

January 31, 2014

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# Fiscal Third Quarter Review



Joseph A. Sullivan  
Chief Executive Officer

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Chief Financial Officer

# Important Disclosures

## 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, 2013 and in the Company’s quarterly reports on Form 10-Q, and “Risk Factors” in the Company’s Prospectus Supplement dated January 16, 2014 and filed with the U.S. Securities and Exchange Commission on January 17, 2014.

## Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures. These non-GAAP measures are in addition to, not a substitute for or superior to, measures of financial performance determined in accordance with GAAP. The company undertakes no obligation to update the information contained in this presentation to reflect subsequently occurring events or circumstances.

# Company Highlights

## Fiscal Third Quarter

- Net Income \$81.7M or \$0.67 per diluted share
- Purchased 2.3M shares for \$90M
- Long-term flows improved by \$3.7B
  - Fixed income flows positive for three consecutive quarters
- 80% or greater of strategy AUM exceeds benchmarks for all periods

## Recent Announcements

- Hired Thomas K. Hoops as Head of Business Development
- Refinanced bank term loan, significantly extending maturity and locking in a fixed rate at current historical lows
- S&P affirmed BBB rating and changed outlook to Positive from Stable

## Assets Under Management (\$ billions)

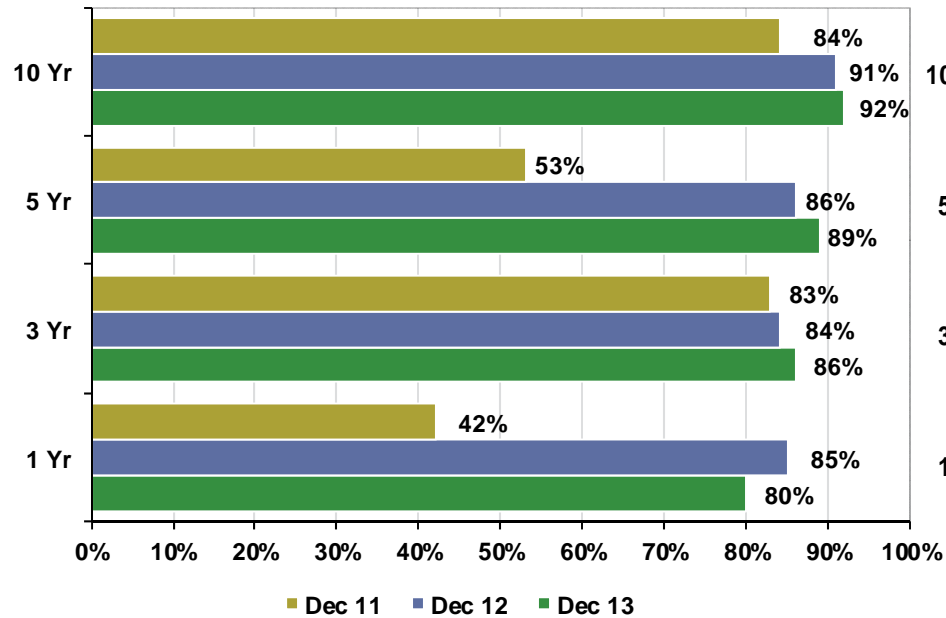
AUM by Affiliate <sup>1</sup>	Dec 13 AUM	Sep 13 AUM	Dec 12 AUM	% Change vs.	
				Sep 13	Dec 12
Western Asset	\$ 450.6	\$ 441.5	\$ 461.7	2%	(2)%
ClearBridge	86.2	77.3	57.5	12%	50%
Royce & Associates	39.9	38.6	35.3	3%	13%
Permal Group <sup>2</sup>	20.0	20.0	16.1	-	24%
Brandywine	50.0	47.8	42.9	5%	17%
Batterymarch	10.7	10.9	12.5	(2)%	(14)%

<sup>1</sup> Primary affiliates ordered by contribution to fiscal year to date 2014 pre-tax earnings

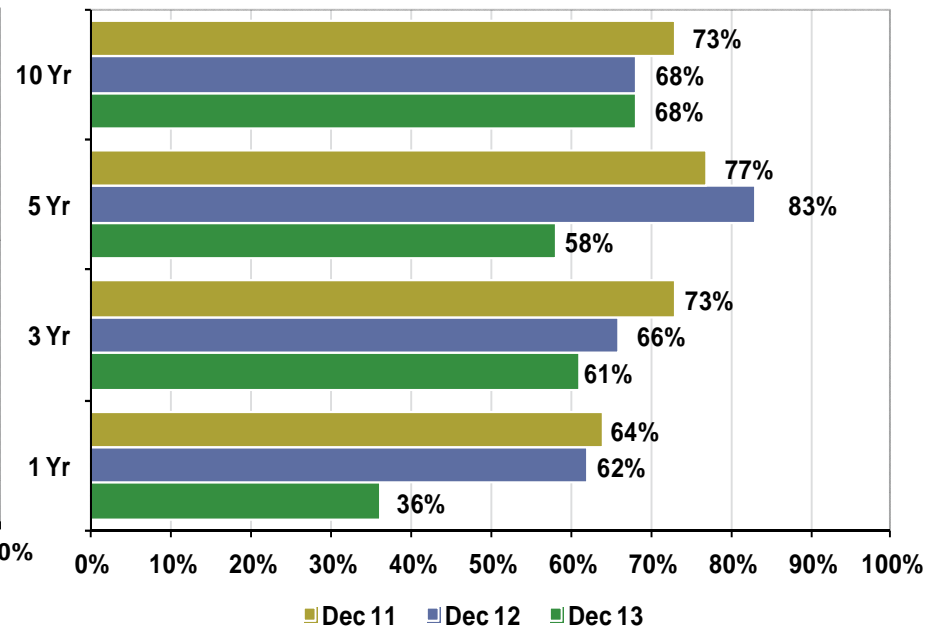
<sup>2</sup> Includes the acquisition of Fauchier Partners beginning March 2013

# Investment Performance

% of Strategy AUM beating Benchmark<sup>1</sup>



% of Long-Term U.S. Fund Assets beating Lipper Category Average<sup>2</sup>



<sup>1</sup> See appendix for details regarding strategy performance

<sup>2</sup> 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

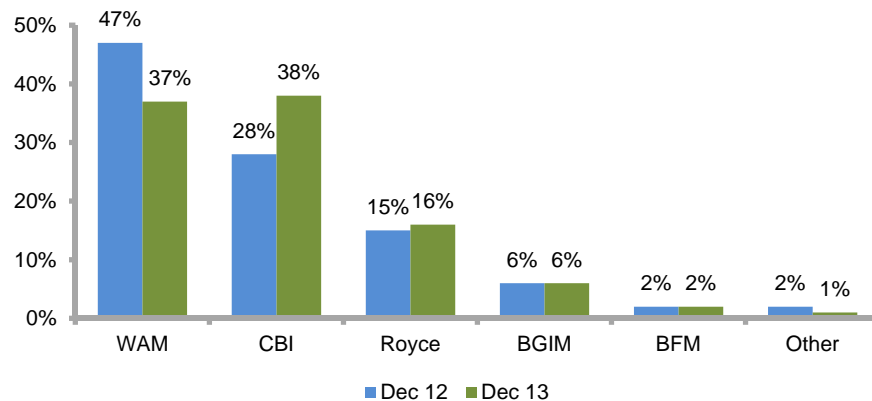
# Global Distribution

**Total Long-Term AUM: \$242.6B<sup>1</sup>**

(\$ Billions)	F3Q14	F2Q14	Change
<b>Gross Sales:</b>			
US	\$11.4	\$ 9.8	\$ 1.6
Int'l	5.8	5.7	0.1
<b>Total</b>	<b>\$17.2</b>	<b>\$15.5</b>	<b>\$ 1.7</b>
<b>Net Flows</b>			
US	\$ -	(\$ 0.7)	\$ 0.7
Int'l	1.7	(1.6)	3.3
<b>Total</b>	<b>\$ 1.7</b>	<b>(\$ 2.3)</b>	<b>\$ 4.0</b>

