

Franklin Outlook Improves, But Performance Stymies Turnaround: Report

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While Franklin Templeton's outflows have continued to taper off in recent quarters, helping to improve analysts' outlook for the firm, the company still needs to boost its investment performance to right the ship, a recent Morningstar report finds.

Though Franklin "has many of the attributes necessary to right the ship over the long run, we can't point to any meaningful near-term catalysts that would allow it to improve its fortunes," **Greggory Warren**, a sector strategist at Morningstar, wrote in a December analysis of the firm.

"Better investment performance is the one thing that would help turn things around more quickly," Warren wrote, but Franklin's U.S. equity strategies have struggled to consistently outperform, while poor performance on the fixed income side of the business has "made it difficult for Franklin to generate positive organic growth the past several years," the report states.

And, while its global and international equity products "have tended to outperform their benchmarks, they have underperformed peers in the world stock category, making it difficult for Franklin to generate positive flows there as well," Warren wrote.

However, even if performance were to quickly bounce back at the firm, Franklin is "limited in terms of what they can do" in the short term, says **Mark Yancey**, managing partner and founder of **Attacca International**, which does advisory work on asset manager M&A.

"If performance turned on a dime, they still would be sidelined for six months to a year by their constituents, [such as] consultants and broker dealers that use them," Yancey says.

"You can't just waltz in after two quarters of good performance. It doesn't work that way in the institutional world. What [consultants] want to see is, at minimum, six quarters, but probably more like two years of consistency of performance," he adds.

Morningstar's update follows its decision last March to downgrade Franklin's "parent pillar" rating to "neutral" from "positive," primarily due to investment lineup and leadership concerns, as reported.

Since then, however, Franklin's outflows have continued to slow, while AUM has risen slightly, Morningstar analyst notes from October state.

As of September 30, 2017, AUM was up 2.7% year-over-year at \$753.2 billion, while total net outflows, \$5.9 billion, beat Morningstar's projections (\$7.6 billion in outflows) -- marking "the lowest recorded level of outflows for the firm since the March quarter of fiscal 2015 (when Franklin posted \$6.5 billion in outflows)," the October analyst notes state.

Despite the developments, Morningstar "is not expecting much of an increase in Franklin's AUM during the remainder of fiscal 2018 (ended September), as continued outflows and weaker market gains keep the firm's managed assets in a \$740 billion - \$770 billion range," Warren's December analysis states.

Of Franklin's \$753 billion in AUM, approximately 24% was institutional assets, as of September 30, a spokesperson told *FundFire* in an emailed response to questions.

Additionally, "recent developments point to an improving position with our flows," the spokesperson wrote. "For fiscal year 2017 (October 2016-September 2017), long-term gross sales increased 10% year-over-year. Several countries and regions saw a rebound in net sales over the year, with our international retail business posting positive flows over the last three quarters of the fiscal year," the spokesperson wrote.

"Fiscal year 2017 also brought leadership changes to the company that we believe will position the company for future growth. Notably, **Jenny Johnson** assumed the role of president and chief operating officer. In addition to Jenny, we promoted several key individuals into expanded roles to oversee our global investment teams, transform our distribution capabilities and strengthen our position in key growth areas, such as the multi-asset solutions marketplace," the spokesperson continued.

Included in the firm's leadership changes is the pending retirement of emerging markets leader **Mark Mobius**, 81, who will leave at the end of this month after more than 30 years at Franklin, *FundFire* sister publication *Ignites* reported

Separately, last summer, **Tom Fisher** joined Franklin as head of U.S. institutional, overseeing the firm's institutional sales, consultant relations and client relations teams in the U.S., as reported Fisher previously led the North America consultant strategy team at **J.P. Morgan Asset Management**.

During the fiscal fourth quarter, Franklin's U.S. institutional business "continue[d] to face headwinds as Templeton Global Equity, which has historically been a big driver of sales in this channel, has not seen as strong of a demand," CEO **Greg Johnson** said in an earnings commentary report at the time.

Franklin's U.S. institutional long-term redemptions reached \$5.9 billion in Q4, up from \$5.6 billion in outflows the previous quarter, the report shows.

In fiscal year 2017, CEO Johnson's pay was cut 18%, as Franklin's compensation committee determined his pay package should reflect the company's "mixed" fiscal year performance, as reported this month. Under the reduction, Johnson's total compensation shrank to \$9.9 million, down from the \$12.1 million he received the year prior.