# Investor Day 2014 Transcript

## Panel Discussions

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# Built on a Strong Domestic Foundation

**John Lusk:** Good morning everyone, I'm John Lusk, I'm going to be the moderator for this first panel and I'm delighted to have a strong group here. The title of our first panel is built on a strong domestic foundation. I'm the executive vice president of investment management, so I have responsibility for our traditional investment teams including the… I have the pleasure working with the CIO's and investment teams in our core space including some gentlemen on this panel. I also have responsibility for global trading as well as investment risk management. So delighted to be here, let me just introduce my panel here, starting at the far end, Peter Langerman who is chairman, president and CEO of Mutual Series. He is also a portfolio manager and co-portfolio manager of Mutual Shares and Mutual Global Discovery. I think the Mutual Series Group manages an excess of $76 billion now. Peter joined Mutual Series in 1986.

Dan O'Lear next to him, Dan is executive vice president with Franklin Templeton Distributors. As head of the distribution of North America, he oversees the advisory division comprising both the external and internal retail sales teams in the U.S. and Canada. As well as the RIA and investment only division so Dan joined Franklin Templeton in 1996.

And to his left, Ed Perks, executive vice president and director of portfolio management for the Franklin Equity Group. He is the lead portfolio manager of the firm's largest fund – the Franklin Income Fund at $90 billion. He is also the lead PM for the Franklin Balanced Fund. As director of portfolio management, Ed oversees the investment strategies including U.S. core, hybrid, the sector teams as well as U.S. growth and Ed joined the company in 1992.

Next to him our distribution colleague, Tom Regner. He is the president of Franklin Templeton Institutional, so he is also responsible for the institutional business in U.S. and Canada and Tom joined Franklin in 2005.

And lastly but not least Eric, to my right here. Eric Takaha is the senior vice president and portfolio manager of the Franklin Templeton Fixed Income Group, so within that he is the director of corporate and high yield. He also serves as lead or co-lead manager of funds in that area totaling over $20 billion and he began his career at Franklin Templeton in 1989.

So lots of experience here and I thought as moderator I just get these guys warmed up with a few pre-submitted questions and then turn it over for the harder questions to the audience. I will just kind of set the tone and start something Greg touched on, the real success and impressive growth of our global fixed income strategies have really influenced the perception of the company and led to questions on how we are going to fair in a rising interest rate environment and despite the fact of a broad base of products in equities and fixed income that perception has kind of lingered, so I will ask Eric first of all do you think we are in a rising rate environment, second maybe talk a little bit about how our domestic fixed income strategies are positioned.

**Eric Takaha:** Sure, maybe I will start off by saying the observation that even today when people think of a fixed income market, domestically they always think about it as a single asset class where rates are going to drive to performance up and down over time, whereas in reality over the last 15-20 years it's really diversified in the multiple different sectors that can behave very differently depending upon where we are in the cycle. And with this backdrop at Franklin Templeton, we have always focused our resources on those areas of the fixed income market where we believe we can leverage the portfolio manager experience and our fundamental research to drive value, so we are not so reliant on just a call on the interest rates. Nonetheless when you think about a rising rate environment, it's interesting at the start of this year, I think the market in general was looking for higher rates to kind of continue to second half of last year's theme but in fact as you know rates have actually declined in terms of long-term treasuries, so far in 2014. Nonetheless we do believe if you have a period of sustained rising rates going forward in the stronger economy, we are pretty well positioned at Franklin Templeton. We have a lot of different strategies and many of those are in areas that tend to be less correlated, less impacted by rising rates and, you know in particular these days unconstrained, it's kind of the buzz word in the fixed income market. We have been managing flexible multi-sector strategies for 20 years at Franklin Templeton and we have a lot of different offerings that can really make your risk tolerance and income needs available to you depending upon where you are in that spectrum.

So in terms of rising rates and where do we see them going forward, again there will be a focus on the Fed and what they do or don't do with tapering and interest rates policy going forward but regardless of where rates head over the near term, we think we are pretty well positioned within our group for any raising rate environment going forward for the next several years.

**John Lusk:** Ok, thanks for that. Ed, maybe I will turn it to you next as a group that manages both equities and fixed income, maybe you can talk a little bit about some of Franklin's Equity and Hybrid capabilities.

**Ed Perks:** Sure John, I think that's one of the areas that it may be most interesting about Franklin Equity Group is that we have such a range of investment disciplines in our group and it's something that over my career starting as a research analyst in the early 90's, something that following stocks and looking for interesting investment opportunities, I had a range of different PM's that I could pitch to and I really appreciated it as a research analyst and I think as a senior member of the team now I think that breadth of offering really helps us kind of look at situations in a unique manner and something that I really value with our group. Certainly it's been dominated by at least on an asset under management basis by the income strategies and the success we have had there but as you mentioned Franklin Balanced Fund one of our newer products in the group, newer meaning eight years old, I think it also kind of showcases the capabilities of the team, the ability to interact with our peers on the Fixed Income side at Franklin Templeton and leverage their expertise. Convertibles is another area I think lesser

known that we have recently launched a global convertible securities fund, so I think hybrid capabilities are very established and really contribute broadly across a number of portfolios. That said we also have about $25 billion in different growth strategies across different market cap specializations and that's something that I think can also provide a lot of opportunity for our clients and drive our business going forward.

**John Lusk:** Speaking with the investment guys, Peter, maybe you can talk a little bit about the Mutual Series strategy and your investment capabilities of Mutual Series?

**Peter Langerman:** Sure, thanks. First thing I was going to say is I spent most of my time usually on the other side of the table in these kind of meetings. So my group, Mutual Series Group, works primarily out of New Jersey, we have got an investment group of around 30 people that includes portfolio managers, analysts, we have our own traders, and other support staff, we work as we have really since the founding of the Mutual Shares Group back in 1949, I mean, in a pretty close environment, open room environment, very much talking to one another dialog and we have always been very much bottoms up action oriented in the sense of looking for corporate activity, corporate change, M&A spin-off, management changes that kind of thing. We are particularly excited I would say actually in this environment people have asked me about what we think about the current investing environment and for us the kind of investments that we are in actually is pretty conducive to what we do. We have certainly seen enough positives and negatives, but enough also corporate activity M&A, other kinds of transactions within companies to maximize value that again kind of plays into our strong suits. It's a pretty exciting environment for us these days and we are quite charged up, although valuations clearly have moved up over the past couple of years again I think that this kind of one step ahead and one step back environment with enough confidence that corporate activity is accelerating really plays to our strength, so we are quite excited both domestically and globally. It's obviously, as you know John and maybe others don't, about half of our assets are really non-U.S. investments so it is a global approach and then we think this environment is really quite conducive to what we are trying to accomplish these days.

**John Lusk:** Great. Just to give our distribution colleagues a chance, Greg touched on it, much has been made of this so called great rotation or as he put it but maybe it's a good rotation. Can you tell us really about how we position ourselves in the distribution channels and our clients re-risking, how do we cross-sell maybe Dan you can go first and we'll let Tom chime in on the institutional side?

**Dan O'Lear:** I do agree with Greg's comment, I think it is good rotation, I think really we kind of seeing two rotations going on at this point. I think really the fear of the inevitable rise in rates and the continued need for clients to generate income has really caused the two rotations. The first one I think being really that move from cash into hybrid funds and into equity funds. In fact

this past quarter on our domestic U.S. side, on net sales numbers is one of the best we have ever had in our history. We are having success with funds and some of the people on this panel here, Franklin Income Fund, Templeton Global Balanced, U.S. Rising Dividends fund and then the second rotation being more of that rotation from traditional fixed income that you mentioned I think John back into global unconstrained products. In that turn we have had success there, we have got products there as well with Templeton Global Bond and Templeton Global Total Return and Franklin Strategic Income Fund, so I think we are fortunate to have a stable of offerings and products that take advantage of both of these rotations and really bring in for life whether it's in the fixed income area or the equity, hybrid and then most recently as Greg mentioned in newer in the alternative space as well, liquid alternatives and then we have got something across the board there. I also think that this shift really plays into the diversification focus that we have from our sales team out there really to help clients be exposed to other geographic parts of the world, credit duration and other solutions to help them round out their portfolio. And then lastly, I'll mention we do have a series of client focus educational tools that we have been using to take advantage of these rotations one called the Time to Take Stock which is a presentation and brochure, really helping clients understanding the need to own equities. Another one called rising rates, really explaining what happens to your portfolio when rates go up what to expect and to what to own during those periods and then another one on fixed income, alternatives which is really how to get yield besides just traditional bonds, all the products and nontraditional bonds and other hybrid products that can give you yields in that standpoint.

**John Lusk:** Maybe I'll ask Tom is this rotation going to go from good to great because of institutional…?

Tom Regner: Good morning everybody. There are three trends that occurring, corporately corporate plans are de-risking, like they had a very strong equity market most corporate treasurers love to get rid of their DV plans and just have the DC plan, so they are de-risking, adding fixed income, public plans are going to continue to have the DB, they are re-risking and then as Eric pointed out what we spent most of our time talking about with our clients is this disaggregating of the Lehman Egg, so not having a single manager managing just a Lehman Egg benchmark portfolio but looking at a credit specialist, the global bond specialist and looking for opportunities within fixed income.

**John Lusk:** Back to Dan on the point of… certainly the investment folks really appreciate our distribution machine and how powerful it is maybe you can touch on a little bit about why we have been so successful in the advisor channel specifically in the U.S. …

**Dan O'Lear:** Sure, it really goes back to our history of really, we firmly believe in the value of advice and have been committed really to the financial advisor going back to when the firm was founded back in 1947 and we really focus on partnering with that advisor to help them giving

them tools necessary to support their business. When we partner with them, one of the things we try to do is really fully understand their practice and really help them meet their client goals. Our goal is, a phrase that we've coined is we want to be the advisor to the advisor, really that means a couple of things. One is really helping them manage their existing business, aid in building portfolio solutions, have our people trained to be really students of the market to help them provide insights of the global trends and what's going on in the competitive landscape and then also the second part would be really to help them grow the business as well, offering client acquisition ideas to make that business grow more to become more productive, look at client segmentation, look at different tools that we can help them to grow their practice and then I think that one of the things that we do or we're maybe not unique in this but I think we do it very well as the team approach to servicing the advisors. We have a, what we call our wholesalers or senior advisor consultants. They are 1:1 ratio with the senior advisor consultant and an internal person called an advisor consultant along with the scheduler to help them be more productive, a digital advisor consultant as well another person on the team that comes at it from the digital means and more technology oriented from that standpoint.
And then the last thing I think is really probably the experience and the level of commitment to training education that we do I think with our team and that long-term partnership that we have… we have got a very tenured sales force, Greg mentioned the tenure of this company overall we're even higher than that in the retail sales and that we have probably got about a third of our senior advisor consultants that have more than 15 years of experience in the industry and then with us so I think that is some of the reasons that help us out, John.