(\$ Billions)	FYTD14	FYTD13	Change
<b>Gross Sales:</b>			
US	\$31.6	\$25.6	\$6.0
Int'l	18.1	15.0	3.1
<b>Total</b>	<b>\$49.7</b>	<b>\$40.6</b>	<b>\$9.1</b>
<b>Net Flows</b>			
US	(\$1.7)	(\$2.1)	\$0.4
Int'l	0.1	5.0	(4.9)
<b>Total</b>	<b>(\$1.6)</b>	<b>\$2.9</b>	<b>(\$4.5)</b>

**% of Global Distribution Assets by Affiliate**



## Top Funds Driving Gross Sales FYTD

- ClearBridge Aggressive Growth Fund
- ClearBridge American Energy MLP Fund Inc
- ClearBridge Small Cap Growth Fund
- Legg Mason ClearBridge US Aggressive Growth Fund
- Legg Mason Brandywine Global Opportunities Bond Fund
- Legg Mason Brandywine Global Fixed Income Fund
- Legg Mason Brandywine Absolute Return Opportunities Fund
- LM BW Global Fixed Income Absolute Return Fund
- Legg Mason Royce US Small Cap Opportunity Fund
- Legg Mason Western Asset Global High Yield Fund
- Western Asset Core Plus Bond Fund
- Western Asset Short Duration Municipal Income Fund

# Financial Highlights Third Quarter FY 2014

- Net Income of \$82M, \$0.67 per diluted share
- Adjusted income<sup>1</sup> increased to \$125M or \$1.03 per diluted share, compared to \$104M or \$0.85 per diluted share in prior quarter
- Average AUM of \$670B, up \$19.6B or 3% from prior quarter
  - Long-term average AUM increased \$15.1B compared to prior quarter
- Operating revenues \$720M, up \$50M or 8% from the prior quarter
  - Includes \$33M increase in performance fees or \$0.11 per diluted share
- Operating expenses \$598M, up \$35M or 6% from the prior quarter
  - Reflects higher Compensation & Benefits largely related to increased revenues
  - Includes \$2.8 million in incremental costs related to corporate initiatives which totaled \$12.3M or \$0.07 per diluted share
  - Includes \$5M or \$0.04 per diluted share expense related to Fauchier contingent consideration liability
- Operating income \$122M, operating margin 16.9%
- Operating income, as adjusted, \$138M, operating margin, as adjusted, 24.1%
- Repurchased 2.3M shares for \$90M

<sup>1</sup> See appendix for GAAP reconciliation

# Operating Results Third Quarter FY 2014

(\$ millions, except per share amounts)	Dec 13 Qtr	Sep 13 Qtr	Dec 12 Qtr	\$ Change vs.	
				Sep 13	Dec 12
<b>Operating Revenues</b>	\$ 720.1	\$ 669.9	\$ 673.9	\$ 50.2	\$ 46.2
<b>Operating Expenses</b>	598.4	563.5	1,307.2	34.9	(708.8)
<b>Operating Income (loss)</b>	121.7	106.4	(633.3)	15.3	755.0
<b>Net Income (loss)</b>	81.7	86.3	(453.9)	(4.6)	535.6
<b>Diluted EPS</b>	0.67	0.70	(3.45)	(0.03)	4.12
<b>Adjusted Income<sup>1</sup></b>	124.6	104.5	91.8	20.1	32.8
<b>Adjusted Income per diluted share<sup>1</sup></b>	1.03	0.85	0.70	0.18	0.33
<b>Operating Margin, as adjusted<sup>1, 2</sup></b>	24.1%	22.3%	20.4%		
<b>Effective Tax Rate GAAP<sup>3</sup></b>	36.5%	17.9%	28.2%		

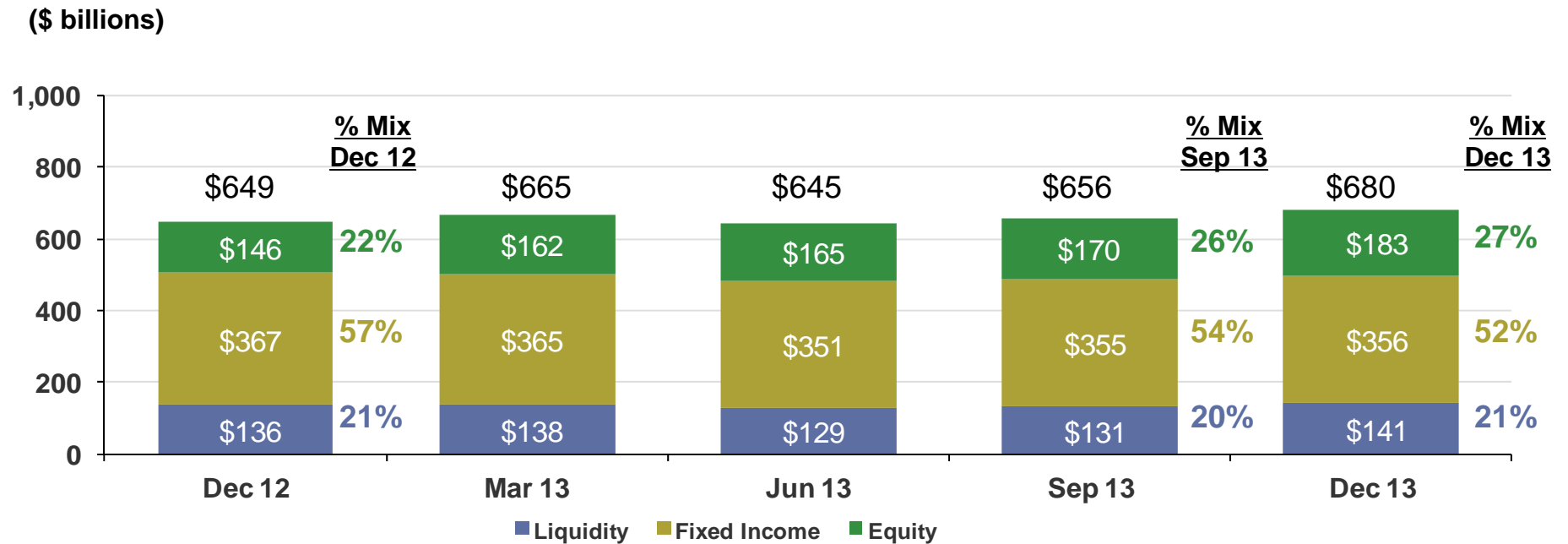
<sup>1</sup> See Appendix for GAAP reconciliation

<sup>2</sup> Operating margin, as adjusted restated for all periods to exclude intangible amortization

<sup>3</sup> Includes the impact of Consolidated Investment Vehicles (CIVs) of 0.5%, (0.2%), and (0.2%) in Dec 13, Sep 13, and Dec 12, respectively.

