FRANKLIN TEMPLETON INVESTMENTS

Franklin Resources, Inc.

Executive Commentary

Second Quarter Results

April 28th, 2017

This commentary is intended to supplement the quarterly earnings press release and presentation that are also available on our website at investors.franklinresources.com. See important information regarding Forward-Looking Statements at the end of this commentary.

Conference Call Details

Franklin Resources, Inc.'s Chairman and CEO Greg Johnson and CFO and Executive Vice President Ken Lewis will lead a live teleconference today at 11:00 a.m. Eastern Time to answer questions of a material nature. Access to the teleconference will be available via investors.franklinresources.com or by dialing (877) 407-8293 in the U.S. and Canada or (201) 689-8349 internationally. A replay of the teleconference can also be accessed by calling (877) 660-6853 in the U.S. and Canada or (201) 612-7415 internationally using access code 13659331, after 2:00 p.m. Eastern Time on April 28, 2017 through May 28, 2017.

Analysts and investors are encouraged to review the Company's recent filings with the U.S. Securities and Exchange Commission and to contact Investor Relations at (650) 312-4091 before the live teleconference for any clarifications or questions related to the earnings release or written commentary.

Greg Johnson. Chairman and CEO

Highlights *(p. 4 of Second Quarter Results presentation)*

- Global equity markets, buoyed by broadly positive economic indicators, posted their strongest calendar first-quarter performance since 2012, while active equity funds generally remained in outflows across the industry, despite improved investment performance.
- We are pleased to report that 84% of our equity and hybrid assets outperformed their respective peer group average for the 1-year period, which represents the highest level since the second quarter of 2013. Importantly, the improvement was broad-based, across a number of Franklin, Templeton and Mutual Series strategies, while long-term relative returns remained strong.
- Retail flows improved significantly this quarter, and international retail turned positive, as we experienced a 24% increase in sales.
- The improvement was seen firm-wide as nearly every major investment category saw improved sales. Redemptions also improved across most investment objectives.

- Financial results remained strong as we continued to prudently manage expenses and also benefited from higher performance fees and other income.
- Our approach to capital management remains consistent and shareholder-friendly. During the quarter, we repurchased another 4 million shares, driving a trailing twelve months total payout, in the form of dividends and repurchases, of $1.4 billion, or 81% of net income.
- We continue to actively evaluate potential acquisitions to strengthen our business. In February the team from AlphaParity, a risk premia investment firm, joined our Solutions platform, as we continue to enhance our offerings to address evolving client needs.
- Earlier this month we announced a number of organizational changes designed to position our investment teams to best serve the current and future needs of our clients and to address strategic growth opportunities. An important element was further strengthening the firm's Solutions investing capabilities as client demand for specific investment outcomes can best be met using all the resources of Franklin Templeton.

Investment Performance *(p. 6 of presentation)*

- As noted, investment performance continues to rebound for a number of key strategies on not only a relative basis, but also against benchmarks. The number of our four and five star funds in the U.S. has quadrupled since last year.
- The percentage of equity and hybrid assets above peers, as of quarter-end, decreased for the 3-year period. This change was primarily attributable to Franklin Income fund which constitutes nearly a third of assets in the category. Although trailing 1-year performance ranked in the 2nd percentile, a particularly good quarter in 2014 fell off the time-frame for the 3-year period, and the fund slipped into the 3rd Lipper quartile for that period this quarter.
- However, when compared to the Morningstar Allocation 30-50% Equity category, which more closely matches the high level asset allocation mix in Franklin Income fund, the fund was in the top quartile for the quarter and top two quartiles for the 3-year period.
- Fixed income relative performance remains strong across all time periods presented. The change from December reflected certain tax-free fixed income funds which underperformed their peer group averages over the period, given the risk-on environment where non-investment grade bonds were the top performers.
- Our global fixed income funds continued to perform well in the quarter with outperformance largely attributable to their defensive approach to interest rates. The recent pullback in treasury yields has only modestly tapered our relative returns.

Assets Under Management and Flows *(pp. 7 - 9 of presentation)*

- Assets under management ended the quarter at $740 billion, a 3% increase from the prior quarter due largely to strong performance of equity markets.
- Average assets under management for the quarter increased to $732 billion.

