

# US Asset Managers

## COMMENT

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## Updated Thoughts on DOL Rule, Tax Repatriation, Incentive Income Tax, SEC LRM

*Here are our updated thoughts/probabilities around the key regulatory/tax issues that could be impacted from the next administration. We are adjusting our TP for BEN from \$30 to \$31 (see page 3).*

### I. Department of Labor (DOL) Fiduciary Standard Rule

- We now think there is a 10-20% probability the rule could get repealed, which compares to 0-10% before the election (when we thought it was more likely that Mrs. Clinton would win). The higher probability should benefit the most DOL-impacted names (WDR, BEN, US retail focused managers...), which explains the very positive stock reaction today (in addition to a beta/stock market trade).
  1. **Will Mr. Trump establish a moratorium on new regulations after his January inauguration?** We think "yes" as he has stated publicly that he would, plus this is not unusual for incoming Presidents (Obama, Bush did). 80% probability.
  2. **Will the moratorium impact the DOL rule?** We are unsure as we believe President Obama/DOL established an effective date before January 2017, while the two implementation dates for the DOL Rule are April 2017 and January 2018 (after the January inauguration). 40-50% probability if 1 is true.
  3. **If 1 & 2 are true, when Mr. Trump replaces Secretary Perez (of the DOL), will the interim leadership or the next Secretary of the DOL decide to change or repeal the DOL rule?** We assume it will be fairly easy for congress to support Trump's appointment given that only a simple majority is needed (which the republicans now have). Given that Mr. Trump has not clearly discussed his plans/thoughts for the DOL rule publicly (unlike his higher priorities including the Affordable Care Act, Taxes, Immigration, Dodd-Frank), we are unsure of his true views on the rule. However, his stance is generally "anti-regulation", while his core constituency is the working class, and his comments are generally favorable for main street vs. Wall street. So we are unsure if he would want to repeal the rule, but we think he could decide to make changes and it could be delayed if 1 & 2 are true. 40-50% probability his administration seeks to repeal if 1 & 2 are true (higher probability he seeks to modify the rule).
- So we frame the DOL repeal probability in the 10-20% range, which is up from 0-10% (when we thought there was a high probability that Mrs. Clinton would win the election). We also think it will be difficult for an institution that worked so hard to build the case for the Fiduciary Standard Rule, to then make a U-turn and argue that it's not in the best interest for the US. We

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continue to think that it's less likely that the SEC will produce their own rule, but given broad republican leadership, we now think it's even less likely today. Note: In the event that the DOL Rule becomes effective (but no impact from moratorium), there is the scenario that the next administration does not enforce it. Also, the initiative could potentially get withdrawn or rescinded, however, we are still unsure of Mr. Trump's true opinion of the DOL rule. There is a larger probability that the Republican controlled congress restarts an initiative to stop the rule (like Hensarling's Choice Act).

## II. Tax Repatriation

- We believe there will be a tax repatriation holiday, and while we thought there was a high probability before the election too (50-75%), we now put the probability at 60-80%. This is less so because Mr. Trump won the election, but because one single party now controls both offices (Republican party also controls both houses of congress). As we wrote in a note last week ([click here](#)), we believe BEN will be able to repatriate \$6B of excess cash back to the US (which was previously "trapped" in the Bahamas and Singapore). However, similar to the 2004 tax repatriation holiday, we don't think BEN will return the \$6B immediately to shareholders via a special. There could be a large special dividend (like \$3-4 per share), followed by some buybacks and additional specials in the following years. We believe it will be broken-up in several pieces, as the pushback to specials is generally that they are only used for dividends and buybacks (and not to create jobs). So we are increasing our TP for BEN to \$31 (from \$30) to account for a higher present value for its excess capital.

## III. Carried Interest Tax

- We thought both candidates were in favor of comprehensive tax reform, which could include a change in how carried interest is taxed for the owners of the PTPs (publicly traded partnerships). Specifically, the tax rate would change from the capital gains rate (~20%) to ordinary income (~40%). However, while Mrs. Clinton sought to raise the income tax on the highest earners to almost 50%, we believe Mr. Trump's plan called for a reduction in the tax rate on the wealthiest Americans to 30%. So the owners of the alts could see their tax rate increase to 30% on carry. However, this could cause some alts to change their corporate structure (PTP to C-Corp) as the benefit of the lower double taxation for owners is now less favorable. Also, we think the largest partners of the PTPs (founders, partners, and C-level executives) are also sensitive to enterprise value, and a C-Corp conversion could increase the demand/interest in the Alts which are currently excluded from key indexes and not well owned due to limitations with the tax structure (K-1 filing requirement).