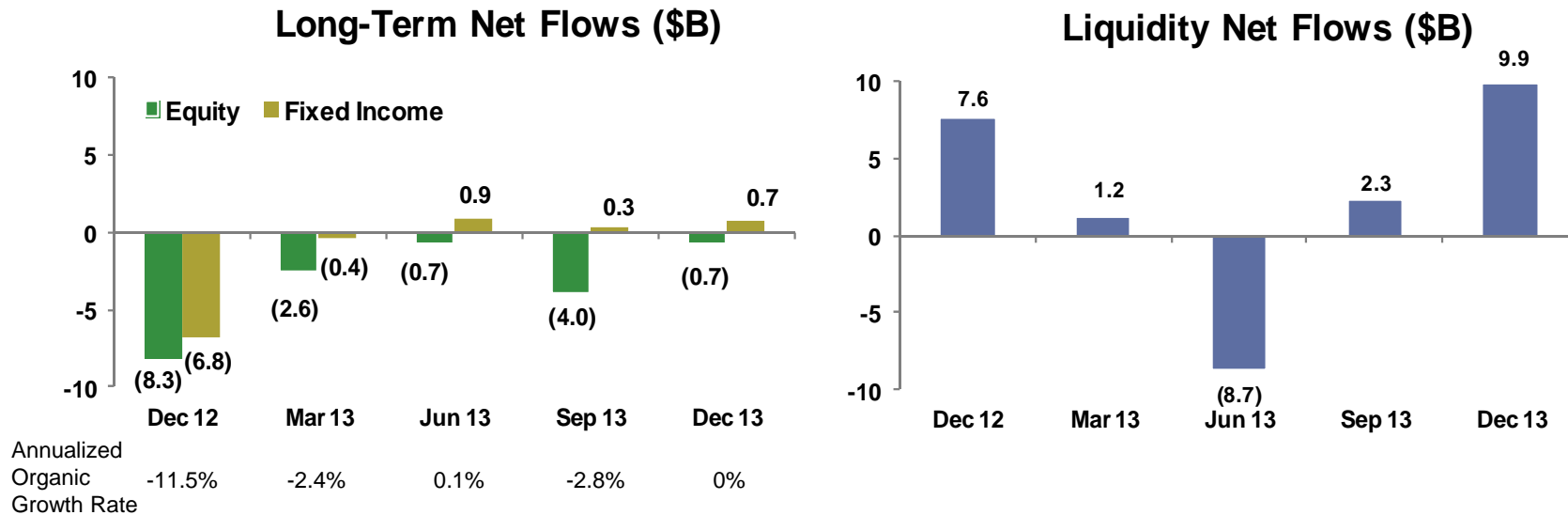


# Assets Under Management by Asset Class



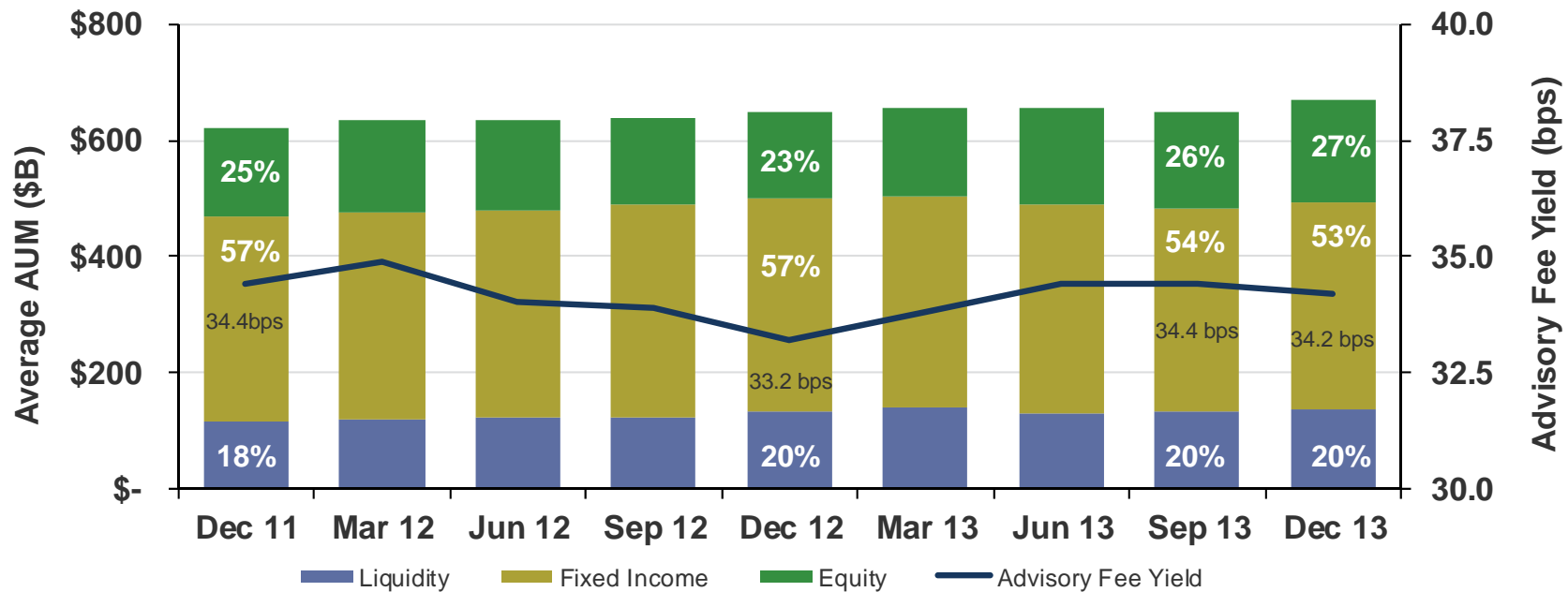
- AUM increased 4% or \$23.5B from prior quarter
- Increase driven by:
  - Market appreciation of \$13.6B (including negative FX impact of \$3.6B)
  - Liquidity inflows of \$9.9B
- Equity AUM increased to 27% of total AUM

# Net Flows



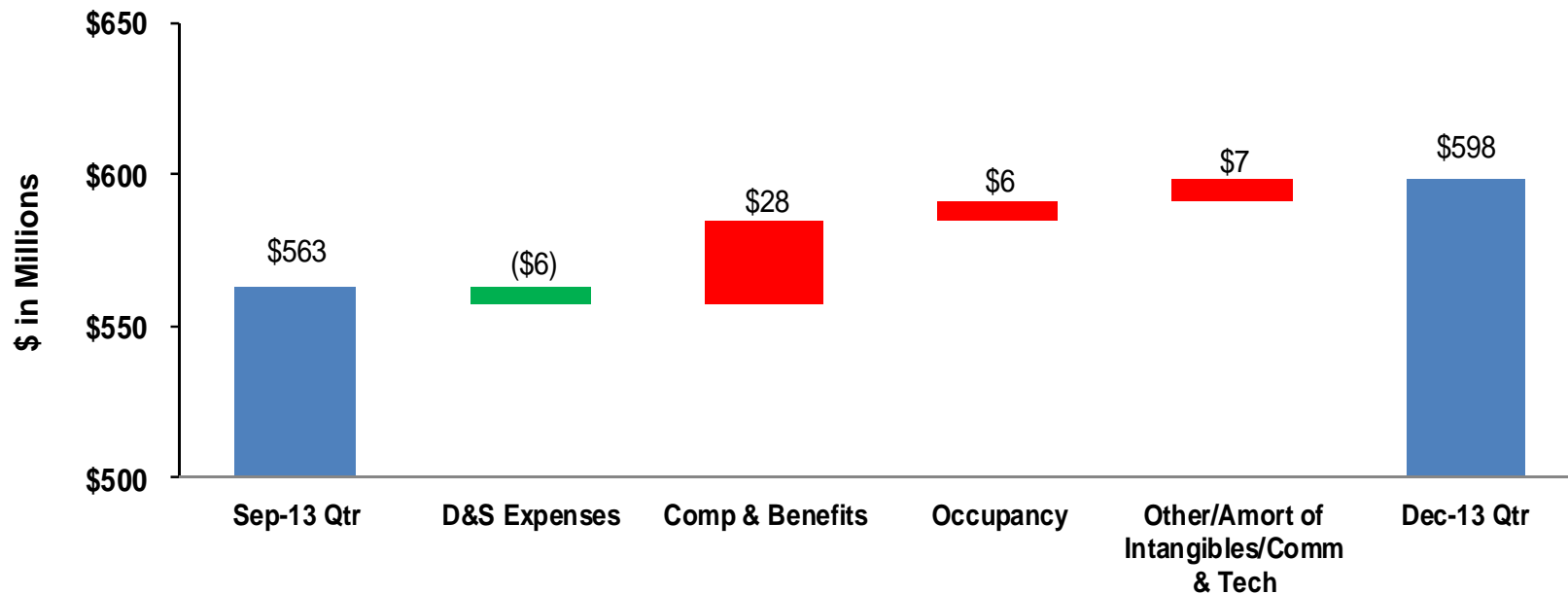
- Equity outflows improved \$3.3B from the prior quarter
  - Prior quarter included a loss of a \$1.2B global equity mandate and \$0.6B large cap mandate as well as \$0.7B of outflows related to the Esemplia wind-down
  - Current quarter benefited from large cap inflows, partially offset by continued small cap outflows
- Fixed Income flows were positive for the third quarter in a row
  - Inflows from specialized mandates were partially offset by municipal outflows

# Advisory Fee Yield / Average AUM



- Total average AUM up \$19.6B or 3%. Average equity AUM up \$10.1B accounting for more than half of the total change
- Advisory fee rate reflects a modest shift in mix of AUM from retail to institutional business at lower yields

# Operating Expenses



- Decrease in D&S expenses driven by accrual adjustments related to third party payments of \$3M. Prior quarter included \$2M of closed-end fund structuring fees
- Increase in comp & benefits driven by higher affiliate incentives related to revenues
- Increase in occupancy costs reflects \$3M of lease termination and depreciation charges related to corporate initiatives. Prior quarter included \$3M lease reserve credits
- Increase in other expenses largely due to \$5M charge related to Fauchier contingent consideration liability

