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Franklin Templeton

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Introduction

Chair Robert K. Steel

Good afternoon everyone, and thank you for being here. My name is Bob Steel, and welcome to the 841st meeting of The Economic Club of New York. It's really a pleasure for us all to be here together today. Also, let me welcome you to the fact that this is our third event for the Economic Club in Florida over the last couple of years, and it's really great for us to be establishing a beachhead here, pun intended, and to be able to have all of you, some of you we see in New York regularly, some just here in Florida, but it's great to all be together and to bring our program here.

Last year we hosted Governor DeSantis here and the prior year we were in Miami with Tom Brady. Both were tremendous successes and we're building on that wave of success by having Jenny Johnson with us today.

Let me say first, as you can see, we have a virtual program today where we have students joining us, which has been something the Club has done, is inviting different groups of students from different schools to attend various events. Today, we're very fortunate we have students joining us virtually from Princeton University as well as members of the Class of '26 Class of Fellows – a select group of rising stars in finance and thought leaders.

So let me pause for a second. The Economic Club of New York is really proud to stand as the nation's leading nonpartisan platform for discussion of issues around politics, economics, and social issues. For more than 100 years, the Club has hosted over 1,000 preeminent guest speakers contributing to a long tradition of excellence of both members and speakers. Today, that tradition continues with Jenny Johnson.

Jenny, as all of you know, is the outstanding Chief Executive Officer of Franklin Templeton, in a career spanning over 35 years. She's been a key driver of the firm's transformation to what is now one of the largest global investment managers all around the world, private asset classes with $1.7 trillion under management.

Jenny held leadership roles in all the major divisions of the business, including investment management, distribution, technology, operations, and wealth management before becoming CEO in 2020. She's been named to *Forbes'* "World's 100 Most Powerful Women" for four consecutive years and has been included on *Barron's* list of *"100 Most Influential Women in Finance"* in the United States every year since the list was begun in 2020. She serves on the Board of Directors of Thermo Fisher Scientific and the Investment Company Institute's Board of Governors, which is important for the industry.

She's a member of the International Advisory Panel of the MAS, Monetary Authority of

Singapore, the Advisory Board on AI in Finance for Luxembourg, and also the Advisory Board for the Asian Development Bank. In addition, Jenny is a board member of Memorial Sloan Kettering Cancer Foundation and The Economic Club of New York, and we're proud to have her. She earned her B.A. in economics from the University of California at Davis.

Today, our plan is to have a fireside chat, and we have our Club Trustee and my good friend, Lee Ainslie, as the moderator. Lee is the Managing Partner of Maverick Capital. And for those of you that read *Barron's*, last weekend, in the front article by Andy Serwer, they were talking about people that were carrying on the legacy of Warren Buffett and they talked about several investors who carried on the great tradition of Warren Buffett. And front and center in that group was Lee Ainslie. So it's especially great to have Lee here today.

So our plan is for them to have a fireside chat for a bit, and we'll hopefully have some time for questions at the end, and then we'll conclude with lunch after the presentation. Jenny and Lee, welcome to the stage.

Conversation with Jenny Johnson

LEE AINSLIE: Well, thank you for taking the time to join us today.

JENNY JOHNSON: It's great to be here. And thank all of you for giving up your lunch to be here.

LEE AINSLIE: So we live in interesting times. We have a war. We have an oil shock. We have tariffs coming and going. We have an unpredictable president. AI is going to destroy the value of every software company and also create massive layoffs. Rising fiscal deficits, etc. etc. And yet last week the market hit all-time highs. What do you make of this complicated world?

JENNY JOHNSON: Well, first let's talk about the market for a second. So, because we're talking about the U.S., actually the reality for the U.S. is we're energy independent. And while we complain about $4 oil, we had $4 gas at the pumps in like 2022. We've had 20% inflation. So we're not even at that high really. So with energy independence for the U.S., we're pretty isolated from the impact of it.

You know, with respect to tariffs, the reality is we don't actually import and export a lot when you look at overall GDP. It's like, I think it's 11% and 14%. So those things aren't impacting us as much. And if you look at the tailwinds behind the economy, what's happening right now in productivity in the U.S., and no other country has it like it's happening in the U.S., we've gone from 1½% productivity to 2½%. So what does that mean? That means companies can have that money go directly to their bottom line. And that becomes a cushion to, I think, a lot of the concerns that we have.

And none of that productivity has anything to do with AI which, to me, in my lifetime, is the most consequential technological advance that we've seen and happening very quickly. And that's going to just increase the amount of productivity. So I think the market is looking at those things. Plus, you know, I was just talking to somebody who said we've had something like $650 billion in additional commitment to spend on AI between energy and other, that's just pumping money into the economy. So all these things are what support the market. Now, we can talk about what is going on in the world that could derail the market, but I think that's why the market right now...

LEE AINSLIE: And so if it's not AI, what do you attribute that productivity to primarily?

JENNY JOHNSON: Well, I think that productivity is things like digital. Usually it takes like 20 years for technologies to actually get embedded in an operating environment in a company. And so these are things like, I mean honestly, Cloud computing, the internet, organization around data. When I ran the Technology Department, the second hardest thing that anybody who runs technology is getting your data organized and integrating it. The hardest thing is actually getting people to change and start using the new technology.

So what's happening with AI today is from an investment standpoint the investment returns have accrued to the picks and shovels – the Cloud service providers, the people who have done the models, and AI models. You haven't seen any of that yet appreciate to the companies. And I genuinely believe that the next phase – let's skip over the energy that it'll take to do the AI because there's a huge amount of investment there, I'm a little more skeptical on that – but that the companies within each sector who figure out how to leverage AI to drive their business will be so much more successful than the ones that are left behind because they won't be able to catch up because it's that fast.

