

January 30, 2015

Fiscal Third Quarter Review

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BUILDING
MOMENTUM

If the wind will not serve, take to the oars.
-Latin proverb

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, 2014 and in the Company’s quarterly reports on Form 10-Q.

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 \$77M or \$0.67 per diluted share

Assets Under Management of \$709B

- \$8.8B net long-term inflows (3rd consecutive quarter of positive long-term inflows)
 - 2nd consecutive quarter of record Global Distribution gross and net sales
-




At least 75% of strategy AUM exceeds benchmarks for all periods

Completed acquisition of Martin Currie and sale of LMIC

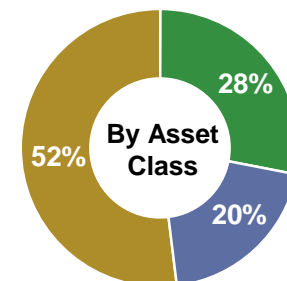
Repurchased 1.6M shares

Additional \$1B share repurchase authorization

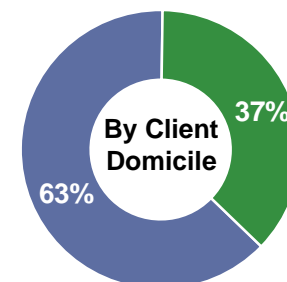
Assets Under Management (\$ billions)

Affiliate ¹	Dec 14	Sep 14	% Change	Dec 13
 WESTERN ASSET	\$455.5	\$458.8	(1%)	\$450.6
 ClearBridge ² Investments	108.1	103.0	5%	91.6
 Royce & Associates	32.1	33.5	(4%)	39.9
 PERMAL	20.0	20.4	(2%)	20.0
 Brandywine GLOBAL	63.3	60.9	4%	50.0
 QS Investors ³	13.6	14.4	(6%)	11.7
 martin currie ⁴	11.8	2.7	n/m	1.9

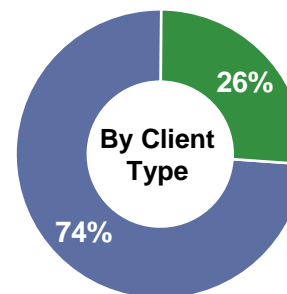
Total AUM \$709B



■ Fixed Income ■ Equity ■ Liquidity



■ US ■ Non-US



■ Institutional ■ Retail

¹ Primary affiliates ordered by contribution to fiscal year to date 2015 pre-tax earnings

² Includes Legg Mason Capital Management. Prior periods have been restated

³ Dec 13 consists of Batterymarch and Legg Mason Global Asset Allocation, which are being integrated into QS Investors over time

⁴ Dec 14 includes \$3.0B AUM from Legg Mason Australian Equities which was integrated into Martin Currie. Sep 14 and Dec 13 represent Legg Mason Australian Equities only

Fiscal Third Quarter Affiliate Overview



- \$2.3B total inflows
- \$1.6B fixed income, \$0.7B equity inflows
- \$2.1B unfunded wins



- \$2.7B inflows
- 8th consecutive quarter of inflows
- \$0.7B unfunded wins



- \$0.4B outflows
- \$1.1B unfunded wins
- Acquisition closed October 1, 2014



- \$0.2B outflows
- \$0.1B unfunded wins



- \$1.2B outflows
- \$0.2B unfunded wins
- Key platform wins



- \$2.5B outflows
- Announced Peter Hoglund as CFO / CAO



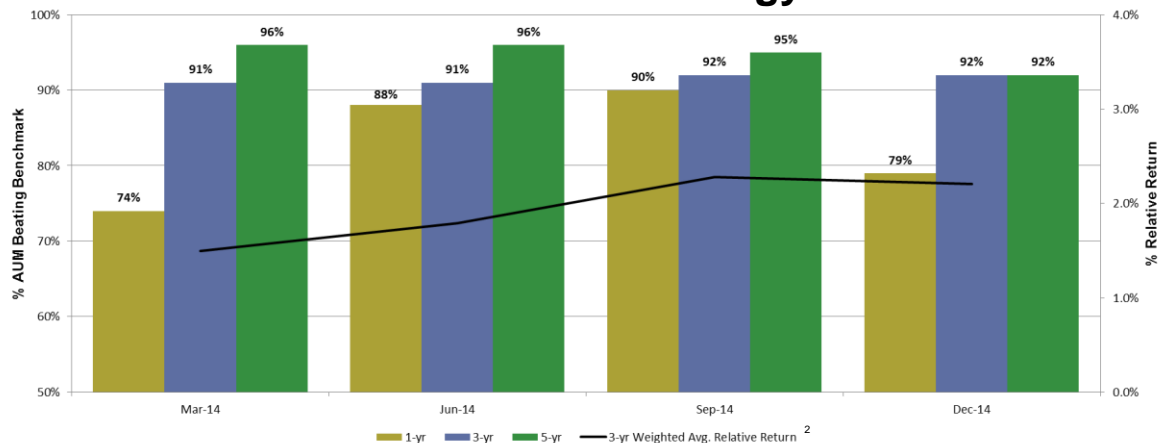
- \$8.2B long-term inflows
- \$10.6B liquidity outflows
- \$4.5B unfunded wins

Momentum in Fixed Income Across Affiliates

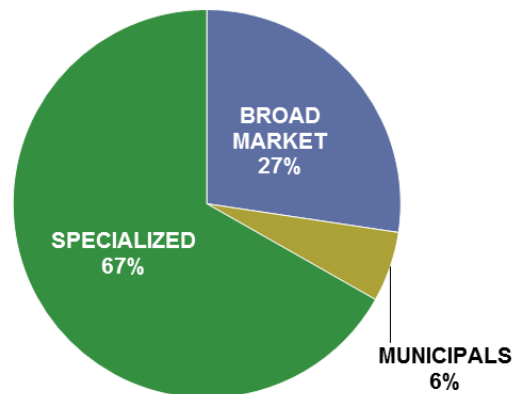
Awards & Recognitions

- Morningstar, Inc. named the team of Ken Leech, Carl Eichstaedt, and Mark Lindbloom, for the Western Asset Core Bond (WACSX) and Western Asset Core Plus Bond (WAPSX) Funds as the winner of the Morningstar 2014 U.S. Fixed-Income Fund Manager of the Year award
- Brandywine Global won two awards from Asia Asset Management for Global bond 3-year and 10-year performance

