FRANKLIN RESOURCES INC
Form 11-K
June 05, 2017

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

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

For the fiscal year ended ______OR

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

For the transition period from October 1, 2016 to December 31, 2016

Commission File No. 001-09318

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

FRANKLIN TEMPLETON 401(k) RETIREMENT PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

FRANKLIN RESOURCES, INC.
One Franklin Parkway
San Mateo, California 94403

Table of Contents

Franklin Templeton 401(k) Retirement Plan
Financial Statements and Supplemental Schedule
As of December 31, 2016 and September 30, 2016 and
For the Three Months ended December 31, 2016

Table of Contents

Note: Other schedules required by 29 CFR Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended, have been omitted because they are not applicable.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and Plan Administrator of the
Franklin Templeton 401(k) Retirement Plan

We have audited the statements of net assets available for benefits of the Franklin Templeton 401(k) Retirement Plan (the "Plan") as of December 31, 2016 and September 30, 2016, and the related statement of changes in net assets available for benefits for the period from October 1, 2016 through December 31, 2016. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2016 and September 30, 2016, and the changes in net assets available for benefits for the period from October 1, 2016 through December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

The supplemental information in the accompanying schedule of assets (held at end of year) as of December 31, 2016 has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but includes supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information in the accompanying schedule, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information in the accompanying schedule is fairly stated in all material respects in relation to the financial statements as a whole.

/s/ Moss Adams LLP

San Francisco, California
June 5, 2017

Table of Contents

Franklin Templeton 401(k) Retirement Plan
Statements of Net Assets Available for Benefits

	December 31, 2016	September 30, 2016
Assets		
Cash	$1,325,629	$402,239
Investments, at fair value	1,186,994,911	1,154,294,446
Receivables:		
Employer contributions receivable	6,574,998	7,591,486
Notes receivable from participants	15,068,475	15,755,986
Other receivables	751	648
Total receivables	21,644,224	23,348,120
Total assets	1,209,964,764	1,178,044,805
Liabilities		
Payables	67,361	70,460
Net Assets Available for Benefits	$1,209,897,403	$1,177,974,345

The accompanying notes are an integral part of these financial statements.

Table of Contents

Franklin Templeton 401(k) Retirement Plan
Statement of Changes in Net Assets Available for Benefits

for the three months ended December 31, 2016	Amount
Additions	
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments	$8,056,984
Dividends	26,482,363
Total investment income	34,539,347
Interest on notes receivable from participants	178,689
Contributions:	
Participants	8,950,644
Employer	6,574,998
Rollovers	118,875
Total contributions	15,644,517
Total additions	50,362,553
Deductions	
Deductions to net assets attributed to:	
Benefit payments and withdrawals	18,291,387
Administrative fees and expenses	148,108
Total deductions	18,439,495
Net Increase	31,923,058
Net assets available for benefits:	
Beginning of period	1,177,974,345
End of Period	$1,209,897,403

The accompanying notes are an integral part of these financial statements.

Table of Contents

Franklin Templeton 401(k) Retirement Plan
Notes to Financial Statements

1. Description of the Plan

General

The Franklin Templeton 401(k) Retirement Plan (the "Plan") is a defined contribution plan.

The Plan covers substantially all employees of Franklin Resources, Inc. (the "Company") and its U.S. subsidiaries who meet certain employment requirements. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The following summary describes material features of the Plan but is not intended to be complete and is qualified in its entirety by reference to the Plan documents and summary plan description for a more complete description of the Plan's provisions.

The Board of Directors of the Company has appointed an administrative committee (the "Administrative Committee") and an investment committee (the "Investment Committee") with certain authority to manage the policy, design, administration and investments of the Plan. The Administrative Committee, consisting of at least five members appointed by the Board of Directors of the Company, is the administrator of the Plan (the "Plan Administrator"). In the absence of the Administrative Committee for any reason, the Company acts as the Plan Administrator. The Investment Committee, consisting of at least five members appointed by the Board of Directors of the Company, is responsible for, among other things, analyzing the performance of investment options under the Plan and selecting new investment options to be offered under the Plan.

