Franklin Templeton Fund Management Limited

Report and financial statements for the year ended 30 September 2015

Registered number 1938417

Franklin Templeton Fund Management Limited
Report and financial statements
for the year ended 30 September 2015

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Franklin Templeton Fund Management Limited

Company information

Directors
James W. Hammond (Chairman and Chief Executive Officer)
Paul J. Brady
Alexander Brotherston
Kellie A. Hargraves
William Jackson
Adrian White
Ian J. Wilkins

Company Secretary
Sara A. MacIntosh

Registered office
Cannon Place
78 Cannon Street
London
EC4N 6HL

Independent Auditors
PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Franklin Templeton Fund Management Limited

Strategic Report for the year ended 30 September 2015

The Directors present their Strategic Report on Franklin Templeton Fund Management Limited ("FTFML" or the "Company") for the year ended 30 September 2015.

Review of the business

The Company provides investment management and advisory services to the Franklin Templeton Funds ("FTF"), a United Kingdom ("UK") registered open-ended investment company ("OEIC") for which the Company is the Authorised Corporate Director ("ACD"). The Company distributes its OEIC through third-party financial intermediaries including fund of funds managers, fund supermarkets and other independent financial advisers. The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

The Company is a wholly-owned subsidiary of Franklin Templeton Global Investors Limited ("FTGIL" or the "Parent"), which is an indirect wholly-owned subsidiary of Franklin Resources, Inc. ("Franklin").

Results and performance

The results of the Company for the year, as set out on page 15, show a profit on ordinary activities before tax of £2,787,000 (2014: £1,104,000). The shareholder's funds of the Company total £7,421,000 (2014: £7,626,000).

The performance of the Company during the year ended 30 September 2015 has produced encouraging results. The Company continues to derive its revenue primarily from investment management and advisory activities.

As part of the global transfer pricing initiative implemented by Franklin and its consolidated subsidiaries (the "Franklin Group") to standardise revenue and expense allocations, the Company as ACD of FTF has moved to a management company model, effective 1 April 2015. This has not had a significant impact on the net profit of the Company but has been a change to the revenue and expense flows resulting in an increase in turnover and operating expenses.

Since the change to the management company model, the Company has received promotional service fees and intra-group distribution fees from the fellow Franklin subsidiaries appointed as investment advisors of FTF. These fees relate to the allocation of costs incurred by the Company, as the ACD of FTF, but which directly relate the funds managed by the individual advisors. In addition, since 1 April 2015, the Company, has sub-delegated the transfer agency and fund administration function of FTF to FTGIL.

During the year turnover increased by £1,749,000 from £19,254,000 to £21,003,000 of which £514,000 related to promotional service fees and £328,000 to intra-group distribution fees. At 30 September 2015 the ending assets under management ("AUM") of the Company increased to £2.3 billion (2014: £2.1 billion). The increase in AUM was predominately due to market appreciation and strong sales performance although it has been impacted by the market volatility during the second half of the year.

Results and performance (continued)

Overall operating expenditure has remained consistent at £18,171,000 (2014: £18,196,000). Other operating charges increased by £1,189,000 from £14,555,000 to £15,744,000. A contributing factor is the rise in investment fee revenue which is sub-delegated to other Franklin Group companies increasing sub-advisory expenses. This has been offset by a decrease in staff costs of £1,215,000 from £3,640,000 to £2,425,000, largely as a result of a reduction in the charges associated with retention awards.

The Company's effective tax rate as a percentage of pre-tax profit is 19.4% (2014: 23.3%).

The Board of Directors undertakes a quarterly examination of capital adequacy as part of the review of the Internal Capital Adequacy Assessment Process ("ICAAP"), representing the Company's Pillar 2 Capital. At 30 September 2015, the Company had an adequate buffer over the minimum regulatory capital requirements.

Business environment

The UK asset management industry remains a large and highly competitive market that demands a dynamic approach to competitive pressures, new regulation and legislation. The implementation of the Retail Distribution Review ("RDR"), and the pension changes announced in the 2014 Budget and 2015 Summer Budget, are developments which we continue to actively monitor, as we consider pricing pressure; a changed commercial relationship with retail advisers; developments in the self-directed space; reform of Local Government Pension Schemes and the market opportunity in Defined Contribution pensions.