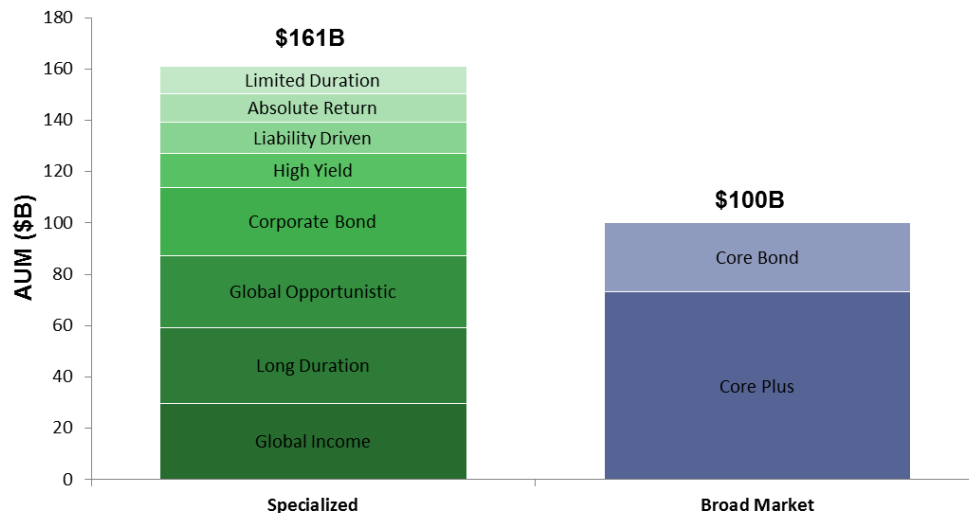
Combined Fixed Income Strategy Performance¹



Dec 14 Fixed Income AUM - \$367B



Top 10 Strategies by AUM



¹ 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.

² The 3-year weighted average relative return is the asset-weighted average variance of the 3-year strategy absolute return and the 3-year benchmark absolute return for all strategies. Weighted average returns are gross of fees.

Momentum Continues in Global Distribution

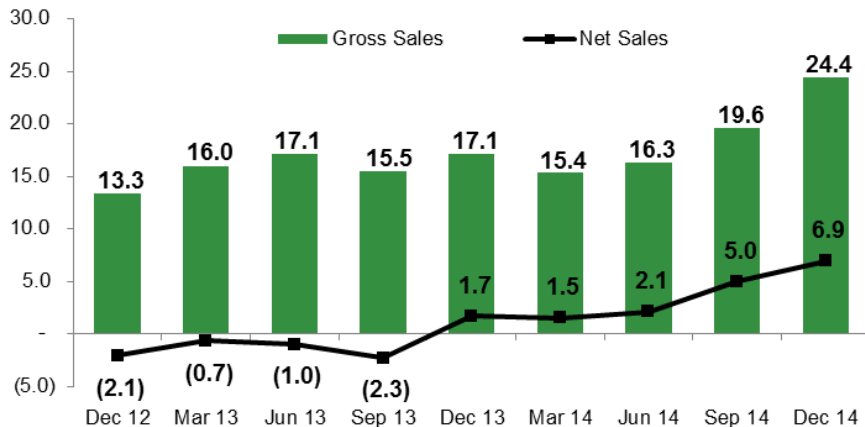
Total Long-Term Assets¹: \$272B

Distribution Highlights

- Gross sales of \$24.4B vs \$19.6B in F2Q15
- Net sales increased \$1.9B to \$6.9B in F3Q15
- Fifth consecutive quarter of positive net sales
 - Both US and International positive
- Quarterly global redemption rate at 26%
 - US redemption rate 20%

(\$ Billions)	F3Q15	F2Q15	FYTD15	FYTD14
Gross Sales¹:				
US	\$17.9	\$12.3	\$40.4	\$31.6
Int'l	6.5	7.3	19.9	18.1
Total	\$24.4	\$19.6	\$60.3	\$49.7
Net Sales¹:				
US	\$ 6.5	\$ 2.5	\$ 9.5	\$ (1.7)
Int'l	0.4	2.5	4.5	0.1
Total	\$ 6.9	\$ 5.0	\$14.0	\$ (1.6)

Quarterly Gross and Net Sales Trends (\$B)



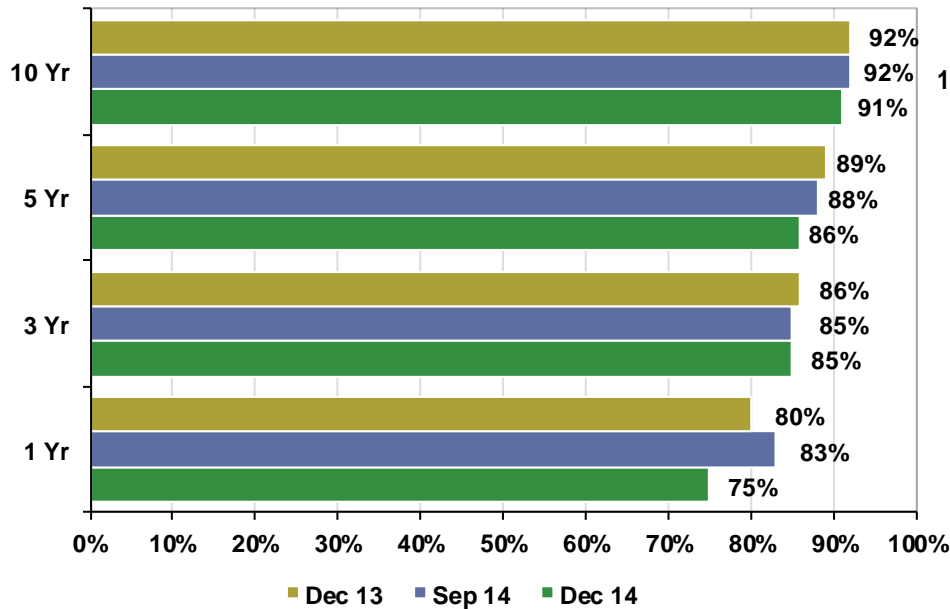
Top Funds Driving Gross Sales FYTD

Western Asset Core Plus Bond Fund
 ClearBridge Aggressive Growth Fund
 Legg Mason ClearBridge US Aggressive Growth Fund
 LM WA Macro Opportunities Bond Fund
 Western Asset Core Bond Fund
 Legg Mason Brandywine Global Opportunities Bond Fund
 ClearBridge Small Cap Growth Fund
 LM Australian Bond Fund
 LM BW Global Sovereign Credit Fund
 LM BW Global Fixed Income Absolute Return Fund