- The strong improvement in sales was driven by retail clients, particularly offshore where sales increased by more than 40%, as improved performance within several of our flagship products continued to drive sales momentum.
- Sales in Franklin Income fund for each month in the quarter were at levels not seen since June of 2015, and net flows turned slightly positive this quarter. Templeton Global Bond sales are also showing signs of recovery with the highest gross sales in four quarters, though it remains in net outflows.
- The improvement in U.S. retail flows also exceeded expectations because a large insurer decided not to pursue its substitution plan to replace dozens of actively managed funds in its variable annuities, so we have retained the $4.6 billion of assets that we had expected to liquidate in the quarter.
- Internationally, the improvement is even more pronounced, with a number of sales regions in positive territory this quarter, including a number of European countries as well as the Asia Pacific and Latin America sales regions more broadly.
- On the institutional front, U.S institutional sales were at the highest level since December 2015, and sales also improved internationally, but institutional redemptions increased almost 40% this quarter leading to higher net outflows. However, we continue to see interest from our clients in a wide range of asset classes in the pipeline, particularly in the U.S. and Europe.
- We have been challenged in the institutional space by a need for more Solutions products in certain markets. Additionally, a number of Templeton global equity strategies that have historically driven a significant portion of our institutional asset base have not performed as well.
- We are working hard to innovate in the institutional space, and we expect the organizational changes we implemented to enhance our ability to meet institutional client demand for solutions-oriented strategies.
- Offshore we’ve had success with a new cross-border Specialized Investment Fund umbrella that we launched last September for institutional clients. The product offers a more competitive pricing structure, compared to the cross-border retail umbrella, and we’ve had early success with the global fixed income strategy that now exceeds $1.5 billion.

Flows by Investment Objective *(pp. 10 - 12 of presentation)*

- Looking now at flows by investment objective, global equity flows worsened this quarter due largely to some institutional redemptions, including one that exceeded $1 billion. Additionally, a key distributor transitioned assets from an advisory platform into sub-advisory programs that resulted in a redemption from Franklin Mutual Global Discovery fund totaling $700 million and Templeton Global Bond fund of about $500 million.
- Nevertheless, global fixed income net flows improved significantly this quarter as we saw improved sales in the U.S-registered and cross-border versions of Templeton Global Bond and Templeton Global Total Return funds, as well as lower redemptions. In fact, the U.S.-registered Templeton Global Total Return fund attracted modest net inflows this quarter and we also saw increased demand for a cross-border emerging markets bond fund that generated net inflows of almost $600 million.

- U.S. equity sales broadly increased across the category, with most coming from Franklin Growth fund which has seen recent success in the defined contribution investment-only space. The fund ranked in the top two quartiles for the 1-, 3-, 5-, and 10-year periods, making it competitively positioned over multiple timeframes.
- Redemptions slowed 15% in this category resulting in net outflows in the quarter of $1.9 billion, which were higher than the prior quarter in spite of improving sales and redemption trends due to the seasonality of reinvested distributions in the December quarter.
- Looking at hybrid flows, Franklin Income fund continues to demonstrate strong short-term and long-term relative performance and maintains a very competitive yield. We expect that with time flows will continue to rebound as the trajectory of redemptions has improved and at the same time we've seen a consistent increase in gross sales. Although the fund had slight net inflows this quarter, a number of smaller strategies remained in net outflows, which kept the category in negative territory.
- Tax-free fixed income also remained in net outflows this quarter, as a number of macro and micro level challenges, including potential tax reform plans from the new administration and rising rates, have impacted the perception of future yields. Our funds tend to be on the long end of the curve and are therefore more susceptible to interest rate risk. Our federal tax free fixed income funds generally underperformed given the risk-on environment, as we tend to lag in such periods given our overall higher quality and conservative positioning.
- Taxable U.S. fixed income net flows turned positive this quarter at $500 million. Strong demand for our floating rate strategies drove the improvement in flows. We have seen particularly strong interest for the Franklin U.S. Floating Rate fund in Korea and it is now our leading product there after crossing $1 billion in assets under management, less than three years after we launched it.

Ken Lewis, CFO

Quarterly Financial Highlights *(p. 14 of presentation)*

- Financial results for the firm remain solid with operating income of $556 million and net income of $421 million for the quarter.
- Diluted earnings per share was $0.74. Compared to the same quarter last year, diluted earnings per share has grown at a greater rate than net income due to our stock repurchase program that added accretion of 4% in shares outstanding over the past year.

Operating Revenues and Expenses *(pp. 15 - 17 of presentation)*

- Operating revenues were $1.6 billion, an increase of 3% from last quarter.
- Investment management fees increased 2%, and outpaced the increase in average assets under management due to about $22 million of performance fees, which more than offset the impact of a shorter quarter.
- Sales and distribution fees were $431 million this quarter. Higher commissionable sales in both the U.S. and internationally drove the increase here, and this was partially offset by the impact of the shorter quarter on the asset based component.
- Shareholder servicing fees were essentially flat, at $56 million.
- Other revenue increased to $24 million, due mostly to higher dividend and interest income from consolidated products.
- Looking at expenses on slide 16, sales, distribution and marketing expense was $535 million, consistent with the related revenues. Sales and distribution fees, net, as summarized on slide 24, was a loss of $103.6 million.
- The quarter over quarter increase in compensation expense came in a bit higher than initially forecast; however, we still expect full-year compensation expense to be lower by 3% to 4%.
- Information systems and technology expense was $54 million and is trending above prior guidance as we expect to make continued investments in our technology infrastructure. We are currently forecasting this line to increase around 9% for fiscal year 2017, compared to the prior fiscal year.
- Occupancy expense was unchanged from last quarter and we are benefiting from our efforts to optimize our real estate assets.
- General, administrative and other expense was $84 million this quarter. As a reminder, last quarter included a benefit from the mark-to-market of the contingent consideration liability from a prior acquisition.
- Profitability remains strong and the fiscal year-to-date operating margin was 36.1%.