Strategy

We remain committed to growing our UK market share and to addressing the UK retail and institutional segments. Within retail, we will continue to go to market through two channels, serving client advisers and discretionary managers respectively. We also plan to maintain our focus on retail platforms, which dominate flows from advised and non-advised retail investors. During the past year we in-sourced the administration of the FTF product in a drive for greater efficiency and control. We intend to build strategic partnerships with retail distributors who have scale and full control of their investment proposition. We expect the UK institutional market to remain heavily intermediated by investment consultants, and will maintain our focus on the consultant community whilst increasing our direct engagement of pension schemes and insurance companies.

Franklin Templeton Fund Management Limited

Strategic Report for the year ended 30 September 2015 (continued)

Key performance indicators ("KPIs")

The progress of the Company is monitored by considering a number of financial KPIs, including AUM, turnover, operating expenses, operating profit and operating profit margin. Regulatory capital measures such as Pillar 2 capital are also considered.

	2015	2014
AUM at 30 September	**£2.3 billion**	£2.1 billion
Turnover	**£21.0 million**	£19.3 million
Operating Expenses	**£18.2 million**	£18.2 million
Operating Profit	**£2.8 million**	£1.1 million
Operating Profit Margin	**14%**	6%
Return on Assets	**16%**	5%

In addition, there is a regular review of the level of gross and net sales against AUM together with the level of operating expenditure against budgeted levels set.

Principal risks and uncertainties

In addition to the risks discussed within the financial risk management section of the Directors' report, the Board of Directors has identified principal risks facing the business and employs a mitigation strategy to each risk as follows:

Principal Risk: Concentration of AUM and turnover.
Mitigation: Diversification by fund objective, investment clientele, management brand and geographic region.

Principal Risk: Investment performance.
Mitigation: Diversification by fund objective, investment clientele, management brand and geographic region.
Close monitoring by Portfolio Analysis and Investment Risk group.

Principal Risk: Uncertain economic outlook.
Mitigation: Maintenance of significant retained profits, cash balances and capital buffers.

Principal Risk: Loss of key employees.
Mitigation: Compensation targets retention of key employees.
Company has a team-based approach to investment management.

The process of identifying risk, risk acceptance and risk management is addressed through a framework discussed in the Directors' Report.

Franklin Templeton Fund Management Limited

Strategic Report for the year ended 30 September 2015 (continued)

Future developments

We intend to launch a "super-clean" share class on selected Franklin Templeton Funds sub-funds to allow us to pursue opportunities with large retail distributors. We also intend to launch a dedicated share class on our multi-asset outcome-orientated funds in response to the price cap introduced on Defined Contribution default funds. We continue to evaluate the investment quality delivered through the Franklin Templeton Funds umbrella and assess the continued relevance of the investment strategies we offer, and anticipate making a number of changes to our range of sub-funds in the coming year.

For the financial year ending 30 September 2016 the Company will adopt FRS101, EU-adopted IFRS with reduced disclosure, in line with changes to the UK GAAP framework. The comparative financial year ended 30 September 2015 will be restated under FRS101 in the financial statements for the year ending 30 September 2016. The change to FRS101 based on published accounting standards is not expected to be significant.

By order of the Board

Sara A. MacIntosh
Company Secretary
11 December 2015

Franklin Templeton Fund Management Limited

Directors' Report for the year ended 30 September 2015

The Directors present their report and the audited financial statements for the year ended 30 September 2015. For an overview of the business, results and performance refer to the Strategic Report.

Future Developments

Likely future developments in the business of the Company are discussed in the Strategic Report.

Dividends

Ordinary share dividends of £48.56 (2014: £nil) per £1 ordinary share amounting to £2,500,000 (2014: £nil) were approved and paid during the year, as disclosed in note 11.

Directors

The Directors who held office during the financial year ended 30 September 2015 and up to the date of signing the financial statements are as follows:

James W. Hammond (Chairman and Chief Executive Officer)
Paul J. Brady
Alexander Brotherston
Kellie A. Hargraves
William Jackson
Adrian White
Ian J. Wilkins

Directors' insurance

The Company has secured insurance on behalf of the Directors against claims for error, omission, misstatement, neglect or breach of duty. This policy has been in force throughout the last financial year and is currently in force.

