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Franklin Resources Inc. (BEN) CEO Greg Johnson on Q4 2019 Results Earnings Call - Transcript

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FQ4: 10-25-19 Earnings Summary

Press Release *10-K* *Slides*

EPS of $0.61 misses by $-0.03 | Revenue of $1.45B (-4.89% Y/Y) misses by $-7.61M

Earning Call Audio

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Franklin Resources Inc. (NYSE:BEN) Q4 2019 Results Earnings Conference Call October 25, 2019 11:00 AM ET

Company Participants

Greg Johnson - Chairman & CEO

Matthew Nicholls - EVP, CFO

Jenny Johnson - President & COO

Conference Call Participants

Craig Siegenthaler - Credit Suisse

Patrick Davitt - Autonomous Research

Mike Carrier - Bank of America

Brian Bedell - Deutsche Bank

Ken Worthington - JP Morgan

Dan Fannon - Jefferies

Jeremy Campbell - Barclays

Bill Katz - Citigroup

Brennan Hawken - UBS

Chris Harris - Wells Fargo

Michael Cyprys - Morgan Stanley

Unidentified Company Representative

Good morning, and welcome to Franklin Resources Earnings Conference Call for the Quarter and Fiscal Year Ended September 30, 2019. Please note that the financial results to be presented in this commentary are preliminary. Statements made in this conference call regarding Franklin Resources, Inc. which are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a number of known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from any future results expressed or implied by such forward-looking statements. These and other risks, uncertainties and other important factors are described in more detail in Franklin's recent filings with the Securities and Exchange Commission, including in the risk factors and MD&A sections of Franklin's most recent Form 10-K and 10-Q filings.

Operator

Good morning. My name is Rob, and I'll be your call operator today. [Operator Instructions]. As a reminder, this conference is being recorded. [Operator Instructions].

At this time, I'd like to turn the call over to Franklin Resources’ Chairman and CEO, Mr. Greg Johnson. Mr. Johnson, you may begin.

Greg Johnson

Thank you. Good morning, and thank you for joining us to discuss the fourth quarter and fiscal year results. Joining me today is Matthew Nicholls, our CFO; and Jenny Johnson, President & Chief Operating Officer.

Our industry remains in the midst of rapid change that we work diligently to address in fiscal year 2019 by evolving certain parts of our business, are remaining steadfast in our core convictions. We are pleased to see improved sales and share in the U.S. retail channel. Our U.S. equity sales also improved again this quarter, reflecting strong performance and recent sales momentum continued in our U.S. fixed income strategies. Overall investment performance improved throughout most of the year, but trended down in the final months following global events that negatively impacted certain strategies.

Capital allocation remains a very important focus for our Board, management team. We continue to actively evaluate the industry landscape for opportunities to grow and enhance our business through acquisitions. And we rewarded our investors through dividends and repurchases this fiscal year that amounted to 107% of net income.

I'd now like to open the line to your questions.

Question-and-Answer Session

Operator

Thank you. Our first question comes from the line of Craig Siegenthaler with Credit Suisse.

Craig Siegenthaler

I just wanted to start with Benefit Street first. Can you provide us an update on fund raising and AUM growth since the deal has closed? And also do you have an AUM target for the senior opportunities Senior Opportunities Fund II?

Greg Johnson

As we said on the last call, I mean we are very pleased with the progress with Benefit Street and I think the last year has really been getting our distribution platform up to speed and training. And we had over 350 global meetings, and introducing the new funds that they're offering. And I think we're excited about what that means for this year in terms of flows. And as you know, on the institutional side, you have not a steady flow, but when you close funds, you have obviously a large one-time flow and we're expecting to see two or three of those events in the next year. And hopefully we'll target somewhere over 3 billion, 4 billion range flows with everything, works and markets stay steady.

We've also registered funds and are in the process of getting retail products out there whether it’s a BDC with some of our major distributors as well as the potential of introducing interval funds for more of the retail and wealth management platforms. So, very pleased with the progress to-date there. And I would say in the last quarter, we had one CLO closed that you asked about, closed for $233 million or so, but that was the only really a fund raise in the last four to six months.

