

Fourth Quarter and Fiscal Year 2013 Review April 30, 2013

Joseph A. Sullivan
Chief Executive Officer

Peter H. Nachtwey
Chief Financial Officer



Forward-Looking Statements

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not statements of facts or guarantees of future performance, and are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those discussed in the statements.

For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2012 and in the Company’s quarterly reports on Form 10-Q.

Fourth Quarter Highlights

- Net Income \$29.2M or \$0.23 per diluted share
- Adjusted Income \$66.7M or \$0.52 per diluted share
- Fauchier Partners closed in March
- New executive leadership team appointed
- Purchased 3.7M shares for \$109M
- Cash position of \$0.9B
- Over 80% of strategy AUM exceeds performance benchmark for all periods
- Long-term outflows decreased 80% from the prior quarter

Assets Under Management (\$ billions)

AUM by Affiliate ¹	Mar 13 AUM	Dec 12 AUM	Mar 12 AUM	% Change vs.	
				Dec 12	Mar 12
Western Asset	\$ 458.9	\$ 461.7	\$ 446.2	(1)%	3%
Royce & Associates	37.4	35.3	39.7	6%	(6)%
ClearBridge ²	65.9	57.3	58.2	15%	13%
Permal Group ³	21.3	16.1	18.3	32%	16%
Brandywine	46.0	42.9	37.2	7%	24%
Batterymarch	12.7	12.5	18.4	2%	(31)%

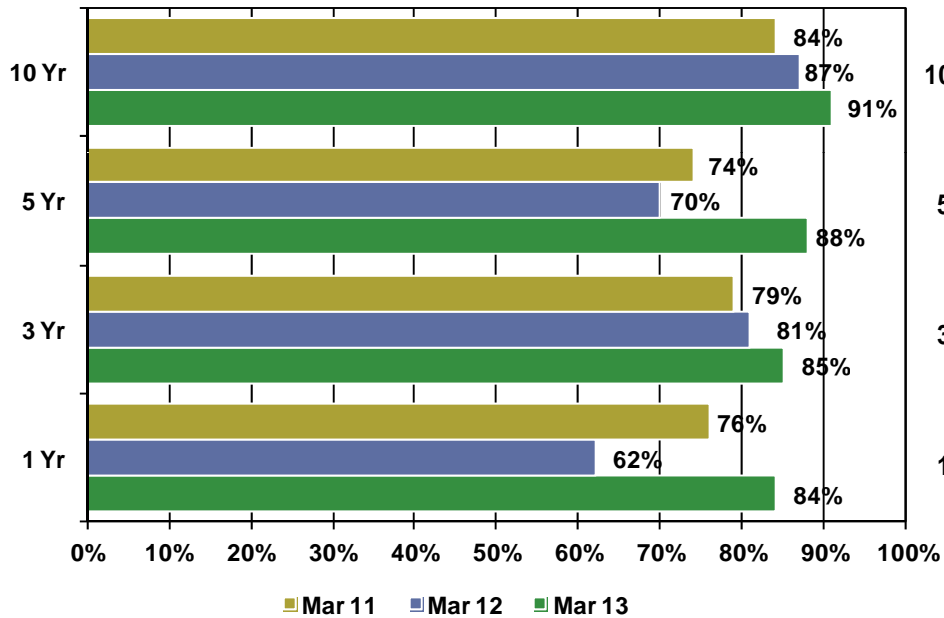
¹ Primary affiliates ordered by contribution to fiscal year 2013 pre-tax earnings

² Includes Global Currents Investment Management, LLC which operates as a division of ClearBridge

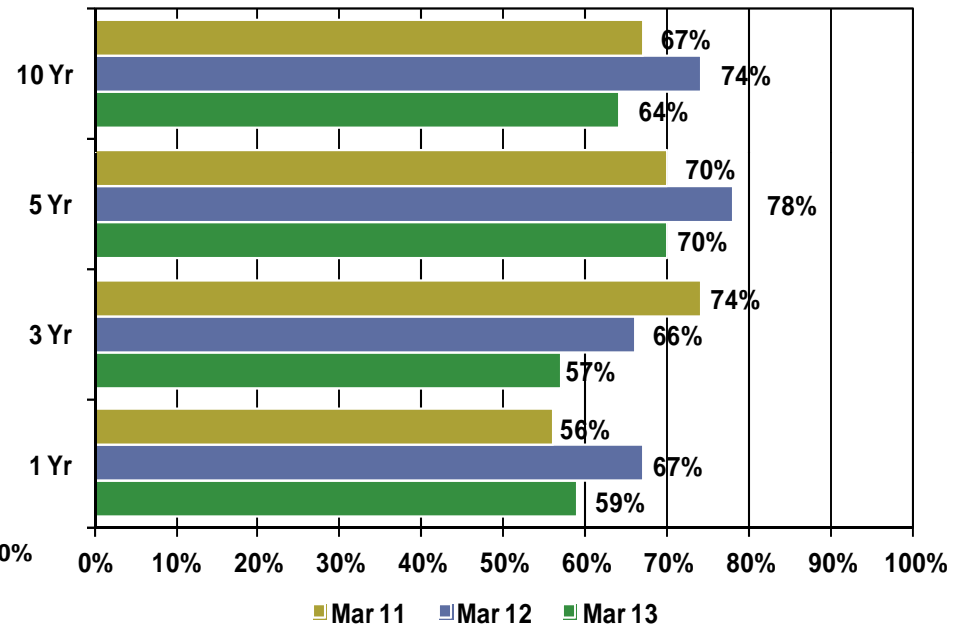
³ Mar 13 AUM includes the acquisition of Fauchier Partners

Investment Performance

% of Strategy AUM beating Benchmark¹



% of Long-Term U.S. Fund Assets beating Lipper Category Average²



¹ See appendix for details regarding strategy performance

² Includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.

Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ

Acknowledgement for Investment Performance in FY 2013



- Institutional Investor named Western Asset the US Fixed Income Core Manager of the Year for 2012
- Permal won two awards at the Hedge Fund Review's Americas Awards 2012 for Best Specialist FoHF over 10 years and Best Emerging Markets FoHF over one year
- Western won the Benchmark¹ Magazine House Award for "Best in Class" among Asian Fixed Income Funds
- ClearBridge won two Benchmark Magazine Fund of the Year Awards for 2012 under the US Large Cap Blend Equity and US Large Cap Growth categories
- Western Asset, ClearBridge, LMCM and Royce had a total of ten funds that were named "Category Kings" by the Wall Street Journal for 2012
- Brandywine's Global Fixed Income Fund won the 2013 Morningstar Asia Award in the Best Global Bond Category

Global Distribution

Total Long-Term AUM: \$232B

Distribution Highlights

- F4Q13 gross sales of \$16.0B, best quarter in over three years
- F4Q13 net outflows include \$3.3B of retail Japanese investor redemptions
- FY13 gross sales of \$57B up 15% from prior year
- FY13 net flows were the best since FY07
- FY13 US net outflows improved by \$7.5B

New Product Summary – FY13

	Income	Solutions	Alternatives
# of Products	US: 6 Int'l: 2	US: 3 Int'l: 5	US: 3 Int'l: 1
AUM ¹	\$1.6B	\$0.7B	\$0.3B

