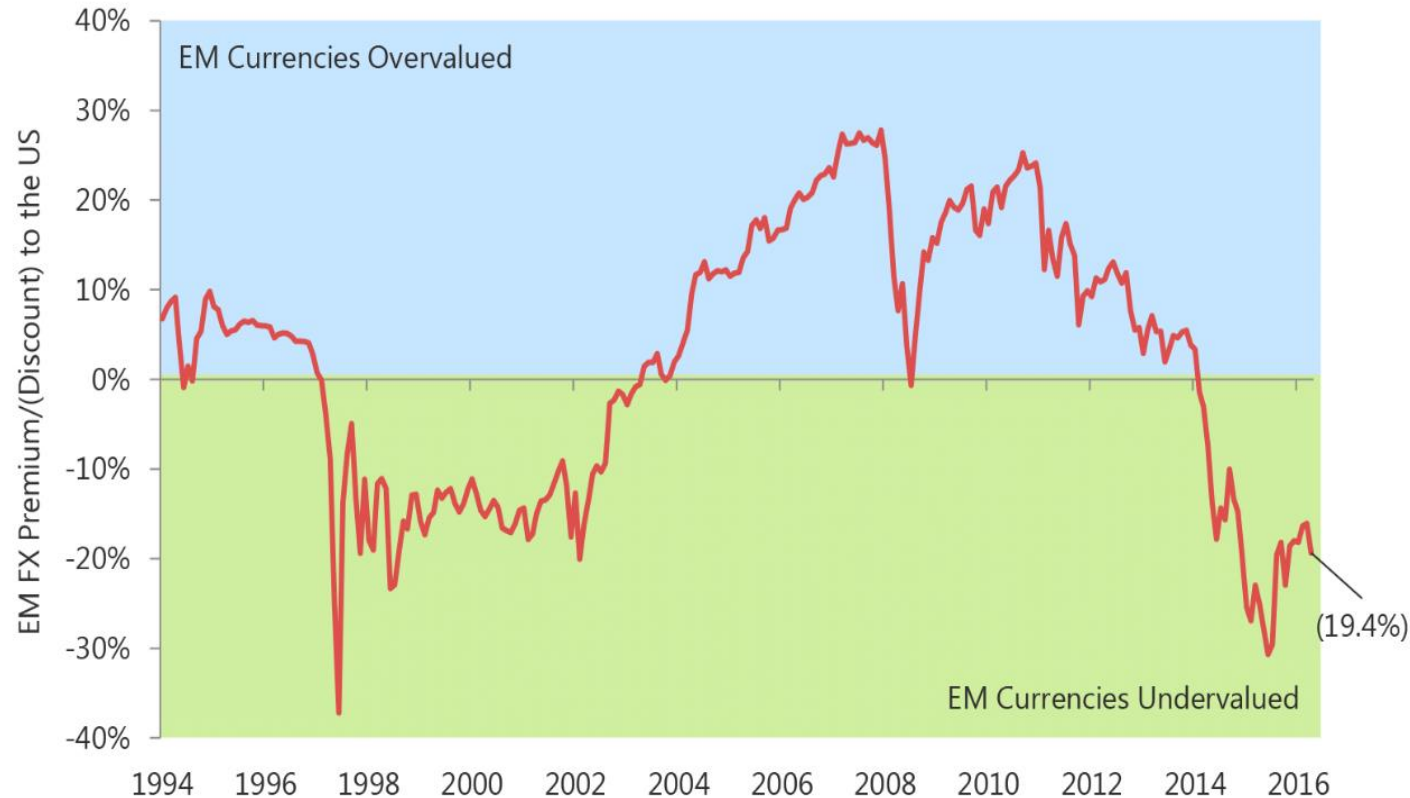
Average Five-Year Cumulative Returns Following Shiller P/E Dips Below 10, Sep 2005–November 2016



Historically, **good things** historically happen when **Shiller Cape ratios is below 10**. **5 year** cumulative returns are **massive** and **EM** assets could have a **tail wind** for a while.

EMERGING MARKET REVIVAL

EM Exchange Rate Valuation vs. US Dollar, Nov 1994–Nov 2016



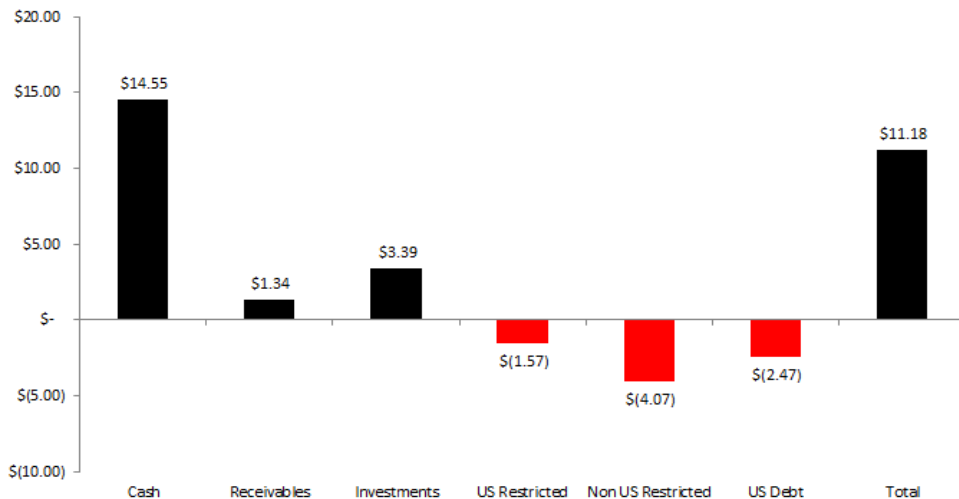
EM currencies are also the **lowest since the Crisis in Thailand in 1997**, which could add another element of **upside in having exposure to EM assets**.