**John Lusk:** Just a couple of more questions here, you can't think about the success of Franklin without thinking about the impact of the income fund and $90 billion in assets now I think 10% annualized returns since inception of 1948…

**Ed Perks:** I haven't been managing it that long…

**John Lusk:** You haven't, I know, you're a youngster that took the reigns from Charlie not too long ago, but can you talk a little bit about why you think that's been so successful?

**Ed Perks:** I think going back to the fund's early days, I think it's just a very good idea way to approach building a portfolio to capture income for your investors and being very flexible in that approach, having some [unintelligible] funds around fundamental research and valuation, so I think from the start it was just very good idea and over the years, we have been able to leverage these pockets of expertise that we have in different parts of the company and I think that's the thing that I valued the most managing the income fund is that, I'd call it unconstrained --- that's become a buzz word in the industry. I really can focus on the investment opportunities and not worry about where we are positioned because of that flexible mandate, so I think that has a lot to do with the success the fund has had, consistency of approach, I mean, Charlie Johnson managed

the fund in a very specific way for a lot of years and I think when I joined him in 2002 it was to understand that approach and to continue that going forward. That's what my focus is and I think we'll obviously continue to strive to do the best we can with that product.

**John Lusk:** Keep up good work. We are all investors as well. And now I will just get back to Peter, a question we talk about a lot Peter, certainly the long-term performance of Mutual Series has been outstanding, it's a little bit different style but in recent times or certain short-term periods it underperforms sometimes because of the cash position, you guys maybe making a call on holding in a rising market environment. Can you talk a little bit about how that's really part your strategy and how you communicate that to clients?

**Peter Langerman:** Sure, again while we are separate investment shop from Ed and some of the others, I think you hear some similar themes in the sense that we have an approach, we have been around since 1949 part of Franklin since 1996 and I think one of the nice things that we found is that we are not only able to but encourage to do what we do well, and so we think we do well and stick to our knitting, stick to our expertise. And I think there are certain times when the markets behave in a way that I don't think it's necessarily our performance, it's our relative performance which everybody is concerned about but I think the bigger picture is make sure we stick to our knitting, so there's going to be some periods of time when we are not finding as much to do as we would like to and the cash may build a little bit and if it's a rising market we are going to "underperform" conversely, we have seen other markets where that helps us and then where our discipline really makes sense and being the contrarian types of investors that we are that's the moment to really be active and to take charge. I think the ability to do that both from a client perspective and with people like Dan and Vijay and his group being able to communicate what it is we are trying to do and also with the support of Franklin management, who say we know who you people are right, do what you do well we are not asking you to change and move with the flavor of the day. I think that really supports what we are trying to do and so the most important thing for me is maintain our discipline, continue to execute on our core strategy and I know if we do that well, we will perform extremely well over a period of time and the answer may be a shorter period of time where we look not as great on a relative basis but longer term that's what our clients who are looking for.

**John Lusk:** I think I will stop there and just see if there are any questions in the audience or if we could take advantage of these gentlemen…

**Questioner:** So I just wanted your perspective, there has been a lot of retail mind that's moved into some less liquid fixed income asset classes like high yield, I'm just wondering if this were to unwind what do you think could happen here if there's a decent amount of retail money moving out of the market, do you think this is a risk to areas like high yield corporate, global and [unintelligible] debt, bank loans…

**Eric Takaha:** There has been lot of press just yesterday the Wall Street Journal talking about high yield and a couple of days ago bank loans and less liquid nature of that asset class, I think it depends on your time perspective and as active managers do we see the potential for some volatility in the market place, if you see flows reverse? I think the answer is yes, I think historically that's been the case if you go back over the last couple of cycles in the credit markets, you also have the fact that these days there is a large proportion of the market in these ETFs which tend to be a little bit faster in terms of their turnover and you also see a disproportion amount of flows coming in and out of this products when you have changes in the market place. That being said from an active management standpoint we review those shorter term technicals as opportunities where you have force sellers from certain products that need to move out and so they are selling their securities, doesn't necessarily impact us, we are able to manage through and make sure we have cash liquidity cushions in those products if you see that type of environment beginning and so we are able to kind of manage through that, take advantage of some of those dislocations that we think over the longer term help to drive our performance, so could it cause some issues on a short-term basis in terms of market flows absolutely, does that necessarily change the way we approach the market place it really does and we would like to take advantage of that if we think it's not fundamentally based and more driven by flows.

**Ed Perks:** I think that's something, to chime in, that's something our hybrid strategies are really well positioned to take advantage of and it's nothing new or unique to this period in time, we have seen it historically whenever our market is driven by those kind of technical factors and all securities are kind of painted with a broad brush and that's just that plays a 100% into our real house what we are trying to do and focus on the unique opportunities in many ways it's welcomed and I wish it occurred more.

**Audience Member:** Thanks very much. I guess a two-parter, continuing that fixed income thought process. On the institutional side of the business you have seen a lot of money going into less liquid Alts, right, so rescue funds or stress funds, Mezz Debt, long short credit, CLOs, things like that. Am curious if you can talk to… I have always been curious on why Franklin with such a great fixed income platform on the retail side never really developed the huge institutional presence and I feel like those products I just mentioned are more predominantly institutional so I'm curious, A. If it's never too late and to build that on the institutional side, and B. you mentioned a full product set on the liquid Alts side and how the investor base differs and who would go into some of the liquid Alts versus some of those products that I have just mentioned, just curious on how those…

**Tom Regner:** So frankly we purchased K2 now almost I think two years ago to build solutions and you are going to hear from the solutions group later on, so many of our clients want to have a conversation about a problem that they are having and an outcome that they are looking for and

we bought K2 for that intellectual capability to have that conversation and design a product, so that was hugely important to our institutional business and that was one of the main reasons I think we bought. Secondly, the K2 liquid alts product that Dan has been using the 40Act that has been a source of conversation with almost every institutional DCIO client that we have or every prospect that we are talking to because they are looking at how can they use a liquid alts product in their portfolios, so it's opened a lot of doors to us and we think it's going to continue to provide us with great opportunities to build our institutional business.

**John Lusk:** How about some of those other institutional categories are we seeing more traction and…..

**Tom Regner:** We are but again it's within a context of a conversation, what is the problem the client has, is it they are trying to truncate a tail event, some sort of risk, so we use them in a more of a portfolio context, so it's not a… this is an insurance linked security product we have it but, how can we tailor that to a problem that you have and an outcome that you are looking for..

**Audience Member:** Maybe a question for Dan, we have been hearing a lot over the past few years about sort of this dynamic of retail gatekeepers continuing to consolidate the number of managers that they do business with towards sort of the bigger more diversified managers so just curious to what extent you are seeing evidence of that and how you think you are positioned to maybe more fully capitalize on that trend.

**Dan O'Lear:** It's much more competitive in the last several years than we have seen because the retail gatekeepers if you will, the research teams have gotten more sophisticated bigger teams and so you really got to go and it's kind of an institutional approach really when you go in and talk to them about your product why make sense to sit on there, whether it's on the focus list or just even on their platform. I don't know that it's getting… I would hope it would get smaller and then just use the more well-known names and the bigger ones and the one with the brand like Franklin Templeton. We haven't seen that yet, they are really looking at best of breed, when they look for that and then the next part of it where it comes into the strength of Franklin Templeton would be, do you have distribution breadth and strength to help distribute it once it gets on the platform and then the other part would be probably demand. As Tom just mentioned on liquid alts, if we would go in say today with a traditional large cap value fund and get try to get that on the platform we would have a tough time, if it was a brand new fund to get there because there's so many of those types of funds on there, but the demand right now for a liquid alt kind of alternative, they are coming at us and say what do you have in that space and a good example is K2 where typically when we launch a new fund we got to have a three year track record, certain asset level whether it's 50 or 100 million before they'll even put it on the platform and we have moved ahead with this K2 where we launched the fund back at the end of the last year and we are already approved at some of the major wirehouses, if you will already with that kind of fund, so it's driven by a need and then actually performance of the product.

**Tom Regner:** And if I can just expand on that for those of you who came in the front door, you may have gone into the 2014 global client conference which is right across the hall here, our global client conference. We actually have the gatekeepers, the retail gatekeepers and the institutional clients meeting in the same meeting because that whole due diligence and part of the market has come together, so we have brought them together to meet with all of our portfolio managers.

**John Lusk:** And how many years have you done this?

**Tom Regner:** Well we have done this for eight years

**John Lusk:** A trend I think we spotted a while ago, and so…

**Audience Member:** Hi, thank you. There's a lot of tenure on the panel, maybe for Ed and the rest of panel, once you have reached a senior rank within Franklin, why has Franklin been a good place to kind of maintain and build a career and what's kept you from being tempted by other opportunities like we are seeing in many of the asset managers currently?

**John Lusk:** That is a great question. Peter you're long tenured…

**Peter Langerman:** Sure, I'll kick it off. I referred actually some of these points in my prior comments, I think most people who are in this business for an extended period of time, you get into it for a variety of reasons some of them obvious but at a point in time there is a balance between sort of that the monetary side of it and the glory side of it and whatever and also being able to be in a place where you can do what you like to do, and certainly and I can speak for our place, the 10-year number that you heard reflective in our place as well. I think investment professionals want to be able to work in an environment and work with people who they are comfortable with, who they can talk to and bounce ideas off of and also have the tools to do what you are supposed to do and I think the reality is that our environment I think what you hear in the environment generally is very conducive to that that there is no cookie cutter you have to do it this way approach right, there is a sort of broad range of what supposed to be done and what not but within the range of your tools and your strategy… it's your responsibility, go and do it, Greg, Jenny, Vijay, Dan they are not calling me and telling me you should be doing this or that, if we don't succeed, obviously there's accountability, but I think it's that ability to kind of set the environment and setup both the monetary and other professional things that people look for in a long-term career and that give people the tools and the flexibility to go out and execute, I think that's what really keeps people around.

**John Lusk:** Dan you have anything to add?

**Dan O'Lear:** I would agree with everything Peter said, I think from my perspective the tenure of our team is something that keeps people together, we have had fairly low turnover in our staff and average tenure over 15 years, so I think that has a lot to do with it, doing what you want to do and with people that you have done it with for a long time, I think that means a lot for me.

**John Lusk**: And on the fixed Income side?

**Eric Takaha:** Yeah, really the same thing, the one other element I'd emphasize is particularly in fixed income we have such a multi-sector global organization and focusing on the credit space I'm able to leverage Michael's global bond team, the emerging market team, the investment grade team, the bank loan team, and really have all these resources that if you are in more of a focused shop, you probably just don't have the ability to do, so I think it's real advantage for my group and my team to have these resources to draw upon and it makes our job easier and frankly more interesting.