Quarterly Net Flows (\$B)

	FQ4	FQ3	Change
US	\$1.5	(\$3.2)	+\$4.7
Int'l	(\$2.2)	\$1.2	(\$3.4)
Total	(\$0.7)	(\$2.0)	+\$1.3

Fiscal Year Net Flows (\$B)

	FY13	FY12	Change
US	(\$0.6)	(\$8.1)	+\$7.5
Int'l	\$2.8	\$5.8	(\$3.0)
Total	\$2.2	(\$2.3)	+\$4.5

¹ As of March 31, 2013

Financial Highlights Fourth Quarter FY 2013

- Net Income of \$29M, \$0.23 per diluted share
 - Includes real estate related losses of \$52.8M or \$0.27 per diluted share
 - Also reflects \$8.5M or \$0.04 per diluted share of senior management restructuring costs
- Adjusted income¹ decreased to \$66.7M or \$0.52 per diluted share, compared to \$91.8M or \$0.70 per diluted share in prior quarter
- Average AUM of \$657B, up \$9B from prior quarter
 - Long-term average AUM increased \$1.8B compared to prior quarter
- Operating revenues \$668M, down \$6M or 1% from prior quarter
- Operating expenses \$625M, down from \$1.3B in the prior quarter which included an intangible asset impairment charge of \$734M
- Operating income \$43M, operating margin 6.4%
- Operating income, as adjusted¹, \$51M, operating margin, as adjusted¹, 9.7%
- Repurchased 3.7M shares in the March quarter and 16.2M during the fiscal year

¹ See Appendix for GAAP reconciliation

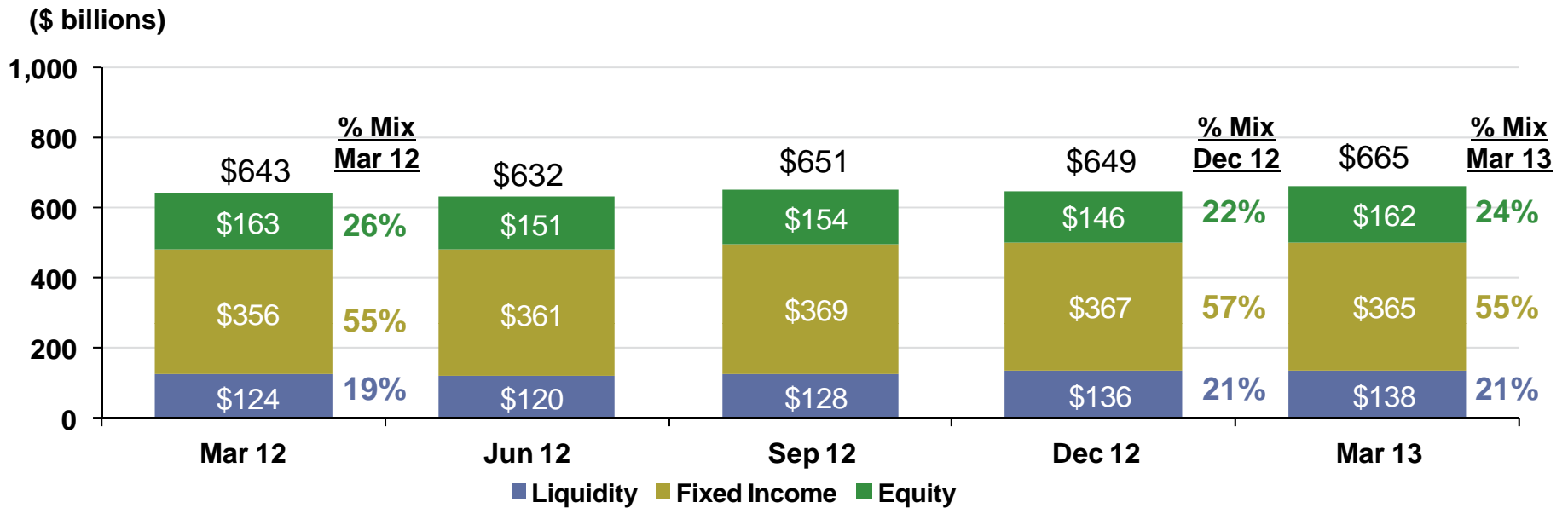
Operating Results Fourth Quarter FY 2013

(\$ millions, except per share amounts)	Mar 13 Qtr	Dec 12 Qtr	Mar 12 Qtr	FY 13	FY 12
Operating Revenues	\$ 667.8	\$ 673.9	\$ 648.6	\$ 2,612.6	\$ 2,662.6
Operating Expenses	624.8	1,307.2	576.4	3,047.1	2,323.8
Operating Income (loss)	43.0	(633.3)	72.2	(434.5)	338.8
Net Income (loss)	29.2	(453.9)	76.1	(353.3)	220.8
Diluted EPS	0.23	(3.45)	0.54	(2.65)	1.54
Adjusted Income¹	66.7	91.8	123.6	347.2	397.0
Adjusted Income per diluted share¹	0.52	0.70	0.88	2.61	2.77
Operating Margin, as adjusted¹	9.7%	19.8%	21.2%	16.8%	21.3%
Effective Tax Rate GAAP²	36.9%	28.2%	30.2%	29.5%	23.8%

¹ See Appendix for GAAP reconciliation

² Includes the impact of Consolidated Investment Vehicles (CIVs) of (1.1%), (0.2%), and (0.1%) in Mar 13, Dec 12, and Mar 12, respectively, and (0.5%) and (0.8%) in FY13 and FY12, respectively

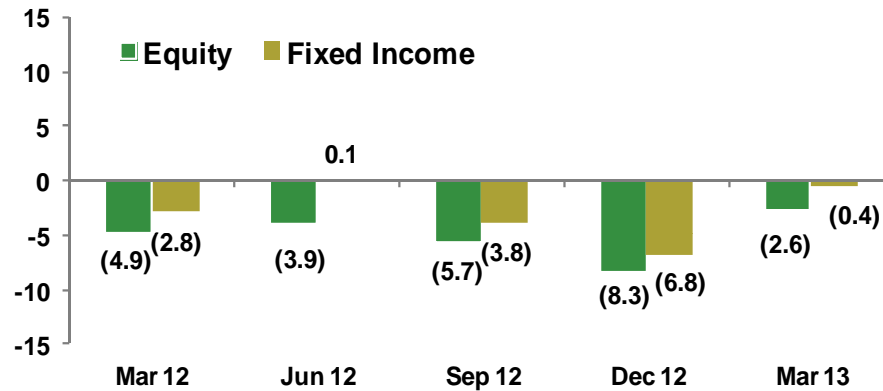
Assets Under Management by Asset Class



- AUM increased 2.5% or \$16B over prior quarter
- Increase over prior quarter driven by:
 - Market appreciation of \$12B (including negative FX impact of \$5B)
 - Increase in Permal AUM related to Fauchier acquisition