SECTION 4 – ODDS AND ENDS

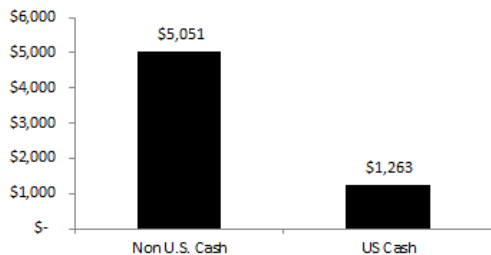


CASH AND CASH FLOW MONSTER

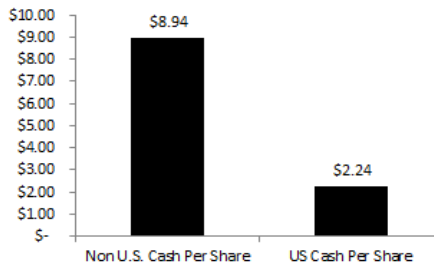
BEN Cash Per Share



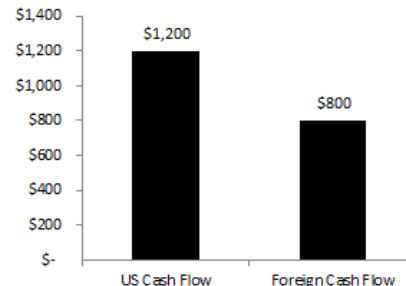
Geographic Cash



Geographic Cash Per Share



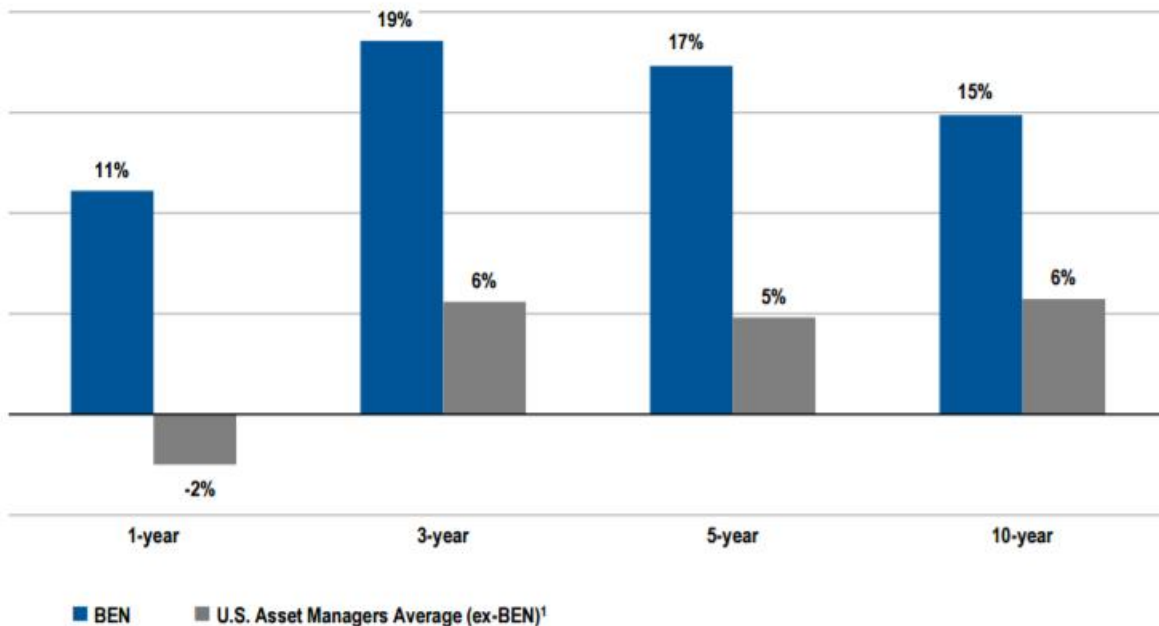
Annual Cash Flow \$MM



BEN is the **best resourced** company in the sector and has **~\$12 per share in cash net of debt** and **annual free cash flow of ~\$2BB** or an **~8% free cash flow yield**.

CASH FLOW MONSTER

Compound Annual Growth of Regular Dividends Declared as of December 31, 2016

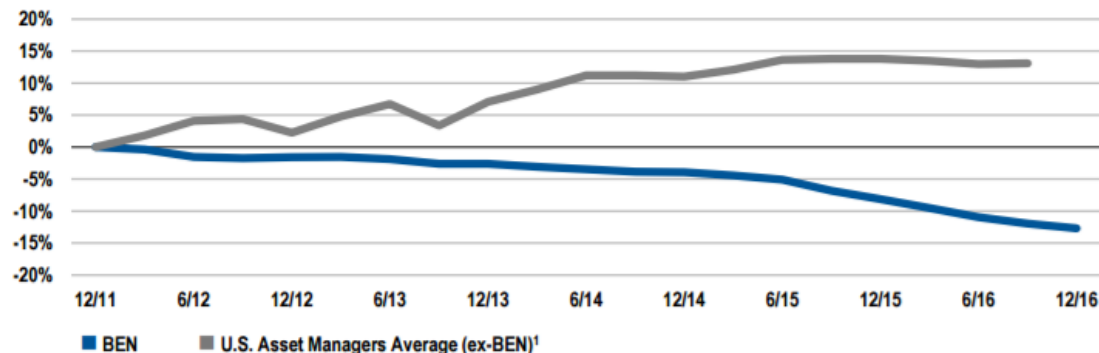


1. U.S. asset managers include AB, AMG, APAM, APO, ARES, BLK, BX, CG, CLMS, CNS, EV, FIG, FII, GBL, IVZ, JNS, KKR, LM, MN, OAK, OMAM, OZM, PZN, TROW, VRTS, WDR and WETF.
Source: SNL Financial and Bloomberg

And the company is a **cash flow monster** which allows it to focus on the **return of capital to shareholders**. Being **35% insider owned** helps this initiative.