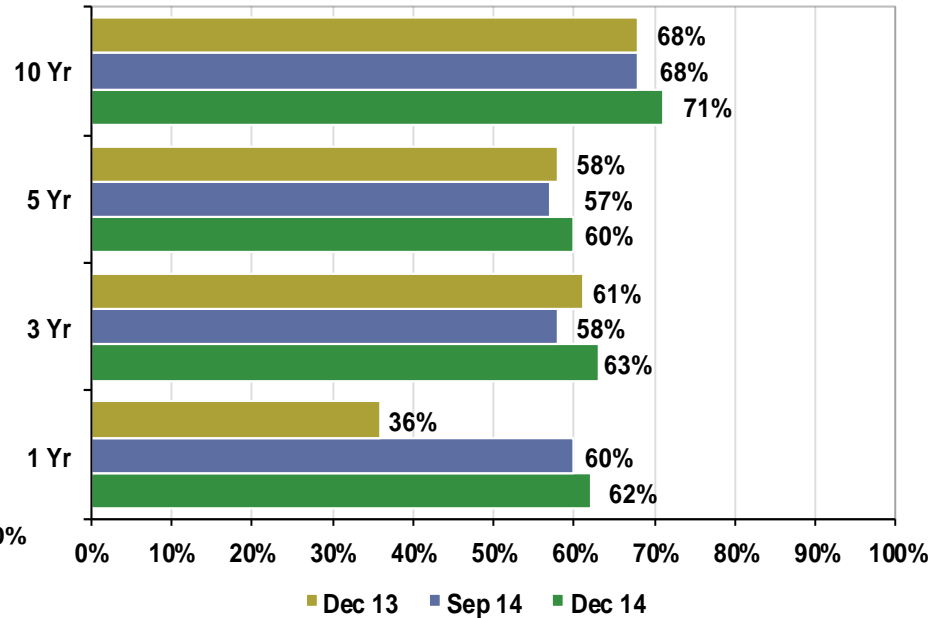
¹ For LMGD, AUA is included in long-term assets, gross sales and net sales. Net sales equals gross sales less redemptions. As of December 31, 2014 long-term assets include \$7.3B of AUA. Quarterly AUA gross and net sales for F3Q15 are \$1.2B and \$0.7B, respectively, and for F2Q15 are \$0.8B and \$0.5B, respectively

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.

Financial Highlights Third Quarter FY 2015

- Net Income of \$77.0M, or \$0.67 per diluted share
 - Results include QS integration costs of \$12.8M or \$0.07 per diluted share
- Adjusted income¹ of \$113.1M, or \$0.98 per diluted share
- Average AUM of \$710.9B, up \$6.8B
 - Long-term average AUM increased \$7.1B or 1% compared to prior quarter
- Operating revenues \$719.0M, up \$15.1M or 2% from the prior quarter
 - Driven by higher performance fees
 - Inclusion of Martin Currie, partially offset by loss of revenues related to LMIC
- Operating expenses \$599.6M, up \$26.1M or 5% from the prior quarter
 - Includes transaction costs related to sale of LMIC
 - Final QS Integration costs
 - Net increase in expenses due to addition of Martin Currie and sale of LMIC
- Operating income \$119.4M, operating margin 16.6%
- Operating income, as adjusted¹ \$122.4M, operating margin, as adjusted¹ 21.4%
- Repurchased 1.6M shares