Craig Siegenthaler

Thanks Greg. And then just one follow-up on the 55.8 basis points fee rate. When you exclude market appreciation and any kind of diversion beta, what are your thoughts on the overall fee rate going forward given organic mix shift? And also any potential pricing adjustments that you could do to enhance growth?

Matthew Nicholls

Hey, it’s Matthew, Craig. I would say that it’s a very tough question to predict, fee rate. Our mix of products is evolving somewhat the past quarter, for example, fee rate came down slightly based on the fact that our international global products came down a little bit through increased redemption activity that we talked about. But I think further guidance on the average fee rate is difficult to predict.

Operator

The next question comes from the line of Patrick Davitt with Autonomous Research. Please proceed with your question.

Patrick Davitt

My first question, there's been a few high profile Morningstar downgraded just some of Hasenstab's funds. Historically there's been a high correlation between flows and these ratings. I'd be curious to get your thoughts and if you think that correlation is still as strong given all changes in the distribution ecosystem and through that lens are you expecting accelerated outflows as a result?

Greg Johnson

Yes. I think clearly there is a correlation and obviously the more recent underperformance puts pressure on some of the Morningstar ratings. But I think this fund is really in a category of its own and there is no real one clear peer group for this kind of unconstrained global bond, bond that tends to have no correlation with beta or duration. So, I think it always has a place in a portfolio regardless and people that have used the fund in the past understand what it brings to a typical 60, 40 or typical portfolio to lower risk and that hasn't changed. But no, we don't expect any -- I think the relative performance is the key in the short run more than the ratings. And obviously the fourth quarter, September with Argentina you had some what was up until that point very strong relative performance downturn in that. But that turns really quickly in that market because every fund looks so different. So, we aren't at as optimistic on flows right now based on that September, but as I said before that can turn very quickly as the markets move.

Patrick Davitt

Right. Okay. And my follow up, Matthew now that you've been in the position a bit longer now. Any updated thoughts on the potential to get even more lean on the expense side heading into next year?

Matthew Nicholls

Yes. I think that we've just been through a very disciplined budget process for 2020. When we last commented on this, I think we had referenced guidance again to -- for 2020 to be at just about 2019 flat. I think we can say now that we believe we can come in a little bit below that target. And I also believe that we have a little bit more flexibility than I first thought before we started the budget process. But I just still continue to point to the guidance that we've provided beforehand on just a little bit below 2019 for expense 2020.

Operator

The next question comes from the line of Mike Carrier with Bank of America. Please proceed with your question.

Mike Carrier

I guess too more expensive, you guys did a lot over the past year or so just in terms of driving efficiencies, but also investing the business. You mentioned like the ‘20 outlook in terms of down a bit. I guess just kind of bigger picture, how are you thinking about the investments in the business? And if, we’ve been into an environment where, whether it's flows or markets are weaker, are there other, whether it's outsourcing or kind of chunkier, big things that could drive the expense base lower over a longer period of time?

Greg Johnson

Yes, I think, we have been working hard and as you pointed to we've announced the outsourcing our fund administration business, which we’re ahead on that, which is why our IS&T expenses went up a little bit more than planned for the quarter. I'd say as well that we spent a lot of time reviewing other parts of our IS&T business. And we think there is some opportunity there to decrease our expenses a little bit more, if we had to. But generally speaking, as we've already referred to, where we say, if we tended to try and reinvest that in other very important parts of our business, in particular on the investment side.

Jenny Johnson

Yes, I mean, one of the things on the technology is just investment and data science around for our investment teams with a centralized data like and data scientists embedded in the teams. And so that's been an area of growth in our expenses on the IS&T side. So we're trying to figure out where we can save, so that we can reinvest it.