Now, I think that that's probably like a 2027 kind of event. We're all doing it. We're all trying. I can tell you some great stories about how Franklin Templeton has leveraged it and it's improved certain things, but it is not yet material for most companies. As a matter of fact, I'd argue it's probably not that material for any company yet.

LEE AINSLIE: So let's come back to AI. It's obviously an important topic in its own right. Just sticking with the markets for a second, it's true that we're energy independent. Obviously most major economies in the world are not. So how do you think this situation plays out with regards to the impact on the economic growth worldwide? And then the other concern I'd love to dig into, just growing fiscal deficits and how that gets resolved and the impact of that on our world?

JENNY JOHNSON: The 800-pound gorilla. So, look, I mean it's interesting, actually this war, there's winners and losers. Like, if you're actually an exporter of oil, you're a winner in this. I mean even Saudi Arabia is actually doing okay at this price of oil because they can get it out through their pipeline. Russia is doing better today. So if you're an exporter of oil, Azerbaijan, I was just talking to some people there, this has actually been a good thing.

Where it's really scary is those who are importers. Japan, why is Japan not at a crisis yet? They're 90% importers of their energy. And 80% of that comes through the Strait of Hormuz so they're hugely dependent on this, but they also stockpiled something like 254 days of it, so they built a cushion. So it really comes down to how long does this war last. And then those who haven't built a cushion, they're already feeling some of that pain. And, you know China's going to feel it, India is going to feel it, the Philippines. So everybody, really in particular Asia, because most of their oil comes from the Strait of Hormuz. That's going to be a difficult environment.

And then we've heard about the fertilizer, that they have an input to fertilizer that's critical, and right now it's time to plant. If you can't get fertilizer or the price goes up so dramatically it's going to have an impact, especially on countries that are importers of food. So I think it really comes down to how long does this go on and honestly the concern there is a couple of things. I think one of the things we've learned with Russia-

Ukraine and this war is that no longer can a major superpower with military prowess just go in and be able to dominate because you can have three $20,000 drones that can stop a tanker. That's very new. Now did see it with the Ukraine. It's been critical to the Ukraine's defense in Russia. So that's going to, you have to play that into trying to figure this out.

And then the second thing is I was talking to somebody in the UAE just last week and they said we were negotiating a ceasefire with the Iranians, because remember Iran has shot off more missiles and drones to the UAE than they have to Israel. Nobody can quite figure out why they're doing that other than there's just disorganization within Iran. But they said they negotiated a ceasefire. Within 90 minutes a missile was shot off at the UAE.

So they called the people they were negotiating, they said, we didn't do it, we didn't do it. And then the Iranian Guard said, well, we did it. So the question is, you know, whoever we're negotiating with, can they actually represent all parties in this? Because we can see that just one small group, militia group essentially, can really launch drones and have an impact here. And so I think that's part of the concern about how long this gets dragged out.

Having said that, I do think that there's one, and I was just with the Ambassador of

Saudi Arabia, I think there's an under-appreciation, the view of people in the Middle East is this war was 47 years in the making. It was inevitable. It might have happened five years ago. It might happen ten years from now. I think what has surprised people is the amount of military capability that the Iranians had with the stockpile of missiles and drones, but that it was inevitable. And so their focus is much more on, from the U.S. standpoint, whatever you do, do not walk out and leave this as our problem. You must finish this with us.

LEE AINSLIE: We'll see if that happens. Switching gears, fiscal deficits, no end in sight, and obviously getting worse with the war, etc. Even at the state level, it can be quite concerning in different states. And yet again the markets don't seem to care, even the bond markets don't seem to be too concerned. How does this all get resolved over time?

JENNY JOHNSON: Inflation. No, no. No, it's a huge issue. And the problem is it's not a problem until it's a problem and then it's a huge problem, right? I mean that's the thing is that, you know, the average person doesn't fully appreciate that we now spend more money on paying interest than we do on defense, right, on our debt. And we continue to add more and more debt. Just to understand the magnitude, at $38 trillion, our largest foreign buyer of U.S. debt is Japan at $1.1 trillion, China is number two at $800 billion. We're adding that amount or more every year. So the biggest buyer is really the U.S.

government. What does that mean? That means inflation, right, and so your ability ultimately to curb inflation when you have to buy your own debt is a problem.

I think the other big issue, look, the U.S. is not at a threat of losing its reserve currency status because the answer is, where else are you going to go? You're not going to go to China. By the way, it's not even free-floating so even if you wanted to go to China, you can't. You're not going to go to India because the rupee is not free-floating. The yen is not big enough. And Europe can't even get their fiscal and monetary policies to be consistent. So, you know, you buy German debt and it's actually rated differently than Italian debt. Italian debt might even be better than German debt nowadays.

So there isn't another option. And it's not going to be that people don't buy U.S. Treasuries, because it's still backed by all of us as taxpayers so that's a good safe place. The question is at what price will you choose to buy a U.S. Treasury versus putting money in a different asset. And so there will always be buyers but it starts to crowd out growth and innovation and other things, and I think that's the real scary risk of this, is what does it crowd out from an innovation?

The government is an incredibly inefficient use of capital. It is a slow multiplier effect. You need the innovation to be handled out in private markets essentially because the velocity of money increases in the private markets and that allows economies to grow.

So I don't worry about us from a reserve currency standpoint, but I do worry about the crowding out of other investments and what that ultimately does to long-term growth prospects.

LEE AINSLIE: Very fair. Speaking of growth, let's go to Franklin Templeton. So for those of you have not been focused on this, under Jenny's leadership the last six years she's really transformed the company. The year before she took over 80% of revenues came from retail mutual funds. Today half the business is institutional. Over 20% comes from alternatives. And she's really driven that transformation through a long list of acquisitions. When you took over this role six years ago, what was the vision that you've been executing against?

