

Reinventin

The sons and grandchildren of Rupert Johnson have turned the quiet muni bond fund company into a diversified, global contender — without abandoning Franklin's commonsense culture.

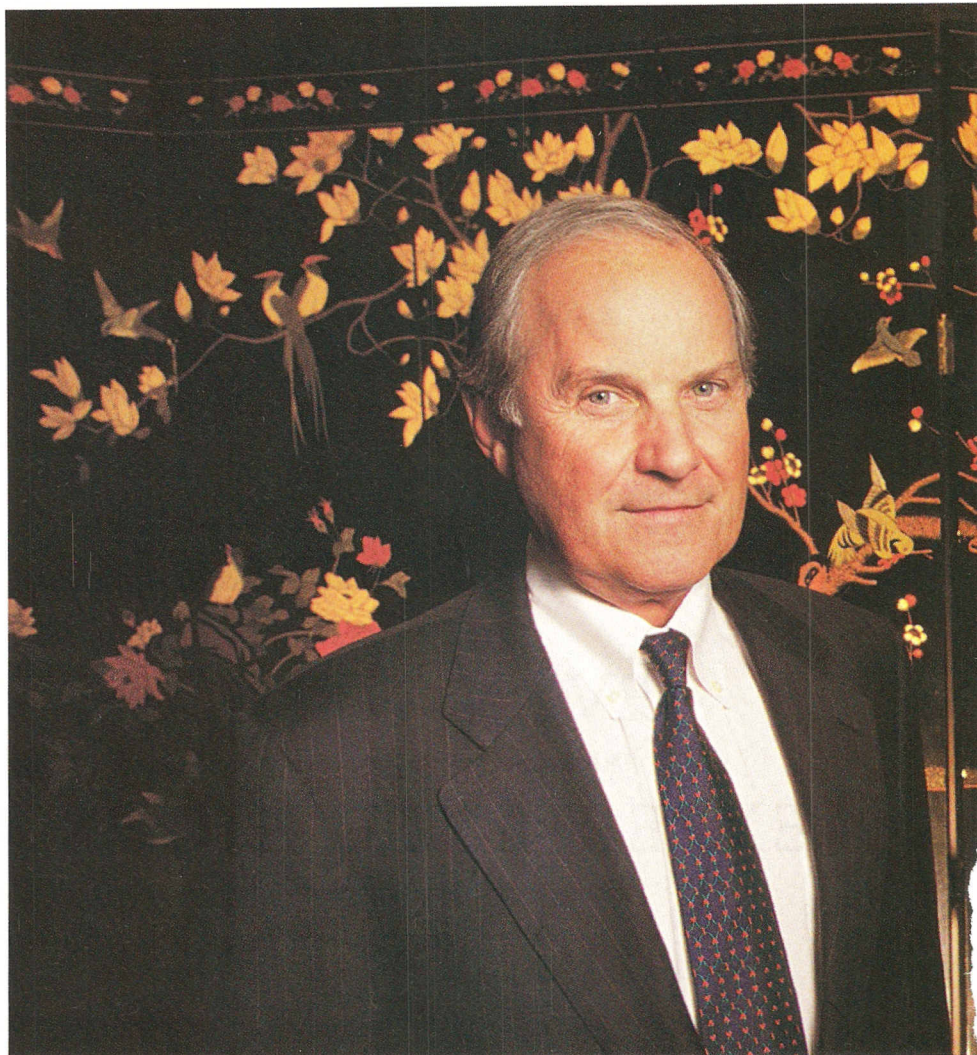
By Alyssa A. Lappen

Just how valuable can the stock in a well-run mutual fund company be? Ask Sir John Templeton. Or Michael Price.

Templeton was clearly banking on the stock of Franklin Resources in 1992 when he sold Templeton, Galbraith & Hansberger to the San Mateo, California-based family of funds rather than to his longtime partner, Thomas Hansberger (whose \$913 million offer was to be financed by Clayton, Dubilier & Rice). Franklin matched Hansberger's price (in cash) and agreed to put \$150 million in escrow until the closing. The company also gave Templeton a level of intangible comfort: "The people running Franklin were good, high-quality people," the 84-year-old Templeton says today.

The legendary investment master saw that quality reflected in Franklin's stock — a liquid currency that he thought likely to appreciate. When the deal closed, he took 1.9 million Franklin shares, worth \$61 million. The stock rose more than 61 percent before Templeton sold half of his position in 1995. (He sold the rest earlier this year.)

Value investor Price was similarly motivated in mid-1996.



He could have sold Heine Securities to Pacific Investment Management Co. or First Union Corp., but he chose the load-bearing Franklin instead, despite the fact that Heine's \$17.5 billion Mutual Series funds had been no-load for 47 years. "Franklin's terrific," he raves. "I had five bids around the level of Franklin's, but I liked [CEO] Charlie and [chief investment officer] Rupert Johnson [Jr.] perfectly. I liked the fit, with bonds and international; I was convinced they would leave us alone — and I thought the stock was cheap."