Employees

The Franklin Group is an equal opportunity employer and considers qualified applicants for employment without regard to race, sex, religion, colour, national origin, disability, medical condition, marital status, age, sexual orientation, or any other basis protected by law. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Franklin Group that the training, career development

Franklin Templeton Fund Management Limited

Directors' Report for the year ended 30 September 2015 (continued)

Employees (continued)

and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability. Furthermore all employees have ongoing opportunities to enhance their knowledge, competencies and professional skills through various types of training products and services.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and the Franklin Group as a whole. Communication with all employees continues through the Company intranet portal and departmental updates.

Franklin Group employees are encouraged to participate in the success of the Company by the provision of an Employee Stock Investment Plan ("ESIP").

Financial risk management

In the normal course of business, the Company is exposed to a number of risks which it seeks to identify, assess, monitor, mitigate and control in order to provide reasonable assurance that it will meet its objectives. In doing so, the Company considers the qualitative and quantitative aspects of these risks, assesses their impact and probability and seeks to monitor and control them.

The Company believes that accepting risks in a controlled manner is core to the financial business and is an inevitable consequence of being in business. FTFML's aim is therefore to achieve an appropriate balance between risk and return and to minimise potential adverse effects on its financial performance.

The Franklin Group operates an independent global risk management function called Enterprise Risk Management ("ERM"). ERM is an integrated, consistent and strategic method to the management of risk. The methodology is applied in strategy setting both regionally and across the Franklin Group to identify, measure and manage potential events that may affect the business. ERM practices support the achievements of Franklin's objectives and goals.

The Europe, Middle East and Africa Risk Management Committee ("EMEA RMC") provides oversight of key risk practices for the EMEA businesses. The committee facilitates, challenges and drives the EMEA risk management function. The mission of the Committee is to oversee a risk management structure within the European business that defines accountability, ensures communication, promotes control consciousness and provides an effective risk management environment that assures there is a process in place to identify, assess and control risks for the European business entities and its subsidiaries. Risks identified as part of an annual risk assessment process are tracked by the business unit designees. Individual business units are responsible for assessing, reporting, and updating their risks on an ongoing basis. EMEA specific risks identified during this process will be added to the EMEA Risk Data Summary spreadsheet.

Financial risk management (continued)

The principal risks and uncertainties of the business of the Company are discussed in the Strategic Report. Specific risks and the risk management policies that are in place are addressed below.

Regulatory and operational risks

The Company is subject to the Markets in Financial Instruments Directive which requires some common business conduct standards across EU member states. The Company also adheres to the EU Capital Requirements Directive. This legislation introduced the Basel II risk-based prudential standards for banks and investment firms.

Basel III is a global agreement by the Basel Committee on Banking Supervision in response to the financial crisis. CRD IV is the EU implementation of Basel III with the aim of minimising the negative effects of firms failing by ensuring that firms hold enough financial resources to cover the risk associated with their business. CRD IV is divided into two legislative instruments the Capital Requirements Directive ("CRD") and the Capital Requirements Regulation ("CRR"). Firms regulated by the FCA that are subject to CRD IV will need to comply with the CRR, supplemented by technical standards and guidelines from the European Banking Authority ("EBA") and the FCA Handbook rules and guidance from 1 January 2014. The implementation of CRD IV has had minimal impact on the Company.

FTFML is regulated solely by the FCA for both its business conduct and prudential matters. The FCA's prudential supervision approach is focussed on minimising the impact of failure on consumers and market participants. In the FCA 2015/2016 annual business plan and risk outlook, the following risk areas have been identified as key areas of focus for the FCA:

- Enhancing market integrity with a focus on wholesale market integrity and competition;
- Protecting consumers, including pensions and consumer credit;
- Individual accountability including senior managers and certified persons regime; whistleblowing;
- International issues including implementing EU policy such as MiFIR/MIFID II and financial crime.

Capital requirements directive

Part Eight of the CRR specifies the disclosure requirements, known as the Pillar 3 disclosure, with which institutions must comply. The aim of the disclosure is to promote the transparency of institutions and to provide information to stakeholders on the solvency, risks and risk exposure of institutions. The FTGIL Group, inclusive of FTFML, has published this unaudited disclosure and it is available on Franklin's UK website www.franklintempleton.co.uk. Regulatory capital is closely monitored by the Company and is identified as a KPI as noted in the Strategic Report.