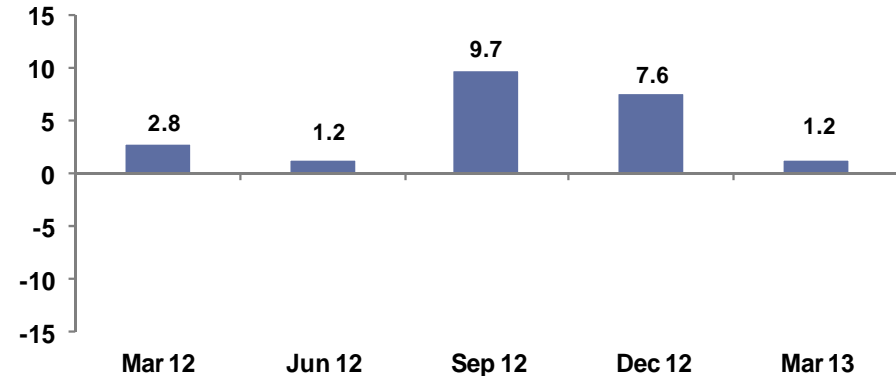
Net Flows

Long-Term Net Flows (\$B)



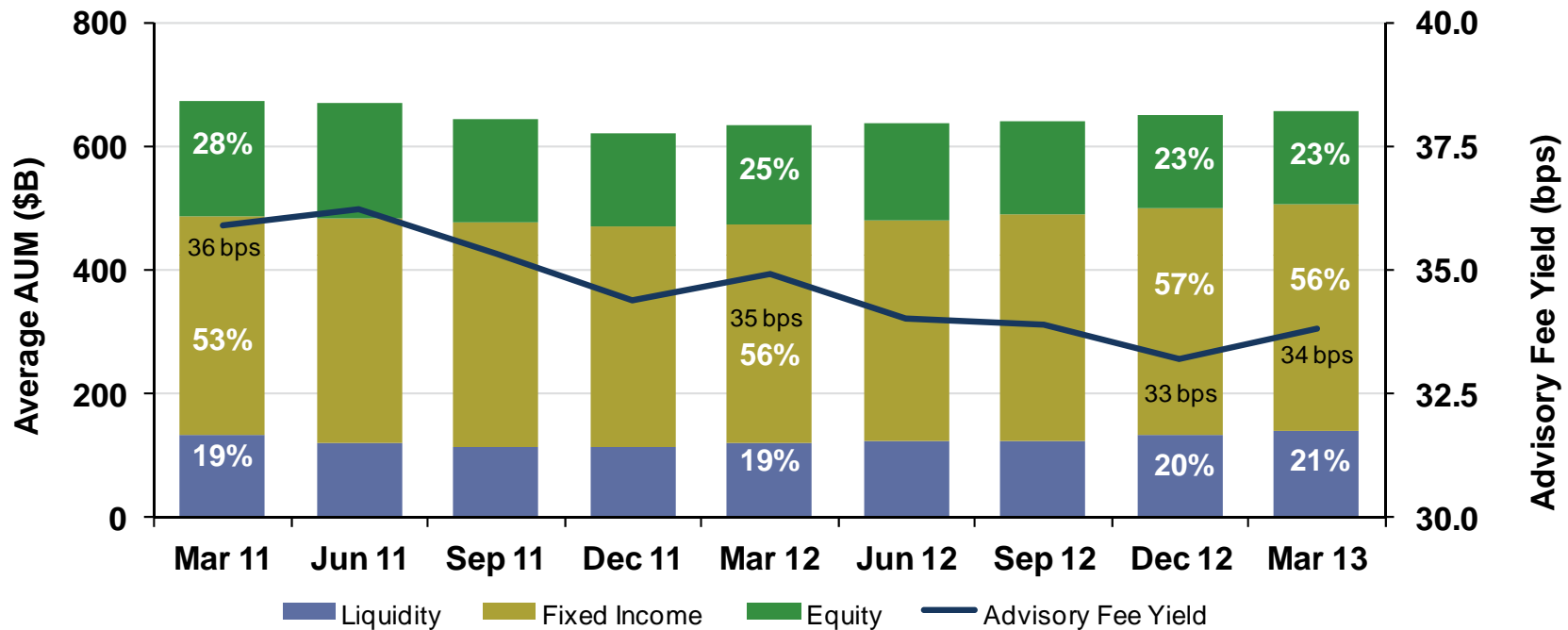
Annualized Organic Growth Rate	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13
	-6.1%	-2.9%	-7.4%	-11.5%	-2.4%

Liquidity Net Flows (\$B)



- Equity outflows decreased 69% from prior quarter
- Fixed Income outflows decreased 94% from prior quarter
 - Excluding Global Sovereign mandate redemptions of \$1.3B, Fixed Income flows were positive

Advisory Fee Yield / Average AUM



- Increase in advisory fee yield reflects an increase in higher yielding Equity AUM

Operating Expenses

(\$ millions)	Mar 13	Dec 12	% Chg	Mar 12	% Chg
Compensation and benefits	\$ 307.5	\$ 308.2	0%	\$ 299.3	3%
Distribution and servicing	142.3	143.4	(1%)	160.3	(11%)
Communications and technology	37.8	38.4	(2%)	39.2	(4%)
Occupancy	83.3	31.1	168%	29.5	182%
Amortization of intangible assets	3.5	3.5	0%	3.6	(3%)
Impairment of intangible assets	-	734.0	n/m	-	n/m
Other	50.4	48.6	4%	44.5	13%
Total Operating Expenses	<u>\$ 624.8</u>	<u>\$ 1,307.2</u>	(52%)	<u>\$ 576.4</u>	8%

- Operating expenses decreased 52% due to non-cash impairment of intangible assets in the prior quarter
- Occupancy expense increased due to real estate related losses in the quarter
- Other expenses increased due to higher fund and legal related costs