Mike Carrier

And then just on the follow-up. So, on the strategic growth initiatives, you also -- you've been active whether it's solutions, ETFs, a lot of different areas. And it sounds like on the M&A front you're still spending a good amount of time looking at potential opportunities. I guess, if we don't see something say over the next year, is it mostly about price, and especially, if you're going after growth areas, or are there other factors that you think are challenging in this environment to pursue some of those strategic initiatives?

Greg Johnson

I mean, I would characterize progress in terms of M&A and acquisition targets as quite good progress in all the areas that we are focused on and referred to in the previous call. And we feel cautiously optimistic about our options in that regard. I'd also add a nuance to our commentary from last quarter, which is to say that while we value our cash and conservative balance sheet, we are readying willing to utilize a meaningful portion of our cash to help meet these strategic objectives. As mentioned last quarter, any performance scenario will continue with low leverage and strong financial flexibility, but this should not be confused with our unwillingness use our cash.

Jenny Johnson

I am just going to add, is it mostly about price, I mean obviously price matters. But our approach in thinking around M&A is absolutely around a growth story. So, it has to hit a category where we're filling product gaps that we don't have, where we're getting distribution capability that we may not be as strong in, or a geography. And that's first and foremost cost cutting, then gets to be a secondary benefit of that and then of course it has to be at the right price.

Matthew Nicholls

And I think just to add on price it's not like going out and deciding when you're going to buy a specific security. I mean, it's when the right needs are available and sometimes you end up paying a little bit more but it's got to be -- we look at it as something that we're going to build over many market cycles and have that time to grow an asset class that will be around for a long time. So, I think it -- sometimes it's easy to look at the world and say well gee I'll buy this when you have sell-off but that's not realistic sometimes the sellers aren't selling in that bottom part of the cycle.

Greg Johnson

Yes. And the current valuations, certain asset classes, frankly, reflect the evaluations of companies that contain certain asset classes reflect the reality of where the market is I would say several of the cases that we get into it.

Operator

Next question comes from the line of Brian Bedell with Deutsche Bank.

Brian Bedell

Maybe just to look back on to the global macro global bond complex, it's -- I understand that this -- the shift in the recent few weeks and months has moved more to a cautious stance, Michael Hasenstab is kind of, I believe almost something like half in cash and at least and a big fund. So just in terms of maybe that macro view and how it's being read by salesforce and the advisors and do you expect that repositioning? If that's sort of a more of a -- sort of I guess more of a permanent is the wrong word but more of a strategic shift. Do you think that will significantly impact the sales engine for that complex?

Matthew Nicholls

I mean, it's hard to say, I think it is clearly a more conservative stance and derisking of a lot of the EM currencies. But again, this goes back to my point about how markets move and how relative performance can swing so quickly. So I don't think there's a lot of funds that have a similar defensive position today, which sometimes I think you bring up correctly that, what does that mean for a sales environment? I think, we've always stood behind the PM's convictions and doing what's right again for the long-term and having cash in that kind of fund. It has never really been a problem. It would be more of an equity fund, obviously, but because of the liquidity constraints some times that having that higher cash is important, and if you get in a disruptive environment which, that team feels like there's a serious potential for, that cash can be very efficient in not having to sell securities but going in and buying during the dislocation. So, I think some of the best track records over time are built when you have that ammunition to buy instead of sell and that's really what that fund is positioned for.

But I think, it's hard to say what impact will that have on the sales. But as I said earlier -- my earlier comments, it’s a little bit different of a product, people are used to the higher cash in this fund and some get comfort from having that when issues come up with certain holdings on liquidity and that’s part of the combination here.

Brian Bedell

And has that hedged for too higher rates then reversed largely in the fund as well?

Matthew Nicholls

Not reversed, just on the shorter to medium term and still negative duration on a longer, but definitely that’s focused on the longer end of the curve and the longer and more medium and shorter end.