¹ See appendix for GAAP reconciliation

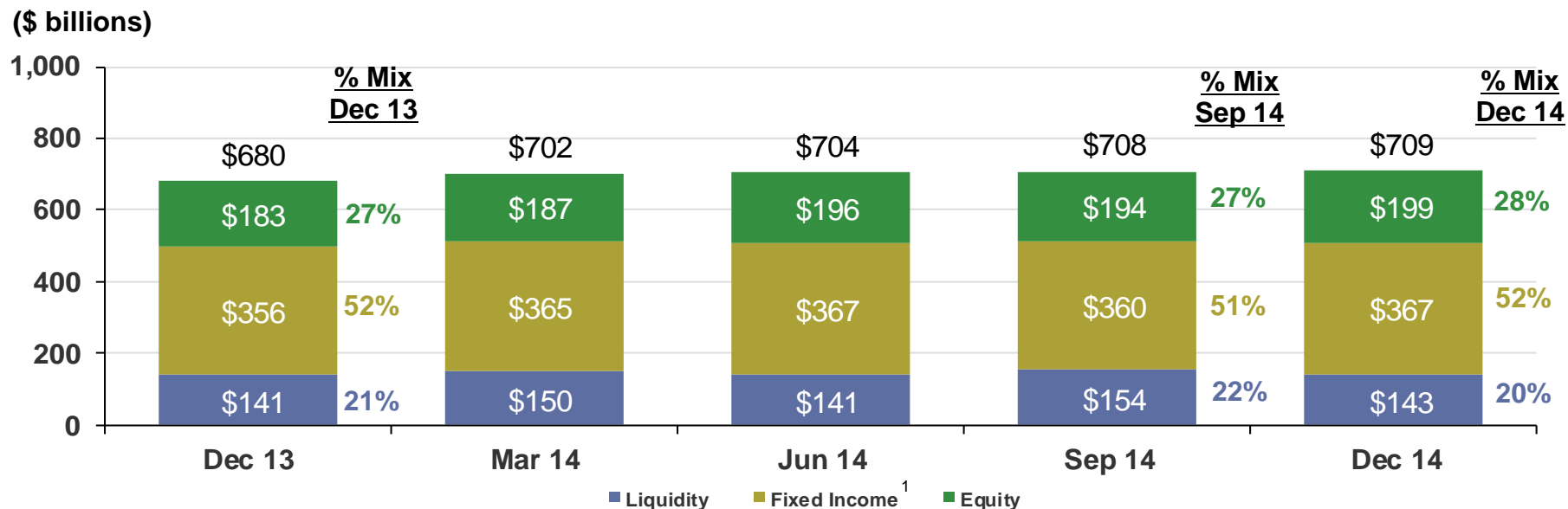
Operating Results Third Quarter FY 2015

(\$ millions, except per share amounts)	Dec 14 Qtr	Sep 14 Qtr	Dec 13 Qtr	\$ Change vs.	
				Sep 14 Qtr	Dec 13 Qtr
Operating Revenues	\$719.0	\$703.9	\$720.1	\$15.1	(\$1.1)
Operating Expenses	599.6	573.5	598.4	26.1	1.2
Operating Income	119.4	130.4	121.7	(11.0)	(2.3)
Net Income	77.0	4.9	81.7	72.1	(4.7)
Diluted EPS	0.67	0.04	0.67	0.63	-
Adjusted Income¹	113.1	40.6	124.6	72.5	(11.5)
Adjusted Income per diluted share¹	0.98	0.35	1.03	0.63	(0.05)
Operating Margin, as adjusted¹	21.4%	23.8%	24.1%		
Effective Tax Rate GAAP²	32.2%	43.1%	36.5%		

¹ See Appendix for GAAP reconciliation

² Includes the impact of Consolidated Investment Vehicles (CIVs) of (0.8%), 0.3%, and 0.5% in Dec 14, Sep 14, and Dec 13, respectively.

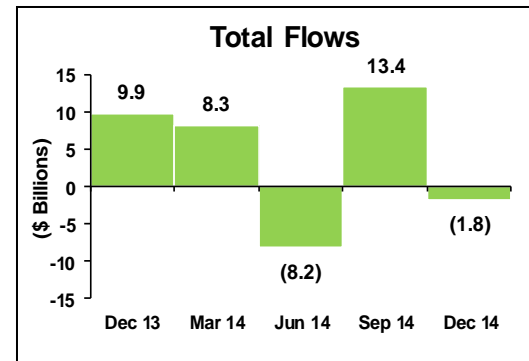
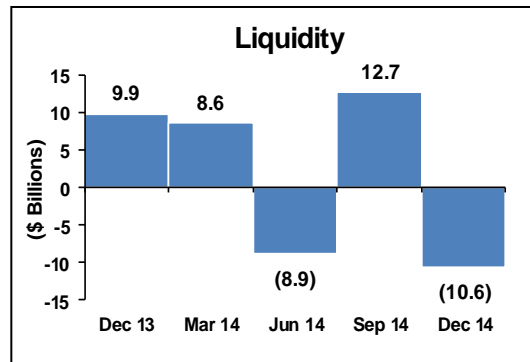
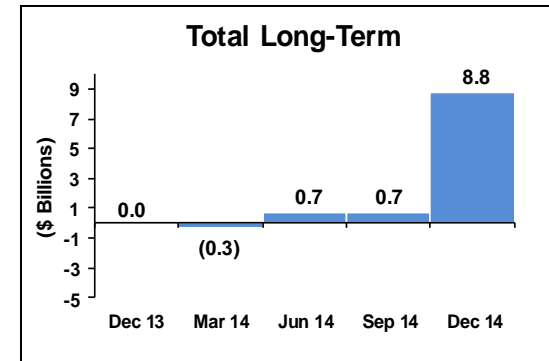
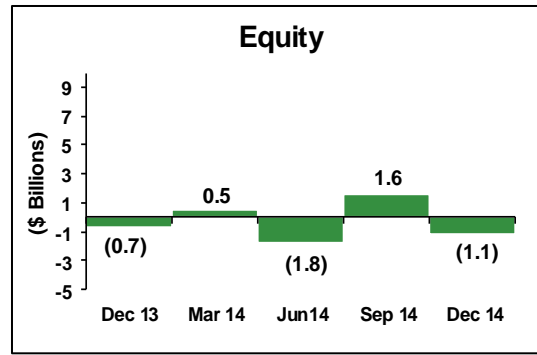
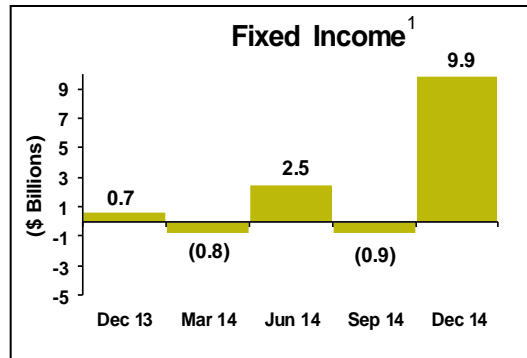
Assets Under Management by Asset Class



- AUM increased \$1.3B from prior quarter
- Change driven by:
 - Long-term inflows of \$8.8B and liquidity outflows of \$10.6B
 - Market appreciation/other of \$3.1B (including unfavorable FX impact of \$6.4B)
 - Acquisition of Martin Currie offset by sale of LMIC
- Assets Under Advisement were \$116B. Effective February 2015, a QS Investors client will redeem approximately \$80B to service in-house

¹ Dec 13 and Mar 14 include \$13.9B and \$12.6B in fixed income AUM related to the low fee global sovereign mandate that has been reclassified as AUA