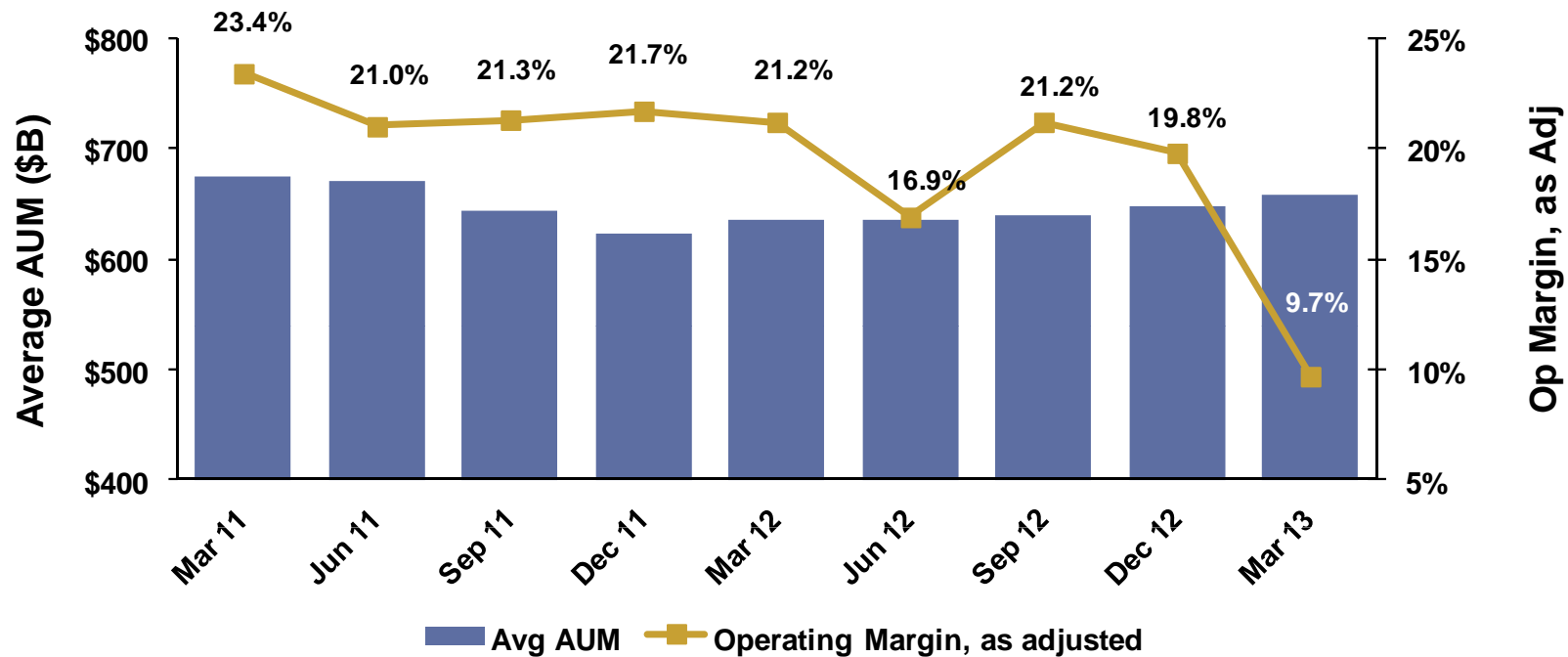
Compensation and Benefits

(\$ millions)	Mar 13	% of Net Rev. ¹	Dec 12	% of Net Rev. ¹	\$ Change
Salary and incentives	\$ 238.8	45%	\$ 249.5	47%	\$ (10.7)
Benefits and payroll taxes	<u>48.7</u>	<u>9%</u>	<u>51.8</u>	<u>10%</u>	<u>(3.1)</u>
Subtotal Compensation and benefits	287.5	55%	301.3	57%	(13.8)
Management transition costs and severance	12.8	2%	3.2	0%	9.6
MTM deferred comp. and seed investments	<u>7.2</u>	<u>1%</u>	<u>3.7</u>	<u>1%</u>	<u>3.5</u>
Total Compensation and Benefits	<u>\$ 307.5</u>	58%	<u>\$ 308.2</u>	58%	<u>(0.7)</u>

- Decline in salary and incentives reflects impact of lower performance fees. Prior quarter included costs related to Permal restructuring
- Decrease in benefits and payroll taxes driven by prior quarter acceleration of deferred compensation partially offset by seasonal benefit costs in current quarter
- Management transition costs includes \$8.5M of senior management restructuring costs in the current quarter
- Last quarter's impact of accelerated deferred compensation, Permal restructuring, and CEF launch on compensation ratio approximately 2%

¹ Net revenue is equal to operating revenues, as adjusted

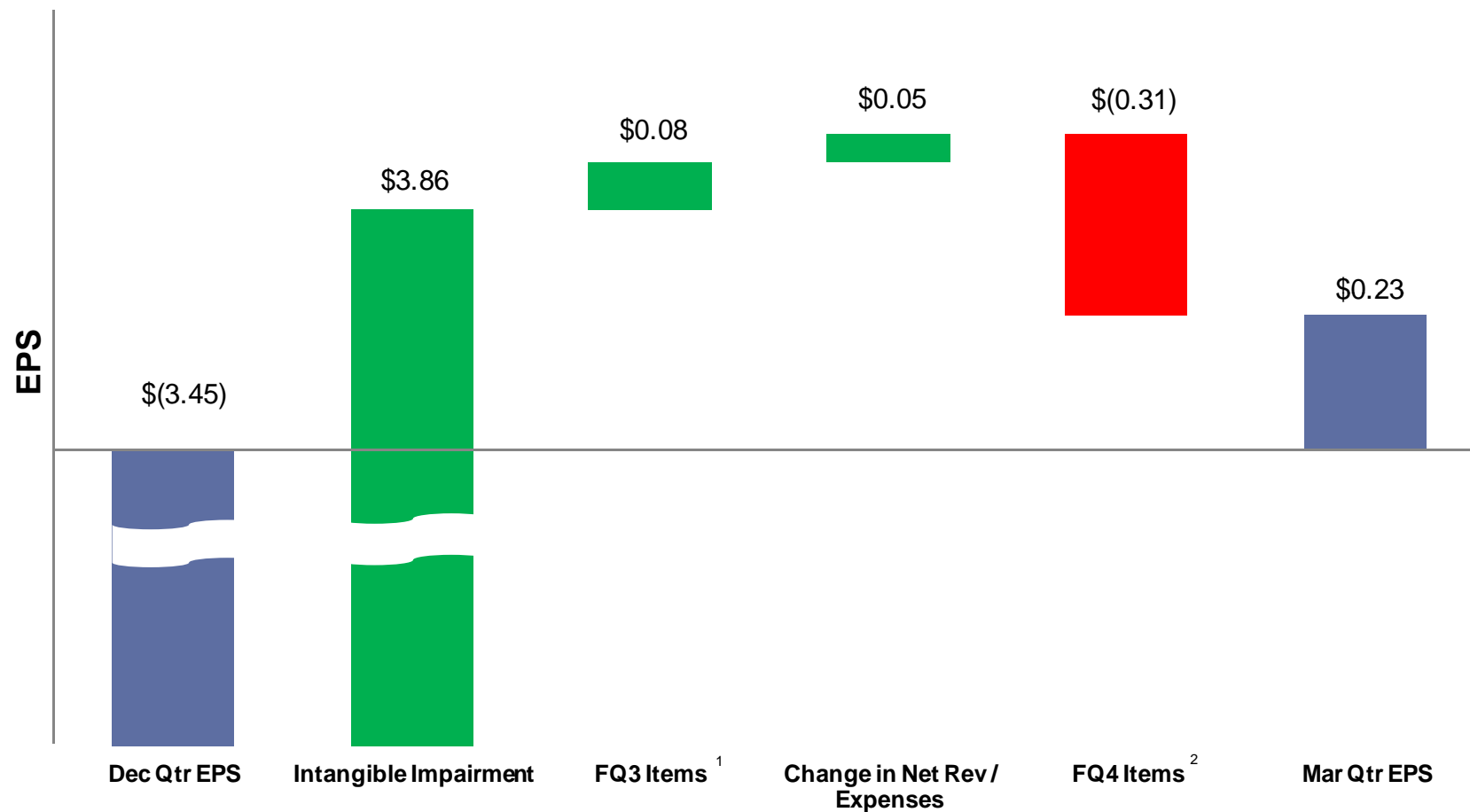
Operating Margin, as Adjusted



- Impact of real estate related losses and senior management restructuring costs of approximately 11% on operating margin, as adjusted
- Last quarter impact of accelerated deferred comp, Permal restructuring, CEF costs and one-time PPIP fee approximately 1%