JENNY JOHNSON: Yes, so my brother was CEO before me and we actually, all the way back to 2018, so I took over in 2020, we made the decision recognizing that private markets were here to stay and that we needed to pivot to be able to have that capability, so we actually bought a private credit manager in 2018. I'm incredibly, you know, figuring that out then made all the difference because they weren't as expensive as they are now. And so we today have about, we're Top 10 alternatives manager. We have private credit. We have real estate with clearing partners. We have secondary private equity with Lexington Partners and some venture.

And so it was recognizing that trend early on and then just kind of continuing to march down that path that was critical. My honest view is in the asset management business if you don't have scale and you don't have private markets it's going to be really difficult to compete, particularly because of AI. You need, on the scale side, you're going to need that data.

So we had this vision that we needed to have alternatives. The second thing we saw is that technology was creating much more personalization. And so we've done some acquisitions that allow us to do more personalization of accounts. So people aren't going to hold as much in ETF or a mutual fund over time. They're going to hold a separately managed account which technology is going to enable them to hold all the individual stocks and bonds and private market assets and have a tax-efficient overlay. And especially as we see today with taxes seeming to only go one way, having a portfolio where you're conscious about the tax efficiency is really important.

So we bought a company called O'Shaughnessy Asset Management. They gave us a great technology in that and that's been one of our fastest growing areas. So again it was recognizing the trends, and institutional was important. We bought Legg Mason – they were primarily an institutional business – and that just doubled the size of our clients.

We were really focused on international. I mean I look at it today; we have investment feet on the ground in 87% of the world's GDP. And that's incredibly important as you're trying to navigate, and in particular with the divide between the U.S. and China, to be able to have clients that, you know, we have clients in 160 countries, that are interested in those investments keeps us focused on those markets and keeping on the pulse of those markets. Even if, say our U.S. clients may not want to invest in China, but our European, our Middle East, and our Asian clients. And so it keeps our pulse on really what's going on in the world.

LEE AINSLIE: And when you decided that alternatives and privates needed to be an important part of the mix, that still means a lot of different potential strategies. How did you decide where to really lean in and where to be the most focused?

JENNY JOHNSON: So in the case, we made the decision on private credit, honestly, we were probably, nobody was really buying private credit managers at the time. And sometimes in life you're better lucky than good, and we were lucky. We had this guy on our board whose best friend was selling his private credit firm to his joint venture partner and he said, oh, you shouldn't do that, you should sell it to Franklin Templeton. Think of all the distribution you'll get. And so that got us in it. And then with Legg Mason we got Clarion Partners, which is an amazing $82 billion real estate manager.

And then we knew that there were two other gaps that we had. We had built our own Venture Capital Group. And that started out because Franklin's Growth Equity Team is based in Silicon Valley, and they were looking at returns. And they said, you know, the IPO kickers we used to get, we're not getting any longer because companies are waiting so long to go public. We should put some of these in our mutual funds. So we started to do late-stage venture and that opened up the venture capital side.

And so the other two areas were private equity and infrastructure. And Lexington Partners came along and we actually really liked, I won't go into all the reasons, but we prefer secondary private equity, and so we ended up acquiring them. The last thing we don't have is infrastructure, which we're trying to do in some other ways. But that would be the last category. Otherwise, we're pretty full.

LEE AINSLIE: I'll come back to private credit because it's generated its own set of headlines recently. But I'm curious. So now you have many different managers, different strategies, geographically spread, different asset classes, etc. etc. What lessons have been learned by managing such a disparate group of strategies from purchases?

JENNY JOHNSON: So, first of all, when you, and I attribute this all the way back to the days when we bought Templeton, acquisitions in asset management don't always work. And the reason...

LEE AINSLIE: That's an understatement.

JENNY JOHNSON: And the reason, I think, and I credit my father who is here who did the Templeton acquisition, is when you're buying asset management firms, you're doing one thing. You're buying people and their investment process and don't destroy value by going in and messing with that. And so we've been very careful in all these acquisitions to leave the independence of the investment team. But what we've done is we've gone in and said, but we could add a lot of value to you.

And I remember our private credit CEO said to me at one point, we were doing a presentation on AI and he said, Jenny, when Franklin acquired us, I thought, well, this will be great, we'll get good distribution. He goes, I now realize we could never compete on AI without the capability and expertise that Franklin has. And so bringing that to all of the investment teams where they feel, and you know, global distribution is hugely powerful and kind of a given, but when the investment teams realize they're better by being able to be part of the firm, it makes them actually collaborate a lot more.

And we do these, we have our CIOs get together twice a year and it's amazing, I mean the key, I always said the most important thing is not what's on the agenda but it's the dinner conversation where they get to know each other. As they built trust over the years, I got to watch a deep value guy debate the growth equity guy on whether Nvidia was undervalued or overvalued. And the passion that both had was really important because it ends up forcing them to think more holistically about what their position is. And so we try to create opportunity and they recognize the value of that.

And now what we're doing is we're starting to understand how to unlock data within individual teams. So, for example, our real estate group, I didn't understand this but if you own a mall and you're leasing out to clients, they have to give you their monthly sales. So, by the way, toys and jewelry are actually crushing it right now. So when you think about the economy, those are pretty discretionary spends. We see that because we're getting the reports from our lessees, lessors, whichever...lessees I guess, who have to report that data.

So we're looking at that and we're saying, okay, that's pretty interesting. We see the rollover of tenant deals. So when your lease expires, are you getting an increase of lease or is it going down? And we can look at markets and see that. So we're now looking at that data and saying, wow, that's pretty interesting. We should make sure, without risking any kind of information barrier, but that's important information for anybody thinking about how the economy is doing.