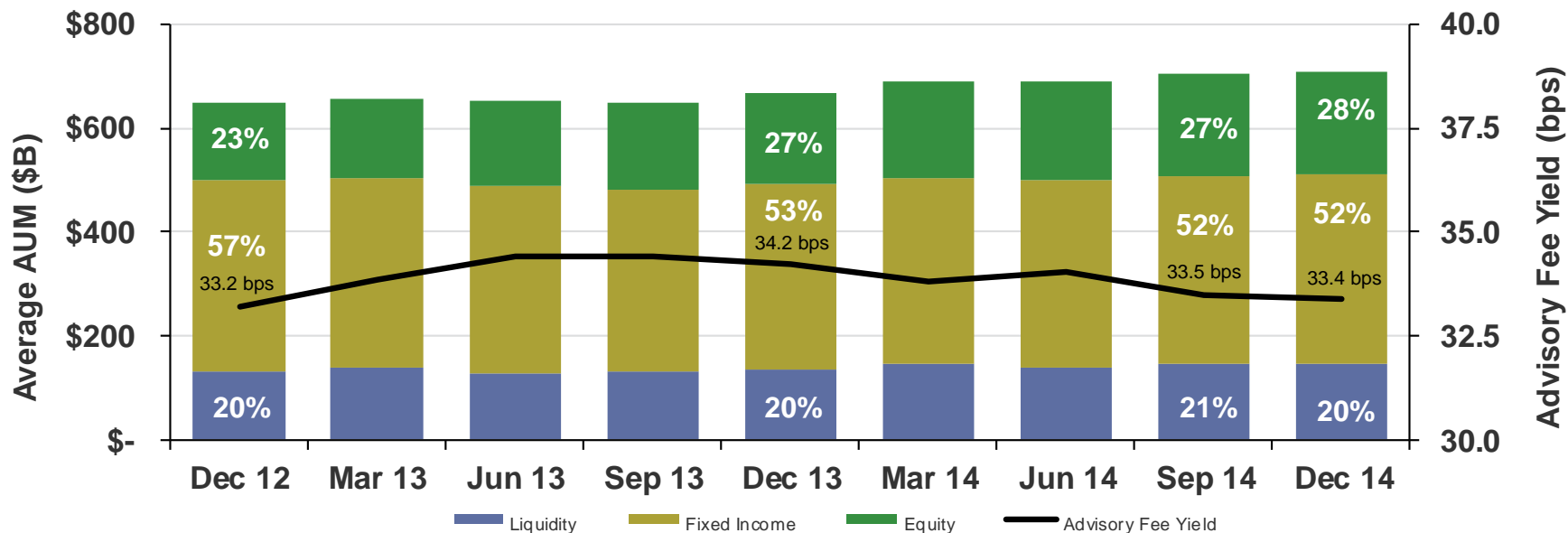
Net Flows



- Fixed Income inflows driven largely by Broad Market \$3.9B, Taxable Corporate \$2.0B and Global Opportunistic \$1.7B
- Equity outflows driven by Small Cap \$2.5B, Global and International Equity \$1.6B, partially offset by inflows in Large Cap \$2.3B and Global Equity Income \$0.5B

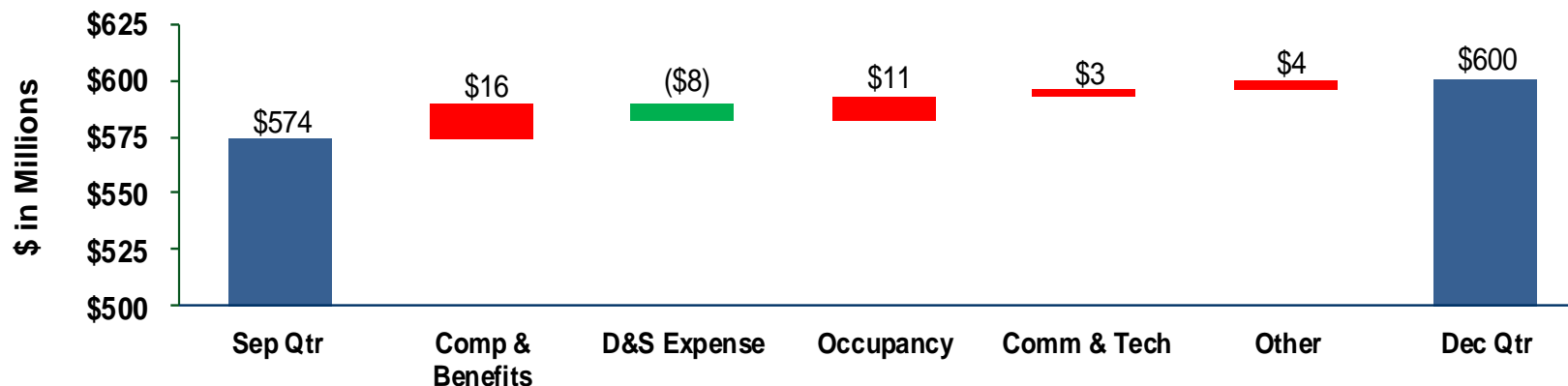
¹ Low fee global sovereign mandate outflows for Jun 14 (\$1.0B), Sep 14 (\$0.9B), and Dec 14 (\$0.8B) are excluded from the table. Included in prior period outflows were (\$1.1B) Dec 13 and (\$1.4B) Mar 14

Advisory Fee Yield / Average AUM



- Total average AUM up \$6.8B
 - Equity and Fixed Income AUM up \$5.4B and \$1.7B, respectively
 - Liquidity AUM slightly down

Operating Expenses



- D&S expenses decreased primarily due to closed-end fund launch costs in the prior quarter
- Increase in occupancy expenses largely driven by a \$6.8M lease charge related to QS Integration. Prior quarter included a \$4.5M lease reserve credit
- Increased communication and technology and other expenses largely due to:
 - Inclusion of Martin Currie and continued investment in Global Distribution
 - Partially offset by lower costs due to the sale of LMIC and annual director fees in prior quarter