Note: See Appendix for GAAP reconciliation

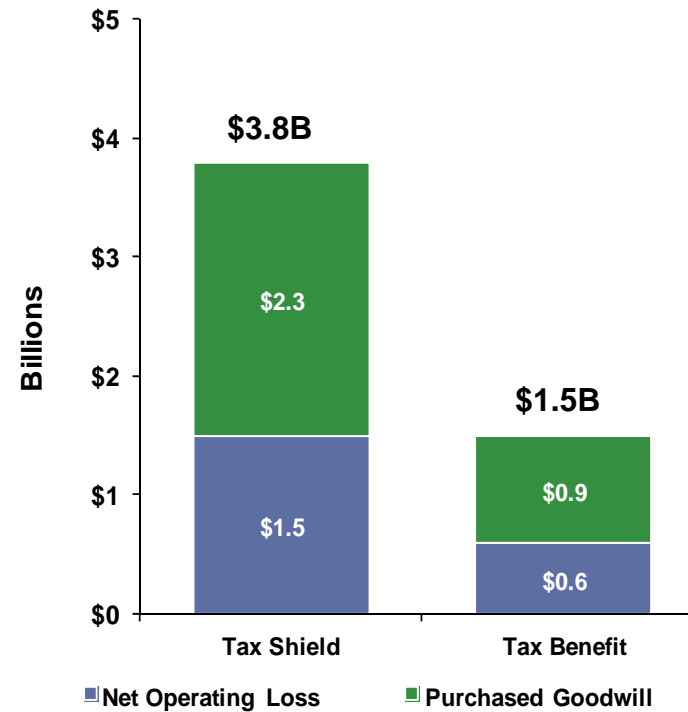
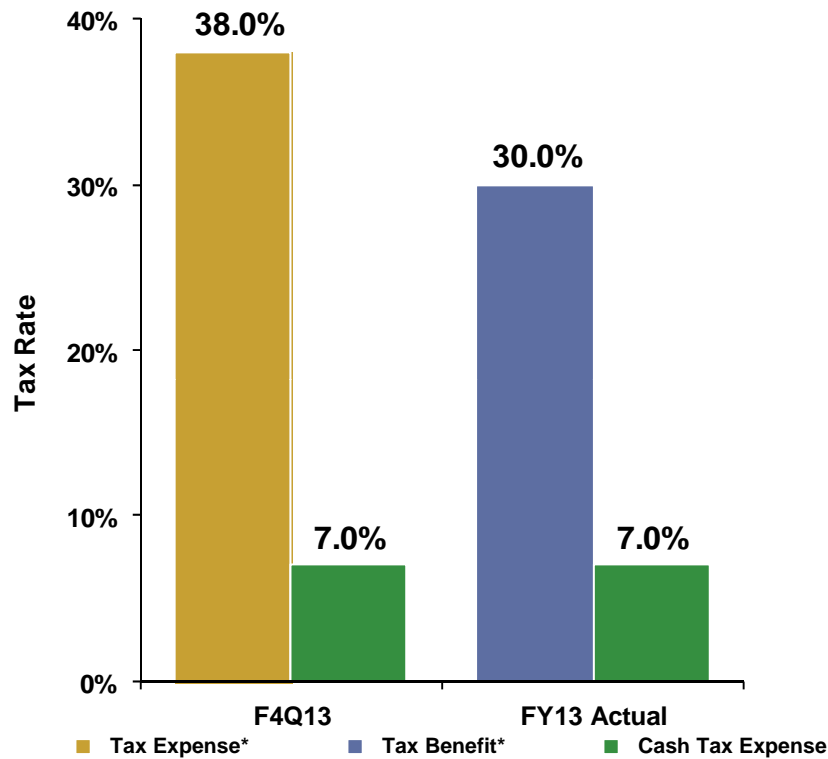
Fourth Quarter Earnings Per Share Rollforward



¹ Includes Permal restructuring, acquisition costs, management transition costs, net tax reserve adjustment, accelerated deferred compensation and CEF costs, partially offset by WAM PIPP performance fee

² Includes real estate related losses, management transition costs, CBI/LCM consolidation costs and lower deferred compensation expenses

Significant Tax Benefit - \$3.8B of Future Income Sheltered



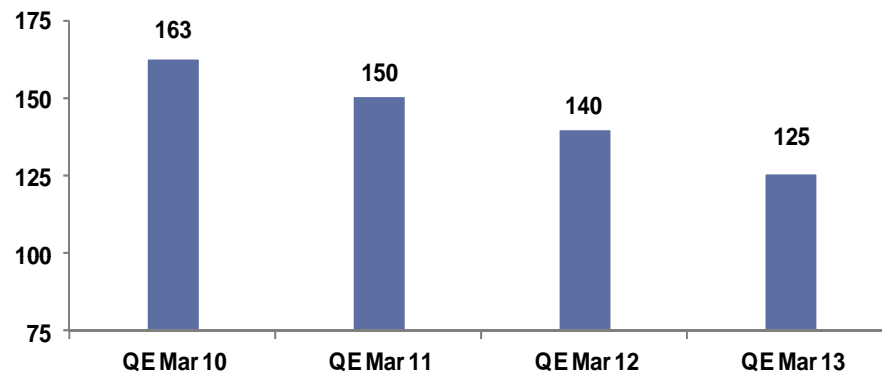
- FY13 tax benefit driven by non-cash impairment charge
- FY13 includes the impact of UK rate reductions in F2Q

- Future income of \$3.8 billion is sheltered from federal or state income tax, based on usage of NOL, FTC carryforwards and amortization of tax deductible goodwill

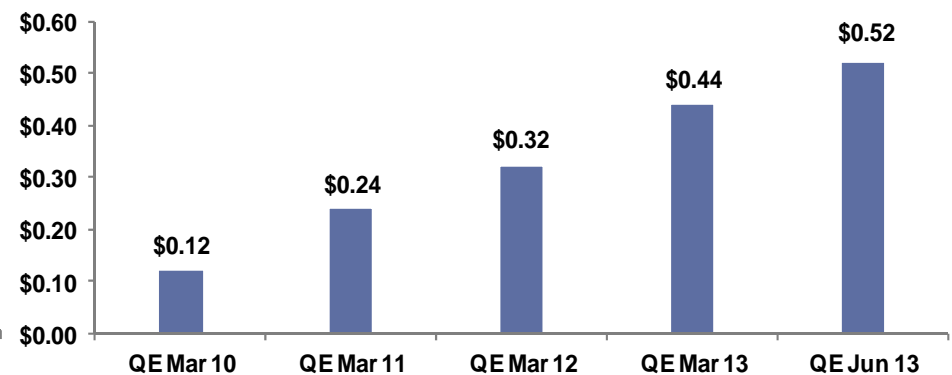
Data as of March 31, 2013
 * Excludes the impact of CIVs

Cash Position and Utilization

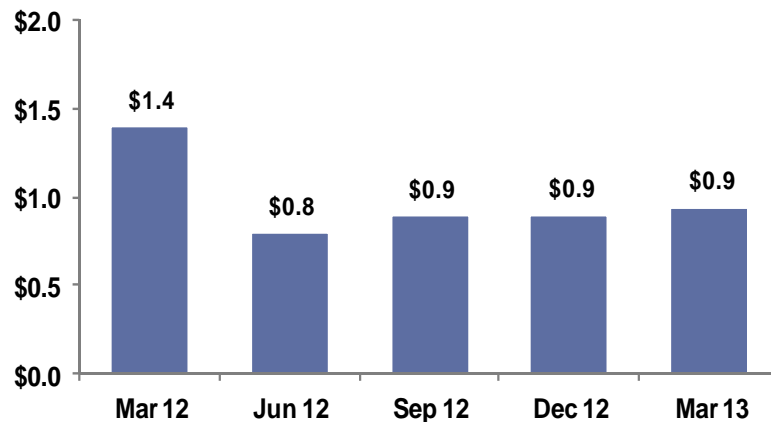
Share Outstanding (in Millions)