And actually we see that in some markets, leases are now trading below. And these aren't office, office you'd expect it, but in other places we're starting to see that drop. So that's the first sort of sign, oh, that could be an issue. And then our private credit managers lend money to 5,000 private companies, middle market companies. We can tell you whether or not they're starting to see delinquencies. We're not. They're actually beating their projections. There are some private credit managers that are having issues, but we are not seeing that. That's hugely important data to have more broadly in the firm. So we're trying to figure out ways in which we can tap into the knowledge broadly that each of these investment teams would only have their own view and make it of value to the other teams.

LEE AINSLIE: So, as you mentioned, there's a long history of M&A in this space not working out very well. And you mentioned the benefit of the scale that you can bring, the technology you can help with and the synergies of having the CIOs compare notes, etc. But in terms of just blocking and tackling, what do you think you've done differently that's given you such a better outcome than most in this space?

JENNY JOHNSON: I honestly think it's, well, first of all, I always say, when people ask how do you integrate the culture of these firms, I say, well, you better do that as part of the assessment when you're acquiring the company. And I always say it's the three "Cs". So one is as you're doing due diligence, how quickly does the management team start talking about their clients? If they don't talk about their clients very quickly, they're not focused on their clients.

Number two, do they collaborate with each other? I'll never forget we invested in a company in India, and I finally met with the management team six months later. And they left the room and I looked at my team and I said, guys, they hate each other. These are two founders that hate, and they're like, really? And I said look at how they interact with each other, that collaboration, if they don't collaborate with each other, they're not going to collaborate more broadly in the firm. So trying to assess how much the management team works together I think is a really important part of that due diligence.

And then the final thing, which I think is really important now is that mindset of continuous improvement. Are you curious? Nelson Peltz and I were talking recently about how, you know, any CEO who says their strategy is cost-cutting has missed the point. Cost efficiency must be part of your ethos all the time. Strategy is about what you're doing to grow. And so if they don't have that mindset of always trying to figure out how to leverage to be more efficient so they can invest in their business, there actually is not going to be a good acquisition.

So you do those things initially and then you create an environment, which I said, which is like we can actually make you better by being part of us. And once people believe that, they're actually excited to participate and not just be stand-alone.

LEE AINSLIE: And so looking forward, you mentioned private infrastructure being a space where you'd like a bigger presence, but how do you think Franklin Templeton continues to evolve? What does it look like five years from now compared to today?

JENNY JOHNSON: Well, we're about to celebrate 80 years and the only way that we can evolve – it was advice my father gave me when I became CEO – he said take care of the client and the business takes care of itself. So clients' needs evolve. One thing that hasn't changed in the 80 years we've been around is people have kind of the same, you know, they want to have enough money to retire. They want to have enough money to pay for their health. They want to be able to help their kids in school and give their kids things. That hasn't changed.

Our tools to be better at delivering that more precisely have improved. So constantly looking for opportunities in the market, to find that alpha, and that's globally, keeping your eyes open globally, and evolving the business to continue to meet those needs is how we will thrive.

LEE AINSLIE: So let's go back to private credit for a second. Obviously, a lot of headlines. I think some people interpret this as when sub-prime started going sideways in early '07, it was the harbinger of much worse things to come. Others view this as, wait a minute, you had an unsophisticated retail investor who didn't fully understand what they'd gotten themselves into and the liquidity constraints, and that it's really no big deal. How would you sort through all those?

JENNY JOHNSON: So a couple of things. First of all, some of the biggest blocks in private credit were fraud, just fraud. Like they resold the same collateral that was being collateral on loans to multiple people. That is a story in history, it happens over and over. Anybody in the 60s, the salad oil scandal was moving oil in different places, right? Like you have to be good at your operational due diligence which is work. And the one worry about new people jumping into this business is they're not going to know where to find that. But you have to look at those operationals. So one is that was fraud. That's not a sign of a problem in private credit.

The second thing I would say is, you know, we aren't seeing that yet, but you are starting to hear of some people saying, oh, there's some clients missing, so that could be a sign of the economy starting to weaken. So you have to stay and pay attention to that. And then the third, the third thing that happened was there was this fear that enterprise software is going to be completely destroyed by AI. Now, I actually two years ago said to my team when they described this project we were doing with Microsoft, they said, oh, my goodness, enterprise software is going to be in trouble because AI will be at, it'll be kind of the interface that you'll build yourself for your teams.

And I'll give you an example so that this comes alive. So we were building with

Microsoft, or we built with Microsoft a platform for our salespeople. What do you want your salespeople to do? You want them to see the right clients and have the best conversation. Very simple problem, right? It's really complicated. You've got to go get data from a bunch, you go to our CRM system. So you go to Salesforce and you go get data. You go to your product system and you get more stuff. You go to social media because you want to make sure you're talking to your client about something that's important to them. There's a lot of different places.

And you bring it together and you use logic to figure out which is the best person to talk to the client. What that just did is it made your sales force, your CRM system, a database. You took away a lot of what it does today and you just simply made it a database. And so that has made people afraid about enterprise software, which is what created this huge fear, which then led to all these people trying to pull their money out of private credit.

Here's my view on enterprise software. Most big banks, most big financial services firms run a mainframe. We just retired ours a few years ago. Why? Because it's infiltrating every part of your business. And, by the way, IBM has a monopoly on mainframes. They could charge you whatever they want. But none of us want to rip it out. And so nobody is going to go rip out their Salesforce because it is embedded in there. So if you are lending to a software company that has a strong embedded client base, they are not going to rip it out. So it is not a credit issue. It becomes a market multiple issue.

Because if I'm now a startup and I want to have a CRM system, I'm going to look at Salesforce and say that's really expensive. Let me see if Claude code, let me see if this AI can build it for me and then I'll build on it. And so it's much more of an equity multiple. So I think the market kind of got that part of it wrong. Now if you're lending to people based on just the revenue models and they don't have a good cash flow, that's a different problem.