Financial risk management (continued)

Competition

The UK asset management industry competitive market is discussed within the Business environment section of the Strategic Report.

Market risk

Market risk is the risk of adverse movements of global securities markets, exchange rates, or interest rates causing higher expenses or lower revenues. The capital and credit markets continue to experience volatility and disruption. A decline in global market conditions has in the past resulted in significant decreases in AUM, revenues and profits. Such declines have had, and may in the future have, an adverse impact on our operational results.

This risk has been identified by the EMEA RMC, is closely monitored and is mitigated through diversification of products across investment objectives, diversified distribution channels and clients.

Foreign exchange risk

The Company is subject to foreign exchange risk through its international operations and its balance sheet cash and accounts payable. FTFML does not use derivative financial instruments to manage foreign exchange risk exposure. As a result, both positive and negative currency fluctuations against the Pound Sterling may affect its results. This risk is mitigated by close monitoring by the Corporate Treasury Group.

Credit risk

Credit risk is the risk of loss due to a counterparty or borrower being unable to meet its obligations. As FTFML does not conduct lending activities, the risk associated with this category is narrowed to cover only counterparty risk. Experience has shown counterparty risk relating to debtors is minimal as the majority of the Company debtors are other Franklin Group advisors or Franklin sponsored funds that settle within one month, with the Company experiencing minimal historical bad debts.

The Company is also exposed to counterparty risk relating to its banking partners. Franklin has developed procedures to monitor and mitigate credit risk, including Investment Risk and Counterparty Credit Committee's ("CCC") oversight of firm-wide exposure with both monthly and ad-hoc CCC meetings to address current events with counterparties.

Financial risk management (continued)

Liquidity and cash flow risk

Liquidity risk is the risk that the Company, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure resources only at excessive cost.

The Company's liquidity risk is considered low as it holds significant cash balances, which are available on demand. Furthermore, a significant portion of FTFML's revenues are earned from Franklin sponsored funds, which are settled on a monthly basis and therefore, are readily convertible into cash.

Statement of disclosure of information to Auditors

In accordance with Section 418 of the Companies Act 2006, the Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware;
- each Director has taken all steps that she/he ought to have taken in his duty as a Director in order to make herself/ himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office; a resolution that they be re-appointed will be proposed at a Board meeting.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

Statement of Directors' responsibilities (continued)

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The Directors consider that the Company has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

By order of the Board

Sara A. MacIntosh
Company Secretary
11 December 2015

Franklin Templeton Fund Management Limited

Independent Auditors' Report to the Members of Franklin Templeton Fund Management Limited

Report on the financial statements

Our opinion
In our opinion, Franklin Templeton Fund Management Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 September 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Report and financial statements (the "Annual Report"), comprise:

- Balance Sheet as at 30 September 2015;
- Profit and Loss account for the year ended 30 September 2015; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

Franklin Templeton Fund Management Limited

Independent Auditors' Report to the Members of Franklin Templeton Fund Management Limited (continued)

Other matters on which we are required to report by exception (continued)

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 10 and 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Independent Auditors' Report to the Members of Franklin Templeton Fund Management Limited (continued)

Responsibilities for the financial statements and the audit (continued)

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Report and Financial Statements for the year ended 30 September 2015 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Christopher Meyrick (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
11 December 2015

Franklin Templeton Fund Management Limited

Profit and loss account
for the year ended 30 September 2015

	Note	2015 £'000	2014 £'000
Turnover	3	**21,003**	19,254
Staff costs	4	**(2,425)**	(3,640)
Depreciation and other amounts written off tangible assets	12	**(2)**	(1)
Other operating charges	7	**(15,744)**	(14,555)
Operating Profit	4	**2,832**	1,058
Interest receivable and similar income	8	**—**	72
Interest payable and similar charges	9	**(45)**	(26)
Profit on ordinary activities before taxation		**2,787**	1,104
Taxes on profit on ordinary activities	10	**(541)**	(257)
Profit for the financial year		**2,246**	847

The Company has no recognised gains and losses other than those included above and, therefore, no separate statement of recognised gains and losses has been presented.

Turnover and operating profit for the year arose from continuing activities.