So in late 1996 Price took \$550 million in cash plus 1.1 million Franklin shares, worth \$78.7 million — which have since split 3-for-2 and spiraled up 90 percent, to \$150 million. "I love the stock," concludes Price. "Mine is not for sale."

Both Templeton and Price were attracted to Franklin's investment culture, which stresses buying value bonds and stocks, ignoring market fads, holding for the long run and

g Franklin

Charlie (left) and Rupert Johnson Jr.:
Unpretentious execs who paid
sky-high prices for top managers
and then got out of their way



putting shareholders first. Indeed, the Johnson family, which controls Franklin, has stuck by those principles, through some rough times, since Rupert Johnson Sr. founded the company 50 years ago, naming it after Benjamin Franklin and his philosophy of common sense (the stock trades on the New York Stock Exchange under the ticker symbol BEN).

So far the two investors' faith in Franklin has proven wise, as has the Johnsons' willingness to pay what seemed extraordinary prices for Templeton, Galbraith & Hansberger and Heine. The value of Franklin Resources stock Templeton and Price held grew as a direct result of \$87.5 billion in additional assets brought to their franchises by their new parent's marketing efforts. (Assets in Templeton funds have quadrupled since 1992, and assets grew 50 percent at Heine in less than a year.) And Rupert Johnson's sons — Franklin CEO Charles B, now 64, and CIO Rupert Jr., 57 — who together own 34 percent of the

company's 126.1 million shares, have not tampered with the creative, value-added investment processes that fuel Templeton's and Price's superior performance records. "We don't have big corporate egos," says Charlie Johnson. "You have to let people continue to do what they do well and not get in the way."

The payoff for Franklin from the two deals has been nothing short of extraordinary. Since 1992 the company — after more than four decades of steady if unremarkable growth and performance — has broadly diversified away from its mainstay fixed-income market into the thriving markets for international and domestic value equities, tripling its overall assets under management, to \$214 billion. Meanwhile, annual revenues in the year ended September 30 surged 191 percent, to \$2.2 billion, while net profits grew a more formidable 250 percent, to \$434 million — handsome relative to other publicly owned investment companies.

History's lessons

Rupert Johnson's sons seem unlikely avatars of the Big Deal. "Charles and Rupert are very unpretentious," says William Nutt, chief executive officer of Boston money management firm Affiliated Managers Group, who has known the Johnsons and watched Franklin grow for the past 25 years. "None of the Johnsons bowl you over as incredibly charismatic. They are just very solid."

Franklin's bumpy history taught the Johnsons a lesson in humility. Low-key, soft-spoken and down-to-earth, Charlie Johnson still

answers his own phone and by example encourages Franklin fund managers to remain humble, despite the euphoria of the longest bull market in U.S. history. He knows from 40 often-difficult years in business that markets do go down, sometimes precipitously, that this can have a chilling effect on the business for long periods and that only determined, focused and financially fit players survive.

"In the '50s the whole industry was \$10 billion in size," he recalls. "By 1960 the industry had grown to \$15 billion. It was a whole different era. But bookkeeping and regulatory filings were [of a] far smaller scale than they are today. If a fund family had \$100 million in 1950, they were incredibly successful."

In 1950, however, the struggling Franklin had not yet accumulated assets of even \$1 million. Founded in New York in 1947, the then-Franklin Distributors originally peddled the mutual funds of other firms but the next year shifted gears to

sell Franklin's first five stock and bond funds. Still, early on it was hard going, even for its most popular fund, Franklin Custodian Utilities Fund.

The idea was simple: pursue a long-term value strategy. "Half the electric utilities raised their dividends every year in the '50s," recalls Charlie Johnson, who joined Franklin in 1957 and took the reins from his father in 1968, "and over ten or 15 years, [our utilities fund] was a very compelling story." Yet Americans remained wary of a stock market that had only recently broken through the highs of 1929, and it was 1970 before they had

bought \$60 million worth of Franklin's open-end funds, despite the best efforts of Charlie and Rupert Jr., whom he drafted from the U.S. Marine Corps in 1965.

Franklin grew, but every bit of growth was hard-won. "In 1955 Franklin was the little guy that no one paid any attention to," recalls eldest brother Andrew Johnson, who joined the company in 1976. "Fidelity and Dreyfus and Wellington all had sales charges, and they always had a much easier time getting brokers to sell their funds. Charlie banged his head against a wall for 25 years."