Brian Bedell

Got it. And then just my follow up is on the outsourcing, the fund administration. Can you just review again like what parts of the fund administration or outsourcing , what you still have in house? I believe you’re still doing, for my question, fund accounting in house, but I think the custody is outsourced, just maybe just to clear that up and it seems middle opus. And that is it across most of your mutual fund complex or just portions. I am trying to get a sense of what could be further outsourced in the future and how much you have now?

Jenny Johnson

Well. Yes, I mean you’re correct that we historically had outsourced the custody of course and had kept the fund administration in house. And part of that was because with our global footprint it was difficult to find somebody who could cover all the areas that we tend to cover. And now the providers have stepped up. And so we’re looking to outsource all the fund administration. And many of the work that’s done in custody you have to do in fund administration. So we found some amount of duplication. But because we were early into lower cost environment, it was hard to find providers that could be competitive pricing wise. And now as others have done that, we've funded both the coverage of what we do as far as geography as well as the cost is now much more competitive.

Brian Bedell

And then just the timing of the outsourcing of this. Is this going to be converted in the next couple of quarters or is it longer-term?

Greg Johnson

No, this would be over 2020 conversion and we'll start realizing benefits from 2021.

Brian Bedell

And that's in your guidance already for the expenses.

Greg Johnson

Yes, that's correct.

Operator

Our next question is from the line of Ken Worthington with JP Morgan. Please proceed with your question.

Ken Worthington

Hi, good morning. You mentioned number of large block withdrawals in the coming quarter, I guess the current quarter. $800 million global fix income, $1.6 billion for mutual shares and there were some larger block redemptions this past quarter. Now we expect the institutional business be lumpy, you're lumpiness is really more on the redemption side. So any common themes of the bigger block outflows, are you hearing -- is it performance issue, distribution issues, active to passive pricing? So any common themes in these sort of different asset classes and which you're seeing? And ultimately, Franklin has been in redemption for I don't know six or so plus years, what is the path back to inflows for Franklin. What if any milestones that you're holding out for yourself with that regard? Thanks regard? Thanks.

Matthew Nicholls

Yes. First of all, it's probably all of the above on some of the lumpy redemptions, but in particular the large one coming this quarter with mutual shares in particular was really a large broker dealer distributor that's moving assets to their in house funds and not really performance related but more about funds just moving in house. The Templeton continues to be under pressure and this relates to what you talked about inflows and 6 or 7 years. And obviously for us having a lower base of U.S. assets or U.S. funds are doing extremely well, growing market share, very strong inflows accelerating. But that pales compared to the large Templeton deep value, mutual series deep value assets that we have.

So that's really -- the catalyst is going to be the rotation of value and growth. And then also the -- we talked earlier about many of the new initiatives that we've funded, whether it's around the solution side, the SMA side. A lot of resources have been put into that. We've been very successful, I would say in the last year or two to getting on platforms. We -- our multi-asset solutions group just recently got on two major platforms and I think those are going to drive flows over time.

Now they'll drive flows at a little bit lower of a margin maybe than your traditional 40 Act funds, but ones that we think can be very positive, and only a few players are going to be competitive in that space that have the scale to do that. And ETFs as well continue to be an area of growth for us and just crossing 5 billion. And again, getting to the size where we have more distribution opportunities opening up and having been on platforms now for -- or been in existence for 3 years minimum in some cases getting on platforms. And that's really, I would say is where the most progress has been made on the U.S. side is these new multi-asset solutions, ETFs and getting onto traditional platforms, as well as hopefully getting on to new technology platforms that emerge.

Jenny Johnson

And I'd just add on the institutional side, there were some big headwinds this year in, obviously the Argentina, Greg talked about it. We also had a new CIO introduced on the Templeton Global Equity Group. You're playing defense in those meetings, they had a sub-20 clients representing 40 billion in assets, hitting 13 cities in 5 days. That's what your conversation ends up being conversation ends up being.

Having said that, we've got 4 billion in unfunded in international institutional business. Our pipeline in the U.S. institutional has doubled in size. We actually converted 9 new prospects. And so they're green shoots underneath. It's just you're mixing it in a time, which is some big headwinds. And I think we have some good green shoots, as Greg mentioned, on the retail side with some big placements of our model business and some good growth there.

