Franklin Templeton Investments

# Franklin Templeton heads for sixth year of outflows

Company looks set to be worst among US fund managers as Hasenstab vehicle bleeds assets


Michael Hasenstab's Templeton Global Bond Fund suffered $4.6bn in redemptions in the first 11 months of last year © FT montage / Bloomberg

**Richard Henderson** in New York JANUARY 7 2020



Franklin Templeton is set to mark 2019 with more outflows than any other US fund manager, according to the latest data from research group Morningstar, led by an exodus of investors from a bond fund run by emerging markets guru Michael Hasenstab.

Investors clawed back $21bn from the company's mutual funds and exchange traded funds in the first 11 months of last year, a rate of $430m per week, according to the data.

The outflows extend a string of annual investor withdrawals that stretch back to 2014 and represent a sizeable chunk of the group's assets under management, which stood at $692bn at the end of November. This amount has fallen by a quarter in the last five years despite the surging markets that helped mask outflows from active funds at many of its peers.

The largest outflows came from the Templeton Global Bond Fund helmed by Mr Hasenstab, which suffered $4.6bn in redemptions.

Mr Hasenstab has gained a reputation for bold bets on cheap, unloved sovereign debt, but was wrongfooted by two key developments last year. His fund largely missed the rally in US government bonds. He also faced steep losses on Argentine debt as President Maurico Macri was swept from office.* The fund fell short of its benchmark, the FTSE World Government Bond index, by 5.3 per cent.

Other funds to lose assets included the Franklin Mutual SharesFund, a US-focused stock fund, which shed $3.4bn, and the Franklin Mutual Global Discovery Fund, a global stock fund, which suffered $3.1bn in withdrawals, according to Morningstar data. Both funds also missed their benchmarks for the year.

The outflows reflect the challenges for active managers both in outpacing the benchmarks they are measured against and fighting the onslaught of passive investing.

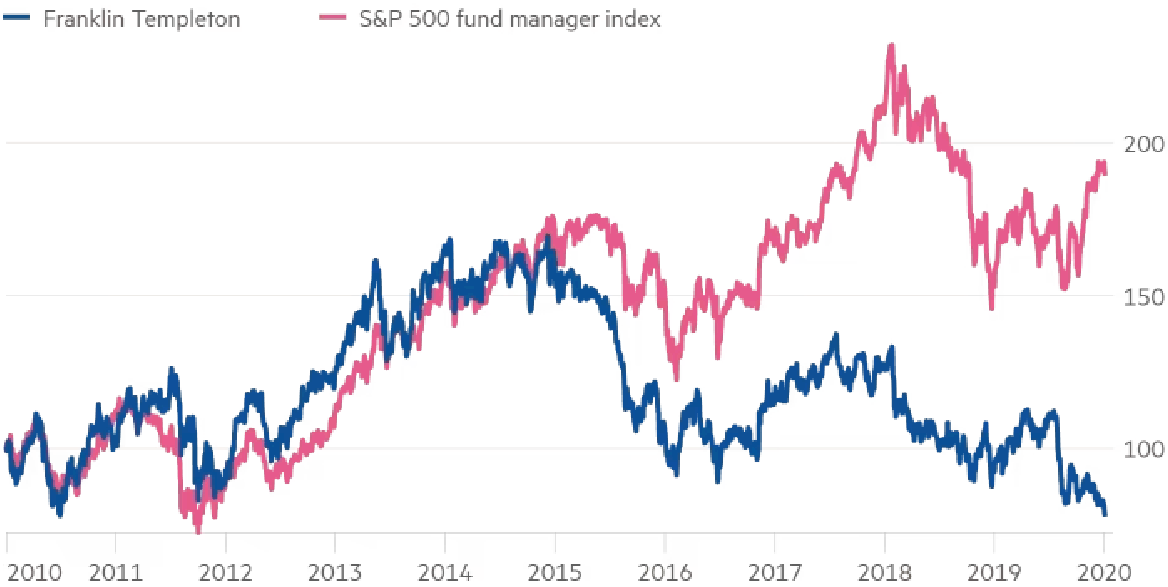
Morningstar’s latest estimates show Franklin Templeton edged ahead of Invesco, which suffered $20bn in outflows for the first 11 months of 2019, and T Rowe Price, with $17bn. Companies are set to confirm full-year figures in the coming weeks.

T Rowe said that those outflows had been offset by inflows into other funds it runs, such as investment trusts.*

The share price of Franklin Resources, Franklin Templeton’s parent company, has halved over the past five years, and none of the dozen analysts that cover the company’s stock has a buy rating despite the tumble, according to Bloomberg. Only four have a hold rating; eight advise investors to sell.

## Franklin Templeton stock lags peers

(rebased)




Franklin Templeton stock trades as Franklin Resources
Source: Bloomberg


The 72-year-old company, based in San Mateo, California, was named after Benjamin Franklin, the US founding father, borrowing connotations of frugality and prudence. The company grew into one of the world's largest fund houses by linking everyday investors with the markets through mutual funds run by professional investors. But the firm was poorly prepared for the dramatic swing toward passive investing over the past decade, launching its first suite of passive ETFs only in 2017.

The company said it is focusing on building its offerings in ETFs and alternative investments, including its private credit arm Benefit Street Partners, which it acquired in 2018, and will consider further acquisitions to grow.

"We have a strong balance sheet and expect to be more active with acquisition activity in varying magnitudes for strategic growth," a spokesman said.

Bill Katz, an analyst at Citi, said in October that he was "encouraged on the expense side and the sense a deal may be closer on the horizon but incrementally negative on the flow outlook".

Jennifer Johnson, the granddaughter of Rupert Johnson, the company's founder, who will take over as chief executive next month, wants to increase the use of data science to support portfolio management.

"Disruption's coming from everywhere, and so we are constantly questioning ourselves about whether this is the best model to achieve what we want to do," Ms Johnson said in a recent interview with the Financial Times. "That's the key."

**This story was amended on 7 January to include context from T Rowe Price and to remove an erroneous figure for Mr Hasenstab's losses on Argentina's bonds*