**John Lusk:** Dan or Tom, anything to add on distribution?

**Dan O'Lear:** In our management group at least on the sales team I'm here 18 years and am kind of a junior person on the team I've got people who've put in a lot more than that and I think it's just a culture and it goes back to the history from, started from Charlie, and I mentioned earlier about our focus on the financial advisor and believing in advice and --- what's core to what this company does its investment management, it's not.. .we've got an insurance company, and we got little side businesses, that's what we do and we are focused on and you work with some of these people [unintelligible] over the years. It becomes a family and once you find out it's those of you that worked at other places… if you have been at one or two or three different companies in your career when you find a place that fits your culture and your ideals and it matches up well with a place like this… people stick around.

**Tom Regner:** I worked with Dan for a number of years. I'm the new guy, I think nine years, but just real quick, my daughter just graduated from business school and she is in our business. As she was interviewing around, I said pay very, very close attention to the culture, the comp will work itself but you have to like the people that you are working with and it was very interesting to get her observations in all of the different firms that we compete with and unfortunately we weren't selected, one of our competitors in the audience here was but it is the culture of the firm because it's the people you work with day in and day out. Whenever I come home and am whining a little bit about stress or something my wife will say it's not work when you are working with friends. It's just so true, it is culture.

**John Lusk:** Thanks. That's all we have time for, we will keep everybody on time. Thanks everybody!

# How Being Global is Different at Franklin Templeton: Cross-Border Perspective

**Mark Constant:** Thank you again for coming I'm Mark Constant. I'll be your moderator for our second panel How Being Global is Different at Franklin Templeton, A Cross-border Perspective. I'm the treasurer of Franklin Resources and lead the Corporate Finance and Treasury Group which includes Investor Relations. If you don't like the water drinks or coffee, please let us know. I have been in this role for about seven years and before that seven year seat, about sixteen years as both a sell side and buy side analyst. Joining me on this panel, I'll start on my left and work towards the right, Dr. Sonal Desai is a senior vice president, director of research for Global Bonds for the Franklin Templeton Fixed Income Group. She is also a portfolio manager on a number of our Global Fixed Income products, and responsible for shaping the research agenda for the Global Bond department, providing macro-economic analysis to the fixed income team. Sonal joined the organization in 2009 making her actually a bit more of the new comer than me, believe it or not. Dr. Michael Hasenstab is executive vice president and chief investment officer of Global Bonds for the Franklin Templeton Fixed Income team, portfolio manager of a number of funds including the Templeton Global Bond Fund and Templeton Global Total Return Fund. Michael's team collectively oversees approximately $190 billion in assets, that's a wee bit of growth since he joined the firm in 1995. To Michael's left is Lisa Myers, the executive vice president, portfolio manager for the Templeton Global Equity Group. Lisa is a lead PM for the Canadian version of the Templeton Growth Fund and lead equity PM for the Templeton Global Balanced Fund, and Lisa joined Templeton in 1996. And finally last but not least, to Lisa's left is Jed Plafker who is the President of Franklin Templeton International. Like Lisa, he is also an attorney and responsible for our international sales and marketing functions. Jed started with the company in 1995.

Without further ado, I thought we'd kickoff this conversation by asking each of our participants for a bit of high level perspective. As Greg alluded to in his remarks, global is a frequently used term in the business but we believe our global capabilities are a key differentiator versus our peers. One of the reasons we have two panels covering it of our four here. Lisa if you would perhaps start, can you talk about how the Templeton Global Equity Group's, research capabilities feed your portfolio management process please?

**Lisa Myers:** Sure. On the Templeton Global Equity side, we are 38 portfolio managers and analysts around the world. We sit in seven offices but we are long-term global value investors, but for us I think value is defined really by our time horizon and that's really one of the distinguishing parts. The other distinguishing part is using that time horizon because we look at everything through a global industry lens. So, while that's not necessarily unusual in the global value investing world or in the global investing world, I think it's unique because each of us no matter how senior and no matter how senior a portfolio manager or how much money you run, you still are invested in the research process, so you cover a global sector or two depending on how large it is. And our position around the world is really so that we have a real tangible feel for what's going on economically, socially, politically in those regions of the world. But each

industry analyst or sector analyst still travels around the world meeting with companies all over the world and is able to take that knowledge and that expertise of structural and secular trends, as you are all very well familiar with, to be able to analyze companies and use that long-term horizon. I think that's really where probably the biggest differentiating point comes from. We are incredibly disciplined about what we do and about discovering that value and we are obviously not afraid to look very different from the benchmark to which we measured. But that's really what we do and again we have a very global perspective.

**Mark Constant:** Terrific. And Michael and Sonal, perhaps you can tell us together, if you give us an overview of your investment process including, as we have already talked about today, the unconstrained nature of the key products you manage and how you leverage our global resource capabilities in doing that…

**Michael Hasenstab:** Sure, I mean this is not a new process, it goes back decades, one that's gotten a little bit more high profile of late, but really what we are doing today is what we have done for decades. It's a long-term fundamental based approach, very research intensive, we find comfort in being contrarian, we really start building our portfolios with a blank piece of paper and go around the world, look for opportunities where we think we can find value in currencies, in interest rates, in credit markets, dissect the specific slice of alpha that we want to extract, take that out, hedge out what we don't want, and then build a very global and diversified portfolio. So it's a process that we have continued to build and evolve but the culture or the philosophy of what we are doing really does go back decades to this contrarian, fundamental, research driven approach.

**Sonal Desai:** In our narrower team, in the global bond team, 12 of us including Michael and myself, we consider ourselves analysts and economists. And that definitely gives us the ability to be contrarian together with the global resources we have in our local asset management offices, speaking to people on the equity side of the business around the world, various conferences where we actually meet each other and then talk to each other on the telephone quite a lot, so that helps.

**Mark Constant:** Jed, if you would, could you give us a high level overview of the International Advisory Services or what people on the outside world think of distribution organization and then our global footprint there.

**Jed Plafker:** It really started with Franklin's purchase of Templeton in 1992. We had some research offices in a variety of countries and we really set out to build our international business and distribution efforts at that time, and we have been doing that for the last 20 years as Greg mentioned earlier today. We are broken into four regions outside of North America-- basically Asia Pacific, so we have offices in Japan to Australia, CEEMEA and India is a combined region

for us which is Eastern Europe, Middle East, Africa and India and then Europe itself and then the Americas, Latin America and the offshore business for the U.S. and Canada. We are physically located in about 24 offices around the world and we have intermediaries in about 80 countries and we have shareholders in about 150.So, we're not present where everybody is, but we use our offices to meet with our intermediaries and our clients.

**Mark Constant:** Michael, you mentioned your comfort in contrarian position taking, if you will. As the asset base has grown, the media attention has grown, can you talk a little bit about how that attention sentiment has affected how you manage the portfolios and particularly how you manage risk when making investments in countries like Ireland or Ukraine?

**Michael Hasenstab:** Nothing has really changed, but to be a little bit more careful of what we say, especially with a lot of people who are trying to follow and copy ideas, but at the end of the day, it just comes back to fundamental research and that drives every one of our decisions. Often times a few of the positions are maybe interesting to talk about or write about, so those get a lot of attention but when you look at the whole portfolio and take Ukraine for example, it's a less than 5% position, 80 plus percent of the portfolio is in deep liquid markets that we can move billions within minutes not hours, and then we will selectively, over time, opportunistically pick these sort of special situation ideas. Now going back several years, it was 2011, it was Ireland, when we bought it, we were the largest buyer we had no delusions about turning around and exiting the position in the short-term, but it was a long-term investment. As that became more and more liquid, it's now probably one of the most liquid parts of the portfolio, as that migrated into the other bucket, we picked up the position in Hungary. That has now migrated to a more liquid part, and then we picked up a position in Ukraine, so we are constantly looking for these special situations that augment the sort of deeper liquid part of the portfolio.

**Mark Constant:** Maybe Lisa, we could start, on the next question. Investor demand for active allocation strategies has obviously continued to increase. A natural complement to Michael and Sonal being here would be asking you to talk a little bit about the Templeton Global Income Fund and how it competes in that space, maybe how your teams work together.

**Lisa Myers:** Michael and I launched the Templeton Global Balanced Fund in 2005 and the idea was to take our expertise on the global equity side and their expertise on the fixed income side, and put them together and be able to actively asset allocate between the two asset classes where opportunity lies. And we think it's a very unique product because we both come at this from a very fundamental bottom up perspective, so as Michael is discovering on the fixed income side, and for us it's very long-term, bottom up value investors on the equity side. So we don't have a major macro view where we are trying to fill buckets of opportunity. It's really a product that comes together using the expertise of each team. I would say in my day job I manage funds that are fully invested in equities and Michael and his team manage funds that are fully invested in

fixed income. So when we come together and we go through the asset allocation process, it's really about where is the best opportunity to drive the total return as a fund. And the fund has three sub mandates which are capital preservation, capital growth and income. So in driving that total return, where is the best opportunity, how rich is the opportunity set in each asset class, what are the risks that are being taken in order to drive total return in each asset class, and how can we weight the allocation to best drive total return in the fund. And so that's how we work together and it's really, we are not giving people a job to go and find an equity or to find a fixed income position because we have decided that we have a macro view of the world. It's really we are doing what we do on the equity side, and our portfolio on the equity side looks very much like all of our global portfolios. And on the fixed income side, Michael, he can talk more about this, looks very much like the total return fund. And so we think that that's a real advantage that we are not pulling people out of their comfort zones to do things where they are outside of their expertise, and the returns have been very productive so far.

**Michael Hasenstab:** The one thing I would just add on the Balanced Fund, I think what's unique at Franklin Templeton, is that we are able on the fixed income side to collaborate and get information from our equity colleagues. You know when we are looking at European financial crisis, to be able to talk to your bank analysts to get a bottom up perspective, or when we are investing in Ukraine to be able to talk to Mark Mobius' team about what they are seeing. So this collaboration not only just helps I think make this a good product, but actually helps to make our standalone products better because we are constantly getting that network of information from different perspectives and that I think it's somewhat unique and very helpful for us.

**Mark Constant:** Great. And Jed, we are often asked about the cross-border SICAV umbrella and maybe an acronym we take for granted, it might be worth explaining, but can you help everyone understand a bit more about this fund range, how it compares to the U.S. mutual funds with which this audience is generally more familiar in terms of asset mix, portability across border, scalability, those types of things.

**Jed Plafker:** Sure. It is an acronym we probably take for granted, but basically the SICAV which is a French term, is our flagship product range. It is based in Luxemburg and by being based in the European union it allows us to any product we've put in that range we can register or passport it across Europe. And quite frankly now we can register it in many countries around the world and so we use that wherever we can and we have about 84 different funds. Basically clones of what we have in the U.S., basically open end mutual funds and what we do with those funds then is we have a variety of share classes. I say a variety but we've got about a thousand share classes for those funds and that helps us localize in the different markets. So we may have share classes with local currency, they may be hedged, they may have different dividend payout mechanisms and so by doing that we can have one range, and that range represents probably two-thirds of our whole international business.