Annualized Quarterly Dividend (Per Share)



Quarterly Cash Position (in Billions)



- Shares outstanding has been reduced by 38M shares or 23% over the past three years
- Quarterly dividends per share have more than quadrupled since QE Mar 10

Creating Shareholder Value

Products	<ul style="list-style-type: none">• Launched over 20 new products with over \$3 billion of AUM• Acquired Fauchier Partners adding new product capabilities and distribution outlets for Permal products
Performance	<ul style="list-style-type: none">• Improved year over year performance in 1- year, 3-year, 5-year and 10-year Strategy performance vs. benchmark• Western Asset, Brandywine, ClearBridge, LMCM and Royce received various industry awards for performance
Distribution	<ul style="list-style-type: none">• Global distribution net flows are up \$4.5B from FY12• Significant improvement in US distribution sales and net flows• Improving persistency rate in US Distribution
Operating Efficiency	<ul style="list-style-type: none">• Occupancy consolidation resulting in future savings• LMCM/ClearBridge operations consolidation• Reduced debt and lowered interest expense

Returning Capital to Shareholders
Share Buybacks/Dividends

Appendix

Appendix – GAAP Reconciliation Adjusted Income¹

(\$ millions, except per share amounts)	Quarters Ended			Twelve Months Ended	
	Mar 13	Dec 12	Mar 12	Mar 13	Mar 12
Net Income (Loss) Attributable to Legg Mason, Inc.	\$ 29.2	\$ (453.9)	\$ 76.1	\$ (353.3)	\$ 220.8
Plus (less):					
Amortization of intangible assets	3.5	3.5	3.6	14.0	19.6
Loss on extinguishment of 2.5% senior notes, net of tax	-	-	-	54.9	-
Impairment of intangible assets	-	734.0	-	734.0	-
Deferred income taxes on intangible assets:					
Impairment charges	-	(225.7)	-	(225.7)	-
Tax amortization benefit	34.0	33.9	33.9	135.6	135.8
U.K. tax rate adjustment	-	-	-	(18.1)	(18.3)
Imputed interest on convertible debt (2.5% senior notes)	-	-	10.0	5.8	39.1
Adjusted Income	<u>\$ 66.7</u>	<u>\$ 91.8</u>	<u>\$ 123.6</u>	<u>\$ 347.2</u>	<u>\$ 397.0</u>
Net Income (Loss) per Diluted Share Attributable to Legg Mason, Inc. Common Shareholders	\$ 0.23	\$ (3.45)	\$ 0.54	\$ (2.65)	\$ 1.54
Plus (less):					
Amortization of intangible assets	0.03	0.03	0.03	0.11	0.14
Loss on extinguishment of 2.5% senior notes, net of tax	-	-	-	0.41	-
Impairment on intangible assets	-	5.58	-	5.51	-
Deferred income taxes on intangible assets:					
Impairment charges	-	(1.72)	-	(1.69)	-
Tax amortization benefit	0.26	0.26	0.24	1.02	0.95
U.K. tax rate adjustment	-	-	-	(0.14)	(0.13)
Imputed interest on convertible debt (2.5% senior notes)	-	-	0.07	0.04	0.27
Adjusted Income per Diluted Share	<u>\$ 0.52</u>	<u>\$ 0.70</u>	<u>\$ 0.88</u>	<u>\$ 2.61</u>	<u>\$ 2.77</u>

¹ See explanations for Use of Supplemental Data as Non-GAAP Financial Information in earnings release.

Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

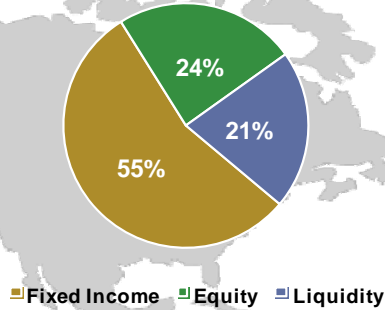
(\$ millions)	Quarters Ended									Twelve Months Ended	
	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Mar 12	Mar 13
Operating Revenues, GAAP basis	\$ 713.4	\$ 717.1	\$ 669.9	\$ 627.0	\$ 648.6	\$ 630.7	\$ 640.3	\$ 673.9	\$ 667.8	\$ 2,662.6	\$ 2,612.7
Plus (less):											
Operating revenues eliminated upon consolidation of investment vehicles	1.2	1.1	0.6	0.8	0.7	0.6	0.6	0.6	0.6	3.1	2.4
Distribution and servicing expense excluding consolidated investment vehicles	(174.8)	(180.8)	(160.4)	(148.3)	(160.3)	(169.8)	(145.1)	(143.4)	(142.3)	(649.7)	(600.6)
Operating Revenues, as Adjusted	<u>\$ 539.8</u>	<u>\$ 537.4</u>	<u>\$ 510.1</u>	<u>\$ 479.5</u>	<u>\$ 489.0</u>	<u>\$ 461.5</u>	<u>\$ 495.8</u>	<u>\$ 531.1</u>	<u>\$ 526.1</u>	<u>\$ 2,016.0</u>	<u>\$ 2,014.5</u>
Operating Income (Loss), GAAP basis	\$ 99.1	\$ 100.4	\$ 106.9	\$ 59.3	\$ 72.2	\$ 76.1	\$ 79.7	\$ (633.3)	\$ 43.0	\$ 338.8	\$ (434.5)
Plus (less):											
Gains (losses) on deferred compensation and seed investments	10.2	(2.4)	(14.2)	1.7	28.7	1.2	24.4	3.7	7.2	13.8	36.5
Transition-related costs	15.7	13.7	15.1	42.3	1.9	-	-	-	-	73.1	-
Impairment of intangible assets	-	-	-	-	-	-	-	734.0	-	-	734.0
Operating income and expenses of consolidated investment vehicles	1.4	1.2	0.8	0.9	0.9	0.6	0.9	0.7	0.8	3.6	3.0
Operating Income, as Adjusted	<u>\$ 126.4</u>	<u>\$ 112.9</u>	<u>\$ 108.6</u>	<u>\$ 104.2</u>	<u>\$ 103.7</u>	<u>\$ 77.9</u>	<u>\$ 105.0</u>	<u>\$ 105.1</u>	<u>\$ 51.0</u>	<u>\$ 429.3</u>	<u>\$ 339.0</u>
Operating Margin, GAAP basis	13.9%	14.0%	16.0%	9.5%	11.1%	12.1%	12.5%	-94.0%	6.4%	12.7%	-16.6%
Operating Margin, as Adjusted	23.4%	21.0%	21.3%	21.7%	21.2%	16.9%	21.2%	19.8%	9.7%	21.3%	16.8%

¹ See explanations for Use of Supplemental Data as Non-GAAP Financial Information in earnings release.