The wall began to crumble in 1971, when Franklin sold 19 percent of its shares over the counter for \$600,000, giving the family the resources to begin to upgrade the business. Within 18 months, as assets started to roll in and the market appreciated, the stock had climbed 470 percent, and the Johnsons used their newly minted Franklin currency to make their first acquisition — Winfield and Co. in San Mateo. Winfield's three equity, bond and gold funds then had \$158 million in assets, more than twice the assets of Franklin.

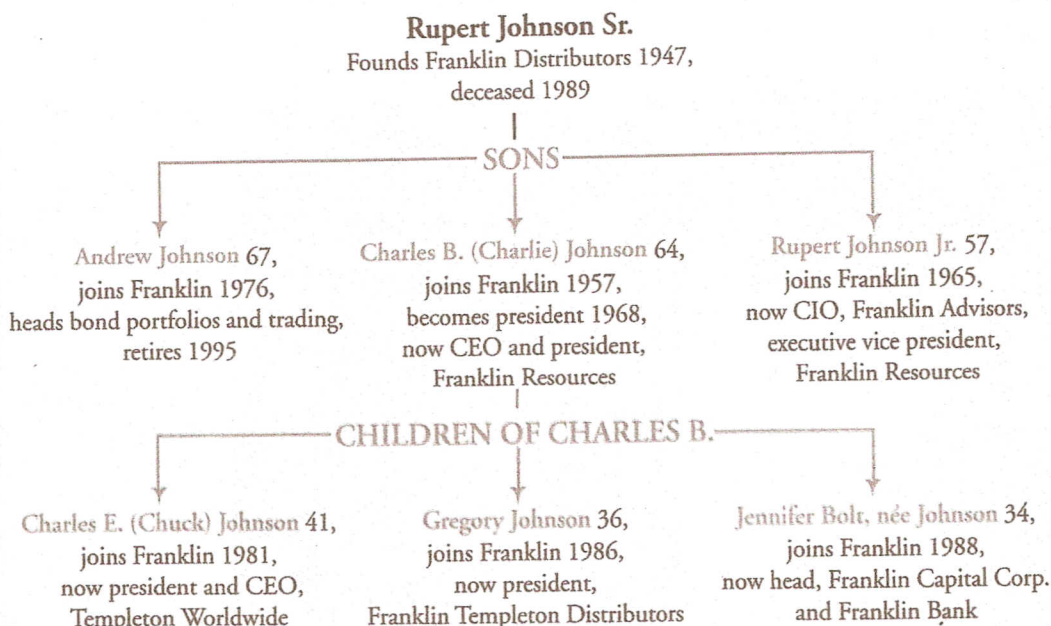
But it was Winfield's throw-in — a superior IBM shareholder and transfer agency system, which remains the backbone of Franklin's first-class service today — that made the deal great. Charlie Johnson moved the company from New York to San Mateo to take advantage of the system, landing Franklin in the California marketplace, where mutual funds became popular long before they did in the rest of the U.S.

Opportunists

With assets of more than \$230 million and a fertile new region to plow, Franklin in 1973 seemed ready at last for the big time. Instead, the company and the family were mauled by the

All in the family

Three generations of Johnsons have built Franklin Resources.



Source: Franklin Resources.

ensuing two-year bear market. Some 35 percent of Franklin's assets under management evaporated, and its stock plunged from a high of \$28.50 per share in January 1973 to a low of \$3.90 in January 1975, wiping out all the family's gains and then some. Franklin also lost a premerger lawsuit filed by some Canadian shareholders in Winfield's funds and paid a settlement of about \$500,000.

Simply getting through the gruesome mid-'70s in a position to take advantage of opportunities was something of an accomplishment. Plenty of fund families merged themselves out of existence, while others struggled to survive. And many, like Dreyfus Corp., Federated Investors and Fidelity Investments, made it only because of the advent of money market mutual funds and tax exempt mutual funds.

"It was nip and tuck there for a while," admits Charles E. (Chuck) Johnson, Charlie's eldest son, 41, who joined the firm in 1981 and assumed the role of in-house deal man after earning his MBA in 1985. Undaunted, Charlie and Rupert Johnson doggedly adhered to the long view. Persuading Charlie and Rupert's elder brother, Andrew, to join the family's firm proved critical. A former municipal bond and securities dealer, Andy in 1976 created Franklin's first money market fund just as interest rates began to soar.

In 1976 Andy Johnson also spotted a retail open-end fund opportunity when the federal government began letting municipal bond funds pass dual tax exemption along to shareholders. The Franklin Tax Free Bond Fund was a bust, but in 1981 Andy Johnson prevailed on California to let bond funds pass through dual tax exemption there, too. He then converted Franklin's \$2 million tax-free bond vehicle into the nation's first state-specific double tax-free fund. By

early 1983 the newly dubbed Franklin California Tax Free Bond Fund had ballooned to \$1 billion.