So what happened is you then had all this noise and you had an activist who tried to create fear and that created that retail teams going in and saying I need to pull my money out. The problem is private credit is illiquid. It is illiquid. You cannot get your money. If you can't let it sit there, private equity is illiquid. I actually say to financial advisors, you should say to your clients, I don't want to put you in this because this is illiquid, in case you need your money, but here's what you're missing.

Private credit earns about 1½ on investment grade credit all the way up to 3%, 4% more than the equivalent risk in the traditional side of the business that's liquid. So is that that much? Is 1% that much? Well, over 20 years in your retirement account you'll have 20% more of your savings. If you're a plumber and you're putting money away, that 20% may make the difference about whether you're going to be able to keep your house and keep your lifestyle. So it's really important that we try to come up with creative ways to democratize access while understanding that there are some clients that this is just not appropriate for.

And then I'm not a big fan of those, if you say it's 5% is the maximum that you can take your money out, you should live with that. Because when you allow people sometimes to take more, the problem is now you're now teaching them that they have flexibility, and I don't think that's good for...

LEE AINSLIE: Fair point. So I mentioned the growth in alternatives, a significant portion of that actually is from crypto. And Franklin Templeton went from being uninvolved, and I would argue today is thought as a thought leader when it comes to blockchain, crypto, tokenization. And one of your quotes is tokenization is securitization on steroids. Something along those lines. What did you mean by that exactly?

JENNY JOHNSON: So, look, bitcoin and all the crypto stuff I think makes people afraid Blockchain is just a technology programming language. The SEC approved our tokenized money market fund in 2020, and again I ran the Technology Department. At one time Franklin Templeton had four different shareholder recordkeeping systems. So we were now just introducing a fifth recordkeeping system. And I said, boy, it's funny, the SEC never asked us what programming language the other four systems were in until it was on blockchain. This is just a programming language that does three things really well.

Number one, it has a source of truth. Number one problem again in IT departments is that data and data integration, this has only one source of truth. And if you think about what happens in financial services, a bunch of transactions happen between people, not only do I have a bunch of people who reconcile the data in my system, I then have to go reconcile it with my counterparty. What blockchain does is it says there's only one source here and all parties are going to go to this source. That's the first thing it does.

The second thing is it has the ability to program smart contracts. What does that mean? It means if I did a foreign exchange – Lee, you and I agree to do this foreign exchange contract, we agree to terms. It's on a piece of paper. We both have staff that are watching it. All of those terms get programmed into the smart contract. And it executes it without having to have anybody involved. That's hugely efficient. And then the final thing is it has the ability to pay.

And so what you're ultimately going to see, and we're already starting to see it, is that you're not going to have what we call T plus 1. We're not going to have tomorrow's settlement. The settlement is going to happen immediately. And if I know, Gary here in front, if Gary and I are doing a deal but I don't really trust Gary, I go to get the bank to do it. But if I know that that deal happens and Gary has to pay me at the moment the transaction happens, I don't need a third party to act as my counterparty. So it's going to change the financial systems rails. It's going to speed things up. It's going to create more efficiency.

Our money market fund, we have the old one and the new one, our old one, you have to have a minimum investment of $500. Because below that amount, the other people are subsidizing you, because it costs us more money to run that. Our blockchain money market system, our tokenized, you can open an account with $20. We can actually go down to $5 because it's so efficient. And here's how efficient. The SEC had us parallel process the two systems. It costs us about, we ran about 50,000 transactions at the time, it costs us a $1.30 per transaction to process it on our old system. In total on this blockchain that we use, it costs a $1.13. Think about that difference in cost. Think about, when we think about financial inclusion and democratization of access, blockchain is going to be really important.

So we just look at it from Franklin Templeton and say it is a natural evolution of what we do today, which is our expertise is active risk-adjusted returns, making investments, but we want to deliver it as efficiently as we possibly can, and it will open up new investment opportunities.

LEE AINSLIE: Well, on that note, so is it primarily from a back-office perspective going to help you be more timely, accurate, and efficient? Or does it have broader applications for asset management in general beyond just the back-office improvement?

JENNY JOHNSON: So I think it's going to have broader, so the other thing that's happening with block chain is, I say to financial advisors, you're going to talk to your clients about their portfolio in three ways. One is you're going to say here's your investment return. The second thing you're going to say, and while ESG is a bad word in the U.S., the reality is the next generation really cares about the impact, right, of whatever, everybody has their personal passions.

And the data is going to get better and you're going to say to your client, and your investments, maybe you like carbon neutral, maybe you're passionate about gender equality, whatever it is your personal passion is, maybe you want to support gun rights. Whatever that is, you're going to be able to talk to your clients about your investments and the data is going to be tied through the tokenization because it's going to be in that smart contract that's going to educate you so you can have those conversations.

And the final thing that it's going to do is it's going to have loyalty programs. So already you're seeing, if you own a certain token with Nike but they're going to tie it to equity, only the people who have that token can buy a certain type of shoe. So they're going to start to have loyalty programs. There's actually a Rei in Aspen that has been tokenized. Sorry, it's not a Rei, it's a Four Seasons. It's actually not a Rei, but it's a Four Seasons in Aspen.

So when you check in, they say, "Lee, I see that you're an owner, we've given you a room upgrade". It's merely tying your loyalty rights to ownership of that stock. And so an advisor is going to say to clients, I have all these additional benefits to you. Which, guess what it means to the advisor, they don't have to explain why they're underperforming to some benchmark because they're way focused on the good that the portfolio is doing. And that is engagement, and that gets the advisor and the younger generation to be much more, the client to be much more loyal to the advisor because those are really important personal things.