There was no material difference between the profit on ordinary activities before taxation and the profit for the financial years stated above and their historical costs equivalents.

Franklin Templeton Fund Management Limited

Balance sheet as at 30 September 2015

Registered number 1938417

	Note	2015	2014
		£'000	£'000
Fixed assets			
Tangible assets	12	**—**	2
Current assets			
Debtors	13	**2,623**	2,628
Cash at bank and in hand		**11,347**	13,711
		13,970	16,339
Current Liabilities			
Creditors: amounts falling due within one year	14	**(6,549)**	(8,715)
Net current assets		**7,421**	7,624
Total assets less current liabilities		**7,421**	7,626
Capital and reserves			
Called up share capital	16	**100**	51
Profit and loss account	17	**7,321**	7,575
Compensation reserve	17	**—**	—
Total shareholder's funds	18	**7,421**	7,626

The financial statements on pages 15 to 29 were approved by the Board of Directors on 11 December 2015 and were signed on its behalf by:

Adrian White
Director
11 December 2015

Franklin Templeton Fund Management Limited

Notes to the financial statements for the year ended 30 September 2015

1 Accounting policies

(a) Basis of accounting

The financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Practice. The Company elects to not apply the fair value rules set out in the Companies Act 2006, and accordingly is outside the scope of FRS 26 'Financial Instruments: Measurement' and FRS 29 'Financial Instruments: Disclosures'. The principal accounting policies are set out below. In preparing this financial information, there have been no material changes to the accounting policies previously applied by the Company in preparing its annual report and financial statements and they have been applied consistently throughout the year.

(b) Turnover

Turnover consists of investment advisory and business management fees ("investment management fees"), promotional service fees, intra-group distribution fees and intra-group service fees. Turnover is stated net of any rebates, commission discounts, value added tax and other sales taxes. Investment management fees are recognised as earned over the period in which the services are performed and are based on a percentage of AUM. Promotional service fees and intra-group distribution fees relates to the provision of services to other Franklin Group companies as the management company and ACD of FTF, these fees are recognised over the period in which services are provided. Intra-group service fees relate to the provision of services to other Franklin Group companies which are recognised over the period in which services are provided.

(c) Expenses

Expenses are accounted for when they are incurred on an accruals basis.

(d) Foreign currency translation

Functional and presentation currency

The functional currency of the Company is Pound Sterling being the currency of the primary economic environment in which the entity operates. The financial statements are presented in Pound Sterling, which is the Company's presentation currency.

Transaction and balances

Monetary assets and liabilities denominated in foreign currencies are translated into Pound Sterling at the respective rate of exchange ruling at the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currencies are translated into Pound Sterling at the respective rate of exchange ruling on the transaction date.

Transactions in foreign currencies are recorded in Pound Sterling using exchange rate on the transaction date. Foreign currency transaction gains and losses are reflected in the profit and loss account.

1 Accounting policies (continued)

(e) Interest receivable and payable

Interest receivable and payable is accounted for in the period to which it relates on an accruals basis.

(f) Share-based payments

The Company participates in the share-based compensation plans of Franklin.

The awards of Franklin common stock are accounted for in accordance with FRS 20 'Share-Based Payments' and UITF 44 'Group and Treasury Share Transactions'. Awards vest by instalment within the related vesting period, which is generally three years. Based on an estimate of the shares that will eventually vest, each instalment of a grant made to employees is expensed on a straight-line basis over the related vesting period with the credit posted to compensation reserve within equity.

The total amount to be recognised over the vesting period is split into equity-settled transactions and transactions with cash alternatives.

For equity-settled awards, the total cost expensed of a grant made is the market value of the shares granted based on the share's closing price on the New York Stock Exchange on the grant date.

For awards with cash alternatives, the total cost is measured at fair value at each balance sheet date with any movements in fair value being recorded to the profit and loss account. The fair value is measured using the market value of the underlying equity shares at each reporting date until vesting.

The Company makes payment to Franklin to settle this liability. The balance payable to Franklin is reflected in liabilities in the balance sheet with the movement disclosed in the compensation reserve (see note 17).

(g) Pension plans

The Company participates in the Franklin Templeton Group Personal Pension Scheme ("Group Personal Pension Scheme"), a multi-employer pension scheme which operates as a defined contribution scheme. Costs associated with the defined contribution scheme are accounted for as incurred in accordance with FRS 17 'Retirement Benefits'.