CASH FLOW MONSTER

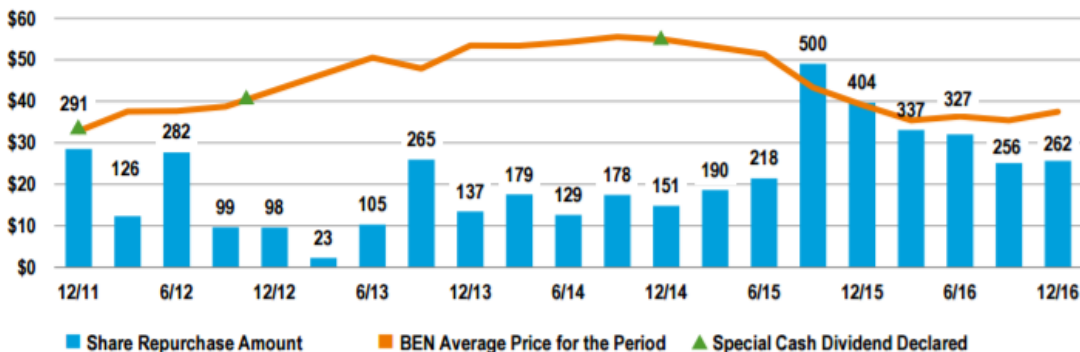
Change in Ending Shares Outstanding



U.S. Asset Managers (ex-BEN)¹: 2.5% Compound Annual Dilution

BEN: 2.7% Compound Annual Accretion

Share Repurchases (US\$ millions) vs. Average BEN Price



Special Cash Dividends per Share Declared:

Dec-14: \$0.50
Nov-12: \$1.00
Dec-11: \$0.67
Dec-09: \$1.00

And the company **consistently** looks to **retire and return its entire US cash earnings in the form of** dividends and buybacks. Annual buybacks have historically been **+2.7% accretive to earnings.**

1. U.S. asset managers include AB, AMG, APAM, APO, ARES, BLK, BX, CG, CLMS, CNS, EV, FIG, FII, GBL, IVZ, JNS, KKR, LM, MN, OAK, OMAM, OZIM, PZN, TROW, VRTS, WDR and WETF.

HITTING THE REPATRIATION WINDOW

Franklin Resources, Inc. Announces Approval of the Repatriation of Funds to the United States

January 26, 2006 10:49 AM Eastern Standard Time

SAN MATEO, Calif.--(BUSINESS WIRE)--Jan. 26, 2006--Franklin Resources, Inc. (NYSE:BEN) ("the Company") announced that today the Company's President and Chief Executive Officer and Board of Directors have approved the repatriation of approximately \$2 billion in undistributed earnings of its foreign subsidiaries, pursuant to the American Jobs Creation Act of 2004 (the "Act"). The Act provides a temporary incentive for United States companies to repatriate accumulated income earned in foreign jurisdictions at reduced income tax rates. Proceeds from the repatriation, which is anticipated to occur before September 30, 2006, will be reinvested into the Company's domestic operations consistent with the Board approved domestic reinvestment plan, and the intent of the Act. As a result of the repatriation, Franklin will record an estimated income tax charge of approximately \$112 million in its fiscal quarter ending March 31, 2006.

Franklin Resources, Inc. (NYSE:BEN) is a global investment management organization operating as Franklin Templeton Investments. Franklin Templeton Investments provides global and domestic investment management solutions managed by its Franklin, Templeton, Mutual Series and Fiduciary Trust investment teams. The San Mateo, CA-based company has more than 50 years of investment experience and over \$464 billion in assets under management as of December 31, 2005. For more information, please call 1-800/DIAL BEN(R) or visit franklintempleton.com.

In **2006**, because of the '04 Jobs Creation Act, the company paid a **\$112 MM charge to repatriate \$2 BB**. This amounted to a **tax rate of ~5%**.

DOING THE RIGHT THING CUTTING COSTS

Operating Expenses

Press Esc to exit full screen



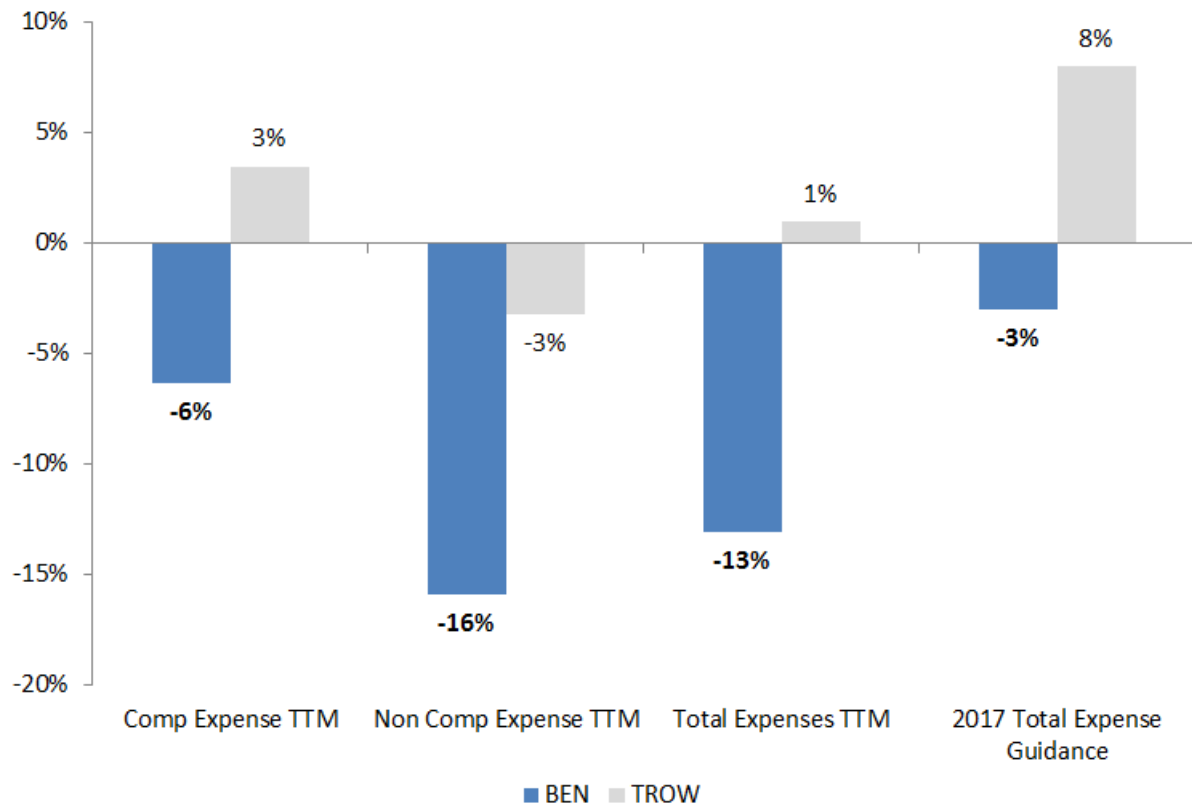
(in US\$ millions, for the three months ended)