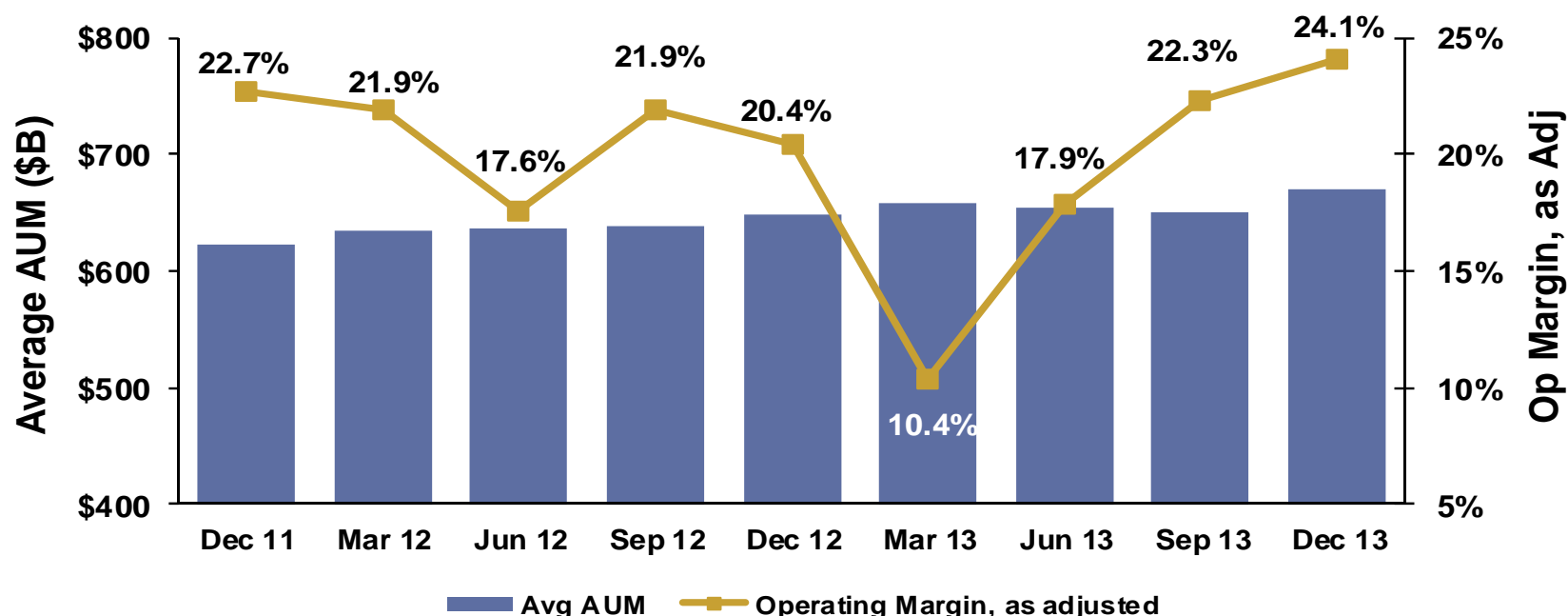
# Compensation and Benefits

(\$ millions)	Dec 13	% of Net Rev. <sup>1</sup>	Sep 13	% of Net Rev. <sup>1</sup>	\$ Change
Salary and incentives	\$ 259.2	45%	\$ 230.2	45%	\$ 29.0
Benefits and payroll taxes	47.4	9%	50.8	10%	(3.4)
<b>Subtotal Compensation and benefits</b>	<b>306.6</b>	<b>54%</b>	<b>281.0</b>	<b>55%</b>	<b>25.6</b>
Management transition costs and severance	9.5	1%	9.1	1%	0.4
MTM deferred comp. and seed investments	6.5	1%	4.2	1%	2.3
Total Compensation and Benefits	\$ 322.6	56%	\$ 294.3	57%	\$ 28.3

- Increase in salary & incentives largely due to higher affiliate incentives related to increased revenues
- Management transition costs and severance related to previously disclosed corporate initiatives

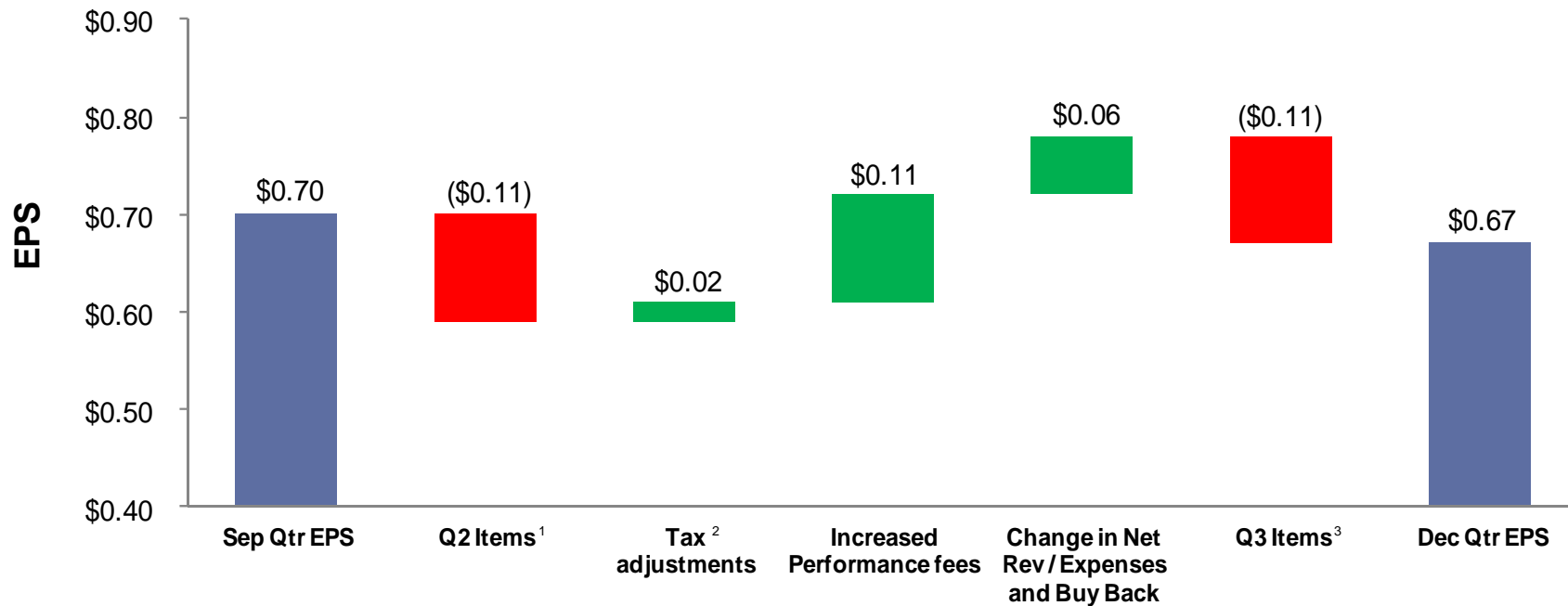
<sup>1</sup> Net revenue is equal to operating revenues, as adjusted

# Operating Margin, as Adjusted



- Impact on current quarter of corporate initiatives and business integration costs approximately 2%
- Prior quarter impact of corporate initiatives costs, business integration costs, and occupancy lease credits reduce operating margin approximately 1½ %