Bank of America, N.A. is the Plan's trustee (the "Trustee"), and the administration and recordkeeping services for the Plan are provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated, a subsidiary of Bank of America Corporation. Gallagher Fiduciary Advisors, LLC is the investment manager and independent fiduciary (the "Independent Fiduciary") concerning the purchase, holding and sale by Plan participants and beneficiaries of the Company's common stock in the Plan.

The Plan was amended effective January 1, 2017 to change the fiscal year end from September 30 to December 31. The amendment resulted in a transition period, or short plan year, of October 1, 2016 to December 31, 2016.

Contributions

Participants may contribute up to 50% of eligible pre-tax annual compensation and up to 100% of the cash portion of the participant's year-end bonus, if any, as described in the Plan documents and subject to Internal Revenue Code limitations, each year to the Plan. Participants age 50 or older may elect to make catch-up contributions. Participants in the Plan may also elect to make contributions to Roth salary deferral accounts and Roth rollover accounts.

All eligible employees, as defined in the Plan, may begin contributing to the Plan as of the first of the month following their employment commencement date. Newly-hired eligible employees are automatically enrolled in the Plan at a deferral rate of three percent of eligible compensation following an election period during which the employee may either opt out of the Plan or choose a different salary deferral percentage in the manner prescribed by the Plan Administrator. Unless the participant elects otherwise, participants who are automatically enrolled in the Plan have their deferral rate automatically increase by one percent each year on December 1. The automatic increase is stopped when a deferral rate of 15% is attained, unless changed by the participant.

The Company makes a matching contribution equal to 75% of eligible compensation deferred by participants. Eligible employees become participants in the matching portion of the Plan on the first day of the month following their employment commencement date.

Participant Accounts

Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's deferral contributions, the Company's matching contributions and allocations of Plan earnings, and charged with withdrawals and allocations of Plan losses and administrative expenses. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participants are immediately vested in their deferral contributions plus actual earnings thereon. Participants vest gradually in the Company's matching contribution portion of their accounts plus actual earnings thereon based on their years of service. Typically, a participant is 100% vested after completing five “years of service,” as defined in the Plan. Upon death, disability or upon reaching normal retirement age, a participant’s account becomes 100% vested.

Table of Contents

Forfeitures
With respect to any unvested Company matching contribution portion of a participant's account, any amount forfeited at distribution or pursuant to terms of the Plan remains in the Plan. Forfeitures may be used by the Plan to offset matching contributions or for other purposes, such as restoring returning participant accounts or for the payment of Plan expenses. Forfeitures not used by the Plan are used to reduce current and future Company matching contributions. For the three months ended December 31, 2016, the amount of forfeitures used to offset Company matching contributions was $100,000 and the amount of forfeitures used to pay Plan expenses was $75,616. Unallocated forfeitures were $326,785 and $248,021 as of December 31, 2016 and September 30, 2016.

Investment Options
Participants may direct all contributions in one-percent increments into any of 37 investment options as of December 31, 2016, including mutual funds and collective trusts from various asset categories and common stock of the Company.
Participants may make investment allocation changes daily via either telephone or internet access to their personal account through Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Voting Rights for Shares of Company Stock
Each participant is entitled to exercise voting rights attributable to any shares of common stock of the Company allocated to his or her account and is notified by the Trustee prior to the time that such voting rights are exercisable for a voting event. The Independent Fiduciary acts as an investment manager and independent fiduciary concerning the Company's common stock in the Plan. In accordance with the terms of that appointment, if the Trustee does not receive timely voting directions from participants, all such unvoted shares are voted by the Independent Fiduciary for and against the proposals in the same proportion as shares for which directions are received from participants, unless the Independent Fiduciary decides that the law requires that the Independent Fiduciary vote them differently.

Notes Receivable from Participants
Participants may borrow up to 50% of the vested balance from their fund accounts, subject to a minimum borrowing amount of $1,000 and a maximum of $50,000. Participants are allowed to have two outstanding loans at any given time. Loan transactions are treated as transfers to (from) the investment funds from (to) the participant loans. Loan terms range from 1 to 5 years for general purpose loans, or up to 15 years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at the prime lending rate plus one percent. Principal and interest are paid through payroll deductions.