	Dec-16	Sep-16	Dec-16 vs. Sep-16	Jun-16	Mar-16	Dec-15	Dec-16 vs. Dec-15
Sales, distribution and marketing	\$ 520.0	\$ 536.2	(3%)	\$ 553.4	\$ 531.7	\$ 588.6	(12%)
Compensation and benefits	311.5	317.2	(2%)	326.9	374.3	342.5	(9%)
Information systems and technology	51.7	56.0	(8%)	50.5	49.6	51.2	1%
Occupancy	29.1	37.3	(22%)	33.1	33.0	30.7	(5%)
General, administrative and other	61.6	85.7	(28%)	75.0	88.0	91.4	(33%)
Total Operating Expenses	\$ 973.9	\$ 1,032.4	(6%)	\$ 1,038.9	\$ 1,076.6	\$ 1,104.4	(12%)

With the **active management** category **struggling**, managers have to **add value to shareholders** somehow and **cutting expenses** is a good place to start.

TALE OF TWO ASSET MANAGERS

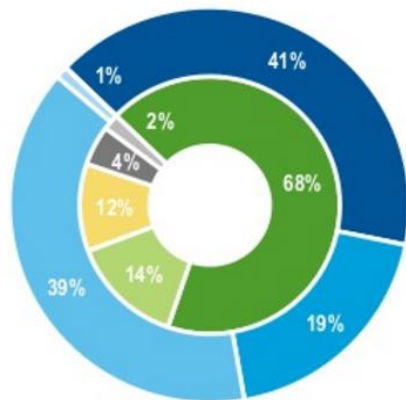
TTM Expense Trends



And **expense trends** are **very different** across the industry. **TROW** with a European build out is guiding up **+8%** at the midpoint for the next 4 quarters versus **BEN -3%** at the midpoint.

FRANKLIN / INVESCO WOULD ADD SCALE

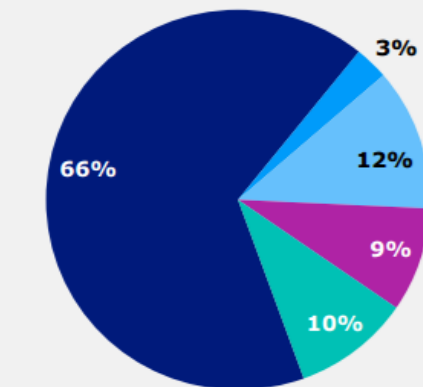
As of December 31, 2016



Investment Objective	Dec-16
Equity	\$ 298.3
Hybrid	138.3
Fixed Income	277.2
Cash Management	6.2
Total	\$ 720.0

Sales Region	Dec-16
United States	\$ 491.0
Europe, the Middle East and Africa	100.5
Asia-Pacific	81.6
Canada	30.3
Latin America	16.6
Total	\$ 720.0

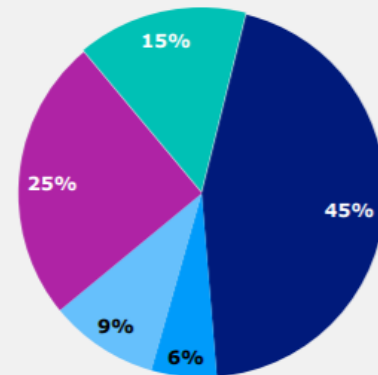
By client domicile



	(\$ billions)	1-Yr Change
U.S.	\$539.5	5.6%
Canada	\$23.1	6.5%
U.K.	\$98.2	(5.8)%
Europe	\$72.1	(4.4)%
Asia	\$80.0	25.8%

Total \$812.9 4.8%

By asset class



	(\$ billions)	1-Yr Change
Equity	\$364.1	(1.8)%
Balanced	\$46.8	(2.7)%
Money Market	\$78.3	21.2%
Fixed Income	\$201.7	7.3%
Alternatives	\$122.0	17.2%

Total \$812.9 4.8%

FRANKLIN / INVESCO – CHECK ALL BOXES

Active US Equity

- ✓ Franklin Income (BEN)
- ✓ Invesco Van Kampen (IVZ)

Active Foreign Equity

- ✓ Templeton Equity (BEN)
- ✓ Perpetual (IVZ)

Active Global Bond

- ✓ Templeton Bond
- ✓ Invesco (IVZ)

Private Equity/Alts

- ✓ Wilbur Ross (IVZ)
- ✓ Darby/K2/Pelagos (BEN)