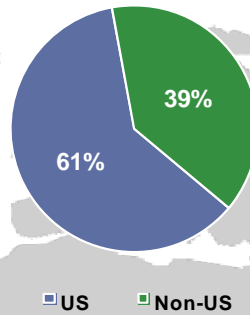
Appendix - Asset & Revenue Diversity

Total AUM \$665B

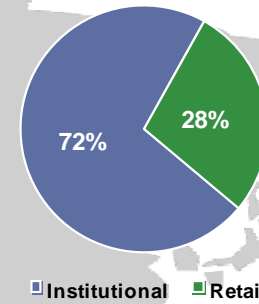
AUM by Asset Class



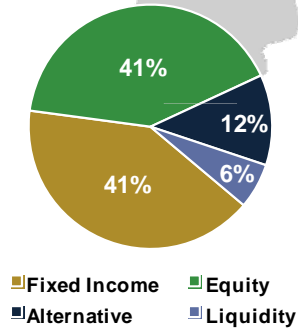
AUM by Client Domicile



AUM by Client



FY 2013 Gross Revenues \$2,613M

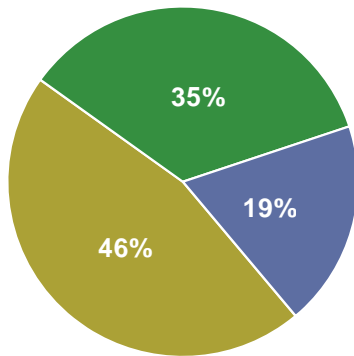


Data as of March 31, 2013

Appendix - Global Distribution

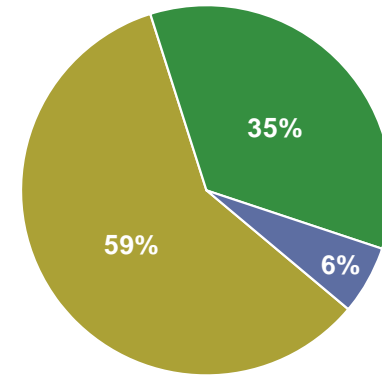
Total Long-Term AUM: \$232B

AUM by Channel



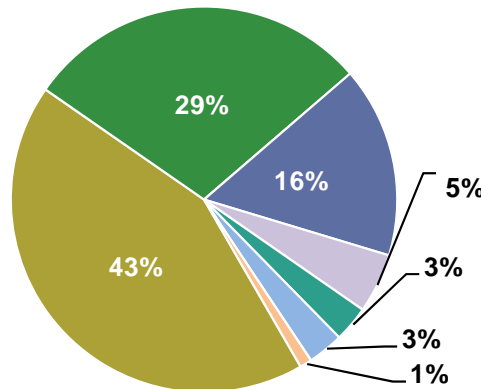
■ US Retail ■ US Individual ■ International

AUM by Product



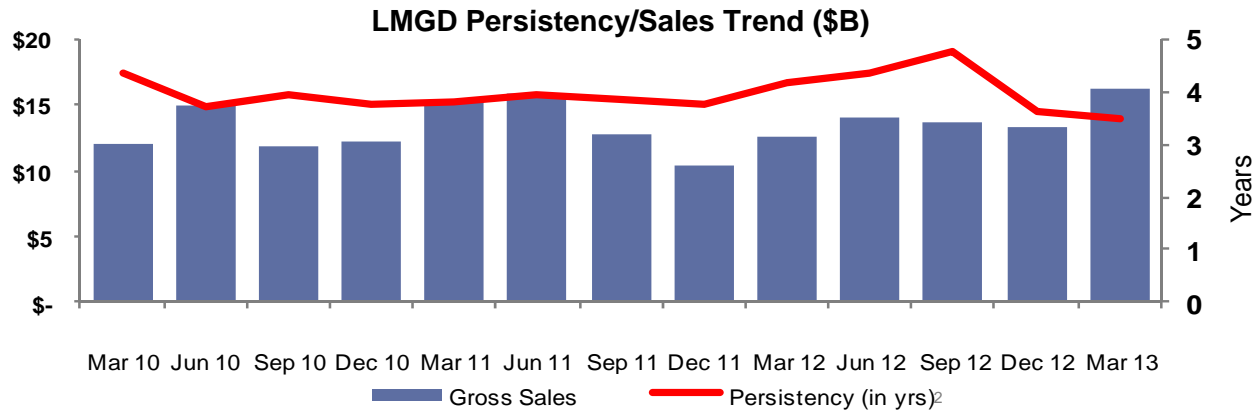
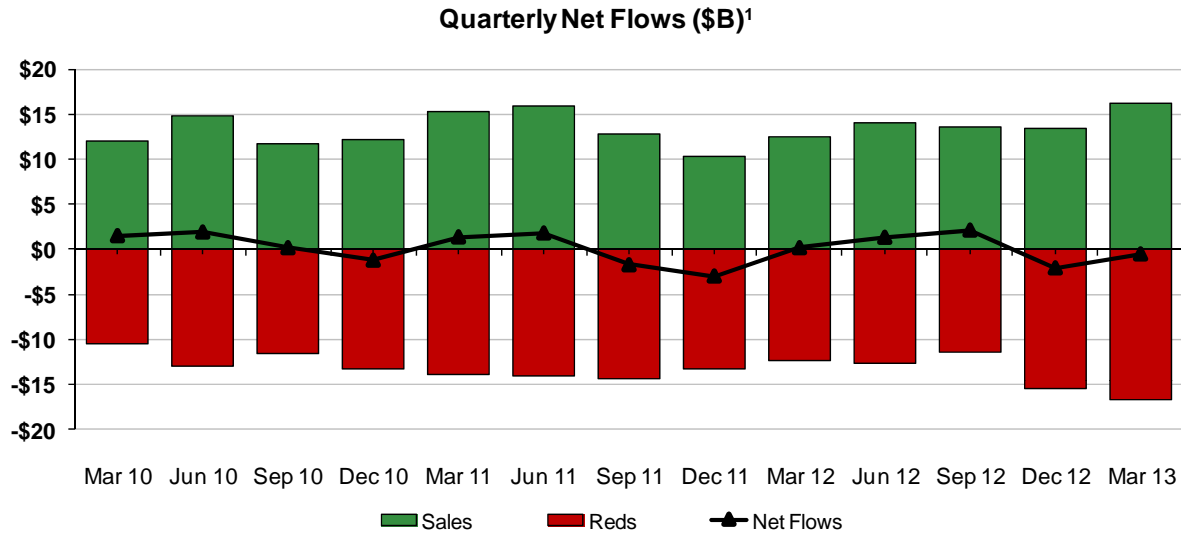
■ Funds ■ SMA/Sep Accts ■ Closed End