# Third Quarter Earnings Per Share Rollforward

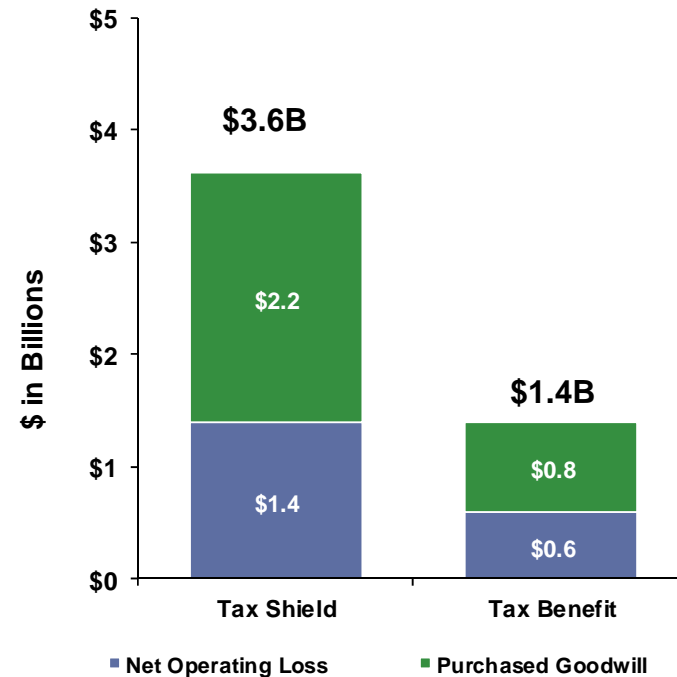
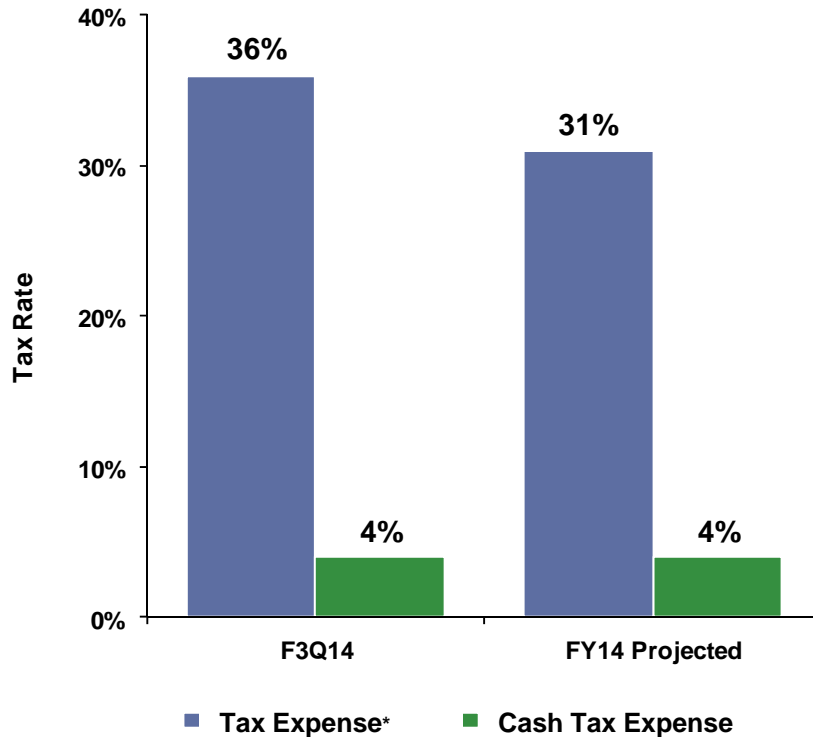


<sup>1</sup> Reflects previously announced costs related to various corporate initiatives \$9.5M, loss on the sale of PCM \$1.8M, and integration costs \$2.4M, more than offset by occupancy lease credits \$3.2M and UK Tax rate adjustment \$19.2M

<sup>2</sup> Represents \$1.8M prior quarter tax expense adjustments related to various tax reserves

<sup>3</sup> Reflects previously announced costs related to various corporate initiatives \$12.3M and \$5.0M contingent consideration liability from the Fauchier transaction

# Significant Tax Benefit - \$3.6B of Future Income Sheltered



- FY14 includes the impact of UK rate reductions in F2Q

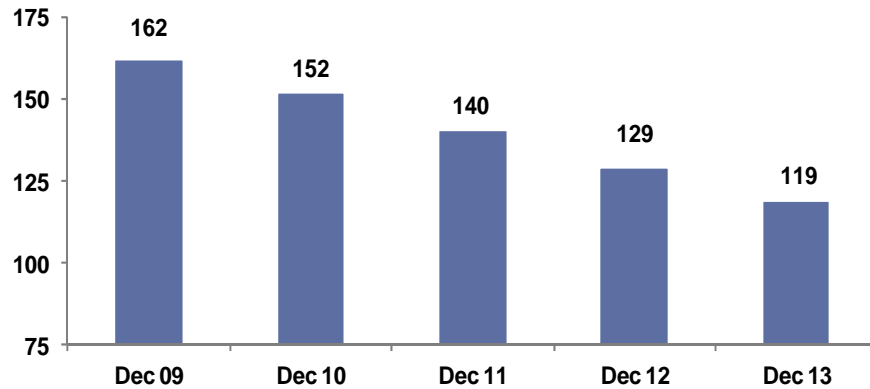
- Future income of \$3.6B is sheltered from federal or state income tax, based on usage of NOL, FTC carryforwards and amortization of tax deductible goodwill

Data as of December 31, 2013  
 \* Excludes the impact of CIVs

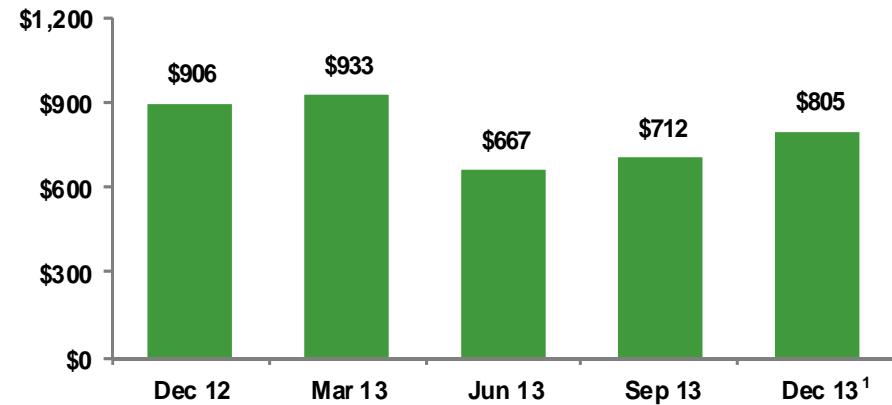


# Balance Sheet Items

## Shares Outstanding (\$M)



## Quarterly Cash Position (\$M)



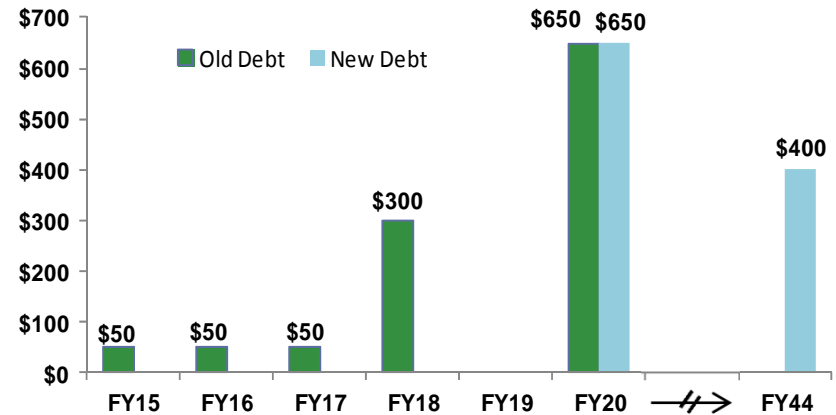
## Corporate Debt (\$M)<sup>2</sup>

	Amount	Maturity
7 Year Sr. Notes	\$650	May-19
30 Year Sr. Notes	\$400	Jan-44
<b>Total Debt</b>	<b>\$1,050</b>	
<b>Undrawn Revolver</b>	<b>\$500</b>	Jun-17