**Mark Constant:** And to follow on that, we have in certain markets a dominant cross-border market share in those countries, Taiwan and Holland being good examples. Can you give us the sense of understanding, we've got the local panel still coming up, can you help the audience understand how we think about local products versus cross-border?

**Jed Plafker:** Our whole philosophy on the international side has really been based on diversification and really Franklin Templeton as a whole when you see all the different investment managers. So we diversify our whole portfolio, if you will, by being in many different countries, again started about 20 years ago, and that's really been the key to a lot of our success because we have been able to weather a lot of storms. When Europe was down, we had Asia picking up and we had the Americas picking up, and when Asia was down, Europe was picking up. And so that's true for all the different aspects of our business, whether that be geographic, whether that be retail vs. institutional, or just the product range. So one of the reasons we have been so successful, and Greg mentioned this earlier, we see a lot of concentration in one type of product, or what have you, and we have been seeing that on global fixed more recently, that's been moving to more equities and balanced products as we just talked about. I think that enables us to capitalize on that. But the exciting thing I think about the international business also is that it's just the tip of the iceberg in terms of flows and assets and I guess the next panel can talk more about the domestic businesses that we have as well which is a whole other area that we can capitalize on.

**Mark Constant:** I want to make sure we leave plenty of time for questions.

**Audience Member:** Question for Michael, it was helpful to hear you talk about the liquidity risk and how you manage it in special situations, but maybe if you could expand on that and if you have a comfort level, I think you referenced about 20%, but you run an open fund, so if you have big outflows that could increase. Do you have a level that it hits where you lose that comfort and how do you deal with that?

**Michael Hasenstab:** We look at the risk of the portfolio from an aggregate level, looking at what is the potential expected shortfalls if you have the worst one percent event all happening at the same time, and we have comfort levels around what we are willing to tolerate around that. So the individual positions will feed into that and our risk team works together with us to evaluate what comfort will we have in those individual positions. One thing I would note though, and every one focuses on just the one flagship fund and it's open ended and it's true, it is open ended so we do have to be cognizant of that. When you are sitting on over 10% cash of a $70 billion fund, inflows/outflows you almost don't even notice them. But beyond that there is a lot of our business which actually is a lot broader on the institutional side that doesn't get talked about, and we have seen a lot of success institutionally. So as Jed was saying, sometimes Asia's buying and

Europe's selling, the same is true. Sometimes retail is selling but institutional is buying, and within retail it's a pretty broad spectrum, you have institutions that are in the mutual fund that have billion dollar positions, and you have individuals with a thousand dollar position. That diversification has given us an incredible stability even some really, really difficult market environments or headline risks. So I think the strength of distribution, not to give them too much credit, but the strength of distribution really helps us as portfolio managers because you just don't see that volatility in aggregate.

**Audience Member:** The situation in Ukraine has changed pretty meaningfully since you made your initial position, has your view on that position changed at all as the situation has evolved?

**Michael Hasenstab:** Believe it or not I'm more excited about Ukraine today even than I was a year ago. The thesis on Ukraine was always about solvency, this is a country with very low levels of debt, 40% debt-to-GDP, so the risk was never like Greece, Italy or Spain where you just have massive amounts of debt needing a write down. They never had massive amounts of debt, their imbalance was they had a pegged exchange rate, and it was artificially low which meant they were importing too much exporting too little. The Central Bank was bleeding reserves to try to prop up that, well the crisis actually solved that. It blew apart the peg, the exchange rate adjusted, the current account is now coming back in balance, reserves are stable. So the reason we invest in dollar denominated debt is we knew an exchange rate adjustment eventually would happen, so the solvency to us was never an issue about needing a debt restructuring, it was about a currency misalignment that got solved.

The other point I would make about the crisis actually is this transition government has done an exceptional job of using a crisis to make a lot of really tough reforms and politicians everywhere in the world are similar. They only act when they are forced to. And because of the political crisis, they were forced to put in place a lot of civil service reforms, energy subsidy reform, liberalize the exchange rate to get an IMF package, and the current prime minister used that as sort of the bargaining chip to shove everything through parliament, he got everything approved, almost everything he wanted, which is pretty unprecedented. So three or five years from now a crisis is actually going to have improved the credit because of the reform. And then on the political side we will have the election this Sunday. I think in the same way, this political crisis is actually going to make some changes. The big problem with Ukraine was their move towards NATO and that was unacceptable to Putin, so the likely next president has come out and said Ukraine won't be part of NATO, we are going to federalize the country to give a little bit of autonomy to the East. Both of those I think are the political recipe to move Ukraine as a buffer state and not be this tug of war between East and West. So in some cases, the crisis actually can engineer some positive things, so I'm, as I said, more excited today than I was even a year ago. It's been an interesting path. but I think for the best…

**Mark Constant:** If I could interject for a second, Sonal, Michael described the FX positioning being different from the credit positioning, how often is your… do you think about those collectively in your research or are you frequently isolating one or the other?

**Sonal Desai:** So essentially in terms of isolating the exact trade, that comes out of the research. So research analysts are not overly burdened with the exact trade. They are not going out to look for exact bond recommendations. We think that once they have done the in-depth macro research, the trade just falls out of that research. The research analysts are doing… we don't encourage them to come in every morning and at look at exactly where a trade they are recommending, whether the Brazilian Real has gone up or down, because they are trying to get, we want them to get the medium term right and not get right.. What's going to happen in a month, quarter, or even a year? Frankly I don't think Michael or I or any of our research analysts have any comparative advantage as economists in telling you what is going to happen a quarter or two from now. It's really getting that medium term and then the trades fall out..

**Audience Member:** Jed, just a question on distribution side. First on retail, so when you look at using a lot of the funds you're launching, your SICAV funds, the level of competition is picking up, what are you seeing on the pricing side? And then it also seems like the volatility in the flows in the international channel tends to be more volatile versus the U.S., so what would drive that less stickiness versus the U.S.? And the second part of this is on the institutional side, it's either for Michael or Jed. When you look at what's going on with the banking structures and if you look at the financing from banks versus the bond market… the opportunity for the growth in the corporate bond market outside the U.S. and in the emerging markets, how big is the opportunity? Are you guys positioned for that and is that where you're seeing institutional demand?

**Jed Plafker:** So on competition, certainly I think there's always been and there's always going to be more and more competition. I think the financial crisis was sort of the wakeup call for lot of groups in terms of a non-diversified business model. So if you woke up and you were just in the U.S. or you were just in Europe, I think a lot of firms realize that that wasn't a good idea. And so I think we're way ahead of that curve and the other thing about competition coming into the SICAV, it's easy to launch of couple of SICAV products but it's a whole different ball game in terms of trying to build out a distribution model. We operate in all these different countries which have all these different regulations. The advisors and investors have different needs, and really building relationships at a local level takes time. We have been doing it for 20 years but it's hard to just come in and be very successful. We see a product here and there that people latch on to, but then invariably we see in that trend or performance turn, and we don't see that firm as much after that.

On the second question, if I remember it correctly…on pricing, I should probably mention there's always pressure on fees and things like that, but for us and we are seeing a lot of

regulation around fee based advising, not having commissions and things like that. I think on our side of the business it's early days on some of that and we haven't seen a huge impact yet. On the institutional side for us we are about on the international side about a third of our business is institutional… and about two-thirds is retail. We have highest assets we have ever had on our institutional side of the business. As Michael mentioned, some of our large institutions go directly into the funds for a variety of reasons, tax and otherwise. So servicing a thousand dollar client and a billion dollar client, in the funds can been very difficult, but I think we are set up with our teams to capitalize on the institutional side of the business as well.

**Michael Hasenstab:** I would just note, you talked about the growth of emerging markets. What I think is exciting is there is… I think we are only at the tip of the iceberg on the globalization of fixed income. If you ask the German investor, a U.S. investor, primarily their fixed income is all in core, whether it's Bunds or U.S. Treasuries, that game is over. We are at the end of that cyclical rate cycle, so we see an opportunity as investors from individuals to institutional to corporate, as they internationalize their fixed income portfolio. This is happening at exactly the same time where you are getting the development of local bond markets to really take off pension reforms, insurance reforms. So those local markets are building, so we can source it quite easily from the investment standpoint and I think there's going to be demand from the client side to get exposure there. So I think that's an exciting opportunity.

**Audience Member:** Could you speak to the opportunities that you see right now in Brazil and Mexico, both have disappointed investors as of late albeit for different reasons, and I'm curious as to your thoughts as it pertains to both equities and fixed income?

**Michael Hasenstab:** Mexico has been a position we have been adding to we are really excited about number of factors. Mexico is cyclically tied to an improving U.S. economy, wage growth in China has caused a lot of companies to move from China back to Mexico. Mexico is now one of the largest auto exporters to the U.S. or the largest auto exporter to the U.S. Structural reforms happened in two governments. Fiscal reform, energy reform, education reform, so structurally I think the country is lot better, poised to grow in excess of 3% this year. You can buy very short duration assets, get a nice yield, and the currency, we think, trend appreciates over time without taking interest rate risk and solid credit. So we are excited about that. Brazil is a little bit more complicated, there's an election coming up, we will have to see what happens there. But Brazil offers fairly attractive real yield, it already had a big weakness in the currency, so we have a position there but it's a lot more modest than our position in Mexico.

**Audience Member:** I have a question for Michael. It seems like you have taken some pretty bold contrarian risks over the past two years that have really paid off for the fund. At the same time, given the type of investments you've made, there is probably some significant volatility within that when you are looking over longer time horizon. I guess the question is do you feel the

pressure either from investors in the fund or Franklin Templeton itself to hit certain short-term benchmarks, when in reality you have a fund which is more longer term in nature. The second question I have is, in a certain environment, let's say you have a low volatility type environment, could you have this with lowering interest rates on a global basis, do you think you could have the same degree of success?

**Michael Hasenstab:** There are so many countries out there. There's always something happening, so I don't think we will ever have a shortage of things as we can play a positive environment by a currency, we can play a negative environment by an interest rate and there is a lot of leverage that we can pull in a lot of different countries. So no, I don't think that's going to be an issue. When you talk about volatility, I think it's important to talk about volatility as a whole portfolio. The global bond portfolio volatility is basically in line if not often lower than U.S. Treasuries. So you may have individual positions, but the way we are constructing the portfolio with a lot of different levers and drivers, the aggregate volatility of the fund is actually reasonably modest. So I think it's important not just to look at individual positions but the aggregate and in terms of pressure our valuation is based off of long-term performance. How do we perform against our peers over 3, 5-year numbers, and that's what we have told our shareholders and our shareholders understand that and that's the framework the portfolio management team operates under. Frankly, I think the biggest risk out there is not Ukraine, it's people who own a lot of U.S. Treasuries, and rates are going higher. I think you could lose more money there than in a lot of emerging markets.