LEE AINSLIE: So on crypto, two questions. One, you mentioned that the U.S. dollar doesn't have a lot of great alternatives, but you didn't mention crypto as a potential alternative. I'll start with that one. But then secondly, what role do you think crypto should play in those retail and institutional portfolios, if any?

JENNY JOHNSON: So actually stablecoins have been the greatest bolt for the U.S. dollar because they're all backed by U.S. dollar Treasuries. Usually when people, I'm assuming you're asking me about bitcoin...

LEE AINSLIE: Or others...

JENNY JOHNSON: Yes, so bitcoin is probably the one that people say it's going to challenge the dollar. And the reason I was initially a real skeptic on bitcoin is I said, you know what, if this ever challenges the U.S. dollar, the U.S. government is going to do exactly what China did and we're going to ban it, right? Because we need the dollar to be the reserve currency. But where I kind of came around to saying, you know, there's actually value to bitcoin as a currency is talking to people in Israel who said my parents and grandparents had their money taken away by the government. They will always keep a percentage of their savings in bitcoin because the government can never get to it. Now, they won't do it in an ETF. They'll do it in the key that you have because nobody can touch it.

And then I was talking to somebody else in the Middle East who said if I say the wrong thing I worry that my bank accounts can be frozen, so I always keep a percentage of my savings in bitcoin. Where do you see a lot of flow? Places like Venezuela, Turkey, where there's huge inflation, so they're looking for some way to offset that. So that, I think, creates a certain floor, but I don't think it actually threatens the U.S. dollar.

LEE AINSLIE: And therefore, should crypto play a role in portfolios of institutions...

JENNY JOHNSON: I think so. I think, because over time, right now it's tending to be a risk-on, risk-off. But there are very legitimate crypto companies that will threaten – I always say to our equity teams you need to pay attention to what's happening over here because some of these model, business models are going to threaten what you think are the universe of competitors.

There's a company that uses blockchain, and they have a two-year waiting list. So if you think about your internet service provider, your internet service provider, you can stream as much as you want these days. They're measuring the streaming coming in. They're taking your excess capacity and they're reselling it to somebody else and they're paying you to do that. That's a pretty interesting model that starts to threaten some of the other internet service providers.

There's a company – none of these are executed well, but they still kind of bring home the point – called TetherTV. TetherTV wanted to be the fastest streaming service. And so when you're watching, you know, they wanted to compete with Netflix and others, right, so as you're watching their content, you're agreeing to let it cash, store it on your device. So now when Lee goes onto his TetherTV, it jumps from my device to his device, which means they don't need to buy as much Cloud services because their clients have all become their IT department by creating storage of that. So they can be faster and better and cheaper.

So again, it's just the technology, that's what I get excited about. And there are real businesses that are coming out of this space that will threaten the business models of others. And you add AI to this smart contract, it's going to be really, really interesting.

LEE AINSLIE: So let's go to AI. Starting with how are you using it at Franklin Templeton, both in back office and the investment side? How is it changing the company?

JENNY JOHNSON: So I mentioned, in our distribution trying to have more efficiencies. And actually it's interesting, we see that the teams that have been using the platform that we built with Microsoft, they're seeing 10% more clients. And I just got this data this week, their sales are up 23% over the control groups. So they're more efficient from a back-office administration, they don't have to do as much administrative work, which allows them to see more clients. But more importantly, they're actually having better meetings with those clients. So that's distribution.

On the investment side, one is there's obviously efficiencies in just building models, but we've actually built in some of our teams a Virtual Research Assistant. So the team has given the AI model their investment philosophy. It's gone and it looked through their historical trades and now when they're about to make an investment, it will ask them, have you thought about this? You say this, it doesn't do that. And so we're testing things like that.

What I would say on the investment side is none of us quite know where that's going to go so we're trying to do a lot of different things to make sure that we're staying on top of it. The most important thing is you're going to have to consume a whole bunch more information to be on the leading edge, I think, of investments.

And then back office is kind of a no-brainer. There's efficiencies, our technology people are using it to code, you know, you today can, if you have a programmer who is not at least doing 50% of their code through AI, they're probably not a very efficient programmer.

LEE AINSLIE: So, and I'm guessing the answer to this question is different within different groups within Franklin Templeton, but at my firm we have a lot of debate about how hard it is to work with a 22-year old because AI can give you better answers, more quickly, more accurately. And there's a push from some, we can just skip the 22-year-olds, and of course the problem with that is you wake up in ten years, you have no 32-year-olds who have ten years of experience learning through trial and tribulation and mistakes, etc. How do you guys think about that tradeoff?

JENNY JOHNSON: So I actually think it's kind of the opposite of that. I think the scary thing is not to bring in that younger generation. Two things with my son and nephew that kind of a lightbulb went on for me. So my son is a research analyst in one of Franklin's investment teams. And, you know, he's six months into his job and he says, mom, I've been assigned to help build the AI prompts. And I said, well, you should go talk to Jonathan Curtis, he's kind of the guru in our Franklin equity team. He's doing all the AI work there. He's amazing. You can get some feel from him; he can give you some ideas.

And Jonathan came back and he said, wow, I was really impressed with your son and the AI prompts. They were better than a lot of the ones that our own team came up with. So I went back to my son and I said, okay, you're six months on the job, how did you have those AI prompts? He said, I just kept feeding it into ChatGPT and asking it to improve it. Right? But you could have never imagined that. If you're an expert, you can't possibly imagine that it's going to actually be that insightful and so you'll resist it.