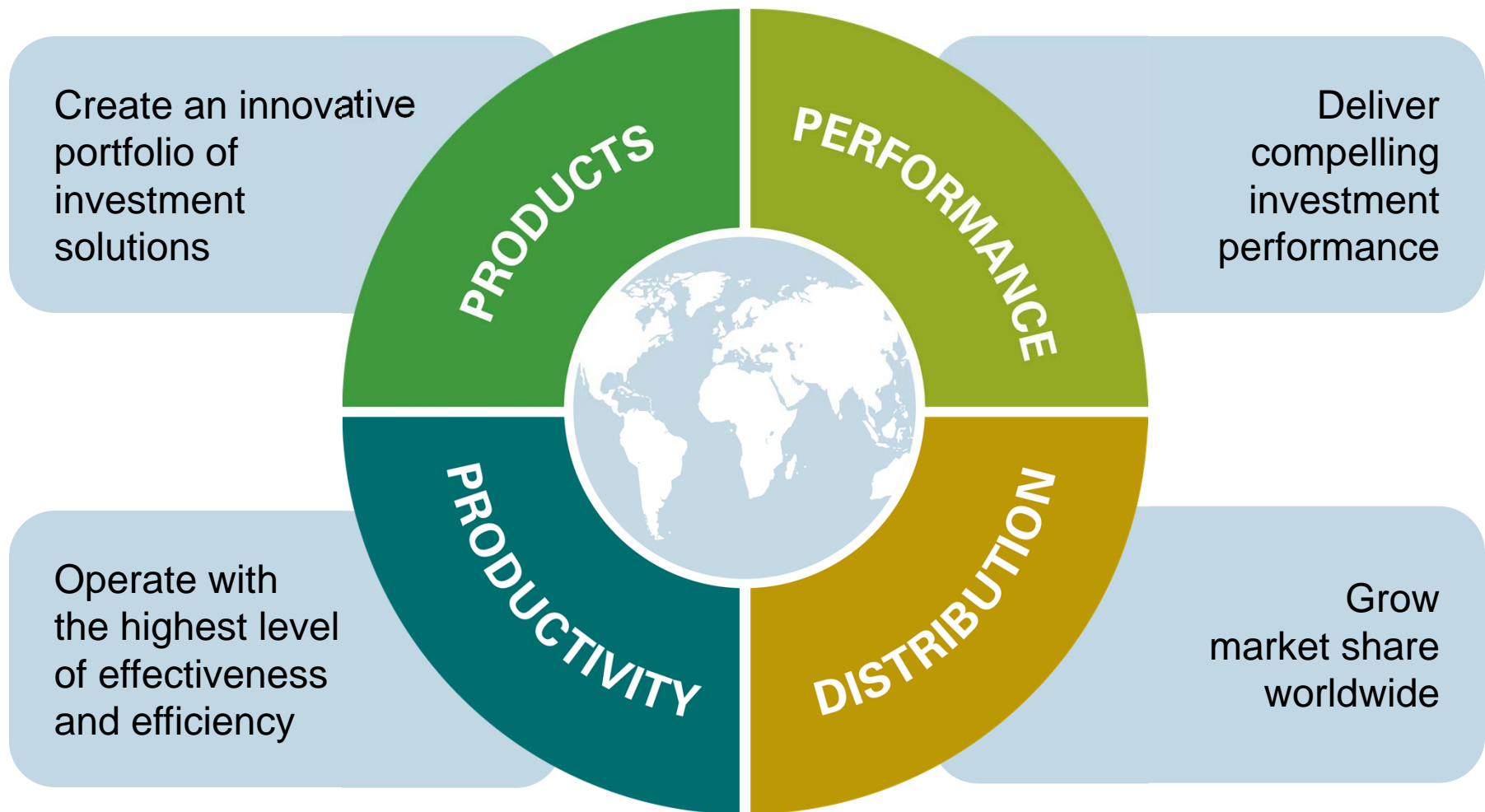
<sup>1</sup> Post December 13 \$60M in cash was used in repayment of bank term loan

<sup>2</sup> As of January 22, 2014

## Debt Maturity (\$M)



# Strategic Business Priorities



# Actively Building a Better Legg Mason

Ongoing	<ul style="list-style-type: none"> <li>• Efficiency program</li> <li>• Share repurchases</li> <li>• Global distribution optimization</li> <li>• Filling product gaps</li> <li>• Affiliate management equity plans</li> </ul>
FYTD '14	<ul style="list-style-type: none"> <li>• Refinanced bank term loan to extend maturity and lock in fixed rate</li> <li>• S&amp;P affirmed rating of BBB and outlook moved to Positive from Stable</li> <li>• Appointed Thomas K. Hoops as Head of Business Development</li> <li>• Announced new Chairman</li> <li>• Closed sale of Private Capital Management</li> <li>• Wind down of emerging markets affiliate Esemplia</li> <li>• Evolved client service strategy in Canada</li> <li>• Moody's affirmed rating of Baa1 and outlook moved to Stable from Negative</li> <li>• Recruited key new Board members</li> <li>• Implemented management equity plan at Permal</li> <li>• Extended closed-end fund market leadership</li> </ul>
FY '13	<ul style="list-style-type: none"> <li>• Appointed new executive leadership team</li> <li>• Acquired Fauchier Partners</li> <li>• Reduced real estate footprint</li> <li>• Combined LMCM with ClearBridge back office</li> <li>• Implemented re-branding initiatives</li> </ul>

# Appendix

# Appendix – GAAP Reconciliation

## Adjusted Income<sup>1</sup>

(\$ millions, except per share amounts)	Quarters Ended			Nine Months Ended	
	Dec 13	Sep 13	Dec 12	Dec 13	Dec 12
<b>Net Income (Loss) Attributable to Legg Mason, Inc.</b>	\$ 81.7	\$ 86.3	\$ (453.9)	\$ 215.8	\$ (382.5)
Plus (less):					
Amortization of intangible assets	4.2	3.6	3.5	11.5	10.5
Loss on extinguishment of 2.5% senior notes	-	-	-	-	54.9
Impairment of intangible assets	-	-	734.0	-	734.0
Contingent consideration fair value adjustment	5.0	-	-	5.0	-
Deferred income taxes on intangible assets:					
Impairment charges	-	-	(225.7)	-	(225.7)
Tax amortization benefit	33.7	33.8	33.9	101.2	101.6
U.K. tax rate adjustment	-	(19.2)	-	(19.2)	(18.1)
Imputed interest on convertible debt (2.5% senior notes)	-	-	-	-	5.8
<b>Adjusted Income</b>	<u>\$ 124.6</u>	<u>\$ 104.5</u>	<u>\$ 91.8</u>	<u>\$ 314.3</u>	<u>\$ 280.5</u>
<b>Net Income (Loss) per Diluted Share Attributable to Legg Mason, Inc. Common Shareholders</b>	\$ 0.67	\$ 0.70	\$ (3.45)	\$ 1.75	\$ (2.84)
Plus (less):					
Amortization of intangible assets	0.04	0.03	0.03	0.09	0.08
Loss on extinguishment of 2.5% senior notes	-	-	-	-	0.41
Impairment on intangible assets	-	-	5.58	-	5.45
Contingent consideration fair value adjustment	0.04	-	-	0.04	-
Deferred income taxes on intangible assets:					
Impairment charges	-	-	(1.72)	-	(1.68)
Tax amortization benefit	0.28	0.28	0.26	0.82	0.75
U.K. tax rate adjustment	-	(0.16)	-	(0.15)	(0.13)
Imputed interest on convertible debt (2.5% senior notes)	-	-	-	-	0.04
<b>Adjusted Income per Diluted Share</b>	<u>\$ 1.03</u>	<u>\$ 0.85</u>	<u>\$ 0.70</u>	<u>\$ 2.55</u>	<u>\$ 2.08</u>

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

# Appendix – GAAP Reconciliation

## Operating Margin, as adjusted<sup>1</sup>

(\$ millions)	Quarters Ended								
	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13
<b>Operating Revenues, GAAP basis</b>	\$ 627.0	\$ 648.6	\$ 630.7	\$ 640.3	\$ 673.9	\$ 667.8	\$ 670.4	\$ 669.9	\$ 720.1
Plus (less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Distribution and servicing expense excluding consolidated investment vehicles	(148.3)	(160.3)	(169.8)	(145.1)	(143.4)	(142.3)	(170.1)	(155.1)	(148.8)
<b>Operating Revenues, as Adjusted</b>	<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>\$ 500.9</u>	<u>\$ 515.3</u>	<u>\$ 571.8</u>
<b>Operating Income (Loss), GAAP basis</b>	\$ 59.3	\$ 72.2	\$ 76.1	\$ 79.7	\$ (633.3)	\$ 43.0	\$ 83.5	\$ 106.4	\$ 121.7
Plus (less):									
Gains (losses) on deferred compensation and seed investments	1.7	28.7	1.2	24.4	3.7	7.2	1.9	4.2	6.5
Transition-related costs	42.3	1.9	-	-	-	-	-	-	-
Amortization of intangible assets	4.9	3.6	3.5	3.5	3.5	3.5	3.6	3.6	4.2
Impairment of intangible assets	-	-	-	-	734.0	-	-	-	-
Contingent consideration fair value adjustment	-	-	-	-	-	-	-	-	5.0
Operating income and expenses of consolidated investment vehicles	0.9	0.9	0.6	0.9	0.7	0.8	0.7	0.6	0.6
<b>Operating Income, as Adjusted</b>	<u>\$ 109.1</u>	<u>\$ 107.3</u>	<u>\$ 81.4</u>	<u>\$ 108.5</u>	<u>\$ 108.6</u>	<u>\$ 54.5</u>	<u>\$ 89.7</u>	<u>\$ 114.8</u>	<u>\$ 138.0</u>
Operating Margin, GAAP basis	9.5%	11.1%	12.1%	12.5%	-94.0%	6.4%	12.5%	15.9%	16.9%
Operating Margin, as Adjusted	22.7%	21.9%	17.6%	21.9%	20.4%	10.4%	17.9%	22.3%	24.1%