Passives

- ✓ Powershares (IVZ)
- ✓ Liberty (BEN)

Balanced

- ✓ Franklin Hybrid (BEN)
- ✓ Invesco Balanced (IVZ)

Cash Management

- ✓ Invesco (IVZ)
- ✓ Franklin (BEN)

A **BEN/IVZ** would add **needed scale** to the **active management** business under arrest by ETFs. The product overlap would **allow for cost synergies and real estate consolidation.**

FRANKLIN / INVESCO – WE SPECULATE



	TTM BEN \$MM	TTM IVZ \$MM
Revenues	\$ 6,420	\$ 3,393
Comp Exp.	\$ 1,329	\$ 1,365
Non Comp Exp.	\$ 2,791	\$ 716
Total Expenses	\$ 4,120	\$ 2,081
Cost Synergies		
Operating Income	\$ 2,300	\$ 1,312
Interest Income	\$ 199	\$ 43
Interest Expense	\$ 51	\$ 93
Taxes	\$ 733	\$ 338
Net Income	\$ 1,715	\$ 924

Shares Outstanding (MM)	565	415
EPS	\$ 3.04	\$ 2.23

Cash (\$MM)	\$ 8,223	\$ 1,581
Debt (\$MM)	\$ 1,395	\$ 2,073

Stock Price Per Share	\$ 42.00	\$ 32.00
Purchase Price \$MM		

Cash %
Debt %
Stock %

Proforma BEN/IVZ
\$ 9,813
\$ 2,694
\$ 3,507
\$ 6,201
\$ (500)
\$ 4,112
\$ 146
\$ 283
\$ 1,193
\$ 2,783

842
\$ 3.31

\$ 7,314
\$ 5,658

\$ 40.00
\$ 16,600

15%
15%
70%

Assumptions

Interest Income	2%
Cost of Debt	5%
Cost Synergies \$MM	500
EPS Accretion BEN	9%
Share Price Gain IVZ	25%

At **\$40** per share for IVZ and \$500 MM in cost synergies, **BEN** could have **+9% EPS** synergies and **IVZ** shareholders a **+25% gain**.

GREAT DEAL OPERATOR – KNOWS BEN



Martin L. Flanagan CFA,
CPA
President and Chief Executive
Officer of Invesco Ltd.
USA

Martin Flanagan has been a Director and President and Chief Executive Officer of Invesco since August 2005. He is also a Trustee and Vice-Chairman of the Invesco Funds (the company's U.S. open and closed-end fund companies). Mr. Flanagan joined Invesco from Franklin Resources, Inc., where he was president and co-chief executive officer from January 2004 to July 2005. Previously he had been Franklin's co-president from May 2003 to January 2004, chief operating officer and chief financial officer from November 1999 to May 2003, and senior vice president and chief financial officer from 1993 until November 1999. Mr. Flanagan served as director, executive vice president and chief operating officer of Templeton, Galbraith & Hansberger, Ltd. before its acquisition by Franklin in 1992. Before joining Templeton in 1983, he worked with Arthur Andersen & Co. Mr. Flanagan earned a B.A. and B.B.A from Southern Methodist University (SMU). He is a CFA charterholder and a certified public accountant. He serves on the board of governors and as a member of the executive committee for the Investment Company Institute, and is a former chairperson. He also serves as a member of the executive board at the SMU Cox School of Business and is involved in a number of civic activities in Atlanta.

Marty Flanagan has done a **number of deals at IVZ** and is a **great** integrator. He came from **Franklin** where he was **COO, CFO, and President**.

+13% ABOVE THE STREET FOR '18

Consensus Estimates

	2016	2017E	2018E
Revenue \$MM	\$ 6,618	\$ 6,140	\$ 6,060
Year-over-Year Growth		-7%	-1%
Comp Expense \$MM	\$ 1,360	\$ 1,250	\$ 1,225
Non Comp Expenses \$MM	\$ 2,891	\$ 2,900	\$ 2,915
Total Expenses \$MM	\$ 4,252	\$ 4,150	\$ 4,140
Year-over-Year Growth		-2%	0%
Earnings Per Share	\$ 2.94	\$ 2.68	\$ 2.68
Flows \$BB	\$ (63)	\$ (70)	\$ (45)
Organic Growth	-11%	-12%	-7%
AUM \$BB	\$ 733	\$ 690	\$ 650
Year-over-Year Growth		-6%	-6%
Share Buyback \$MM	\$ (1,308)	\$ (750)	\$ (750)
Dividend \$MM	\$ (408)	\$ (405)	\$ (399)

Hedgeye Estimates

	2016	2017E	2018E
Revenue \$MM	\$ 6,618	\$ 6,293	\$ 6,224
Year-over-Year Growth		-5%	-1%
Comp Expense \$MM	\$ 1,360	\$ 1,208	\$ 1,181
Non Comp Expenses \$MM	\$ 2,891	\$ 2,910	\$ 2,951
Total Expenses \$MM	\$ 4,252	\$ 4,119	\$ 4,132
Year-over-Year Growth		-3%	0%
Earnings Per Share	\$ 2.94	\$ 2.98	\$ 3.03
Flows \$BB	\$ (63)	\$ (46)	\$ (27)
Organic Growth	-11%	-8%	-4%
AUM \$BB	\$ 733	\$ 704	\$ 698
Year-over-Year Growth		-4%	-1%
Share Buyback	\$ (1,308)	\$ (861)	\$ (800)
Dividend	\$ (408)	\$ (403)	\$ (389)