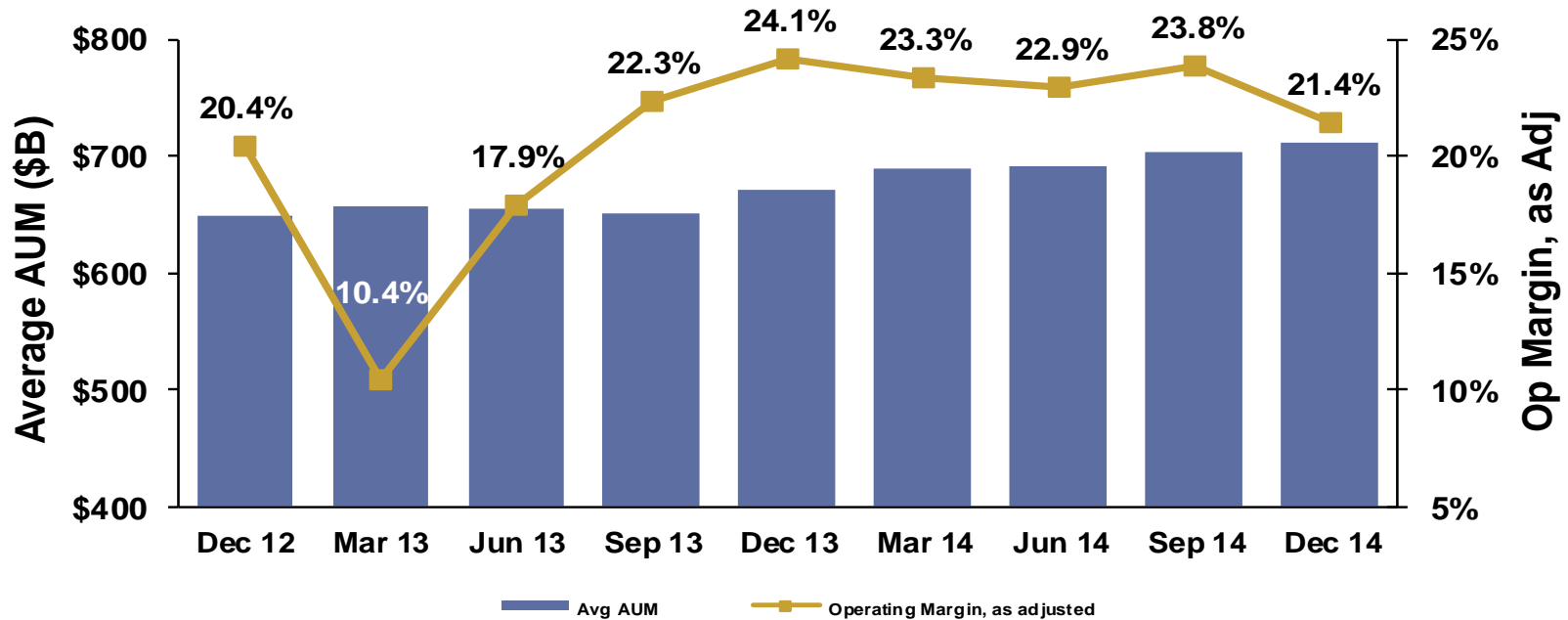
Compensation and Benefits

(\$ millions)	Dec Qtr	% of Net Rev. ¹	Sep Qtr	% of Net Rev. ¹	\$ Change
Salary and incentives	\$ 260.4	46%	\$ 249.0	45%	\$ 11.4
Benefits and payroll taxes	48.1	8%	47.6	9%	0.5
Subtotal Compensation and benefits	308.5	54%	296.6	54%	11.9
Transition costs and severance	9.0	2%	7.7	1%	1.3
MTM deferred comp. and seed investments	2.2	0%	(0.4)	0%	2.6
Total Compensation and benefits	<u>\$ 319.7</u>	56%	<u>\$ 303.9</u>	55%	<u>\$ 15.8</u>

- Salary and incentives increased due to higher performance fees, the addition of Martin Currie, and higher Global Distribution commissions, partially offset by lower costs due to the sale of LMIC
- Transition costs and severance includes accelerated deferred compensation related to the sale of LMIC and QS Investors integration costs
- Closed-end fund launch had 0.6% impact on the September quarter compensation ratio

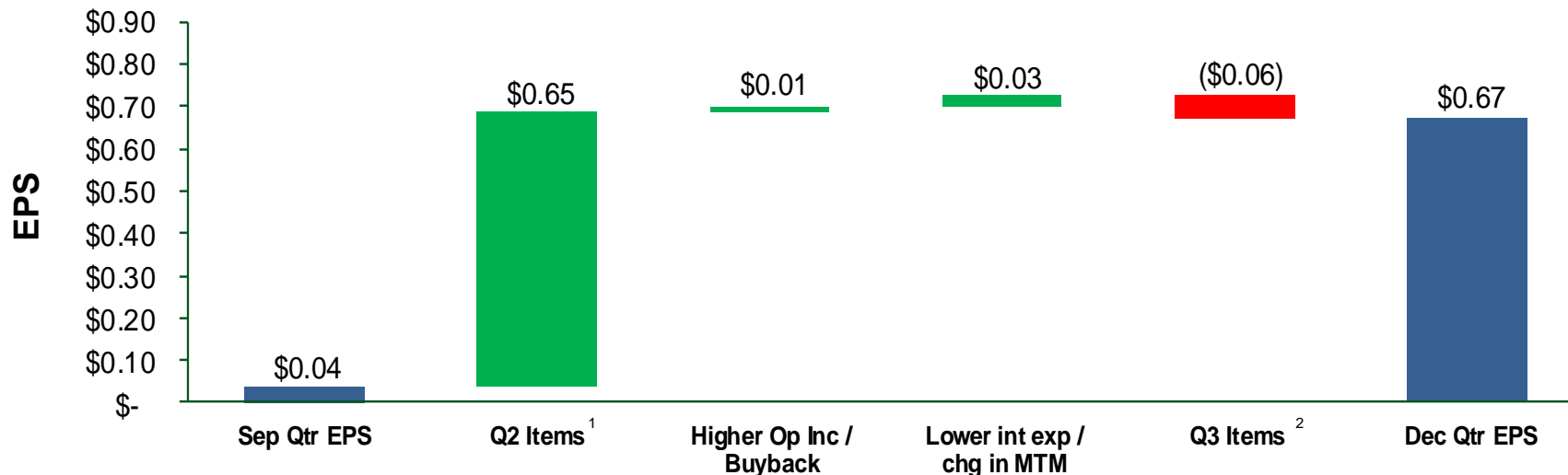
¹ Net revenue is equal to operating revenues, as adjusted

Operating Margin, as Adjusted



- QS Investors integration and costs related to the acquisition of Martin Currie and sale of LMIC reduced the current operating margin, as adjusted by approximately 3.3%
- Impact of QS Investors integration and other corporate initiatives costs approximately 2.0% on prior quarter