## IV. SEC Liquidity Risk Mgmt Rule

- We think there is a higher probability that the SEC's LRM rule gets impacted by a moratorium on new regulations (than the DOL Rule), as we believe the effective date will be after January 2017. While we don't think investors are as focused on this rule as they are on the DOL rule, we originally estimated that this rule would have a small impact (but relatively the largest on BEN and EV given their asset mix). Please find a copy of our SEC LRM note here ([click here](#)).

## Franklin Resources (BEN)

|                         |                     |
|-------------------------|---------------------|
| Rating                  | <b>UNDERPERFORM</b> |
| Price (09-Nov-16, US\$) | 38.49               |
| Target price (US\$)     | (from 30.00) 31.00  |
| 52-week price range     | 41.92 - 30.67       |
| Market cap (US\$ m)     | 22,174.91           |

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

\*Target price is for 12 months.

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### Share price performance



On 09-Nov-2016 the S&P 500 INDEX closed at 2163.26  
Daily Nov11, 2015 - Nov09, 2016, 11/11/15 = US\$40.84

| Quarterly EPS | Q1   | Q2   | Q3   | Q4   |
|---------------|------|------|------|------|
| 2016A         | 0.74 | 0.61 | 0.77 | 0.83 |
| 2017E         | 0.72 | 0.67 | 0.66 | 0.65 |
| 2018E         | 0.65 | 0.61 | 0.61 | 0.60 |

### Financial and valuation metrics

| Year                          | 9/16A | 9/17E                         | 9/18E | 9/19E |
|-------------------------------|-------|-------------------------------|-------|-------|
| EPS (CS adj.) (US\$)          | 2.95  | 2.70                          | 2.48  | 2.40  |
| Prev. EPS (US\$)              | -     | -                             | -     | -     |
| P/E (x)                       | 13.0  | 14.2                          | 15.5  | 16.0  |
| Relative P/E (%)              | 70    | 77                            | 95    | 110   |
| Revenue (US\$ m)              | 0.0   | 0.0                           | 0.0   | 0.0   |
| Pre provision Income (US\$ m) | 2,366 | 2,147                         | 1,887 | 1,777 |
| Book Value (US\$)             | 0.00  | 0.00                          | 0.00  | 0.00  |
| Tangible book value (US\$)    | 0.00  | 0.00                          | 0.00  | 0.00  |
| ROE (%)                       |       |                               |       |       |
| ROA (%)                       |       |                               |       |       |
| Book Value (Next Qtr., US\$)  | 0.00  | Tangible BV (Next Qtr) (US\$) |       | 0.00  |
| P/BV (x) (Next Qtr.)          |       | P/TBV (Next Qtr) (x)          |       |       |
| Dividend (Next Qtr) (US\$)    | 0.76  | Shares Outstanding (m)        |       | 576   |
| Dividend yield (%)            | 1.9   |                               |       |       |

Source: Company data, Thomson Reuters, Credit Suisse estimates

**Companies Mentioned** (Price as of 09-Nov-2016)

**Franklin Resources** (BEN.N, \$38.49, UNDERPERFORM, TP \$31.0)

**Waddell & Reed Financial** (WDR.N, \$17.99)

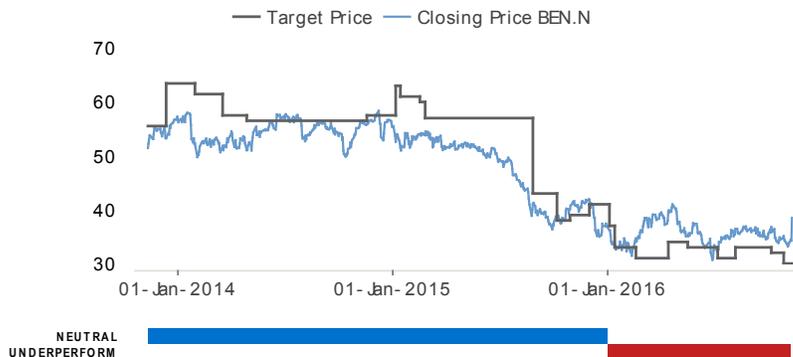
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**3-Year Price and Rating History for Franklin Resources (BEN.N)**