Meanwhile, the brothers were on the lookout for acquisitions. In 1976 Franklin bought the \$3.5 million Brown Fund of Hawaii. Not even the stock market crash of 1987, which erased 50 percent of the value from Franklin shares, could dent their enthusiasm; the firm had enough cash and stock value to benefit from the pain of others. When L.F. Rothschild, Unterberg & Towbin tanked later in 1987, Charlie and Rupert swooped in and picked up two conservative equity funds, a bond fund and a preferred stock fund, with \$100 million in combined assets. The Johnsons renamed three funds (Franklin Rising Dividends, Franklin Corporate Qualified Dividend Fund and Franklin Investment Grade Income Fund) and merged the fourth, closed-end Hampton Utilities, into Franklin Custodian Utilities. Then they gave Hampton's founder, Wall Street value analyst William Lippman, resources to expand; today the group manages \$2.7 billion. In 1992 Franklin added Donald Gould's Huntington Currency funds (now the Franklin Templeton Currency funds).

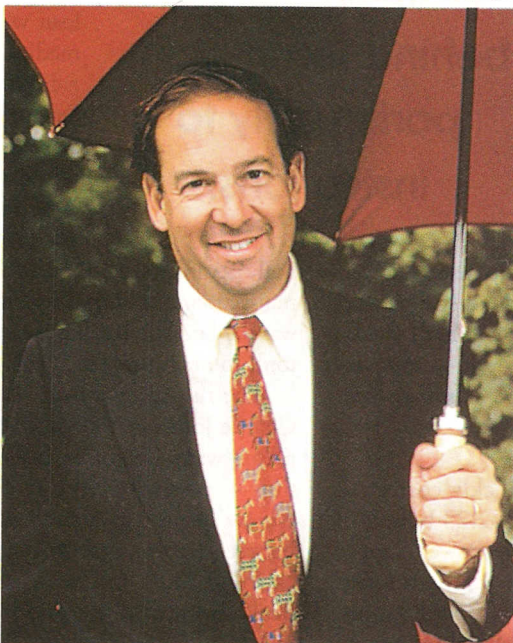
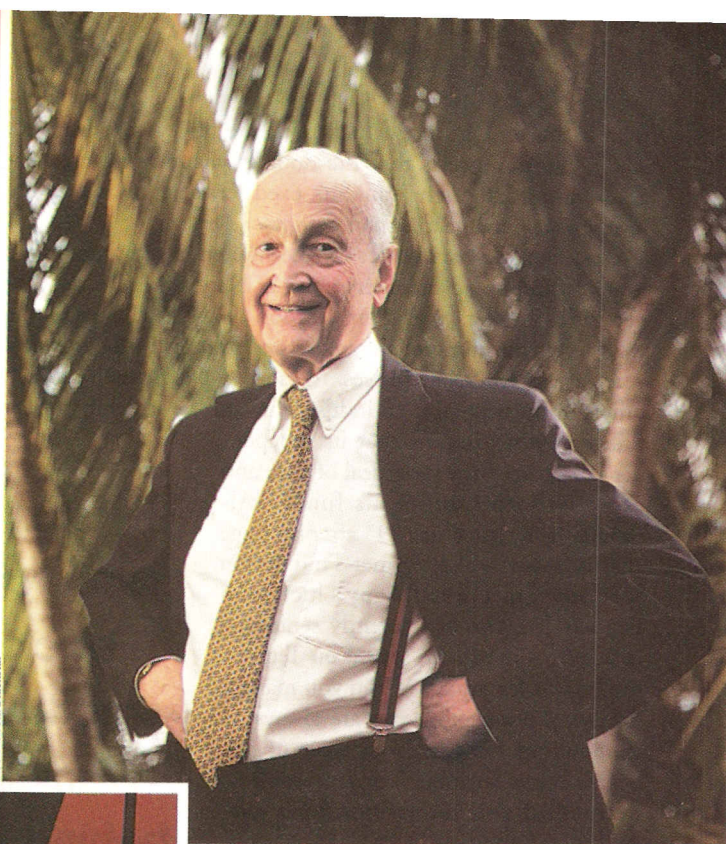
Meanwhile, Franklin built its own brand of client-focused marketing expertise in-house. "The value of our franchise is in our intermediaries," says Gregory Johnson, the fourth of Charlie Johnson's six children, who joined the firm in 1986. Now head of marketing at Franklin Templeton Distributors, Greg Johnson leads 75 wholesalers and a team of 1,000 marketing support people who target 100,000 individual brokers and registered investment advisers at major and regional brokerage houses, banks, insurance companies and even independent fee-only investment advisers and 401(k) plan sponsors.