And my nephew said, he works at an AI company, he says, Auntie Jenny, I'm the worst programmer, I'm the worst engineer there, but I generate the most code because I'm the one who uses the most of AI to help me write the code. Now, he's still guiding it, but it's writing it. So, to me, the mistake companies will get is if they think from a cost-cutting standpoint don't hire these younger people who don't think twice about these tools and will probably look at something you're doing and say, why would you ever do that? You should do it this way.

And so what we're doing is we're hiring a class of people, we won't guarantee you a job at the end of two years, but we're going to keep you for two years right out of college rotating you around the firm. And the key is we're trying to figure out what is the skill set? You know it's not necessarily that we just hire a finance and economics person, it might be that they're more creative, more liberal arts. I'm not sure. We're going through this process right now. What are the characteristics of those individuals? To make sure they're curious enough. We bring them in the firm so they can infuse that kind of skill of being comfortable leveraging these tools.

LEE AINSLIE: A quick story. My son two summers ago had his first ever summer intern. And I tried to explain to him, be ready, it takes a lot of time. You'll invest more time into that individual than you'll get out of it. And he's like, well, what do you mean? Well, they're going to have questions. He's like, Dad, if he comes and asks me any question that he hasn't already asked ChatGPT, I've hired the wrong person. He's not going to ask me any dumb questions. I'm like, okay, good point. That's how the world has changed.

So you mentioned the impact on software that has gotten a lot of press. I mentioned in the opening, the concerns about potential for massive layoffs. And you talked about that humans haven't changed in 80 years; they want the same things. I would argue you could add to that, in the next ten years, they'll want a robot as well and be able to afford that. How do you think about the larger macro implications of AI on our society, on the investing landscape, etc.?

JENNY JOHNSON: Yes, I mean every time there is a great technological advance, there is this prediction that we're all going to be unemployed because it's hard to see around corners to know what the opportunities are. And, you know, the only concern here is that it's moving so fast but I, you know, use the example of there's a famous picture on Wall Street where there was, you know, I think it was 1910, there was all horse and buggies and one car. And then ten years later the same picture is one horse and buggy and all cars. And I'm pretty sure the people taking care of the horses didn't become mechanics. And so it's hard. There is this adjustment period that happens. But if you look, in 1997, the cover of *Business Week* said the death of the broker. The internet was going to destroy the financial advisor. They are stronger today than ever, doing way more things for their clients.

You know, and I look at the iPhone. Did we ever envision that we'd find this device when it was launched, that it would have all these apps that we now can't live without. So I don't know, I trust in human nature. But I can't see around corners to say, I know that you take, everybody's predicting that you're not going to need any programmers anymore. And most IT departments would tell you, no, I have a lot more stuff, there's a bunch of things we want to do, so I still need them, I'm just excited that I can get more done. So I just look at history and say we always seem to bounce back from those. I think that it's going to be the same thing here. I'm an optimist.

LEE AINSLIE: Yes, I don't know to what degree you've been involved in the Anthropic or Open AI but obviously these have become some of the most important companies on the earth at this point with valuations that I certainly didn't see coming a few years ago. Are you involved in those companies? How do you think about the current valuations? How do you think about their ability to extract enough value despite there's some commodity-like aspects to what they do?

JENNY JOHNSON: I mean it's hard to, it's hard to, so Google just came out with their free service on that, so what does that do ultimately to Anthropic? At some point, Google is probably going to want to get paid for it. Remember, they were free in the Search originally. Then you got all these ads. So, you know, these are powerful and everybody is using them and wanting to use them. So I think at least as long as this growth trajectory continues, I think that there's huge value. And I think we're only starting to unlock the capabilities of what these things, meaning leveraging these tools broadly in your business.

You know, Anthropic is not yet embedded in the engine in somebody's investment decision or an application that we have to have our teams go out and talk to financial advisors, but they're getting embedded in these things. And all those are going to be revenue generating.

LEE AINSLIE: So putting on your old IT hat, and by the way, we were catching up before dinner, we're not sure if it's Mithos or Mythos, but the new tool from Anthropic, which has created some very scary headlines, but some would argue Anthropic's had a bit of a history of trying to create some fear to garner attention and maybe gain market share, etc. But this sounds like it could be actually something quite different given that they seemed to be pretty intentional about making sure major corporations that had a large software presence have time to deal with some of the issues that it's identifying. Do you think this is just some headlines that aren't that concerning? Or is this really a gamechanger?

JENNY JOHNSON: Well, so I mean from what I understand, so just in case people don't know, the concern is that they've come out with a model that can quickly identify vulnerabilities in your environment. And so any CEO who doesn't say like the first concern they have is cybersecurity, I always just say that's such a given. Right? Because you're constantly getting bad actors. And I even recently described we had a contractor, a U.S. employee who we identified was sending out data to one of the countries that you wouldn't want to send data to. Fortunately, we caught it. But this was a U.S. citizen, right, and so there's always kind of bad actors trying to get in your environment. That's number one.

And what companies do is we build layers to try to catch them. They're always going to get through the first, somebody's going to get through the first layer, so you're trying to catch them before they get anything meaningful. What this software does is it tries to identify those vulnerabilities, and from my understanding, as soon as it was unleashed on an environment, people were shocked by the number of vulnerabilities that were identified. So the worry is that this gets into the hands of bad actors and there's a lot of state-sponsored bad actors.

And so on the one hand that's a concern. On the other hand, I was thinking from the IT standpoint saying, you know, when you're running an IT department and you're going to introduce new software, you do something called an ethical hack. You hire a company to try to break in because you want to figure out if there's any vulnerabilities. And you're only as good as that company that you hire. And that's a one-time thing that happens.

I was thinking, like, would this, imagine if your environment always had something circling around that was trying to identify those vulnerabilities. That's actually really powerful. We will build better organizations and what you call enterprise architecture by having that capability. It's just the problem is until we can get up to speed with it, you don't want to get that software into the hands of the wrong people. And so the worry is as they start to release it, a bad actor can get it and really start to attack companies and that's a concern obviously.