**Mark Constant:** Lisa, anything you would add from a managing against short-term performance expectations perspective on the equity side?

**Lisa Myers:** I think that's very much what we do and I think there's definitely no pressure from internally or even externally for us. I think we are very prepared to continue to be very disciplined about what we do, and sometimes that causes periods of underperformance. But our experience over many, many decades is that that tends to pay dividends as it works out, and so, it does mean that sometimes we go through difficult times but as a result of that the outperformance in those years to follow more than makes up for it. And so we are very prepared to stick to our knitting, as Peter Langerman said, and I think that's very core to what we do and that's been the secret to our success over a long period of time. It's not changing because of pressure of investors to be more short-term and more short-term focused.

**Audience Member:** Similar question to what was asked on the last panel. Michael, what really attracts you to Franklin Templeton, is it the culture, the distribution versus maybe doing something more entrepreneurial like starting your own fund company?

**Michael Hasenstab:** While since the entire executive team is up there, I should say… having

great bosses… I think it's a combination of factors, it's a philosophy, it's a culture, I don't think I could be successful if I had short term benchmarks. So having a firm that focuses on long-term that you have the support for some time, and making some difficult investments. As Peter Langerman said you are accountable but to have that support. To be able to do some entrepreneurial things within the company, which I have been able to do, is exciting as well. I think it's a combination of those factors. The distribution is ok too, having that global breadth I think is also attractive.

**Mark Constant:** Please join me in thanking our panel for this discussion!

# How Being Global is Different at Franklin Templeton: Local Expertise

**Jennifer Johnson:** Okay, we're going to go ahead and get started with this panel on focusing more in kind of our being global an just the local expertise. I'm Jenny Johnson. I'm the chief operating officer at Franklin Templeton. My areas of responsibility are in the global operations and technology, human resources and then our banking subsidiaries. I'm joined here by Vijay Advani who is our executive vice president over our global distribution. And Vijay has been with the firm since 1995. And he is responsible not just for global distribution but for all marketing and product development.

And then Purav Jhaveri who is the managing director over our local asset management groups. We have $56 billion under management by our local teams and Purav really kind of manages that team. So I'm going to start out and -- with the question for Purav. You know, can you give us just an overview of our local teams and, you know, where they're located and kind of what they're doing and how you do oversight?

**Purav Jhaveri:** Sure. Thank you. I think as a company, Franklin Templeton has feet on the ground and it is about 86% of the world's GDP. So we're really positioned in the major places required. The local asset management teams are in about 14 locations which include Korea, India, Malaysia, joint ventures in China, Vietnam, Australia and Middle East, Brazil, Mexico as well as operations in Europe, the U.K. and Canada.

So these are the markets where we have local people on the ground, people who are education and brought up in the home countries investing in the home markets primarily for their local investors and then also for global investors who want expertise there.

In terms of all sites, we have local presence on the ground right from the risk management teams, trading platforms, global support in terms of client service and everything else. But we also have retail platforms which (inaudible) can share with us together or what we see is that on the ground, globally, we can see the portfolios that we manage on the ground. We can see what's going on there. And we can also oversee them from a global perspective back from the head office.

So what we try to do is maintain high-quality standards across the world with our local teams, have the same global platforms, the same global standards but give a local flavor on a boutique level at these local locations.

**Jennifer Johnson:** Vijay, take about why local asset management is important from a distribution perspective?

**Vijay Advani** : Sure. Before I answer that question, firstly, I know we talked about globalization and that Franklin has got onto this global path for the last 20 years. On the panel today, three of us are the only ones who actually lived in India, all three of us at different times. And two if us are now on the executive committee. So I think that speaks volumes to Franklin's global commitment.

Anyway, to answer Jenny's question, there are about 7 billion people in the world. They're all living longer because of biotechnology and healthcare. Clearly, it makes -- you know, about 20 years ago in 1995, only 9% of outflows came from outside of the US Today, it's over 50%. And the reason we started local asset management, vendors diversification was that we started off taking our US IP which was portfolio management capability (inaudible) into the SICAV and offering that in Europe and Asia and Latin America.

Over time, we realized that we need to further localize. And we started taking those funds and having local hedge share classes in those various countries. So in Poland, you'd get a SICAV but with the share class in (inaudible), you would have that in Singapore dollars and so on and so forth. And then finally, we said, well, there is a -- and this was an evolution over time that clearly, there is always going to be a home country bias. If we just offer global products, you're really playing in the 5%, 10%, 15% of somebody's savings. So how do we really capture the balance 80%?

And there were several countries that were somewhat insular. They had a large population, high savings rate, but somewhat insular in their regulations.

So countries that Purav mentioned that it was China, India, Korea, Brazil, so on and so forth., we said, how about if we can set up local asset management there and with global standards so that we can capture that 80% of somebody's savings. And over time, not only do we have that retail distribution and ability garner assets from the retail population there but as our expertise and as we -- has increased, as we've got recognized. Today, we have several US institutions that want an India exposure or a China exposure or a Brazil exposure. And they're able to offer that capability to our global clients. So it has evolved over the years.

**Jennifer Johnson:** And just to follow on that, can you talk a bit about how the company kind of approaches the decision in some countries to actually go deep with local asset management versus just going with cross-border products? How do you pick those countries?

**Vijay Advani** : Yes, I think basically, there are about 10 or 15 countries that have a large population and a relatively high savings rate. And we believe that, you know, they're not really going to have 100% of their assets, you know, globalized.

So countries -- you know, I think Purav mentioned some of the countries that we are in -- we already have presence. But other countries like Turkey, Poland, Indonesia, we yet don't have presence. We are offering our SICAV products where we feel, here is an opportunity, you know, in large population.

So we are constantly prioritizing and reprioritizing, resources are limited. We try to see where it would make sense to go and then we start typically with one or two portfolio managers, sub-distribution. We don't go over the big bang. We've never shut an office in the last 20 years. And the reason we do that is just dribble in our resources and get to market and then add more resources. So those are -- that's the kind of strategy.

Frankly, it's just, you know, (inaudible) and common sense. And the people can buy that research from many guys about globalization. But execution is what Franklin has been very good at over the last 20 years.

**Jennifer Johnson:** And I'm just going to add, you know, intuitively, there are the obvious two things that we talked about, there is that being global, one is feet on the ground from an investment standpoint, the second is obviously broadening your client base for distribution. But there is a third element for us which is back office support. And, you know, it's as firm we actually are somewhat unusual and that we do a lot more in house than some of our peers. Point of that is because of the complexity of, as you've heard Ed mentioned the other 1,000 share classes, the complexity of that, it's typical to always to find that service provider to do that so do it in-house.

And the service does 150 different countries -- clients in 150 different countries, we have created a strategy, and let me first say, all our call centers are local so this is not a call center-type strategy. But we created a strategy where we have operational hubs in the US We have in -- one in Europe and primarily concentrated in Poland, and then in Asia, we have one in India and that allows us to kind of follow the sun for operational support.

But it also allows us to tap into, and this the real advantage to it, to just incredible global talent pool, and in some ways, to do some things that perhaps we wouldn't be able to do. For example, we have in India a team of people that are just business excellent people. So there is essentially an in-house consulting team who will spend time with various business units to help them become more operationally efficient.

We have a team of statisticians, PhDs and master statisticians who do anything from back testing products because we think about new products to call centers, staffing models. And it would be difficult to do that without being able to tap into kind of those global resources. Purav, how do you -- with your local asset manager, how do you kind of oversee that and do you, you know, sort of manage all those kinds of regional products and recognizing the difference in individual countries but yet for the big global risk control?

**Purav Jhaveri:** Yes. So in all these countries, we have primarily launching products or managing products that are local. So for example, the benchmarks for this product, we might take the India products, for example, the benchmarks will be the local (inaudible) basis that are followed by the market, by investors and other providers. So they have to be very localized.

With that, with the depth of research we have, we have fairly larger team compared to any global players in these countries but also very comparable with the largest local players in these countries as well. So because of the research depth, very often, we are able to find opportunities outside the benchmarks. So for example, maybe I would say about 2/3 of the number of stocks in our portfolios in India would be non-benchmark stocks, stocks that are fairly good quality, high quality management but are not in the benchmarks. That gives us opportunities that most of their index followers or people that are very positive in investing do not really capture.

On the other side, if you look at some of the global funds that where this research sits in out there as well maybe taking the example of a product I co-managed for the last six years, 38% of the total returns are coming from the on-benchmark holdings. So things of that sort vary on the

ground, if you look at the Middle East where we have -- if you look at the index there, the index was about 430 stocks. Only 1/4 of those stocks have more than four sell side analysts covering them.

So the opportunity to find stocks outside of that, if you have a research team on the ground, that's so much more, so much stronger compared to having someone flying, meet some companies once a quarter, attend a conference and then come back. So those are (inaudible) on the ground. And then we try -- as Sonal and Michael mentioned before as well as for Lisa and team, we try to be a part of the global sector committee, so that team, so that we can actually talk about hot topics very regularly, see what's really affecting the sectors, industries, what's happening in China and what is their demand compared to outside, what General Motors, for example, is telling our US analysts versus what we're seeing in the ground in China for the China operations. We were able really to put all this together and have the global funds benefit from the local expertise on the ground as well.

**Jennifer Johnson**: You heard in prior panels just how important culture is to us as a firm. Can you, guys, talk about, you know, obviously as we are in 35 countries and have over 100 offices, how we ensure that there is the feeling of, you know, the same culture as you go from office to office?

**Vijay Advani**: Yes, I'll start. I think that's the most difficult role but I'm also the most pleased of how successful we are in integrating our colleagues cross the globe. And I think this world substitute in spite of technology and link and video conferencing, there is no substitute on having a face to face contact, eyeball to eyeball, trying to really understand what are the issues.

And not having necessarily -- of course, we have goals and targets but not just focusing on short-term goals in a quarterly results, annual results but really what's right for the client in the long term. And I think by doing that, while we have colleagues in 35 countries who speak different languages, different local cultures but they're all tied together with the Franklin Templeton culture, and that's one of the reasons why I think Dan and the others in the prior panels talk about why the longevity of many of our colleagues who have been with us for five, 10, 15, 20 years is because of that Franklin culture or that binds them together. I don't know, Purav, I don't know if you want to comment on the -- on the portfolio side.