Payment of Benefits
With limited exceptions, on termination of service for any reason, a participant is permitted to elect to receive the value of the vested interest in his or her account as a lump-sum or partial distribution in cash or property or as a rollover to another eligible retirement plan. Participants may be entitled to receive pre-retirement distributions from their fully-vested accounts upon reaching age 59 1/2 or in the event they incur a hardship, as defined in the Plan. A participant who makes a hardship withdrawal is restricted from making salary deferral contributions to the Plan or from making any elective contributions under any other plan maintained by the Company for six months following the date of the withdrawal. A pre-retirement distribution is not in addition to a participant's other benefits and will, therefore, reduce the value of benefits received at retirement. Benefits due to participants that had elected to withdraw from the Plan were $1,285,668 and $389,981 as of December 31, 2016 and September 30, 2016.

2. Summary of Significant Accounting Policies

Basis of Accounting
The financial statements of the Plan are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates, judgments and assumptions that affect the reported amounts of net assets available for benefits and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements. Management believes that the accounting estimates are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in making estimates, actual amounts may differ from these estimates.

7

Table of Contents

Fair Value Measurements

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

Level 1	Unadjusted quoted prices in active markets for identical assets.
Level 2	Observable inputs other than Level 1 quoted prices, such as non-binding quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data. Level 2 quoted prices are obtained from independent third-party brokers or dealers, including prices derived from model-based valuation techniques for which the significant assumptions are observable in the market or corroborated by observable market data.
Level 3	Unobservable inputs that are supported by little or no market activity. These inputs require significant management judgment and reflect the Plan's estimation of assumptions that market participants would use in pricing the asset.

Investments are reported at fair value. The following is a description of the fair value methodologies used.

Mutual funds are valued using the published net asset values of the funds which are quoted in an active market, and they are classified as Level 1.

Franklin Resources, Inc. common stock is valued using the closing price reported on the New York Stock Exchange, and is classified as Level 1.

Collective trusts are valued using the net asset value ("NAV") of the trust as reported by the trust's manager as a practical expedient, and are not classified in the fair value hierarchy. There are no restrictions on participant redemptions of the collective trust funds.

Income Recognition

Purchases and sales of investment securities are recorded on a trade-date basis. Net appreciation (depreciation) in fair value of investments consists of the change in fair value of investment securities and net realized gains (losses) on the sale of investment securities. Gains and losses on sales of investment securities are calculated based on the weighted-average cost. Dividends are recorded on the ex-dividend date.

Management fees and operating expenses charged to the Plan for investments in shares of mutual funds are deducted from income earned on a daily basis and recorded as a reduction of investment return for such investments.

Notes Receivable from Participants

Notes receivable from participants are carried at their unpaid principal balance plus any accrued but unpaid interest. Interest income on notes receivable from participants is recorded when earned.

Payment of Benefits

Benefits are recorded when paid.

Risks and Uncertainties

The Plan utilizes various investment securities including the Company's common stock and mutual funds. Investments in shares of the Company's common stock represented 7% and 6% of total investments as of December 31, 2016 and September 30, 2016. Investment securities, in general, are exposed to various risks, such as market, credit and interest rate risks. Due to the level of risk associated with certain investment securities and the concentration of credit risk in the Company's common stock, and the level of uncertainty related to changes in the values of these securities, changes in market values of these securities in the near term have in the past, and could in the future, materially affect participants' account balances and the amounts reported in the financial statements.

Table of Contents

3. Fair Value Measurements

The following tables present the balances of assets measured at fair value on a recurring basis by hierarchy level.

as of December 31, 2016	Level 1	NAV as a Practical Expedient	Total
Mutual funds	$1,015,121,429	$—	$1,015,121,429
Franklin Resources, Inc. common stock	77,696,274	—	77,696,274
Collective trusts	—	94,177,208	94,177,208
Total Assets Measured at Fair Value	$1,092,817,703	$94,177,208	$1,186,994,911

as of September 30, 2016	Level 1	NAV as a Practical Expedient	Total
Mutual funds	$998,045,122	$—	$998,045,122
Franklin Resources, Inc. common stock	72,299,034	—	72,299,034
Collective trusts	—	83,950,290	83,950,290
Total Assets Measured at Fair Value	$1,070,344,156	$83,950,290	$1,154,294,446