Third Quarter Earnings Per Share Rollforward



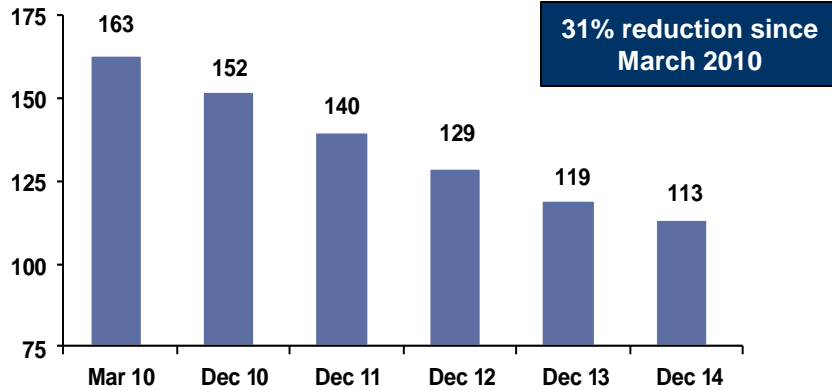
- Q2 items include debt refinancing, QS Investors integration and corporate initiatives costs, totaling \$118.7M
- Q3 items include QS Investors integration, costs related to purchase of Martin Currie and sale of LMIC, partially offset by a reduction in tax reserves and gain on LMIC

¹Includes debt refinancing charge, QS integration costs, closed-end fund launch costs, sales costs of Luxembourg funds administrative office and expenses related to the Martin Currie acquisition partially offset by lease reserve adjustment

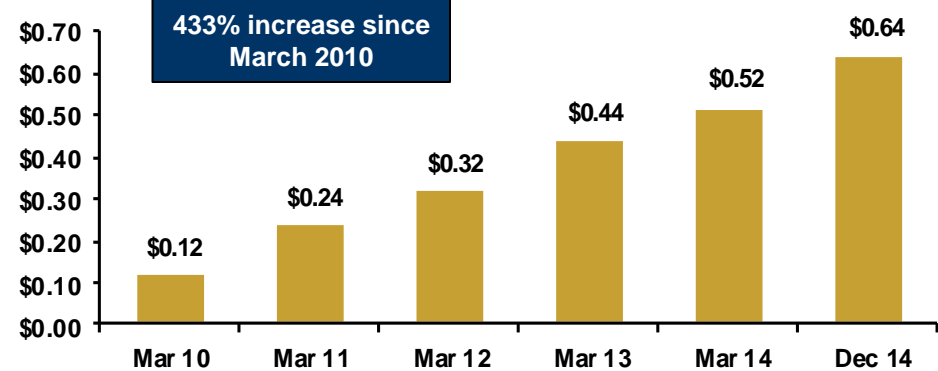
²Includes QS integration costs \$12.8M, costs related to purchase of Martin Currie and sale of LMIC \$5.7M, partially offset by a reduction in tax reserves \$3.5M and gain on LMIC \$1.9M

Consistent and Balanced Approach to Capital Allocation

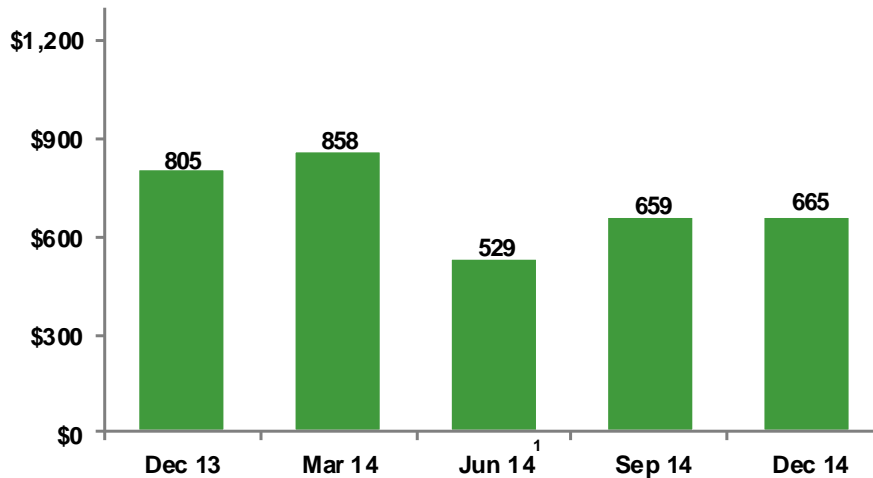
Shares Outstanding (M)



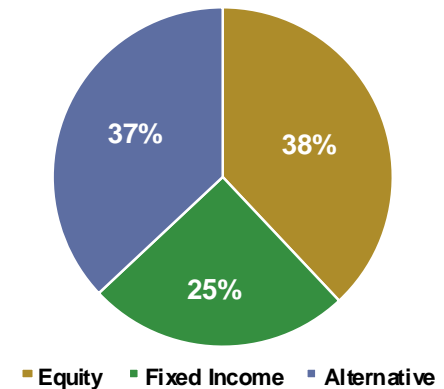
Annualized Quarterly Dividend Declared (Per Share)



Quarterly Cash Position (\$M)



Seed Investments of \$373M²



¹ Excludes \$750M of cash held on June 30, 2014 but used to repay debt on July 23, 2014