**Purav Jhaveri**: On the portfolio side as well, I mean we really tried to avoid our portfolio managers and analysts (inaudible) by themselves. We are connected in any one, for example who flies into Korea to meet some clients and something else and go stop by and see the portfolio managers. We have quarterly meetings in the region physically where people catch up. We have like annual meetings where more people catch up again. So actually, having some sense of cultural transition is to keep having people meet up each other, you get some sort of similar feeling over time across the culture as well. And I think that there is no substitute again for physical meetings.

**Jennifer Johnson**: Regulations obviously are, you know, coming at a fast and furious pace whether it's already are in the U.K. or some of the rules recently, the banning of commissions for a period of time in India. Vijay, how do you deal with that in all these different...

**Vijay Advani**: And that's what makes our business very complicated. You know, regulations, while on the US, the regulations -- you know, the mature market regulations take, you know, time to change, not many regulations need to change but it takes the -- it's more glacial. Whereas if you're in Korea, Brazil or India, you can have an overnight change in the regulation which we believe very often gives us a competitive edge because we are on the ground, we work -- we talk to the regulators on a regular basis. We see what very often we contribute at, you know, industry events, of forums to changes in regulations.

And so I'll give you one example. We've been working with the regulators in Malaysia for many, many years and we didn't have an office there. We service Malaysia from our Singapore hub. And suddenly, the regulations changed and they said they want to give out three licenses for domestic asset management.

And because we at -- in San Mateo, even at the home office, we -- you know, we -- you know, we talk to each other on a regular basis whether it's a legal and compliance group, whether it's Jenny's group, my group. And within a few months, we were up and running to set up our local asset management there because we were so close to the ground and we were so close to the regulators. So it's constantly prioritizing and re-prioritizing. I'll give one more example here on Korea. We started in Korea with 95 with local asset management business group quite well. Suddenly, the regulations changed which made local investing tax disadvantage.

So luckily, we had a full suite of SICAV products. We could offer those to the local Korean, you know, clients and citizens. The regulations changed yet again two years later and now, we have (inaudible) funds, local Korean funds that actually feed into SICAV.

So in one country over the course of 15 years, we've had dramatic regulatory changes. And consistently, Franklin Templeton has ranked number one, as being the number one foreign [front] house in that country. And that's because we are very close to the ground and we have to constantly prioritize.

**Jennifer Johnson**: I'll pause here and open it up to any questions. (Inaudible) the questions.

**Audience Member:** Great, thanks. Vijay, can you talk about the architecture globally and maybe in some of the local -- some of the locals in terms of, you know, the banks controlling a lot of the market share? You know, are you seeing any change in, you know, the sort of opening up to the architecture across different localities?

**Vijay Advani** : Yes. I think I'll try to the US, primarily I would say if I have to give a guess probably over 70%, 80% of outflows come through banks -- bank distribution. Very similar this year, I mean in the '70s and '80s and then you had all the [wire] houses here owning their own asset management and then over time, they're going to open architecture and finally they got out

of asset management and they just stuck to distribution. So we're seeing the same trend overseas. It's maybe about five or seven years slower or behind the US But basically, a lot of the global and regional banks had their own asset management capability.

Over time -- open architecture and now some of them are actually, you know, kind of divesting away. Post the financial crisis, many of them recognized, you know, this is not our business. We should be in the wealth management business and distribution dealing with the clients, let somebody else do that.

The same -- the same thing in the insurance business. Insurance companies are slowly moving to open architecture. So I think on the offshore side, banks historically, you know, were -- continued to be the major distributing partners but they're slowly getting out of the asset management business themselves, very similar in here.

**Jennifer Johnson**: Other questions? Okay, I'll jump on here. Purav and Vijay, can you talk about, you know, last few years, we started offering Shariah-compliant and Sukuk -compliant products in Malaysia just kind of how that evolved and how we managed those?

**Vijay Advani** : Yes, I think it sounds again more complicated than it is just because it has -- you know, it has a brand associated to the same Shariah-compliant funds. But we've been doing -- you know, providing solutions, if you may, for the last 50 years. I mean where I think Sir John Templeton, one of the first mandate that he got was from ten Bible Society which basically said, "I don't want [same] stocks, you know, and no gambling, no alcohol, et cetera, et cetera."

So it is basically just getting another screen that you could screen out certain -- you know, certain things. And Shariah-compliant is no different. So effectively, you know, we have presence in both Dubai and in Malaysia and effectively put a screen thing, you cannot have certain types of stocks.

And yes, it's -- you know, today, with technology, it's easier to do and the market for same Shariah is about $1.6 trillion. It's quite substantial. And I'm happy to say that we got into the game about four, five years ago and today, we have 1.5 billion in Shariah-compliant mandates, both funds and separate accounts primarily in the Middle East and in Malaysia. But Purav, maybe you want to talk about how the teams, you know, managed both on the Sukuks which is the fixed income side as well as the Shariah-compliant equity.

**Purav Jhaveri :** Yes. So, on the Shariah-compliant equity as Vijay already mentioned is the screen that really matters. Screen has to be good. What is does is it makes -- it does increase the level of complexity because if we look at the MSCI All Country World Index, the global index, variance of it have about 2,400 stocks. The Shariah screens, they come down to about 800 stocks. And within that, because of the restrictions of the underlying companies cannot have more than 1/3 of their assets in cash or debt equivalent or (inaudible) accounts receivable. What happens is that the sector (inaudible) really changed. So for example, financials with an index might be 22% globally would become less than 2%. Energy stocks which would be -- would go all the way to 22%. So we have these real big changes. And what that does is you are to really be

able to create the portfolio bottom up. That still makes sense with investors despite having their huge restrictions in terms of, you know, what you can and cannot buy.

So that -- I think that's where on the Shariah side (inaudible) the complexity of the product versus the breadth of the team to research globally. We're able to do a far better job than someone (inaudible) and start -- we can actually start in (inaudible) as well.

On the Sukuk side, we have two offices, the team in Malaysia which mainly covers the Islamic [issuals] coming out of Malaysia, Indonesia and Brunei. And the team in the Middle East which covers all the issuals that come from the Middle East. And then that could happen to our global bond and other team because the last part of the issuals are generally in US dollars. (Inaudible) issues from Malaysia would be US (inaudible) largely.

But there are few retail in local markets and local currencies and for that, we take a view from the global bond team whether we should hedge those currencies out, keep the in USF, what do we do, depending on the underlying investors' needs per se. And then we put them together.

The last part I would like to add is that there is a real complexity, the Sukuk instruments as these fixed income instruments are called are structured in many ways but simplistically, I can say like a lease -- sale and leaseback or contracts of that sort. So not only do we need a view on credit, we need a view on rates but you also need a view -- a legal view on how the [subset] is created. If something would go wrong, we were able to actually go and get the assets because the way the structure is created, we need to have that expertise.

And that's I think what we really built out expertise on this are not only understanding the (inaudible) rates which we are good at worldwide but also how does that structure really fit in.

**Jennifer Johnson**: Just to check again for any questions. One over here.

**Audience Member:** All right. Question, Franklin gets to ask a lot about the huge cash balance with a big chunk of it outside the US So the allure is always if something interesting came around whether it be on the manufacturing or distribution front and make it even bigger than you already are as a local distributor and manufacturer. So the question is, if you could talk about the -- not just the competitive landscape but really the restrictions in many of the markets to actually going in and even if you could find something being actually allowed to do.

**Vijay Advani**: So firstly on the -- on the cash and the acquisitions, I'll let Ken Lewis answer that and he's going to be addressing (inaudible) towards the end of the session. But I think, you know, on the ability to go in and either require because of the restrictions, I mean countries, the regulations we talked about it earlier, regulations change all the time and there are certain countries that it's easier to own a 100% of the local business.

But some countries where we have joint ventures, we typically don't like to do joint ventures. We like because we talked about culture and the people and like them to be integrated for Franklin. But if we have to, there are certain countries where we have a majority owned state and then there are certain countries where we may be a minority state. But it just depends on the regulations. And, you know, these things constantly change most of their asset management.

We've actually gone in as joint ventures because regulations didn't allow us to own 100%. And then over time, in India, we acquired out the 100%, in Korea, we did the same thing, even in Brazil, we had a joint venture with the local bank over the years as regulations change, we did that.

In China and Vietnam, because of the current regulations, we actually have joint ventures. In China, we are a minority. We have a minority state. We have only 9%. And the same goes for Vietnam. But, you know, there regulations constantly change based on that and then effectively, we are constantly prioritizing and re-prioritizing our strategy based on, you know, what opportunities we see.

**Jennifer Johnson:** And I would add to that, that, you know, there were markets that, for example, the U.K. and Australia, that we knew we'd love to be in what local products, difficult in a mature market like that to start a new one and we look at a lot of acquisition opportunities. But for various reasons, either culture, culture matters to us in an acquisition, or just price, we couldn't -- it didn't make sense for us. But, you know, in the last two years, we've filled out very well with our [Ranford] acquisition in the U.K., [BEM] in Australia and then actually just recently in Mexico as well.

And so, you know, just -- sometimes, it's being patient and waiting even though you want to be there but being patiently waiting for the right opportunity and I think that that's very important to our strategy. Other questions?

**Audience Member:** Yes, I had a question for Vijay. I mean early in the presentation, you spoke of a home country bias and where (inaudible). Over the past 20 years or so, do you see that changing or is it pretty static?

**Vijay Advani**: So I'll give you an example first of the US You know, I remember in 1995, our standard marketing (inaudible) would talk about having about 5% of your allocation overseas. That was the standard pitch. We went down to Minnesota, Wisconsin, you know, somewhere in the Midwest to talk to -- talk to a client there and said, "Hey, you know what,

you more than look at Coke and Pepsi. These are companies that are getting revenues from overseas, at least have 5%." Today, I think that number is north of 30%, 40%. There are many investors who are investing, you know, globally.

So I think this varies. I mean if you are in Amsterdam or in Hong Kong which is completely globalized, the likelihood of you having domestic investments are probably insignificant. It will be 5% local. So it depends on the country. The depth of the domestic market will dictate that besides regulations. So there's more opportunity locally. You would -- yet, Germany, for example, is a big economy, you know, a deep capital market.

So even with diversification into Europe and Asia and everywhere else, you probably have 40%, 50% local. So it really depends on the country and then, you know, superimpose that with the regulations. But as a firm, we want it basically to be diversified by asset class that is fixed in equities, diversified by geography which is North America and overseas from a business

perspective. And then -- and then lastly, diversified based on our distribution channels whether it's institutional retail, whether it's insurance and banks.

And I think this gives us the stability even when we see volatility, whether it's redemptions or poor performance, we can yet see flows from one part of our business which allows us to re-invest in our business. So when fixed income was doing very well, we could re-invest some of that into our equity research. If offshore -- when the US was very strong inflows, we used a lot of the revenues to re-invest on the overseas side. So we are allowed to -- we're able to diversify far better and withstand some of this volatility (inaudible).