Greg Johnson

And I would give another example in the emerging markets group that has new leadership, and excellent performance in institutional quality process and really we think an opportunity for institutional assets for the first time. And we're excited about that as that team now is getting on platforms for institutional searches and we haven't had that opportunity in the past.

Ken Worthington

And then the follow up, there was a delay into two institutional fundings, I think it was $2 billion. Is there any risk that they don't fund or is funding a certainty and it's just a timing that is unknown?

Jenny Johnson

If the money is not in hand, there's always a risk. But there's nothing that indicates that there's any kind of risk that we believe they will be funded.

Operator

The next question from the line of Dan Fannon with Jefferies. Please proceed with your question.

Dan Fannon

Just on the 4 billion of the international kind of backlog or unfunded wins, I guess in context of I think we've gotten a number like that from you before versus a year ago or other points in time, like how do we think about that relative to previous periods? Just so we can have as I said some context.

Matthew Nicholls

Yes, I mean that's good question. And that's probably why we haven't talked about that number in the past. Because I think the hard part is the timing for you to figure out when those assets come in. And sometimes they take longer than you think and could be a year out, could be next month. So, we've always been kind of hesitant to even talk about that. And that number is really just what's in the offshore international institutional flows that is a few more domestically but I'm not sure what you do with that number actually. So good point.

Dan Fannon

And just a follow-up on kind of the global bond, it's been a lots of written about the performance earlier, you talked about the Morningstar changes. I guess can you talk about what you're doing internally with yourself salesforce and your distributor -- to basically play more defense here I assume to kind of keep assets in. I don't think it's so much as a gross sales issue, it's also a redemption given the kind of level of underperformance and as said the headlines has created? So is there some campaign or something that you guys are doing internally to get in front of this and be more proactive?

Greg Johnson

Well, we are and we're trying to do as much as we can, and we have a new piece going out that talks about the repositioning and some of the recent moves with the fund. But again, I mean, I still point to the long-term performance, it's really unparalleled in this and we've had plenty of periods where you've had things not work out in the short run. And you just point to that long term record and how it lowers your risk in a portfolio and focus on those things. And as you -- it's a risky world out there with highly valued assets on every metric and the story here is going forward what's going to defend your portfolio. And I think that's an important message and one that our salesforce is working on.

Jenny Johnson

And we just came out in October with a piece called the four pillars to face a world of uncertainty, which is, we're positioning it as you want this in your portfolio, because it's a hedge to many of the other positions that people take in and trying to lay it out for it clearly. And it's been well received. So very, very recent.

Operator

Our next question from the line of Jeremy Campbell with Barclays.

Jeremy Campbell

First, sorry, if I missed this on your answer to Craig's question earlier, but what was the revenue and AUM contribution from Benefit Street during the quarter?

Greg Johnson

We don’t break it out like that.

Jeremy Campbell

No rough sense?

Greg Johnson

Well, we had revenue was stable with the last quarter, which is about $51 million.

Jeremy Campbell

And then just kind of more broadly speaking, just kind of wondering what your thoughts are around what's happening over at UBS right now with the elimination of SMA fees to asset managers? Do you think this is kind of like a new front on the industry-wide fee pressure? And does that dampen your outlook at all about growing Franklin's SMA footprint or your kind of your desire for wealth management M&A target that you guys called out in the prepared remarks?

Jenny Johnson

I mean, interestingly, with our Fiduciary Trust high net worth business, we've never charged a fee on top of our own proprietary products, right. It was always kind of a conflict around that. So they reversed that a bit by making the product free and charging the fee at the top of the house. It is just one of those -- it just feels like a conflict when you do that. But our experience has been that clients absolutely want open architecture and they desire to have outside products in. So I think that not everything in SMAs is going free. Having said that, it’s -- there’s fee pressure all over the business. And we’re all going to have to prove out our value on our fees, no different than you had to do on the institutional side and the retail side. And I think this is just an extension to that.