(h) Taxation

Tax on the profit or loss for the financial year is recognised in the profit and loss account and is comprised of current and deferred tax.

Notes to the financial statements for the year ended 30 September 2015 (continued)

1 Accounting policies (continued)

(h) Taxation (continued)

Current taxation

Current UK corporation taxation, is the expected tax payable (or recoverable) on the excess taxable income over allowable expenses for the period using tax rates enacted or substantively enacted at the balance sheet date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where the transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred tax is not recognised on permanent differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

(i) Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight-line basis. The expected useful lives of the assets are reassessed periodically. Expected useful expected lives are as follows:

Furniture and equipment	3-5 years
Computer equipment	3 years

(j) Dividends

Final dividends payable to the Company's shareholder are recognised in the financial statements as a distribution of retained earnings in the period in which the dividend is approved by the Company's shareholder. Interim dividends are recognised in the period in which they are paid.

Franklin Templeton Fund Management Limited

Notes to the financial statements for the year ended 30 September 2015 (continued)

2 Cash flow statement and related party disclosures

The Company is an indirect wholly-owned subsidiary of Franklin and is included in its consolidated financial statements, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash Flow Statements'. The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions, with entities that are part of the Franklin Group or investees of the Franklin Group. For details of other related party transactions see note 22.

3 Turnover

	2015	2014
Turnover analysed by origin:	**£'000**	£'000
United Kingdom	**19,874**	19,181
United States of America	**1,067**	73
Singapore	**33**	—
Germany	**21**	—
Hong Kong	**8**	—
	21,003	19,254

	2015	2014
Turnover analysed by activity:	**£'000**	£'000
Investment management and advisory fees	**18,573**	17,981
Business management fees	**1,087**	1,200
Promotional service fees	**514**	—
Intra-group service revenues	**501**	73
Intra-group distribution fees	**328**	—
	21,003	19,254

Notes to the financial statements for the year ended 30 September 2015 (continued)

4 Operating profit

	2015	2014
Operating profit is stated after charging:	**£'000**	£'000
Wages and salaries	**1,382**	1,604
Share-based compensation	**405**	1,289
Social security costs	**308**	453
Other staff costs	**271**	224
Other pension costs	**59**	70
Staff costs	**2,425**	3,640
Auditors' remuneration		
Audit fees	**31**	25
Fees payable to the Company auditors for other services pursuant to legislation	**78**	26

The total charge for the year relating to employee share-based payment awards was £405,000 (2014: £1,289,000), of which £353,000 (2014: £531,000) related to equity-settled share-based payment transactions.

5 Directors' emoluments

For the year ended 30 September 2015 the emoluments of all seven of the Directors were paid by another Franklin Group company in the UK. These Directors do not receive any emoluments in respect of their services to the Company and no recharges are made to the Company. The seven Directors are Directors of a number of fellow group subsidiaries and no direct apportionment of emoluments are made to any subsidiaries. Accordingly, no emoluments are included in respect of these Directors and due to the nature of the Directors' roles and responsibilities their emoluments cannot be accurately apportioned between each subsidiary to which they provide service.

For the year ended 30 September 2015 seven Directors were members of a UK-based defined contribution scheme. The costs associated with the scheme were borne by another Franklin Group company.

Notes to the financial statements
for the year ended 30 September 2015 (continued)

6 Employee information

The average monthly number of employees (including Executive Directors) employed by the Company during the year ended 30 September 2015 was five (2014: six), all employees were involved in investment management activities.

7 Other operating charges

	2015	2014
	£'000	£'000
Intra-group expenses	5,178	4,068
Sales and distribution expenses	3,635	5,616
Sub-advisory expenses	2,806	1,576
Sub-business management expenses	1,137	—
General and administration expenses	1,091	1,070
Sub-transfer agency expenses	796	—
Facilities and technology expenses	629	470
Outsourced services	407	1,595
Advertising and promotion expenses	65	160
	15,744	14,555

8 Interest receivable and similar income

	2015	2014
	£'000	£'000
Bank interest	—	72

9 Interest payable and similar charges

	2015	2014
	£'000	£'000
Foreign exchange net losses	45	26

Notes to the financial statements for the year ended 30 September 2015 (continued)