Those intermediaries get top-notch service. When Franklin was smaller, Charlie Johnson himself often answered calls: "Franklin shareholder services, this is Charlie. How can I help you?" Call volume is now growing at a 24 percent annual clip, but the transfer agency Johnson built on Winfield's foundation still routinely wins top rankings in the annual client-service surveys of Dalbar, a mutual fund tracking group. Roughly one fifth of Franklin's 6,000 jobs are based in its three phone centers (in San Mateo and Rancho Cordova, California, and St. Petersburg, Florida).

"I didn't have to write *War and Peace* to sell my business case [for more resources]," says Penny Alexander, who heads

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Rob Nelson/Blackstar



Chris Buck/Outline

Franklin's client-service arm. "We don't want our phones to say, 'Punch 1 to get someone breathing.'" Career paths at Franklin often start at the phone banks and move upward, further enriching the company. For a decade hourly phone reps have earned annual bonuses (their average compensation, including bonuses, is now \$25,000) and education benefits that have helped hundreds to get advanced training or MBAs. "When other areas [of the company] want employees, they look to us," says Alexander.

At first Chuck Johnson thought Michael Price (left) had too big of an ego for any deal to work

Each year more than 100 people move

into Franklin's management training, which since its 1983 inception has rotated 665 employees through a two-year program with stints in every area — from client service and accounting to portfolio management and trading. Franklin's annual staff turnover is a low 18 percent.

But client service won't work without brokers' faith in Franklin's basic soundness. "Some brokers don't like Franklin, because they charge front-end loads and won't pay big trailers," says one Merrill Lynch & Co. adviser who sells about \$2 million of Franklin funds a year. "They refuse to do back-end loads and traditional B shares. But in the end that's good for the client. Their [trading] turnover and their expense ratios are low; their returns tend to be high."

Of course, Franklin has had critics. Until 1994 even its bond funds charged loads on reinvested dividends and interest,

for which Franklin caught flak until the policy was dropped. Andy Johnson asserts that the double whammy lowered expense ratios, although Franklin's fixed fees remain among the lowest of its load-bearing competitors.

And Franklin pays what some deem extravagant amounts to mutual fund board members. Former National Association of Securities Dealers president Gordon Macklin, for example, who serves on numerous Franklin and Templeton boards, last year earned \$335,412 in fees, the sort of payments for which others in the mutual fund industry are also now coming under fire. Franklin counters that its independent directors put a great deal of time and expertise into running its funds. (Although he resigned in 1995 after his huge charity scam broke, former Foundation for New Era Philanthropy chief John Bennett Jr., who was recently sentenced to 12 years in prison, served on Templeton boards for years. "When you manage dozens of companies, you are always on the lookout for people to serve on the boards," says Sir John Templeton of Bennett. "And you sometimes don't have enough information.")

Franklin's managers have nonetheless avoided the industry's messier scandals and controversies. The company gave a wide berth to both Bernie Cornfeld's 1960s Investors Overseas Services and the fast-paced trading and high-fever sales pitches of other go-go era funds. Similarly, the Johnsons steered clear of the 1983 government-plus bond fund fad (which sold risky call options on Ginnie Mae bonds to deliver high yields) and have for decades refused to buy any services — even research — with directed brokerage commissions or soft dollars.

Limiting exposure

Franklin's errors tend to be small and quickly corrected. In 1977, Andy Johnson bought some of the \$2.25 billion in triple-A-rated, high-yield Washington Public Power Supply bonds issued to help finance Washington State's nuclear power extravaganza; but he sold out long before the bonds' 1983 default. And when Orange County declared bankruptcy in December 1994, less than 1 percent of Franklin's \$16 billion in California munis were invested there. "The bonds were highly rated, insured — and expensive," says Andy Johnson's successor, Tom Kenny. "So our exposure was light." Likewise, Franklin avoided the Mexican peso devaluation crisis in 1994, which clobbered many a competitor's bond portfolios.

"We manage for income," says Kenny. "About 80 percent of the competition manage for total return. They tend to take an equity-oriented approach and are incentivized to take big risks and speculate on where interest rates will be in six or nine months. We don't do that." Instead, he continues, Franklin looks for "maximum value on credit ratings and on the yield curve. In a strong market our funds do not generally outperform. In a down market like 1994, we give up substantially less. In aggregate, over the long term, we provide

better than average income and total returns."

Municipal bond funds industrywide have been suffering net redemptions since early 1994. But Franklin put on \$1 billion in net new flows in 1996 alone and an additional \$1.8 billion through mid-September 1997. Despite a weak market for muni funds, Franklin has 40 percent of the industry's muni fund sales through broker-dealers and 18 percent overall.

But to grow, Charlie Johnson saw that Franklin needed more than bulky if respectable muni funds and great customer service. Enter John Templeton in 1992. An investment banker arranged for the two men to meet for breakfast in Miami. "It was clear Sir John was going to sell and was looking for a good home," says Johnson. "To this day I don't know if it was his idea or the banker's. But he owned our stock, and the chemistry was right."