LOWLY RATED FOR NOW

Hedgeye Financials Sentiment Scoreboard

Banks and Thrifts		Brokers & AM		Specialty Finance		Insurance		Housing	
TICKER	SCORE	TICKER	SCORE	TICKER	SCORE	TICKER	SCORE	TICKER	SCORE
EWBC	94	JMP	96	MA	93	MMC	85	DHI	90
C	93	ARES	90	SYF	91	ESGR	83	RLGY	90
BAC	92	ICE	84	FLT	87	Y	77	TOL	80
WAL	89	BGCP	83	DFS	85	VOYA	77	NVR	70
JPM	88	LAZ	79	TSS	82	BRK.B	77	LEN	67
PVTB	51	TROW	38	PHH	49	GLRE	52		
OZRK	50	BEN	37	NLY	45	MHLD	49		
NTRS	49	LPLA	35	GNW	45	VR	48		
CMA	48	COWN	32	SC	43	ENH	48		
UMPQ	46	CNS	31	ECPG	41	AGII	48		
HBHC	45	CBOE	29	LEAF	41	OB	47		
FHN	44	JNS	27	NAVI	36	SAFT	47		
HOMB	43	SF	26	MBI	36	UNM	46		
FITB	43	PJC	23	KMX	36	SIGI	45		
ZION	42	EV	23	WEX	35	LNC	45		
FNB	42	FII	22	RM	25	PFG	42		
BXS	41	GBL	22	NSM	24	TRV	40		
CIT	41	APAM	12	PRAA	24	GNW	40		
WTEC	40	MN	8	PAY	22	HMN	38		

Franklin Resources Inc

Consensus Rating	2.85
Buy	7.7%
Hold	76.9%
Sell	15.4%

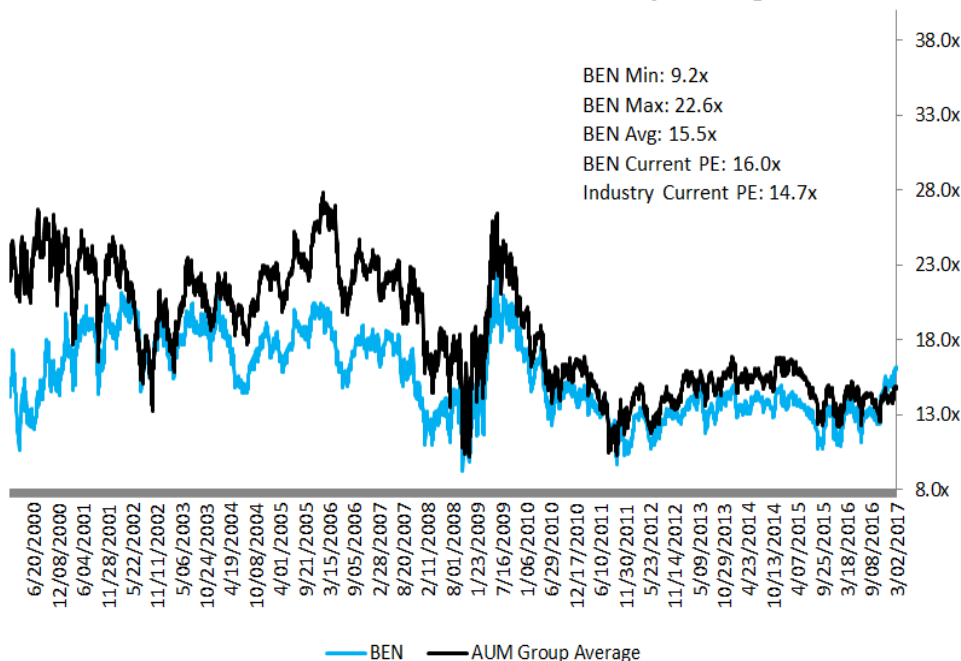
Mkt Cap (USD)	24,518.0M
Shrs Out/Float	565.3M/343.4M
SI/% of Float	9.3M/2.7%
Days to Cover	3.6

NEAR THE BOTTOM OF THE BROKERS AND ASSET MANAGERS SUBGROUP

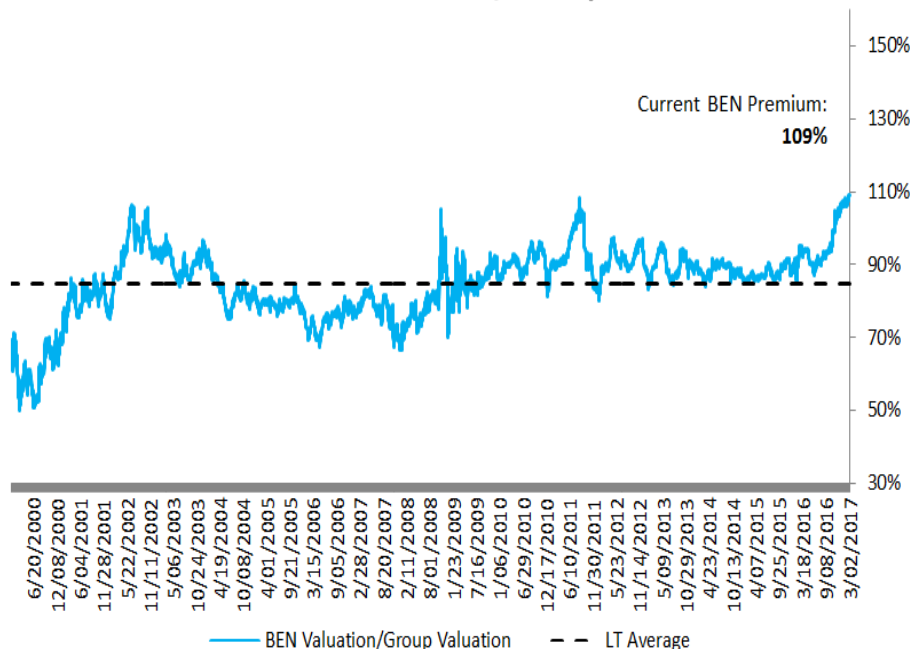
Our proprietary Sentiment Monitor flags BEN as one of the lower rated asset managers in the group. The combination of only 1 buy rating and almost 3% short interest weighs on low sentiment scores

VALUATION UP BUT UNDER-EARNING

BEN Forward P/E Versus AUM Group Average



BEN Valuation / Group Valuation



VALUATION IS UP BUT WE THINK STREET #'S ARE TOO LOW

Like most cyclicals the best time to buy is when valuation is high because these companies are under earning. The best time to sell is when they “look” cheap.