10 Taxation on profit on ordinary activities

	2015	2014
Current tax:	**£'000**	£'000
UK corporation tax on profits of the year	**202**	104
Adjustments to tax charge in respect of previous years	**13**	5
Total current tax	**215**	109
Deferred tax: (note 15)		
Origination and reversal of timing differences	**326**	83
Adjustments in respect of change in rate of tax	—	36
Adjustments in respect of previous years	—	29
Total deferred tax	**326**	148
Tax on profit on ordinary activities	**541**	257

Factors affecting the current tax charge for the year

During the year the rate of UK corporation tax changed from 21% to 20% and was effective from 1 April 2015. The current year current tax has been calculated using a blended rate of 20.5%. The differences are explained below:

	2015	2014
	£'000	£'000
Profit on ordinary activities before taxation	**2,787**	1,104
Profit on ordinary activities multiplied by the blended standard rate of corporation tax in the UK of 20.5% (2014: 22.0%)	**571**	243
Effects of:		
Disallowed expenses and non-taxable income	**(47)**	(47)
Short-term timing differences	**(322)**	(92)
Adjustments in respect of previous years	**13**	5
Current tax charge for the year	**215**	109

Franklin Templeton Fund Management Limited

Notes to the financial statements for the year ended 30 September 2015 (continued)

11 Dividends

	2015	2014
	£'000	£'000
Ordinary shares		
Final paid £48.56 per £1 share (2014: £nil per £1 share)	2,500	—

12 Tangible assets

	Furniture and equipment	Computer Equipment	Total
	£'000	£'000	£'000
Cost			
At 1 October 2014 and 30 September 2014	6	4	10
Accumulated depreciation			
At 1 October 2014	4	4	8
Charge for the year	2	—	2
At 30 September 2015	6	4	10
Net book amount			
At 30 September 2015	—	—	—
At 30 September 2014	2	—	2

13 Debtors

	2015	2014
	£'000	£'000
Trade debtors	**1,879**	1,769
Amounts owed by group undertakings:		
- UK parent company	**21**	—
- other group companies	**342**	106
Other debtors	**25**	71
Prepayments and accrued income	**70**	70
Deferred tax (note 15)	**286**	612
	2,623	2,628

Amounts owed by group undertakings are unsecured, interest free and have no fixed repayment date.

14 Creditors: amounts falling due within one year

	2015	2014
	£'000	£'000
Trade creditors	**1,612**	1,806
Amounts owed to group undertakings:		
- UK parent company	**869**	660
- other group companies	**2,453**	3,987
Other creditors	**86**	241
Corporation tax	**202**	104
Other taxation and social security costs	**311**	535
Accruals and deferred income	**1,016**	1,382
	6,549	8,715

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment.

Notes to the financial statements for the year ended 30 September 2015 (continued)

15 Deferred taxation

	2015	2014
	£'000	£'000
At 1 October	612	760
Deferred tax charge in profit and loss account for the year (note 10)	(326)	(83)
Adjustments in respect of change in rate of tax (note 10)	—	(36)
Adjustments in respect of previous years (note 10)	—	(29)
At 30 September	286	612

The total deferred tax asset represents:	2015	2014
	£'000	£'000
Recognised:		
Accelerated capital allowances	1	2
Other short term timing differences	285	610
	286	612

A deferred tax asset of £286,000 (2014: £612,000) has been recognised in the balance sheet, reflecting the recoverability of timing differences, which will be available for offset against future taxable profits.

During the year a change in the UK corporation tax rate from 21% to 20% was substantively enacted on 2 July 2013 (effective from 1 April 2015), as a consequence the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate have been announced. These changes are expected to reduce the rate from 20% to 19%, effective from 1 April 2017, and subsequently reduce the rate to 18%, effective from 1 April 2020. These changes had not been substantially enacted at the balance sheet date and, therefore, not recognised in these financial statements.

Notes to the financial statements for the year ended 30 September 2015 (continued)

16 Called up share capital

	2015	2014
	£'000	£'000
Authorised		
100,000 ordinary shares of £1 each (2014: 100,000)	**100**	100
Allotted and fully paid		
100,000 ordinary shares of £1 each (2014: 51,000)	**100**	51

During the year 48,520 ordinary shares of £1 each were allotted and fully paid.