So were Franklin's financials. Franklin borrowed \$150 million in convertible debentures from California-based leveraged-buyout firm Hellman & Friedman and \$350 million from Chemical Bank. The loan was later recapitalized by commercial medium-term notes, for which Franklin nabbed the first ratings Moody's Investors Service and Standard & Poor's ever granted an investment management company. "We talked to 20 organizations," says Franklin chief financial officer Martin Flanagan, who was then CFO at Templeton. To do a deal,

both Templeton and Franklin needed cultural affinity, but the transactions turned on Franklin's financial strength and its stock. "It was the Franklin balance sheet that allowed them to buy [Templeton]," notes Flanagan.

The risk seemed huge. "Everyone said we were crazy," says Charlie Johnson. Skeptics said the price was too high; if Templeton was selling, it must be the top of the market, he continues — particularly given his demand for \$150 million in escrow to protect himself against a potential market collapse between signing and closing.

But Chuck Johnson, who ran the Franklin side of the deal, also saw huge upside in wedding his family's company to a lean, undermarketed firm with great performance and a culture similar to Franklin's. "Templeton outperformed the indexes by 300 basis points a year over 40 years," says Chuck Johnson. "The number of people alive or dead who have done that you could count on the fingers of one hand. We were willing to take the chance that the value would be impacted."

So far it's been a smart bet. Assets actually grew from \$16.9 billion to \$19.7 billion during those critical four months and, once the deal closed, continued to mushroom.

Another danger was that key Templeton money managers would leave. After the close, Templeton planned to retire to run his spiritual charity, the John Templeton Foundation, and chief executive officer Thomas Hansberger, who had hankered to buy Templeton himself, did not relish the idea of working for someone else, no matter how good the fit. After Hansberger formed Hansberger Global Investors in 1993, a number of

**All those
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Franklin has put
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managers joined him. Other Templeton managers who pocketed "drop-dead" money from the sale left to form their own firms or work at hedge funds.

The Johnsons, each a portfolio manager, cultivated cooperation. "People [doing a merger in money management] don't look at the touchy-feely kinds of things," says Chuck Johnson, who became CEO at Templeton Worldwide after Hansberger left. "If you let the we-they mentality set in, people start pulling apart" — which has indeed happened when some banks and insurance companies have taken over money management firms.

The family worked to minimize turnover without coercion. "We don't do contracts," Chuck Johnson continues. "You use the carrot, not the stick. It's common sense." Franklin gave Templeton a voice at San Mateo headquarters by moving CFO Flanagan from Florida to California. "When people on the Templeton side have issues, they can come to me," says Johnson, "and when people at Franklin have issues with Templeton, they can go to Marty." Flanagan notes that "[Chuck's and my] switching hats was a very important part of our success."

The Johnsons also left Templeton's stellar investment culture intact. Templeton managers (like their Franklin counterparts) had worked as a team. "In 1987 Sir John Templeton had walked into my office and put his account portfolios on my desk," recalls Mark Holowesko, chief investment officer of Templeton Global Advisors, an indirect subsidiary of

Templeton Worldwide. "I panicked: One of the greatest legends in the business had told me to run his money — and I was 27." For the next two years, Sir John continued to pick stocks but left overall portfolio management to Holowesko and his team.

Holowesko used that time to develop a disciplined system for buying and selling that still governs the \$80 billion in equities managed by Templeton in the developed markets. Of course, he continued to rely on the basic precepts Templeton had developed since going into the investment trade in 1940: Buy value; look at a five-year horizon; shop when markets are in chaos. But now he also insisted on having three approved lists of stocks — bargains, holds and source-of-funds — to which no names could be added without first being vetted in weekly peer-group teleconferences linking Templeton's main offices in Fort Lauderdale, Nassau, Edinburgh and Toronto. No one can buy or sell a stock not on the preapproved lists.

Clearly, the system works. For the 12 months through September, 53 percent of Templeton's 17 open-end equity funds ranked in the top quintile of their peer groups in Lipper Analytical Service's universe of funds, and 83 percent were in the top 40 percent. For the three-year period, some 53 percent of Templeton's open-end equity funds landed in the top quintile.

Since the acquisition Templeton's assets have grown 400 percent, to \$99 billion, including the even faster-growing

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\$15 billion emerging-markets group, run by Mark Mobius. "The key to managing that growth is that we have the people ready before we have the assets," says portfolio management committee head Donald Reed, whose staff, along with Holowesko's, runs Templeton's global and international accounts in the developed world. Despite having lost several managers since 1992, Templeton's global and international staff has grown to 37 portfolio managers and analysts and 15 traders, up from 18 managers and analysts and seven traders five years ago.