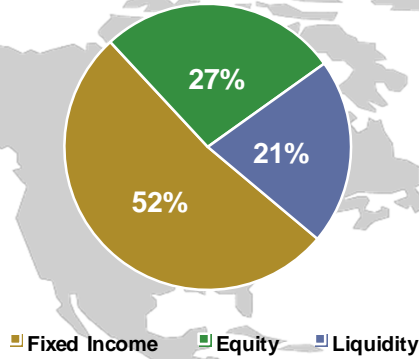
<sup>1</sup> See explanations for Use of Supplemental Data as Non-GAAP Financial Information in earnings release.

Note: Adjusted results have been changed to remove the impact of Amortization of intangible assets. Prior periods have been restated.

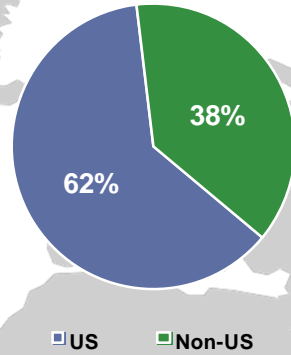
# Appendix - Asset & Revenue Diversity

**Total AUM \$680B**

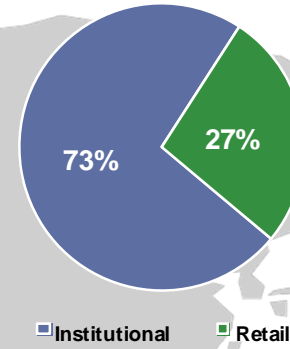
**AUM by Asset Class**



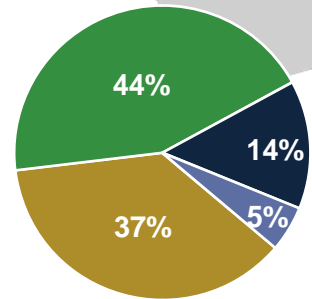
**AUM by Client Domicile**



**AUM by Client**



**FYTD 2014 Gross Revenues \$2,060M**



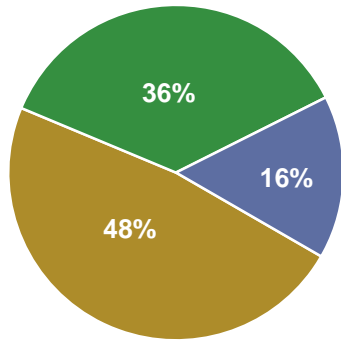
■ Fixed Income    ■ Equity  
■ Alternative    ■ Liquidity

Data as of December 31, 2013

# Appendix - Global Distribution

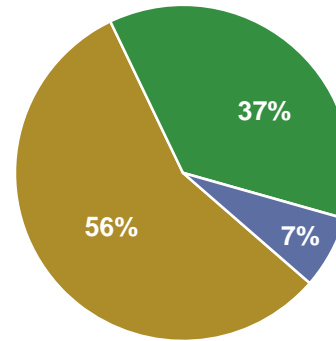
**Total Long-Term AUM: \$243B**

**AUM by Channel**



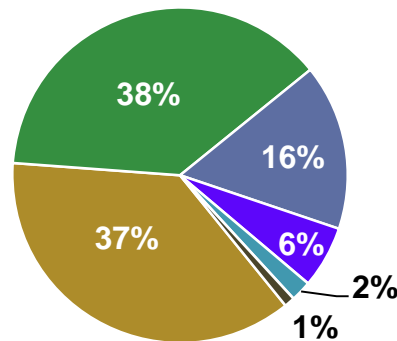
■ US Retail ■ US Quasi-Institutional ■ International

**AUM by Product**



■ Funds ■ SMA/Sep Accts ■ Closed End

**AUM by Affiliate**

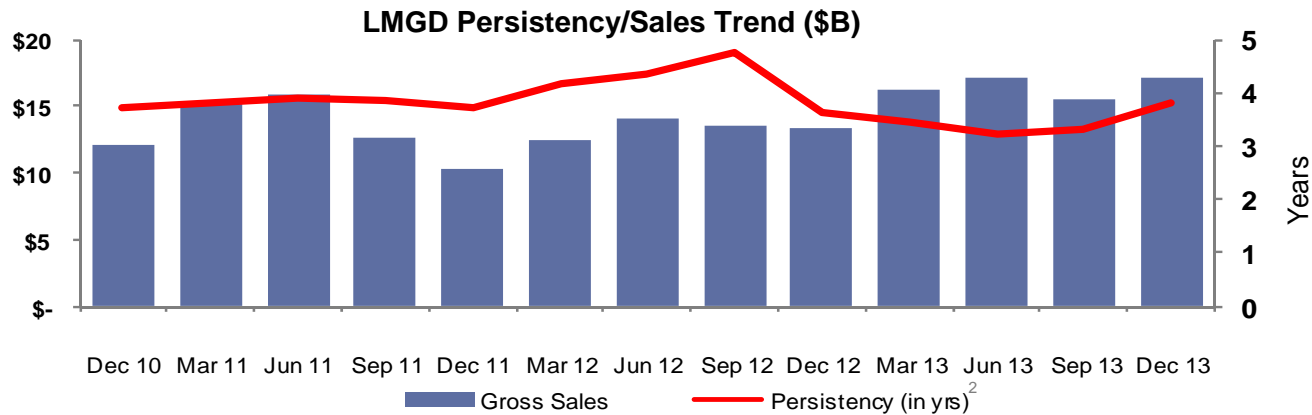
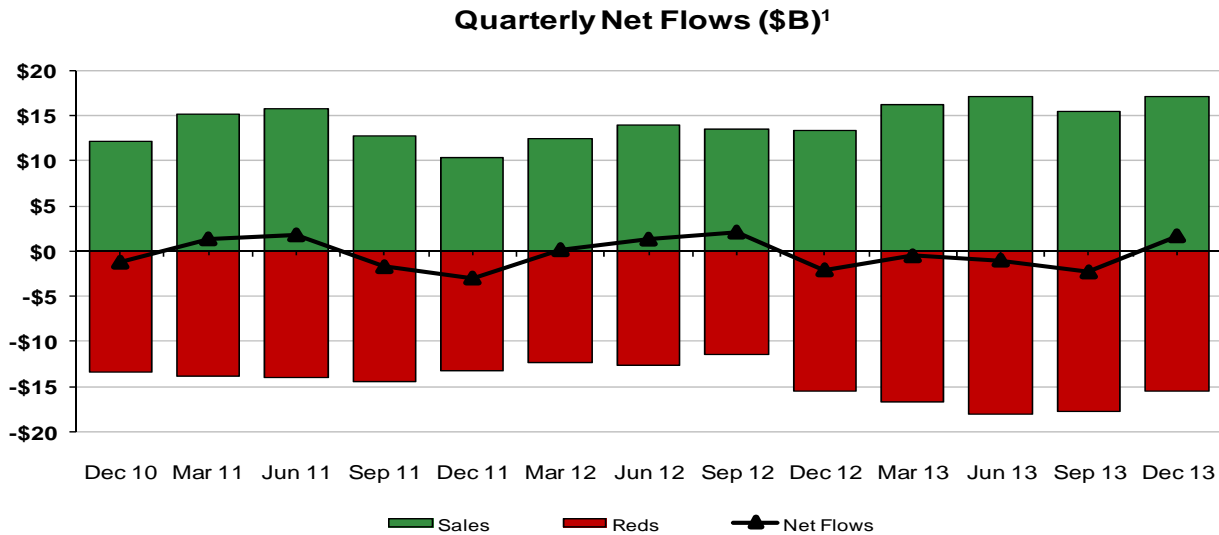