Matthew Nicholls

Yes, I think there has been a little bit of market confusion over that change that was really an entity that is not getting the fee, but there is still a fee being charged around the account and the underlying managers are still being paid a fee, it is my understanding. So, we all know SMA is a way to accelerate shrinking margins versus your traditional 40 Act fund because the pricing is controlled by the distributor and that’s not a great trend, but it’s a trend you can’t ignore and one that we believe is a business we’re going to be aggressively in versus trying to defend against it. So, I think that’s part of our solutions thinking it’s a change of mindset we have and we think an important growth area for us. And I think you’re correct that it will result in a lower margin but it will result in larger assets and hope that, that will offset it.

Operator

The next question comes from the line of Bill Katz with Citi. Please proceed with your question.

Bill Katz

So, Matt, let's come back to the expense discussion for a moment, I guess you've been on a month-to-month with AUM in sort of discussing the flow dynamics, so dancing around with different agitators and so forth and so I'm just trying to understand your sort of phraseology here in terms of doing a little bit better on the cost side. So I guess, is there a way to think about that we're talking down zero to 5%, more than that and then what is the revenue and/or flow assumptions that you're counterbalancing that expense out of …?

Matthew Nicholls

Look I'd say Bill that it's too early to go much further than what we said. But if forced to go into a little detail, I'd say probably zero to 2.5% down from 2019 on the expenses.

Bill Katz

Okay. And there is a revenue back up?

Matthew Nicholls

And revenue is largely consistent. And also just I don't think we addressed the question which was also related to this earlier on about the average fee rate, so I think we confuse that with what we thought something different. But if the question was where do we think the average fee rate is heading for our overall mix of business, we forecast that to be roughly flat and that's based on a whole series of assumptions around the mix of business internationally, domestically, the growth will return to assets offsetting some of our business that is more under pressure from a fee perspective.

Bill Katz

Okay. And just my follow up Matt, so you mentioned the nuance of potentially more size of a deal that's I interpreted. What's changed in your thinking and then when you look at the landscape of what the size of the deals have gone on over the last several years, what gives you confidence that the market would be receptive to those types of things?

Matthew Nicholls

I think as Jenny mentioned we think when we look at the some of the opportunities that exists in the marketplace, certainly not easy and I think we discussed that last quarter. But we see areas that we can fill at Franklin, we have a tremendous chassis and a core business with leading products from a global level across many countries. But we think we can grow that further by filling some of the gaps that we have, whether it's becoming larger can grow that further by filling some of the gaps that we have, whether it's becoming larger institution in the U.S., whether it's having a bit more alternative assets. Then there's some other frankly products, if you will that we already have but were quite smaller, and if we were larger, we think will be more successful.

So I wouldn't guide you towards thinking we're going to do some mega transaction. But the short list of ideas that we thought about, we think, create growth opportunities for us, given our current business without having to drive down expenses, sort of the number one bullet point. However, we should say that there are obviously some cost aspects to all of this consolidation in the business that we would be able to capitalize on.

Operator

The next question is from the line of Brennan Hawken with UBS. Please proceed with your questions.

Brennan Hawken

I think, earlier Matthew, you flagged that outsourcing the cost to shift to greater amount of outsourcing is included in your expense guide for 2020. Are there any other sort of unusual or what you would expect to be non-recurring items that would be included in that guidance?

Matthew Nicholls

Not at the moment.

Brennan Hawken

And then when we think about the -- it looks like of the $201 million or so of non-recurring and acquisition-related expenses, there is some portion that's recurring. So, whatever, let's call it $150 or so million that's non-recurring, that would suggest like a 5% core growth rate in expenses in your guide. You flagged that you're doing some investing and everything like that, but number one, is that right -- a fair way to think about it and number two, can you talk about what kind of returns, or what kind of ROI that you guys have, what's the hurdle for making some of these investments just given the really challenging backdrop that we have here for the industry? Thanks.