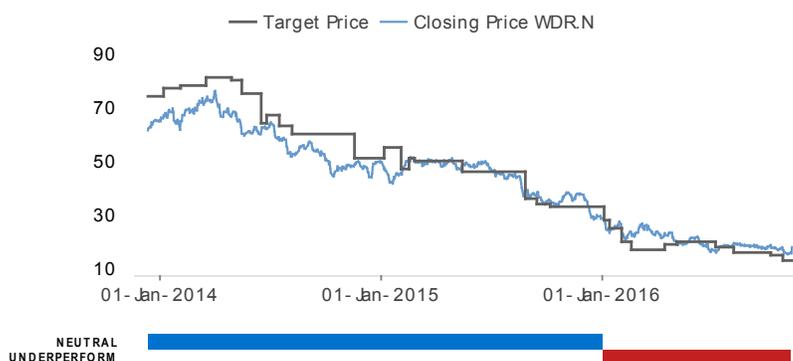
| BEN.N     | Closing Price | Target Price | Rating |
|-----------|---------------|--------------|--------|
| Date      | (US\$)        | (US\$)       |        |
| 11-Nov-13 | 51.43         | 55.51        | N      |
| 12-Dec-13 | 53.23         | 63.44        |        |
| 30-Jan-14 | 52.32         | 61.46        |        |
| 18-Mar-14 | 51.84         | 57.49        |        |
| 28-Apr-14 | 51.02         | 56.50        |        |
| 18-Nov-14 | 55.89         | 57.49        |        |
| 06-Jan-15 | 52.60         | 63.00        |        |
| 14-Jan-15 | 51.49         | 61.00        |        |
| 16-Feb-15 | 53.91         | 60.00        |        |
| 25-Feb-15 | 54.23         | 57.00        |        |
| 27-Aug-15 | 41.05         | 43.00        |        |
| 07-Oct-15 | 39.02         | 38.00        |        |
| 29-Oct-15 | 40.11         | 39.00        |        |
| 01-Dec-15 | 41.83         | 41.00        |        |
| 04-Jan-16 | 36.18         | 37.00        | U      |
| 13-Jan-16 | 32.98         | 33.00        |        |
| 18-Feb-16 | 34.66         | 31.00        |        |
| 13-Apr-16 | 39.58         | 34.00        |        |
| 16-May-16 | 35.25         | 33.00        |        |
| 06-Jul-16 | 32.53         | 31.00        |        |
| 05-Aug-16 | 36.43         | 33.00        |        |
| 05-Oct-16 | 36.76         | 32.00        |        |
| 26-Oct-16 | 35.10         | 30.00        |        |



\* Asterisk signifies initiation or assumption of coverage.

3-Year Price and Rating History for Waddell & Reed Financial (WDR.N)

| WDR.N     | Closing Price | Target Price |        |
|-----------|---------------|--------------|--------|
| Date      | (US\$)        | (US\$)       | Rating |
| 12-Dec-13 | 61.33         | 74.00        | N      |
| 07-Jan-14 | 66.92         | 77.00        |        |
| 04-Feb-14 | 64.72         | 78.00        |        |
| 18-Mar-14 | 72.83         | 81.00        |        |
| 29-Apr-14 | 66.63         | 80.00        |        |
| 16-May-14 | 60.13         | 75.00        |        |
| 17-Jun-14 | 60.82         | 64.00        |        |
| 26-Jun-14 | 61.84         | 67.00        |        |
| 17-Jul-14 | 57.66         | 63.00        |        |
| 07-Aug-14 | 51.74         | 60.00        |        |
| 18-Nov-14 | 48.56         | 51.00        |        |
| 06-Jan-15 | 46.90         | 55.00        |        |
| 03-Feb-15 | 45.26         | 47.00        |        |
| 16-Feb-15 | 49.94         | 51.00        |        |
| 25-Feb-15 | 50.64         | 50.00        |        |
| 15-May-15 | 48.21         | 46.00        |        |
| 27-Aug-15 | 39.48         | 36.00        |        |
| 15-Sep-15 | 37.87         | 34.00        |        |
| 07-Oct-15 | 34.99         | 33.00        |        |
| 04-Jan-16 | 28.28         | 28.00        | U      |
| 13-Jan-16 | 23.33         | 25.00        |        |
| 02-Feb-16 | 22.69         | 20.00        |        |
| 18-Feb-16 | 23.12         | 17.00        |        |
| 13-Apr-16 | 23.13         | 19.00        |        |
| 03-May-16 | 19.64         | 20.00        |        |
| 06-Jul-16 | 16.69         | 18.00        |        |
| 05-Aug-16 | 19.48         | 16.00        |        |
| 05-Oct-16 | 18.73         | 15.00        |        |
| 25-Oct-16 | 16.92         | 13.00        |        |



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|--------------------|---------------------|------------------------------|
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| Restricted         | 3%                  |                              |

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#### Target Price and Rating

##### Valuation Methodology and Risks: (12 months) for Franklin Resources (BEN.N)

**Method:** Our \$31 Target Price and Underperform rating for Franklin Resources utilizes a 10x multiple on our 2018 cash earnings estimate, plus the value for excess cash.

**Risk:** Risks to our \$31 Target Price and Underperform rating for Franklin Resources are (1) a reversal of fortune in value style investing, (2) poor relative fund performance, (3) loss of key managers and (4) increased competition for shelf space at wirehouses and for favorability among consultants.

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