STOCK IS STARTING TO OUTPERFORM



MEAN REVERSION OUTSIDE OF MARCH?

The **best times tactically** for the stock are **Feb/March** and the **Sep-Nov** period. Entering the **Spring** shoulder months, shares have historically **had mid single digit downside**.



BEN STOCK DRIVERS

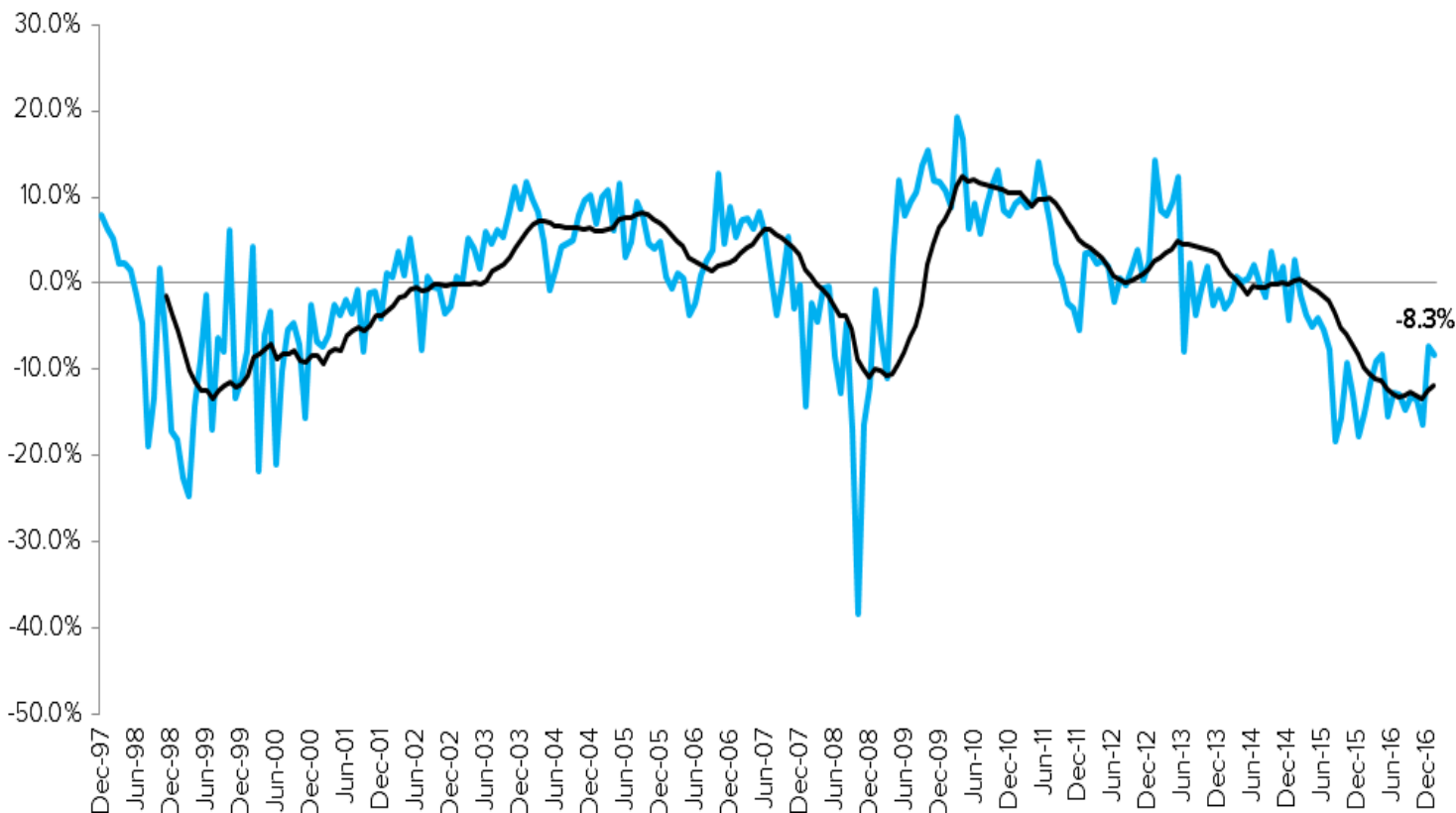
R Values Against BEN Stock since 2002

MSCI WORLD	0.83
Russell 2000	0.82
EEM	0.77
SPX	0.74
NASDAQ	0.72
Gold Spot \$/Oz	0.68
Crude Oil	0.60
US Employees on Nonfarm Payrol	0.55
Conference Board Consumer Conf	0.10
US Unemployment Rate	0.07
Univ. of Michigan Sentiment	(0.02)
US GDP	(0.17)
Fed Funds Rate	(0.17)
DXY	(0.32)
VIX	(0.42)
10 Year Treasury	(0.45)
MOVE Index	(0.50)
Moody's BAA Corporate Credit	(0.67)
Chinese Yuan	(0.76)

Correlations that matter the most in **15 years** of data for BEN stock include **MSCI World** and the **Emerging Market ETF (EEM)**. BEN stock historically hates a **strong dollar** and **higher volatility**