■ WAM ■ CBI ■ Royce ■ BGIM ■ BFM ■ Other

Data as of December 31, 2013



# Appendix - Global Distribution Flow Trends

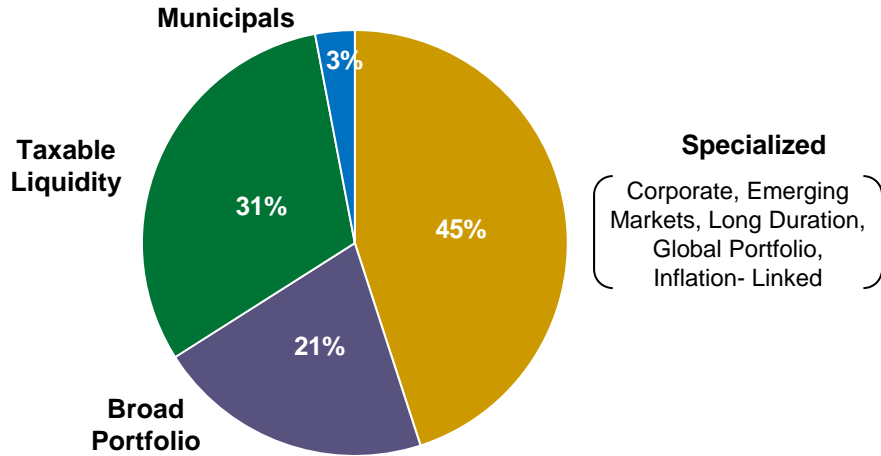


<sup>1</sup> Represents long-term sales, redemptions and net flows by Legg Mason's centralized global distribution platform

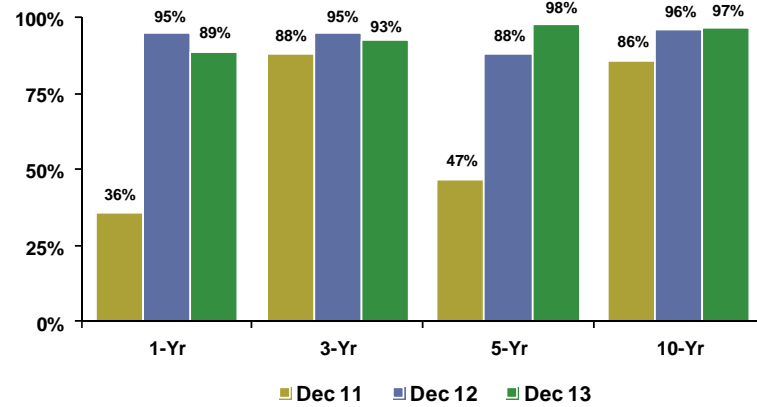
<sup>2</sup> Expected life of an asset based on current redemption rates

# Appendix - Western Asset Update

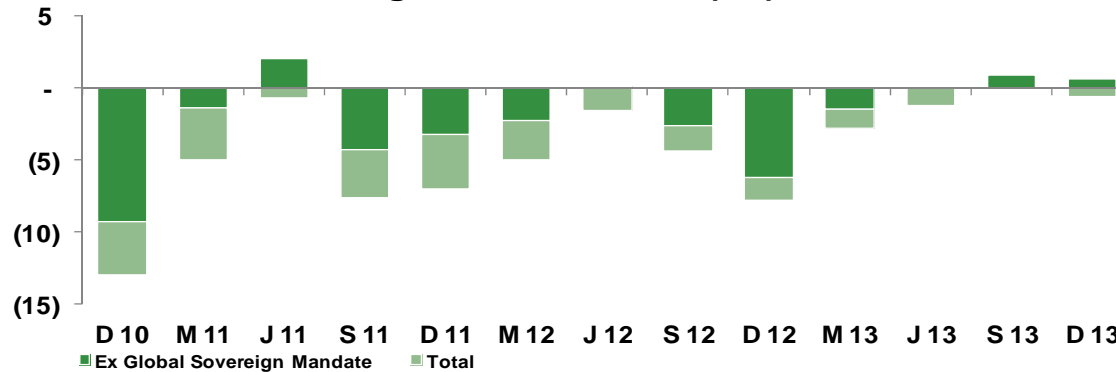
**Total AUM by Mandate: \$451B**



**% of Strategy AUM Beating Benchmark<sup>1</sup>**



**Long-Term Net Flows (\$B)**



<sup>1</sup> Western Asset strategy assets including liquidity

# Appendix – Additional Investment Performance Detail

## % of Strategy AUM Beating Benchmark<sup>1</sup>

	December 31, 2013				December 31, 2012			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
<b>Total (includes liquidity)</b>	<b>80%</b>	<b>86%</b>	<b>89%</b>	<b>92%</b>	<b>85%</b>	<b>84%</b>	<b>86%</b>	<b>91%</b>
<b>Equity:</b>								
<b>Large cap</b>	<b>65%</b>	<b>90%</b>	<b>78%</b>	<b>75%</b>	<b>64%</b>	<b>66%</b>	<b>85%</b>	<b>79%</b>
<b>Small cap</b>	<b>24%</b>	<b>17%</b>	<b>40%</b>	<b>80%</b>	<b>15%</b>	<b>15%</b>	<b>77%</b>	<b>61%</b>
<b>Total equity (includes other equity)</b>	<b>55%</b>	<b>64%</b>	<b>63%</b>	<b>76%</b>	<b>48%</b>	<b>46%</b>	<b>73%</b>	<b>72%</b>
<b>Fixed income:</b>								
<b>US taxable</b>	<b>94%</b>	<b>95%</b>	<b>95%</b>	<b>97%</b>	<b>97%</b>	<b>94%</b>	<b>82%</b>	<b>90%</b>
<b>US tax-exempt</b>	<b>3%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Global taxable</b>	<b>86%</b>	<b>81%</b>	<b>100%</b>	<b>93%</b>	<b>89%</b>	<b>89%</b>	<b>85%</b>	<b>98%</b>
<b>Total fixed income</b>	<b>85%</b>	<b>90%</b>	<b>97%</b>	<b>96%</b>	<b>94%</b>	<b>93%</b>	<b>85%</b>	<b>94%</b>

<sup>1</sup> 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 Average<sup>1</sup>

	December 31, 2013				December 31, 2012			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
<b>Total (excludes liquidity)</b>	<b>36%</b>	<b>61%</b>	<b>58%</b>	<b>68%</b>	<b>62%</b>	<b>66%</b>	<b>83%</b>	<b>68%</b>
<b>Equity:</b>								
<b>Large cap</b>	<b>50%</b>	<b>86%</b>	<b>71%</b>	<b>53%</b>	<b>87%</b>	<b>73%</b>	<b>81%</b>	<b>53%</b>
<b>Small cap</b>	<b>20%</b>	<b>17%</b>	<b>23%</b>	<b>75%</b>	<b>27%</b>	<b>45%</b>	<b>87%</b>	<b>69%</b>
<b>Total equity (includes other equity)</b>	<b>38%</b>	<b>52%</b>	<b>48%</b>	<b>61%</b>	<b>53%</b>	<b>56%</b>	<b>81%</b>	<b>58%</b>
<b>Fixed income:</b>								
<b>US taxable</b>	<b>44%</b>	<b>88%</b>	<b>92%</b>	<b>90%</b>	<b>85%</b>	<b>91%</b>	<b>86%</b>	<b>91%</b>
<b>US tax-exempt</b>	<b>22%</b>	<b>63%</b>	<b>57%</b>	<b>86%</b>	<b>62%</b>	<b>74%</b>	<b>87%</b>	<b>82%</b>
<b>Global taxable</b>	<b>23%</b>	<b>68%</b>	<b>86%</b>	<b>32%</b>	<b>73%</b>	<b>63%</b>	<b>93%</b>	<b>58%</b>
<b>Total fixed income</b>	<b>33%</b>	<b>77%</b>	<b>79%</b>	<b>83%</b>	<b>75%</b>	<b>81%</b>	<b>87%</b>	<b>84%</b>

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

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# 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.

Approximately ninety percent of total AUM is included in strategy AUM as of December 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.