Matthew Nicholls

Yes, I think, well, there's lots of questions in that. I would say that we should follow-up separately to go through that in more detail. I think the assumption about an increase in expense is built into to our modeling. I think that is not accurate. If -- I would say, the reason why we outlined the non-recurring items, you're correct that there is an element of this associated with our Benefit Street acquisition, that does include around $79 million for the next three years, which is recurring, but then that drops off, so we wanted to try and make that clear. Otherwise, you'll be looking at our Benefit Street acquisition, assuming that it's zero margin business which is very misleading. So that's the reason why we wanted to put that into the table, but in terms of our future costs and how we look at investments, I wouldn't say we apply a classic ROI to it. We -- it has to work for our business in terms of scaling or creating more opportunities for our investment teams, our distribution efforts and we certainly don't look at things on a three-month or six-month or one year basis, it has to make sense over a multi-year perspective.

Operator

The next question is from the line of Chris Harris with Wells Fargo. Please proceed with your questions.

Chris Harris

Thanks. Can you guys talk a little bit about your international distribution capabilities today and what you might be trying to do to improve them which you site as a focus area for the firm going forward?

Matthew Nicholls

I would say, not a lot has changed. I mean, for the international capability, it doesn't have the benefit of some of the momentum we're seeing in the US in terms of municipal bond sales and muni funds. That -- the flows there are more -- rely more on global bonds. Templeton, we are seeing strong flows in the Franklin US growth products. K2 would be more of a focus there as well. So I think for us it is a huge value of the company and franchise and one where in the year ahead as part of it is getting Benefit Street gaining some products up on in the Luxembourg base E cap fund which we're in the process of doing, leveraging Benefit Street on the institutional side as well would be one. And just I think relating to the acquisition side is, we feel like there is some underutilized capacity for more product under that distribution network. But again, if you look at pockets for us where it's not -- it's a different story where you have India had a very strong year of growth and inflows, Taiwan very strong year. So there are pockets that are doing very well throughout the globe that have a different product mix than maybe our traditional one. But I think just generally speaking, we feel like we can take on more and that's part of our acquisition thinking on that.

Operator

The next question is coming from the line of Michael Cyprys with Morgan Stanley. Please proceed with your questions.

Michael Cyprys

Just wanted to circle back on expenses, hoping you could help with some of the moving pieces here. So we hear the guidance that to be slightly down next year. So it's a combination of an investment spend and expense cuts. But I guess if you could just help quantify how much you're cutting, where specifically, I know you mentioned fund add and I just what else, how meaningful that? And then conversely, you are also making investments I think on the tech side with the data lake, how much are you guys investing, if you could help quantify that and if you could provide any sort of color around these investments?

Greg Johnson

Yes, I think what we'd say is that we think that on information systems and technology we have some room to move on that. As I mentioned a moment ago, perhaps up to several percentage points more efficient, see there. I think beyond that it's very early to give guidance on any specific line item and I would just keep referring back to the fact that we are confident, all else remaining equal that we will be able to be down slightly on our 2019 expenses as a whole.

Matthew Nicholls

And I just would add, I mean I think we look at this, we recognize where the pressure that the industry is under, and it is very top of mind with all the senior management to look at span of control and every kind of saving that we can generate to continue to invest in the parts that we think are going to be incremental to getting inflows and in a few years. So I think we're all very focused on that. But just very hard to come out with, what does that number look like in two or three years, other than we're kind of attacking every angle.

Greg Johnson

Yes, I think we also demonstrated in the fourth quarter that the discipline we have around our most important expense which is variable compensation and compensation for the firm, I think we demonstrated that we get the balance right, do what's right for the company, but also do what's right for shareholders. And then when it comes to the other components of our expenditure, I think we have very clear reasons why there were moves in each item. So IS&T, we actually expected that to be down, but it was up just because we wanted to do the right thing and continue to make more progress than we expected. That's what we did. And that does not mean that increase is likely to continue. Actually that's going to come down.