BEAR TRACKS – GROWTH STILL NEGATIVE

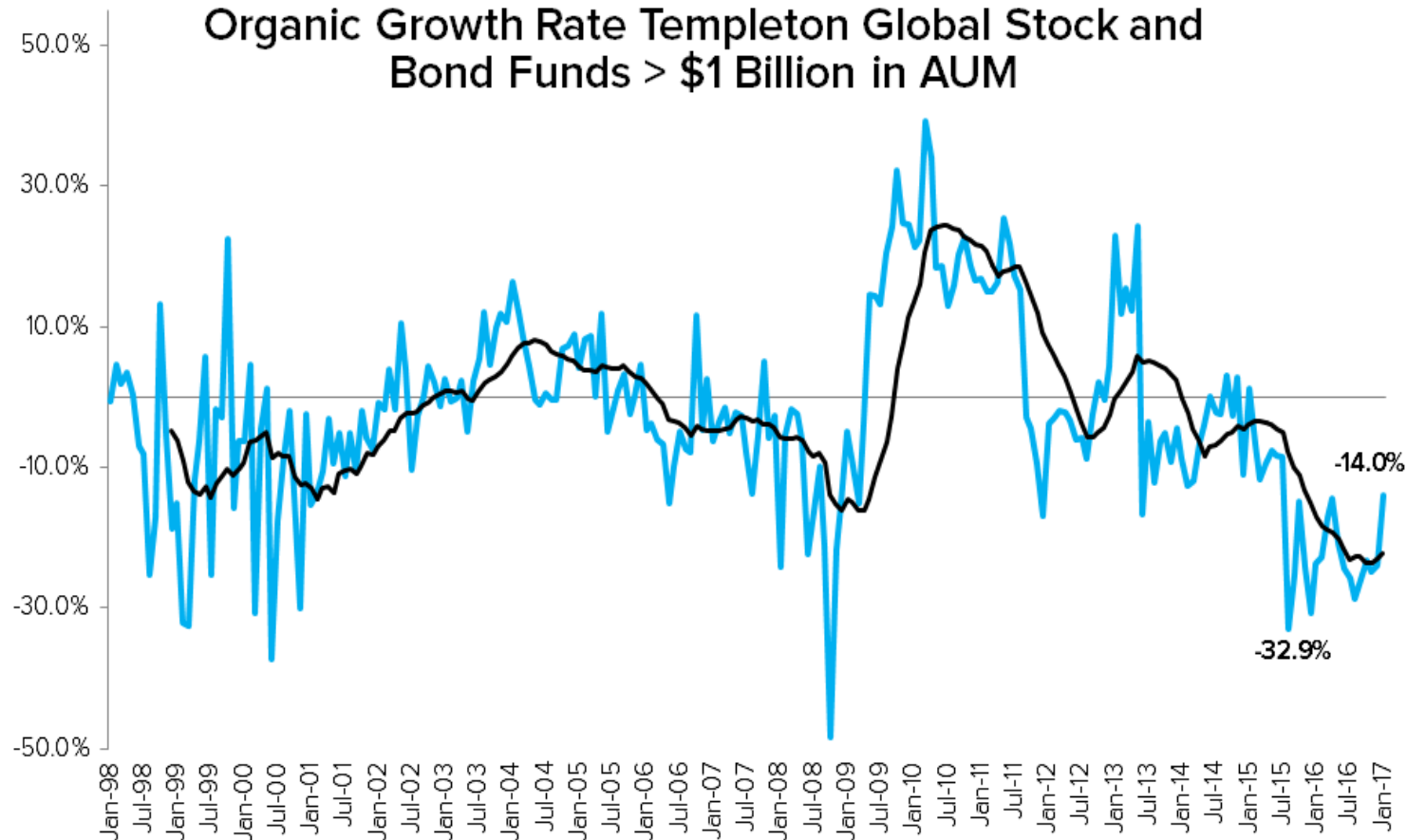
Organic Growth Rate of Top 100 BEN Funds



The **Bears** focus on still **negative organic growth** which has **improved** but is still **negative**. This is for the Top 100 BEN funds complex wide.

BEAR TRACKS – GROWTH STILL NEGATIVE

Organic Growth Rate Templeton Global Stock and Bond Funds > \$1 Billion in AUM



The **Bears** focus on still **negative organic growth** which has **improved** but is still **negative**. This is for all Templeton stock and bond funds over \$1 BB.

THESIS: UNDER APPRECIATED IMPROVEMENTS

1

PERFORMANCE STARTING TO PERK UP

Franklin performance across complex is starting to improve with its Top 100 funds according to Morningstar up almost 1 full star rating. The important Templeton franchise is also improving with its Global Bond product again a 5 star rated fund. Historically fund flows improve within 6 months.

2

ACTIVE TO TRUMP PASSIVE – EM REBOUNDING

With correlations starting to break apart and sector divergence the highest since 2009, active managers have the opportunity to outperform again. S&P correlations breaking down has historically boosted active returns and flows. In addition, Emerging Markets rebounded from a Bear Market in 2016 and have started '17 strongly which could really help the Templeton franchise.

3

CASH AND CASH FLOW MONSTER

Franklin is the best resourced asset manager and sports the biggest net cash position with ~\$12 per share in net cash. With ~\$2 billion in annual cash flow to boot, the company can participate in transformational M&A, maintain its buyback, and boost dividends. In 2006, the company repatriated \$2 billion which is an option again if the window opens up.

APPENDIX

Hasenstab video on Global Bond:

<https://www.franklintempleton.com/investor/insights/commentary?commentaryPath=en-us/en-us-retail/hasenstab-rising-rates&commentaryType=Global%20Market%20Viewpoints>

WSJ article on Global Bond:

<http://webreprints.djreprints.com/3992160856485.html>

S&P 500 Correlation data:

<http://blogs.wsj.com/moneybeat/2016/12/19/stock-pickers-delight-sp-500-correlations-plunge/>

The enclosed
are decent
“**native**” reads
to understand
some of our
research
sources.

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