Other Income and Taxes *(p. 18 of presentation)*

- Other income, net of noncontrolling interests was $63 million this quarter and was driven mostly by gains on equity method investments of $36 million and dividend and interest income of $19 million, as illustrated on slide 18 of the presentation.
- The tax rate for the fiscal year-to-date period was 31.5%. We now expect the full fiscal year rate to be a little lower than previous guidance due to a mix shift in earnings, and should fall between 31% and 32%.

Capital Management *(pp. 19 - 21 of presentation)*

- Looking now at capital management, we repurchased 4 million shares in the quarter at a total cost of $167 million. As slide 20 illustrates, the pace of stock repurchase activity has slowed as buyable volume decreased materially, and the average price has increased.
- Combined with the regular dividend of $0.20 per share in the quarter, this brings the trailing twelve month payout to $1.4 billion, or 81% of net income.
- Net cash and investments, as shown on slide 23, were $9.9 billion as of March 31, 2017, a modest increase from the prior quarter and September 30, 2016. As net cash and investments includes our direct investments in consolidated sponsored investment products, it was not impacted by the balance sheet reclassification of nearly $1 billion, from investments to investments of consolidated sponsored investment products, upon adoption of new accounting guidance as of October 1, 2016.

Forward-Looking Statements

Statements in this commentary regarding Franklin Resources, Inc. (“Franklin”) and its subsidiaries, which are not historical facts, are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. When used in this presentation, words or phrases generally written in the future tense and/or preceded by words such as “will,” “may,” “could,” “expect,” “believe,” “anticipate,” “intend,” “plan,” “seek,” “estimate” or other similar words are forward-looking statements. Forward-looking statements involve a number of known and unknown risks, uncertainties and other important factors, some of which are listed below, that could cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. While forward-looking statements are our best prediction at the time that they are made, you should not rely on them and are cautioned against doing so. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They are neither statements of historical fact nor guarantees or assurances of future performance.

These and other risks, uncertainties and other important factors are described in more detail in Franklin’s recent filings with the U.S. Securities and Exchange Commission, including, without limitation, in Risk Factors and Management’s Discussion and Analysis of Financial Condition and Results of Operations in Franklin’s Annual Report on Form 10-K for the fiscal year ended September 30, 2016 and Franklin’s subsequent Quarterly Reports on Form 10-Q:

- Volatility and disruption of the capital and credit markets, and adverse changes in the global economy, may significantly affect our results of operations and may put pressure on our financial results.

- The amount and mix of our assets under management ("AUM") are subject to significant fluctuations.
- We are subject to extensive, complex, overlapping and frequently changing rules, regulations and legal interpretations.
- Global regulatory and legislative actions and reforms have made the regulatory environment in which we operate more costly and future actions and reforms could adversely impact our financial condition and results of operations.
- Failure to comply with the laws, rules or regulations in any of the jurisdictions in which we operate could result in substantial harm to our reputation and results of operations.
- Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity.
- Any significant limitation, failure or security breach of our information and cyber security infrastructure, software applications, technology or other systems that are critical to our operations could disrupt our business and harm our operations and reputation.
- Our business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our products and services, or the termination of investment management agreements representing a significant portion of our AUM, could have an adverse effect on our revenues and income.
- We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries.
- We depend on key personnel and our financial performance could be negatively affected by the loss of their services.
- Strong competition from numerous and sometimes larger companies with competing offerings and products could limit or reduce sales of our products, potentially resulting in a decline in our market share, revenues and income.
- Changes in the third-party distribution and sales channels on which we depend could reduce our income and hinder our growth.
- Our increasing focus on international markets as a source of investments and sales of investment products subjects us to increased exchange rate and market-specific political, economic or other risks that may adversely impact our revenues and income generated overseas.
- Harm to our reputation or poor investment performance of our products could reduce the level of our AUM or affect our sales, and negatively impact our revenues and income.
- Our future results are dependent upon maintaining an appropriate level of expenses, which is subject to fluctuation.
- Our ability to successfully manage and grow our business can be impeded by systems and other technological limitations.
- Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.
- Regulatory and governmental examinations and/or investigations, litigation and the legal risks associated with our business, could adversely impact our AUM, increase costs and negatively impact our profitability and/or our future financial results.
- Our ability to meet cash needs depends upon certain factors, including the market value of our assets, operating cash flows and our perceived creditworthiness.
- We are dependent on the earnings of our subsidiaries.

Any forward-looking statement made by us in this commentary speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

The information in this commentary is provided solely in connection with this commentary, and is not directed toward existing or potential investment advisory clients or fund shareholders.