**Jennifer Johnson**: Any other questions? Okay, last question was just from the local asset management. Many firms to ensure culture send and ex pat. Is that a strategy that we use and -- versus local and sometimes...

**Purav Jhaveri**: Not on the -- you know, on the investing side, we try to stay with the local (inaudible) as possible. So if I take the example of Korea, we have graduates from the National University of Korea and from Seoul National University, locals who have grown up there and understand.

But at the same time, we value people who are maybe, you know, studied abroad, taking their time overseas and master global markets and come back. So we try to encourage (inaudible) because that's important.

While we don't want to make the fallacy of trying to hire someone to speak the best English in Korea, for example, we also want them to be basically great investors but we also want them to be able to communicate with our global peers. In that sense, these communication skills are importantly emphasized some of that but we really try to have the locals.

On rare instances where we had some talent wanting to come back, so somebody, say, up in the North region went abroad to study, after a couple of years wanted to come back, we take care of them very well especially in areas like financial services which are opening up in India. Although regulations are changing, people are going from standalone accounting to consultative account or insurance is coming in, and this person, for example, has been in the U.K., understood that market and brings that expertise back locally. So those are rare instances but that's again a person of local origin who went abroad (inaudible) come back (inaudible) local talent.

**Jennifer Johnson** : Great. Okay. Well, we are out of time. Thank you, everyone, for -- thank you, panelists and...

**Purav Jhaveri:** Thank you.

**Vijay Advani**: Thank you.

# Growing Alternatives and Solutions

**Bill Yun:** Hello, I am Bill Yun and will be your moderator of our final panel today, which is Growing Alternatives and Solutions. I had been with the company since 1992 and oversee our Alternatives and Solutions businesses, this includes our teams that focus on private equity, mezzanine finance, real assets, real estate, commodities, hedge fund strategies and solutions. And as Greg mentioned in his opening remarks, alternatives and solutions are strategic initiatives of our organization and joining me today to help give an overview of what we are doing at Franklin are four panelists. On my left is Andrew Ashton who is responsible for global consultant relations and cross border investment research. Andrew has been with Franklin since 1998. To his left is Rick Frisbie, who is an executive vice president and he heads our solutions team, Franklin Templeton Solutions. This incorporates our multi-asset strategy teams, both strategic and tactical, our fund of funds, our retirement and our solutions businesses which include currency overlays, inflation protection, managed volatility and other outcome oriented strategies. To Rick's left is David Saunders, who is co-managing partner and co-founder of K2 advisors which we acquired a majority interest in 2012 and David has been with K2 advisors since its founding. And to David's left is Dennis Rothe, Dennis is a senior vice president who is responsible for global consultant relations and investor manager research in North America and he joined the company in 1997. So we have a lot of experts on the panel here and I hope you have a lot of good questions for them.

But to start off, maybe I will just give a few opening comments. Since the global financial crisis we have seen investor preferences shift from really relative benchmark oriented type strategies to really what you would call more outcome strategies that focus on retirement, inflation protection, income, etc. So maybe with that as a backdrop, Rick, I will start off with you. Can you tell us about your new role as head of our solutions group, why Franklin wanted to build this business out and what our various capabilities are?

**Rick Frisbie:** Sure Bill, thanks. It's nice to see some friendly faces, again I used to do a lot of IR work in my old role. I used to head up and work with Ken Lewis and Mark Constant on M&A and corporate development, presenting a strategic plan to the corporate board, those types of endeavors and initiatives. And about last fall, I sort of put up my hand and said, I'd like to leave the corporate structure and get back out in the field. I saw a real opportunity, we had closed on the K2 deal back in December of 2012, and that was something where we'd been looking for a long time for a good partner. We obviously had embraced the thesis of convergence and as well almost sort of a barbell approach. We wanted to bring in sort of the intellectual capital and risk systems that a firm like K2 had to be able to deliver, to our clients on the institutional front. As is typical when we do deals, we sort of let the property operate for sort of a year, didn't want to suffocate it with love and then once we are comfortable with each other, we move in and we integrate. We had a pretty strong legacy multi-asset business, all in sort of a long only obviously context at Franklin, and it was just as natural to merge and integrate that with K2. Early returns have been good, we have been growing the business, we are very excited about it. A lot of this

can just be squares and diamonds on a PowerPoint presentation when you kind of merge two organizations and try to realize the revenue synergies and your targets that you had when you bought the company. But we are very heartened by the fact that out in the market we have been competing for multi-asset solutions-type mandates with the combined K2 and the franklin multi-asset teams and we have been winning, we have been prevailing. In the U.S. we won a couple of big mandates and then around the world just in the last six months we have won mandates in Hong Kong, Mexico, South Africa, just thinking some things off the top of my head here, the Middle East. So things are going well and the groups that Jenny talked about culture when we do M&A, we felt very comfortable, obviously we have done the deal, with K2's culture, but it's been even better than we expected. I mean they work hand in hand with our multi asset team, the groups that do the long-term capital markets expectations, strategic allocation type models and work force as well as the tactical teams and it's like they have been working together for three or five years. It's just a day-to-day, very tightly intertwined process that we are all part of the same global investment committee now that meets twice a week and K2 has certainly contributed mightily on that front. So we are very excited about the future. It is a big corporate initiative, board validated for us. There's a lot of big formidable competitors out there but I think if we keep executing the way we are, we should be able to capture more than our fair share.

**Bill Yun:** Great. Thank you Rick. Now I will turn it over to David, who can tell us how you think the integrations and acquisitions have really gone but really more importantly to talk about K2 and give maybe a little more insight to the audience, what is it about K2 that makes it what we think is a very unique and a very powerful force in the hedge fund space.

**David Saunders:** Maybe I will address, so why did it make sense for a K2 and an FT pairing, and kind of where do we see the business. We shared some very similar forward looking views and Rick touched on this notion of convergence and we were feeling and saying that every day in our work with institutions. K2's [unintelligible] background is about a $10 billion hedge fund of funds and our client base was roughly 96% institutional, so somewhat of a departure to the FT group in the United States of about 70% which was retail. And so we were looking for a partner, a strategic partner that made sense for us to access that retail component. I don't know if many of you have seen some of the studies out by Cerulli and others, but they are predicting pretty meaningful growth in the liquid alternative space. So one of our first initiatives was to launch a liquid alternatives fund.

The second component that was really important to us was a global presence and resources on the ground in 35 countries, K2 had a model where we were in five countries and we really saw the benefits of that diversified client base, in terms of capital stability and just market knowledge about what different clients were doing in the hedge fund space.
And then lastly and I don't think this can be really underscored enough, this notion of market information and in our little world that we focus on, alpha equals information or information

equals alpha, the two are synonymous and market information is critical. The way we went out to access and gather information was to talk to all our underlying hedge fund managers as well as potential hedge fund managers. So we have got this great stream of data and information coming to our door, and then we would use external parties like investment banks and third party providers. Well now as Rick highlighted, we are part of the global investment committee, so we have access to the top thinkers and investors within the organization so we have a sharing of information about what's going in the market so we can help clients position portfolios.

So the synergies have, from a business point of view, made a whole lot of sense and so the integration process, and I think this is what most impressed us when we had the opportunity to sit down with the Franklin Templeton senior management, is that they have done this many times before and as you all know as investors their legacy brands are still sitting out there as Mutual, as Templeton, etc. What they do is they come in and look at all the areas where they can strengthen your business without affecting and impacting negatively the investment part of the process which they hold dear. And so what we have seen is areas like risk management gets integrated, sales, distribution, marketing, back office, compliance, legal, all those necessary things that took time away from us in our normal day-to-day business and trying to run a broad based fund of funds, was now we are able to push that down or over to an organization which is really just built for that. And so it enables us to focus much more of our time on the investment process and far less time on just the operational and administrative side of the business which have gotten more complex in the last five years.

**Bill Yun:** Thank you David. Maybe just to take a step back, we can give you an overview of the landscape of how our clients are using alternatives and solutions and thinking about their portfolios. Let me turn it over to Dennis and to Andrew to give us some of their thoughts and what they are seeing in the market place.

**Dennis Rothe:** Many of you may have heard earlier this morning that we have a client conference going on in the building, so we have 200 clients representing more than 250 billion in assets under management with Franklin Templeton. As I think about the agenda that we have laid out, I have a privilege of hosting this year's event, and you know we have six general sessions. One of which David led this morning on hedge funds and the evolution of the hedge fund industry, so one of our six sessions was focused on alternatives. We also had 36 breakout sessions, of which six of those breakout sessions were focused on alternatives and solutions. And of the 200 clients that we had, there was an overwhelming interest and focus on attending those sessions, so whether it would be real assets, liquid alternatives, for some of our retail clients or even emerging opportunities within defined contribution plans.

We are starting to see liquid alternatives kind of play a role in defined contribution, or real assets in terms of our private equity real estate strategy, hedge funds are clearly a big focus. So I think broadly we have developed our business and the different investment platforms that we've had,

and we are seeing a lot of interest from our clients in moving more toward alternatives and I think away from some traditional fixed income and equity strategies. So I think we continue to see a large pick up in interest in alternatives and solutions.

**Bill Yun:** Andrew, how about from the international side?

**Andrew Ashton**: I think just to take Dennis' lead there on the demand and general interest across both solutions and alternatives, we are seeing similar trends right across the international markets, whether it's Europe, Asia, Australia. And so my group effectively looks after our global consultant relationships around the world, so your Mercer's and Towers Watsons, giving you an institutional proxy, if you like, on what's going on in the markets. And we also look after the large global financial institutions, so you big banks, insurance companies, that tend to have a global footprint either across the international markets or in the U.S. and international. And generally you are right across the consultants on the institutional side, the sovereign wealths, the private banks on the retail side, the high net worth side, you are seeing this growing demand, certainly for alternatives. Firstly I guess in the illiquid states but more and more the liquid strategies, and if you look at the numbers particularly coming out of Europe right now you see that the liquid strategy alternative sectors are certainly picking up a lot of the assets across that market. So very encouraging numbers whether you are looking at illiquid and then private equity, real estate, infrastructure, of which we have the capability, and then on the hedge fund side as well in the institutional and retail space.

**Bill Yun:** Great. Thank you Andrew. Maybe go back to Rick for one more question and we will open it up to the audience. Can you just talk about the demand for outcome-oriented solutions that's kind of a buzz word in the market place right now and why do you think that is growing in client interest and is Franklin well equipped to handle that.