AUM by Affiliate



■ WAM ■ CB/GC ■ Royce ■ BGIM
 ■ BFM ■ LMCM ■ LM Glob Eq

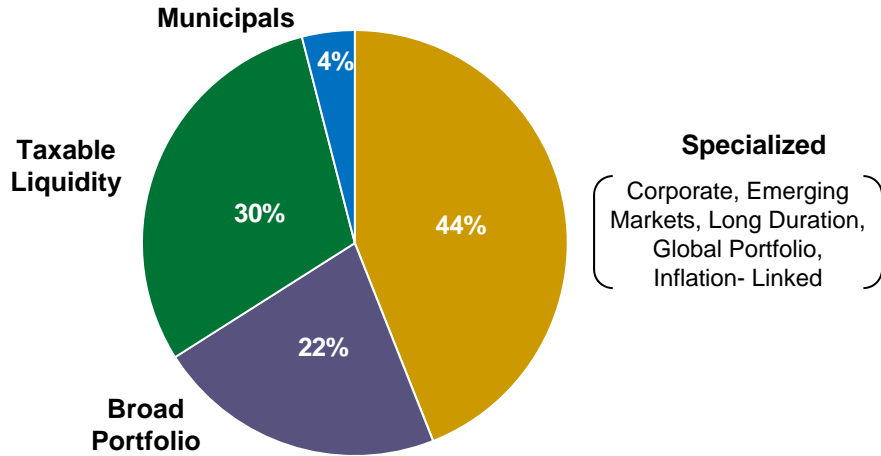
Appendix - Global Distribution Flow Trends



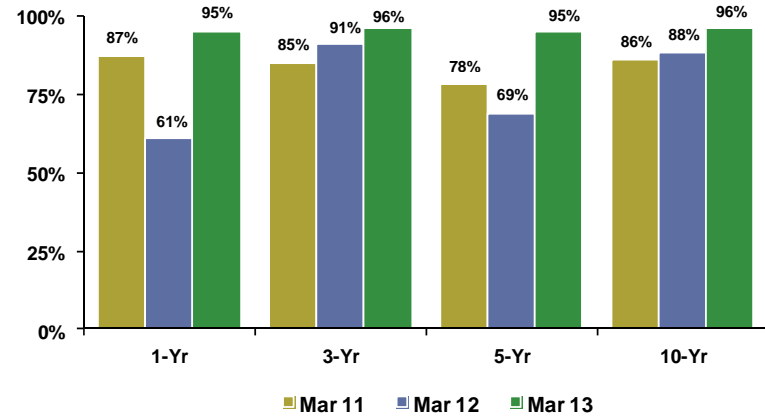
¹ Represents long-term sales, redemptions and net flows by Legg Mason's centralized global distribution platform
² Expected life of an asset based on current redemption rates

Appendix - Western Asset Update

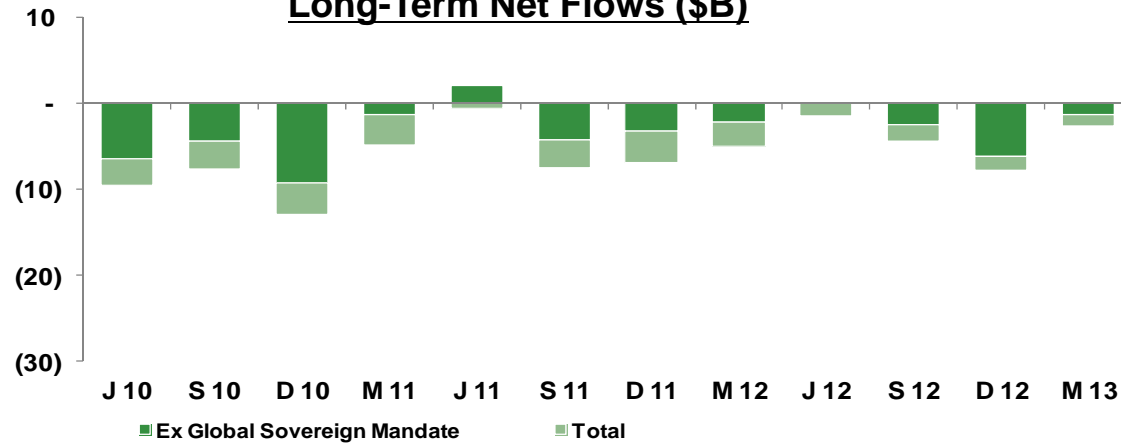
Total AUM by Mandate: \$459B



% of Strategy AUM Beating Benchmark¹



Long-Term Net Flows (\$B)



¹ Western Asset marketed strategy assets including liquidity

Appendix – Additional Investment Performance Detail

% of Strategy AUM Beating Benchmark¹

	March 31, 2013				March 31, 2012			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (includes liquidity)	84%	85%	88%	91%	62%	81%	70%	87%
Equity:								
Large cap	65%	68%	88%	80%	66%	43%	66%	78%
Small cap	13%	15%	27%	62%	49%	63%	88%	89%
Total equity (includes other equity)	48%	50%	62%	71%	53%	52%	66%	80%
Fixed income:								
US taxable	96%	94%	91%	90%	66%	95%	61%	89%
US tax-exempt	100%	100%	100%	100%	2%	2%	2%	1%
Global taxable	89%	94%	95%	98%	38%	93%	70%	97%
Total fixed income	94%	94%	93%	94%	51%	87%	60%	84%

¹ See appendix for details regarding strategy performance

Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ

Appendix – Additional Investment Performance Detail

% of Long-Term U.S. Fund Assets beating Lipper Category Average¹

	March 31, 2013				March 31, 2012			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (excludes liquidity)	59%	57%	70%	64%	67%	66%	78%	74%
Equity:								
Large cap	90%	79%	77%	40%	78%	51%	48%	45%
Small cap	27%	16%	48%	68%	44%	63%	93%	98%
Total equity (includes other equity)	56%	44%	59%	53%	57%	56%	73%	71%
Fixed income:								
US taxable	74%	92%	85%	90%	76%	91%	82%	83%
US tax-exempt	50%	57%	86%	84%	91%	70%	91%	82%
Global taxable	71%	74%	95%	54%	96%	81%	87%	83%
Total fixed income	64%	76%	87%	85%	84%	81%	87%	83%

¹ Includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.

Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ

Appendix – Strategy Performance

For purposes of investment performance comparisons, strategies are an aggregation of discretionary portfolios (separate accounts, investment funds, and other products) into a single group that represents a particular investment objective. In the case of separate accounts, the investment performance of the account is based upon the performance of the strategy to which the account has been assigned. Each of our asset managers has its own specific guidelines for including portfolios in their strategies. For those managers which manage both separate accounts and investment funds in the same strategy, the performance comparison for all of the assets is based upon the performance of the separate account.

Ninety percent of total AUM is included in strategy AUM as of March 31, 2013, although not all strategies have three, five, and ten year histories. Total strategy AUM includes liquidity assets. Certain assets are not included in reported performance comparisons. These include: accounts that are not managed in accordance with the guidelines outlined above; accounts in strategies not marketed to potential clients; accounts that have not yet been assigned to a strategy; and certain smaller products at some of our affiliates.

Past performance is not indicative of future results. For AUM included in institutional and retail separate accounts and investment funds managed in the same strategy as separate accounts, performance comparisons are based on gross-of-fee performance. For investment funds (including fund-of-hedge funds) which are not managed in a separate account format, performance comparisons are based on net-of-fee performance. These performance comparisons do not reflect the actual performance of any specific separate account or investment fund; individual separate account and investment fund performance may differ. The information in this presentation is provided solely for use in connection with this presentation, and is not directed toward existing or potential clients of Legg Mason.