Our G&A, another included some intangible impairments both this quarter and last quarter, we don't -- what we would hope that wouldn't repeat. We don't expect it to, and when we analyze and drill down G&A, we think there's some room there also. On occupancy expense, we've talked a fair amount about this, the reason why that spiked so much in the last quarter as guided the previous quarter. It's because we've completed our campus in San Mateo. We also have new real estate in Poland, but that's going to be all offset by an increase in revenue attributed to our efficiency drives across our state ownership, including some very attractive lease streams that frankly pay both the building of our headquarters here in San Mateo and the running of them. So I think with each one of our items, whether it's comp and benefits, IS&T, occupancy expense, G&A and others, we have plans on the each one of these. We think we have flexibility under each one as needed. We've described the fact that some of that's offset by the investment that we are adamant we want to continue to make which is why we don't refer to a forecasted margin. But it doesn't mean that we won't take that action as we demonstrated in the fourth quarter where we took action across all the key items.

Michael Cyprys

Okay, thanks for the color on that. And then just maybe on China, given the regulatory change and marketing up -- market opening up in China, can you just give us an update on where your business stands today in China? How you're thinking about the opportunity set there over the next couple of years and what sort of actions that you're taking to capitalize on this?

Greg Johnson

Well, we are I think like most looking at taking control of our joint venture that we were one of the early ones with Sealand and are in the process of taking a majority stake in that and we have other options and other licenses that we can take different tax. And I think China, size wise is, I'm looking at Jenny, because we don't include it in our assets and I'm trying to -- I think it's $5 billion, it's profitable, it's not obviously a major contributor to our earnings, but it's a profitable number and growing and it has had good performance. But I think like many, we look at China as a very tricky market. We think it's a tremendous opportunity for growth. But the thought of continuing with the partnership versus going alone in that market, I think is one that you have to think very carefully. And I'll ask Jenny if she's got any additional…

Jenny Johnson

No, I think that's right. I mean for us it's been about we'd like to own 100% if that can make sense and -- but whether or not we can -- we end up doing there, we always have also our UEFI option as Greg said. So it keeps our options open. A big area of focus has been integrating some of the investment capabilities with our emerging market team so that they can collaborate on Asia research which we think is important. And that has been going very well as well as it gives us optionality when we get institutional interest mandates to either talk to our UEFI team or JV team.

Operator

Thank you. Your last question comes from the line of Patrick Davitt with Autonomous Research. Please proceed with your questions.

Patrick Davitt

Hey, thank you for the follow-up. You mentioned the potential for $3 billion to $4 billion from Benefit Street, but chunky, should we expect placement fees on the expense side with that, and if so, is that in the expense guidance?

Jenny Johnson

We would have some placement fees although we're really trying to have our own institutional team do the big push there. So I think we've kept it where we have divided that up a bit, but we are hoping that it comes through our institutional team.

Patrick Davitt

Okay, perfect.

Matthew Nicholls

Yes, I mean we'd have to look into that. I mean, I'm assuming that's built into their model for the year, but I don't -- we don't have that at the top of our head there.

Patrick Davitt

And then on the $4 billion pipeline, one last one, could you just give us a little bit more color maybe on the fee mix of that even if it's just better or worse than the average? And maybe broadly, if there are any kind of signals you think might start unlocking that or is there just no color at all on the second part there?

Matthew Nicholls

I think that would just be embedded in the guidance I gave earlier on about fee rate for the year. The Benefit Street across the board has a much higher fee rate, as you know, given the business versus the rest of our franchise. So that actually helps us across the year to the business versus the rest of our franchise. So that actually helps us across the year to

be confident that we -- in our statement that we think our fee rate will remain stable.

Operator

Thank you. At this time, I will turn the call back to Mr. Greg Johnson for closing remarks.

Greg Johnson

Well, thank you everyone for participating on our call and we look forward to speaking next quarter. Thank you.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. We thank you for your participation.