LEE AINSLIE: So in addition to Anthropic and Open AI, you have SpaceX. So you will likely have three of the largest, the three largest IPOs in history all take place in probably less than a 12-month period. Do you think the market is ready for that? Have you thought through the technical aspects of how that capital impacts, the capital used to support those IPOs, where it's coming from, etc. and how that plays through?

JENNY JOHNSON: I'm pretty sure most of those companies are oversubscribed or will be oversubscribed so I think there seems to be plenty of capital. When there's an exciting company and idea with a good growth story, there seems to be plenty of capital there. We know, what is it, $7 trillion in money market funds, so there's a lot of cash sitting on the sideline too.

LEE AINSLIE: Fair enough. With that, let's open it up to questions from the audience.

QUESTION: First off, I just want to say every time I go to an event like this it motivates me to use AI more, even in my personal life. But I was actually wondering how are you thinking about using, or how AI is going to change the advisor-client relationship? I think we hear a lot in medicine, for example, right, you have patients challenging their doctors because of something, say ChatGPT told them. I can think of a lot of equivalent situations in finance as well.

JENNY JOHNSON: Look, I think from an advisor standpoint to the extent that your client is better educated, that's a good thing. You can have those kinds of discussions and give them opportunities. For example, like we talked about with private credit, you know, the problem is when the client doesn't understand something's illiquid. So I look at what the advisor does today versus what an advisor did even 20 years ago.

A financial advisor today provides services that used to only be available to the ultra-high net worth. You talk to financial advisors, they are doing estate planning. They are doing tax efficiency. And all of this is enabled by the tools that exist. And the price of the advisor, that you pay your advisor, hasn't actually increased. So you're getting a whole bunch more services that you didn't get before. I

I remember talking to an advisor who said, yeah, I've got to go negotiate the prenup for my client because he doesn't want to have that conversation with his son-in-law. Like, so now the advisor has more time too. The one thing the advisor doesn't spend a lot of time on is investment side. They're actually having other people; they're getting model portfolios and other things in there because they know the client is really focused on full financial planning and it has simply been enabled by the technology. So everybody, I think, has benefitted.

And I do not believe that the advisor goes away just because people are going to be comfortable with a bot. You know, people feel the connection, and with their money, believe me, they feel a real connection, and so they get more comfortable talking to somebody.

So I think that advisor plays that role, and a very important role, especially calming when the market has a downturn. That's a really important role of the advisor, which is to say to the client, sit through this, this is the worst time to sell. And so I think that human component is important and they have more tools to do more things for their clients.

QUESTION: Thanks so much for being with us today. I'm curious what the next few years or decades look for Franklin Templeton as a family business.

JENNY JOHNSON: Well, we're a public company so, believe me, the board put me through the wringer to make sure that I was appropriate for the job. Because, you know, we have shareholders all over and so you have to focus on making sure it's the right person at the top. And, you know, I do think one of the benefits I have as a CEO is that because the family is involved, I was always taught to think longer term.

A lot of the work that we did in tokenization probably will take ten years to be meaningful to us. I think it'll probably be, you know, three to five more years. We've been doing it for a while. And the risk today of public companies is that CEOs are so focused on quarterly earnings that they risk not investing in what you have to think about the long-term sustainability as a company. So I feel incredibly fortunate to be in a public company that still has that kind of family values to it.

QUESTION: Hi. Thanks for being here today. I'm starting to come around to your view, slightly more optimistic about AI and that it's not going to kill the world. I have been more pessimistic about demand destruction, job destruction, etc. But I'm coming around to that view for the United States because as the dominant capitalist engine, it's kind of in our DNA, and we always seem to find a way to grow. I'm not so sure such is the case for most of the rest of the world, especially some countries with very large populations. Do you have a view on that? And I'm sure you're talking to other executives internationally about how they're going to fare because I don't think the picture is as optimistic.

JENNY JOHNSON: Yes, so I was in China just within the last month. Believe me, what they're doing on their technology in AI, I mean it's incredibly impressive. I do worry about our hubris a little bit, of not fully appreciating some of the technological innovation that's happening there.

Look, I think it's okay to be followers. Like, you know, again, remember without a college degree, up until now, you were really limited on your opportunities. But now you can be a computer programmer. I tell the story about, like my daughters are a singer, actress, documentary film maker, so when my son told me he was going to be a computer programmer, I was like, oh, thank goodness, somebody's going to get a job. He's now a rum distiller, by the way, Southern Boulevard and Dixie, Revenge Rum. There you go, that's his distillery over there. A good business, it'll probably be staying around over the long run.

But what I realized later is like actually it's the creative people that are going to have the advantage because they're not going to need the same kind of education access because they'll be able to get it through the internet. They'll be able to code with it. And so it actually is going to take down a lot of barriers for some of these countries. You know, not everybody is going to have that advantage. But I do think it becomes a real democratizer.

LEE AINSLIE: Anything else? Jenny, thank you for your time.

CHAIR ROBERT K. STEEL: Well, thanks to Jenny and to Lee for giving us a wonderful conversation, a real tour de force from you. And we went lots of places and you kept us all engaged and taught us a lot so we're all really appreciative. And I think, especially in the end when you were talking a bit about this duality of having the family values in the company over decades and decades combined with the public responsibility, it's an interesting image. And so congratulations to you on doing all of that.

I think that we want to say thank you to those in Florida who supported us. On the program today is a list of upcoming events that the Economic Club is hosting. You can see we have a rich number of programs coming up, all in New York, but you can attend them virtually too. So we thank you for your support of the Club and hope you'll enjoy the things that are coming up too. So thanks so very, very much, and enjoy your lunch. Thank you.