17 Reserves

	Profit and loss account	**Compensation reserve**
	£'000	**£'000**
As at 1 October 2014	7,575	—
Accumulated loss for the financial year (note 18)	(254)	—
Compensation award of Franklin shares to employees	—	405
Recharge from the Franklin Group for compensation award of Franklin shares to employees	—	(405)
As at 30 September 2015	**7,321**	—

18 Reconciliation of movements in shareholder's funds

	2015	2014
	£'000	£'000
Profit for the financial year	**2,246**	847
Dividends	**(2,500)**	—
(Accumulated loss) / retained profit for the financial year	**(254)**	847
Compensation award of Franklin shares to employees	**405**	1,275
Recharge from group for compensation award of Franklin shares to employees	**(405)**	(1,275)
Ordinary share capital issued during the year	**49**	—
Net (decrease) / increase to shareholder's funds	**(205)**	847
Opening shareholder's funds	**7,626**	6,779
Closing shareholder's funds	**7,421**	7,626

19 Pension commitments

Defined Contribution schemes

The Company's contributions to the Group Personal Pension Scheme during the year amounted to £72,000 (2014: £107,000). Contributions to other personal pension schemes during the year amounted to £nil (2014: £7,000). There were no balances due to these schemes at 30 September 2015 and 2014.

20 Share-based compensation

Franklin sponsors the Amended and Restated Annual Incentive Compensation Plan (the "AIP"). Franklin's Compensation Committee of the Board of Directors determines the terms and conditions of the awards under the AIP.

Stock and stock unit awards

Under the terms of AIP, eligible employees may receive cash and equity awards generally based on the performance of Franklin, its funds, and the individual employee.

Stock awards generally entitle holders to the right to sell the underlying shares of common stock once the awards vest. Stock unit awards generally entitle holders to receive the underlying shares of common stock once the awards vest. Awards generally vest based on the passage of time or the achievement of predetermined Franklin financial performance goals. In the event a performance measure is not achieved at or above a specified threshold level, the portion of the award tied to such performance measure is forfeited.

Non-vested stock and stock unit award activity was as follows:

	Shares	Weighted average grant date fair value £
Non-vested balance at 1 October 2013	178,782	24.64
Granted	5,551	33.18
Vested	(58,107)	24.97
Forfeited	(6,135)	24.37
Non-vested balance at 30 September 2014	120,091	24.83
Granted	6,206	36.82
Vested	(64,481)	27.11
Transfers out	(178)	33.09
Non-vested balance at 30 September 2015	**61,638**	**27.12**

20 Share-based compensation (continued)

Employee stock investment plan ("ESIP")

The Company participates in the ESIP plan which allows eligible participants to purchase Franklin common stock at a discount of its market value on defined dates.

21 Ultimate parent company and controlling party

The immediate parent undertaking is Franklin Templeton Global Investors Limited, a company incorporated in the UK. The ultimate parent undertaking and controlling party is Franklin Resources, Inc., a company incorporated in Delaware, USA. Franklin Resources, Inc. is the parent company of the largest and smallest group of undertakings to consolidate these financial statements at 30 September 2015. The consolidated financial statements of Franklin Resources, Inc. are available on request from Cannon Place, 78 Cannon Street, London, EC4N 6HL.

22 Related party disclosures

The Group Personal Pension Scheme, in which the Company participates on behalf of employees by making contributions to the retirement scheme, is deemed to be a related party under the definition of FRS 8 'Related Party Disclosures'. For the year ended 30 September 2015 the aggregate total transactions with the Group Personal Pension Scheme amounted to £59,000 (2014: £197,000). There were no balances due to these schemes at 30 September 2015 and 2014.

FTFML is the ACD for the FTF which is deemed to be a related party under the definition of FRS 8 'Related Party Disclosures'. The aggregate total transactions by type and amounts outstanding at year end are set out in the table below:

Franklin Templeton Funds

	Transactions		Balance at 30 September	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Investment management and advisory fees	**20,484**	20,842	**1,794**	1,655
Business management fees	**1,087**	1,200	**93**	86
Fund waiver expenses	**(140)**	(34)	**(9)**	(12)
	21,431	22,008	**1,878**	1,729