That's not counting Mobius's 36 analysts and portfolio managers, who own 700 stocks in 40 emerging markets. Mobius, like Reed, reports to Chuck Johnson — and gets virtually everything he asks for. "You have to be on the ground" in emerging markets, particularly for company research, says the famously globe-trotting Mobius. This requires time, people and money. Similarly, extreme volatility and market uncertainty in less developed arenas prompt Mobius to periodically send Templeton staff in to verify and safeguard trading and custody arrangements wherever he buys.

Templeton also benefits mightily from the parent company's heavy spending on technology. Franklin last year poured \$190 million into computers, software, back-office information systems and portfolio, accounting, trading and desktop hardware — landing the company among the top 20 percent in the industry for investment in technology as a percentage of revenues. Templeton also built a new, \$4.5 mil-

lion "smart building" in Layford Cay, Nassau, now linked, through fiber-optic systems, to 65 other Templeton outposts around the globe. Templeton's computers sift through 260 pieces of information on each of the 1,000 or so stocks it follows actively.

All of those resources have fed back into the huge marketing push Franklin has put behind Templeton, particularly to the institutional community, to which the Johnsons had precious little to offer before the acquisition. Templeton's institutional assets have grown 6.5 times since 1992, to \$35 billion (including \$27 billion in commingled trusts and separate accounts). Giant Fidelity still has only \$41 billion in pure institutional accounts; Putnam Investments has \$43.6 billion. Templeton is also pitching to the 401(k) market, where plan participants have funneled \$8.2 billion into its funds.

Chuck Johnson's ostensibly risky Templeton deal was such a success that Franklin paid off its \$500 million debt ahead of schedule, in three years.

Price is right

By 1996 Franklin was ready for another major acquisition. This time Goldman, Sachs & Co.'s Milton Berlinski called and offered Heine Securities' Mutual Series funds. Talks were bumpier than they had been with Templeton. At first Chuck Johnson was skeptical, assuming that Michael Price had too large an ego to make the deal work and that the

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two cultures were incompatible. For his part, Price wanted \$1 billion for his funds and broke off talks when it became clear the Johnsons would not meet his terms.

But Berlinski sent Johnson a half-smoked Cuban cigar and promised a full box if the deal was done. "[Berlinski] had a sense of humor and kept things moving," says Chuck Johnson, who changed his opinion of Price once he'd met him: "He's a terrific guy. He understands the business." Johnson's confidence in the deal was also boosted by Franklin value manager Bill Lippman, who knew Price — and had known Price's mentor, Max Heine, and Heine's mentor, Hans Jacobson.

Ultimately, Price agreed to sell for \$797 million, including a \$192 million earnout to be paid in five years, a target Price has already hit by nearly doubling assets. "Now it's worth \$950 million," notes Price, tallying the value of his Franklin stock and the potential earnout to the \$550 million paid in cash. With the \$150 million he has invested in Mutual Series funds, Price says he has \$492 million tied up in the business.

But would Price stay long enough to shepherd the next generation? "With \$100 million tied up in the funds [for five years], he's going to be very active, aware of what the team is buying and selling," notes Johnson. "And he's built a team. We are very comfortable with the transition."

Despite their aversion to golden handcuffs, the Johnsons amended the terms of a predeal contract Price had signed with

his top team members. Price had agreed to pay the team a minimum of 7 percent of the purchase price (or \$56 million) on closing, plus at least \$1.8 million each in annual compensation for five years. The Johnsons instead locked in team members by offering even more in cash, as well as Franklin stock to be earned after the team has completed five years with the new parent.

Building the franchise

The Johnsons had only to recall Templeton: Here again was a manager with a great record who had spent nothing on marketing. To buy Heine, Franklin issued \$300 million in commercial paper. "It has gone better than anyone dreamed," Chuck Johnson crows. Indeed, assets in Mutual Series' five value funds have nearly doubled, to \$28 billion.

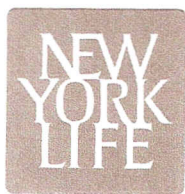
Within a year of using some \$585 million to buy Mutual Series, Franklin could easily pay off all of its purchase-related debt with the \$500 million in cash on the parent company's balance sheet. But the Johnsons are too busy building. "We have so many subsidiaries around the world that require capital," explains Chuck Johnson. "It's not like all that cash is liquid. It's operating capital for us."

That operating capital, moreover, has served Franklin's original principals very well, creating a family of load funds that consistently performs well for its shareholders. More than 54 percent of Franklin's equity funds (Templeton and Mutual Series funds among them) ranked in the top two

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quintiles of their open-end peers in the 12 months ended September 30, according to Lipper Analytical, compared with 60 percent for Capital Research & Management Co., 48 percent for Putnam, 39 percent for Merrill Lynch, 38 percent for Van Kampen American Capital Management and 50 percent for Fidelity.