**Rick Frisbie:** Great question, I mean, certainly very du jour, solutions has been a driving theme in the industry for a while now. I think a lot of those probably borne out of the crisis where people obviously had their portfolios greatly impaired and wanted to take greater control over the portfolio, be more cognizant of the risks they were taking and just really kind of drive tailoring and having sort of a bespoke portfolio for them and it's across all channels. We do a lot of, I talked about the two insurance companies in the U.S., those are the variable annuity platforms, as well as, in Italy. We have two big Italian banks where we have done tailored, but these are for the retail end-using investor,-type solutions for them. Everywhere you go around the world, it seems like the clients are engaged in a conversation with you about, what can you do for our particular or unique needs, and I think David was touching on the sort of the multi asset-boutiqued-ness of our brands. To me, it's always been a huge opportunity at Franklin Templeton that we do have a lot of strategies, we do have a lot of product, but if you could hang them together elegantly, I think we do have best in class distribution, there's a lot of goodwill from the

clients, we get a lot of reverse inquiries. We had a client in Australia come to us and say, "We know you are not per se in the OCIO business," and we said we are not. I don't want to get a forearm shiver from Andrew here because we don't want to disintermediate the consultants, but we will have clients come to us from time to time and just look for that bigger global strategic advisory relationship, and we have most of the capabilities in house. And now with K2 we have a 26 person strong hedge fund research and long only research team that we can assess the clients' portfolios and their existing legacy managers and look for other managers, so it really functions as an internal consulting shop. So we definitely have all the pieces and it's just a function of executing as we go forward.

**Bill Yun:** Thank you Rick. Why don't we open it up to questions on the floor.

**Audience Member:** Though we know how big K2 is, wondering if you guys can help us understand how big the rest of the alternatives business is, and then more broadly can you guys talk about how performance has been in your various solutions and how long is your track record there?

**Bill Yun:** I will take the first question. In terms of our AUM, and this would include our private equity mezzanine finance, real assets, our hedge fund group here, also it's roughly between 15 and 20 billion in terms of AUM. In terms of track record, we have varying track records across multiple products. Maybe I will start with David, just in the K2 fund, he can talk about your long institutional composite.

**David Saunders:** So the flagship fund has compounded just shy of 10%, 9 and change for 20 years, we are coming up on our 20th anniversary this year, at about a third of the risk of the S&P 500. S&P vol is somewhere around 16% or 5, 6, 7, or something like that, and that's our main fund.

**Bill Yun:** Rick, do you want to address some of our asset allocation funds and track record in performance?

**Rick Frisbie:** Sure, to go to the AUM part of the question, it's over $40 billion between the two groups, K2 and the multi-asset strategy for long only group… as I was mentioning merge together, we have a suite of multi-asset fund offerings in Europe that have good performance I think they're all 4-star rankings. In the U.S. we have a big push and initiative in sales has really led the way on this front with our target date and target risk funds, and the target risk funds were just added to one of our biggest distributors, we are very excited about that. I can't sight the ranking story of the top of my head…but I can tell you we have been getting added to a lot of both platforms and just individual plans, which has been great. Everybody always sort of poo-pooed that space and said it's an oligopoly of Fidelity, Vanguard, and T. Rowe and the big record keepers who are going to get the rollovers into their target date funds. But you have seen

competitors are, and other sort of investment only type competitors, are breaking into the market and doing well and giving share, and so we have several billion dollars now across those two groups. And I think it should really continue to grow especially with the momentum of getting on to the platform with such a big distributor. So generally speaking the performance is good across the board. David was mentioning the K2 kind of the main fund but the liquid alts daily fund as was referenced previously, was incepted early [intelligible] admittedly but that came out of the shoots in early November with great performance if it's not at the top of the category it's no.2 right now, and I think that bodes really well and it did what you want a fund like that to do. It had a good December but it wasn't just riding the equity data of December because when January came around, whirlwind kind of whacky again, it performed well in January, which is what you want obviously a hedge fund manager to do. And we are going to be rolling out that strategy in the fund format, hopefully in the fall, in our SICAV suite in Europe which is even a bigger market when you talk about the [unintelligible] type market of liquid alts. I guess my last point would just be for the… the one thing I like a lot about this business is granted funds are star driven, such a driver of flows in both directions, for a lot of the institutional bespoke mandates that you get, you are mutually aligned with the client, you are creating the separate account for the client, yet they are measuring you but it does kind of create more of a friction, more of a switching cost that way to have constructed sort of almost hand in hand with the main account like that, so I have really liked that aspect of this type of business.

**Andrew Ashton:** Maybe quickly on the private equity side, it's a little more difficult to isolate performance on the private equity side, but I will say through Darby we have some capability across infrastructure, private equity growth and mezzanine debt. There are number of funds out there across the world particularly in emerging markets, a number of different vintages, so certainly we could get the details to that. And then on the private equity and pipe side we have the Templeton emerging market group, I think they are launching their fifth vintage in that particular fund and I know they have a very competitive proposition, so there's a lot of capability out there and a lot of good performance to go with that.

**Bill Yun:** Any other questions?

**Audience Member:** This is for David. Can you talk about how you are feeling about fee pressure in your fund of funds business in 2011-2012 and how you are feeling about that now? I see two very different things going on…in the group that's up here from Franklin. One, there's very much a secular tailwind, and then the other in the true hedge fund of funds business some folks are getting disintermediated, there's pricing pressure, so if you could touch on that, it would be helpful.

**David Saunders:** I think hedge fund of funds space has gone through a tremendous evolution, metamorphosis over the years. I think it's probably likened itself to maybe the auto industry.

There were 100s of auto manufacturers in the United States in1900 and today there's three or four depending upon how you want to look at it, Tesla is U.S. manufacturer or not. But I think we are experiencing the same thing, you see a consolidation across the industry, and so just like kind of back then you saw a movement towards price cutting to go for market share, and then while that's taking place, and by the way we think with our partner that we have selected here in Franklin Templeton that we are poised to not only survive but thrive in the market. And certainly the thing we keep hearing from our clients as we engage is we want access to resources, depth of team, and solutions are part of that, so I would say that's on one hand. So the market place has moved from a general partnership, LP structure to a customized fund of one and I think that's one of the things that drew Franklin Templeton to us. Our business has really evolved into a solution's type of a business where we are engaging directly with the client designing and tailoring a fund to meet their needs. In 2009, we moved to what I would call this advisory role, so that's where you started to see fee pressure and I think that's what you referenced. The difference is that you saw fee pressure, but you saw much bigger mandates. Where we used to sit there and have one-fifth of their assets, all of a sudden you have a 100% of their assets so you could absorb fee pressure because you are expanding your size. And then now the next wave of evolution is this liquid alternatives market place, which has really just begun in the last 12 months, and they are saying that that's going to be roughly a third to 50% of the overall size of the market which is $2.6 to $3 trillion in the next five years, so you were talking about a potentially enormous move. And for the first time you are seeing clients access, or a whole group of clients have access to this type of investment, this alternative investments. You will see some fee pressure on the large institutional mandate, but they will access us differently, they will access us as more like an advisor, a strategic partner but will gain in asset size. By the same token we will proliferate and grow our business on the retail side which will have a pretty stable and steady fee structure associated with that and then they are still paying fair wage, fair price for a customized and tailored solutions because they can't do that on their own, they just don't have the people, team, systems, to provide that. My guess is we will be sitting here in five years and you will see our universe of broad based to hedge fund of funds will be a lot smaller but those that are there will be a lot stronger and a lot more dominant.

**Audience Member:** It seems like we are in the beginning stages of a shift towards more DCIO in the DC channel away from the oligopoly, but what are your thoughts on the actual target date fund itself going open architecture. So you know, you go right to the DC plan sponsored, and you have sub advisor business within the target-dated fund, maybe passive on the large cap, active on the small cap, what's your thought on that business and do you have a product in that segment.

**Rick Frisbie:** We don't have a product in that segment with the caveat that we do use some nonproprietary managers and some of the ETFs were beta type exposure, where we don't have an active comfortable active strategy and we do try to function as the… we do view our role as

Fiduciary-esque where we need to be finding the best managers to offer, but I totally agree with you. I think that's where the market's going to head and we wanted to be there when the puck is headed towards that net. I think the DC market just continues to get more sophisticated and is more and more open architecture. Tom Regner talked about it where you have the Treasury department very focused on the DC plan, and driving a lot of these types of changes and they all have good consultants down, that type of thing. I think you will see more of that and we have to be able to go and demonstrate to the plan that there isn't some agenda for guided architecture that we are looking at for each box or each exposure or sleeve or asset class, we are looking at the best thing we can find, but I totally agree that it's just inevitable that it continues to go that way.

**Bill Yun:** Great I think we have time for one or two more questions.

**Audience Member:** I have a question for David first, and then Dennis. David, if you look at capacity in the hedge fund business and think about the movement, I think it's a third of assets maybe toward liquid alternatives in the retail space, how do you think about which area has the greatest capacity when you look at the various strategies, and you are concerned about the capacity. And then Dennis for you, do you think the retail channel is educated enough and ready for these products? We obviously have some fresh perspective today, but where are we on that?

**David Saunders:** I will tackle capacity maybe in two parts. The first one is does this strategy have capacity? And that ebbs and flows. So in 2007-2008, it was tough to put money to work in some of the credit strategies. In 2009 I could have put a $100 billion to work because it was a massive vacuum that was left as everybody ran away. And so the credit managers were just clamoring, and for that matter most every other hedge fund manager was clamoring for assets. So that ebbs and flows and right now there are certainly plenty of avenues to put money to work.

The second one is because of this institutionalization in the business, I have touched on the fact that 70% of the business is institutional, for the market. Because it's a consultant driven business they have very narrow buy lists, and so the big have gotten very big, but the other 9000 hedge fund managers have been starved out just because they are not going to have a 100 people on their buy list, they are going to have 25 on their buy list, and so what's happened is there's a lot of really talented managers who just can't get access to capital. So in terms of managers and their ability to put money to work, you can find plenty of great smaller managers or niche focused managers that are available today that just can't get any dollars to show up on their door step because they don't make it onto the buy list or the [unintelligible] on consultants out there, so in that regard there seems opportunities. So those are the two pieces I'd touch on.

**Dennis Rothe:** I guess I would add we have definitely seen a lot of demand for liquid

alternatives. I think it was Cerulli who suggested that across the wealth management firms, there's about three percent in liquid alts currently. And a lot of the firms that we are talking to and we do have the 40 act fund on 46 platforms today, that they are looking to grow that from three to 10 percent so I think there's just a very strong demand and given where the market is today with equities and fixed income, I think people are looking for that diversifier, that downside protection with some upside participation.

**David Saunders:** My only comment on the back of that is that not being part of the retail world, everybody internally at FT has kind of marveled at the speed at which we have been able to get on to platforms. Normally it takes three years and a Morningstar rating and everything else, we're on north of 40 platforms with a six month old product. The demand that's kind of being talked about is real and the platforms are requesting it.

**Bill Yun:** Thank you! We will be around after Ken's remarks today for any follow up questions but please join me in thanking our panel for very insightful session.