Similarly, for the three-year and five-year periods, more than 55 percent of Franklin's equity funds ranked in the top 40 percent of their peer groups. In fixed income 58 percent of Franklin's funds landed in the top 40 percent of their Lipper peer groups for the 12 months ended September 30; 51 percent ranked in the top 40 percent for three years; and 41 percent for five years.

It is as if the Johnsons have created their own virtuous economic cycle — build, profit, reinvest, reward shareholders; build, profit, reinvest, reward shareholders. "We have a capital structure unparalleled in the industry," asserts CFO Flanagan, who notes that even with its modest debt-to-capital ratio of 24.7 percent, Franklin's net earnings can cover interest payments more than 15 times over." And if we have a weakness in the product line, we can buy it or create it. We can spend money on technology, we can invest overseas."

Will the Johnsons make another daring acquisition? "I don't think they're done," says Smith Barney securities analyst Dean Eberling. "They have enormous flexibility, and they have no aggressive growth [funds]. They also like the institutional business." Deal man Chuck Johnson is not tip-

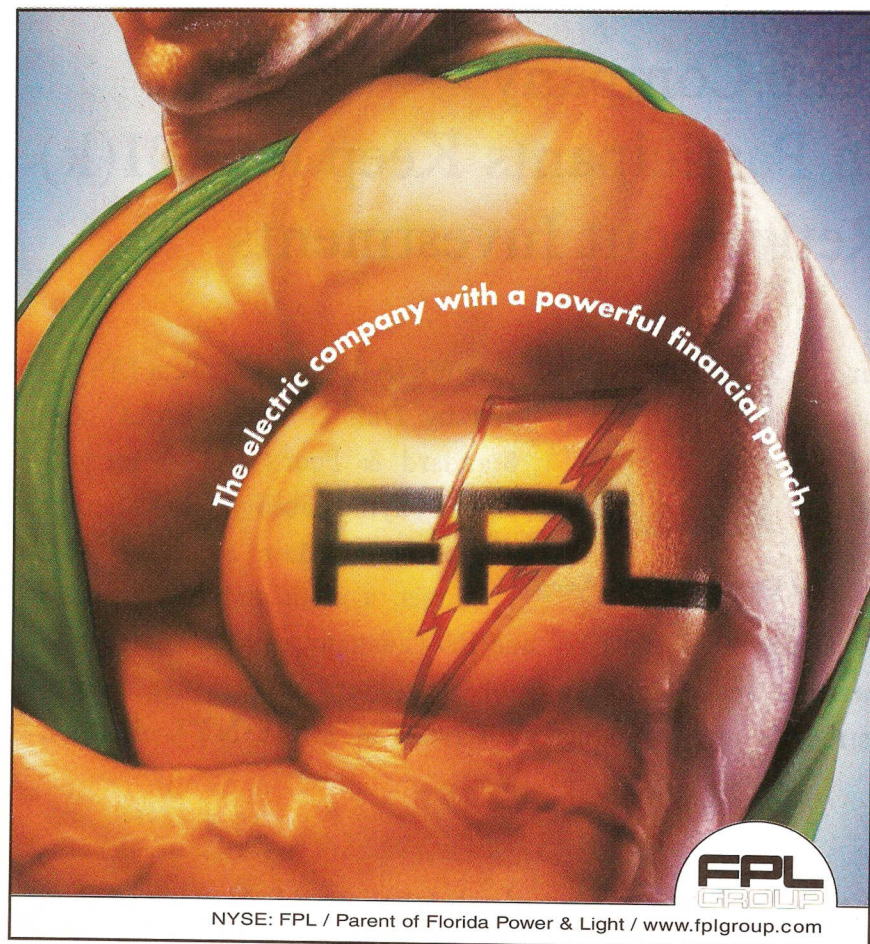
ping his hand: "I see a company a week now. But there's no reason to buy, [unless] we see a property with a particular style that outperforms over time and has been undermarketed. And [acquisitions are] not the main focus of our business: Money management is."

That focus on return to shareholders drives Franklin's virtuous cycle. So does the company's modesty, a trait often (if not always) correlated with great returns. In an age of outsize money management companies earning megabucks, many firms are also plagued by portfolio managers with megaegos who have forgotten (or never knew) how surprising, how severe and how humbling bear markets can be.

The current bull market has prompted an equally surprising number of firms to make wishful projections about doubling or tripling assets by the millennium — through acquisition or internal growth — without really considering what kind of performance, business investment and dedication such growth will take. Franklin, on the other hand, has delivered, without ever promising it would.

Franklin's founders were educated in the school of hard knocks. They do not suffer from hubris. When the next bear market comes, as it inevitably will, Franklin will undoubtedly suffer again, as it has in the past. But Franklin's pain — and that of its fundholders and stockholders — will almost certainly be minimized by the Johnson family's realistic expectations and their solid preparation for the future.

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