² Market value as of December 31, 2014

Building Momentum

Fiscal Third Quarter

Continued growth in Global Distribution gross and net sales

Expanded investment capabilities through Martin Currie acquisition

Three consecutive quarters of long-term net inflows

At least 75% of strategy assets continue to outperform benchmark

Additional \$1 billion share repurchase authorization

Appendix



Brandywine  GLOBAL

ClearBridge
Investments

martin
currie

 PERMAL

 QS Investors

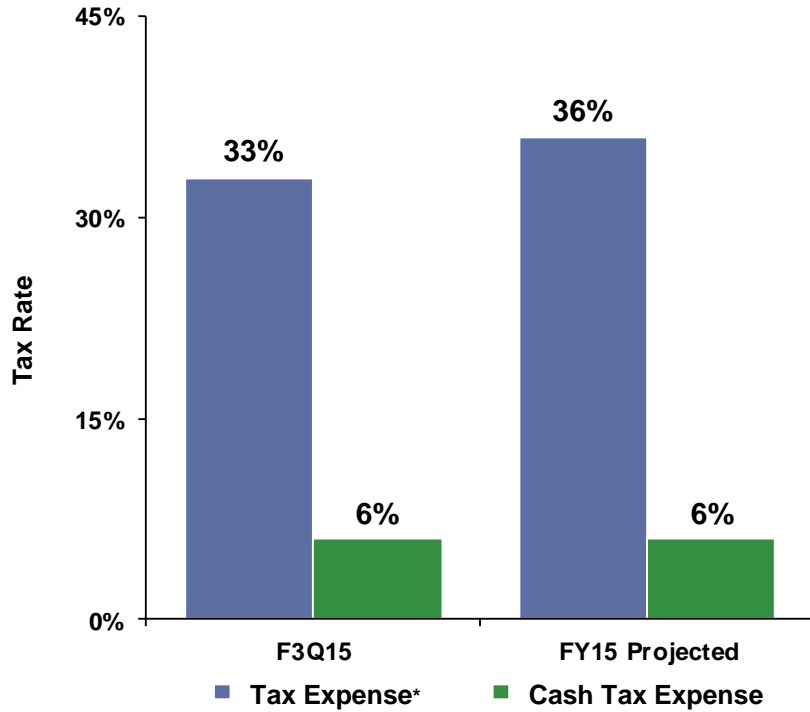
Royce & Associates

 WESTERN ASSET

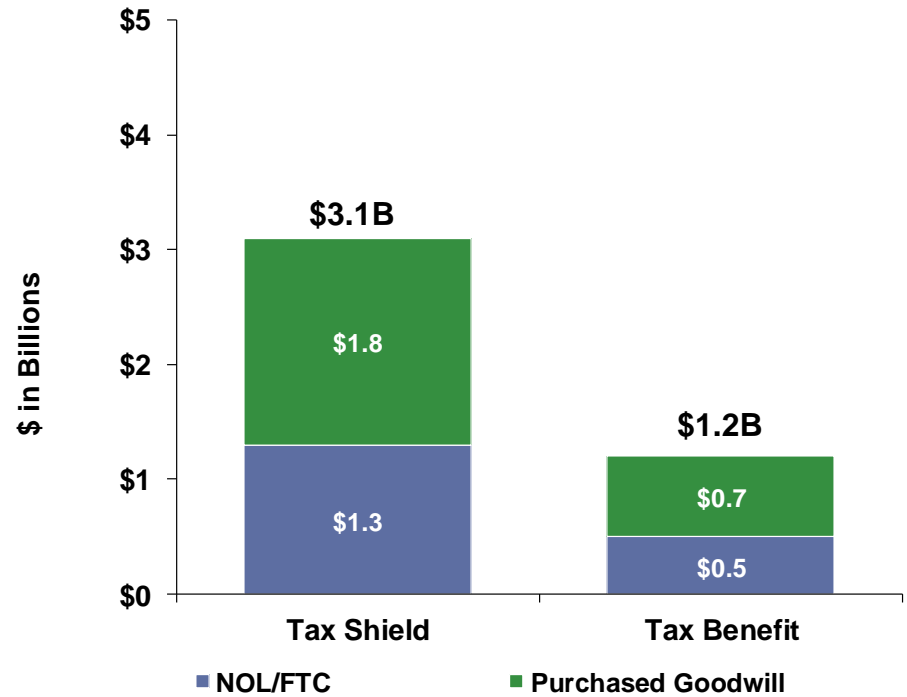
LEGG MASON
GLOBAL ASSET MANAGEMENT

Appendix – Significant Tax Benefit

\$3.1B of Future Income Sheltered



- F3Q15 lower tax rate due to resolution of tax positions relating to prior tax years



- Future income of \$3.1B is sheltered from federal or state income tax, based on usage of NOL, FTC carryforwards and amortization of tax deductible goodwill

Appendix – GAAP Reconciliation

Adjusted Income¹

RECONCILIATION OF NET INCOME ATTRIBUTABLE TO LEGG MASON, INC. TO ADJUSTED INCOME¹

(\$ millions, except per share amounts)	Quarters Ended			Nine Months Ended	
	Dec 14	Sep 14	Dec 13	Dec 14	Dec 13
Net Income Attributable to Legg Mason, Inc.	\$ 77.0	\$ 4.9	\$ 81.7	\$ 154.1	\$ 215.8
Plus (less):					
Amortization of intangible assets	0.7	0.5	4.2	2.0	11.5
Contingent consideration fair value adjustment	-	-	5.0	-	5.0
Deferred income taxes on intangible assets:					
Tax amortization benefit	35.4	35.2	33.7	104.8	101.2
U.K. tax rate adjustment	-	-	-	-	(19.2)
Adjusted Income	<u>\$ 113.1</u>	<u>\$ 40.6</u>	<u>\$ 124.6</u>	<u>\$ 260.9</u>	<u>\$ 314.3</u>
Net Income per Diluted Share Attributable to Legg Mason, Inc. Common Shareholders	\$ 0.67	\$ 0.04	\$ 0.67	\$ 1.32	\$ 1.75
Plus (less):					
Amortization of intangible assets	0.01	-	0.04	0.02	0.09
Contingent consideration fair value adjustment	-	-	0.04	-	0.04
Deferred income taxes on intangible assets:					
Tax amortization benefit	0.30	0.31	0.28	0.89	0.82
U.K. tax rate adjustment	-	-	-	-	(0.15)
Adjusted Income per Diluted Share	<u>\$ 0.98</u>	<u>\$ 0.35</u>	<u>\$ 1.03</u>	<u>\$ 2.23</u>	<u>\$ 2.55</u>

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

Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

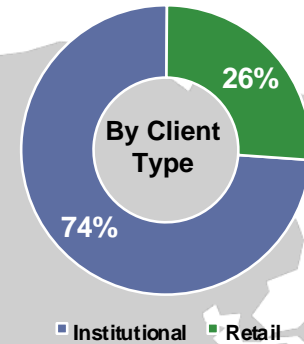
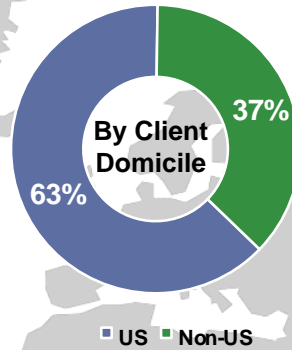
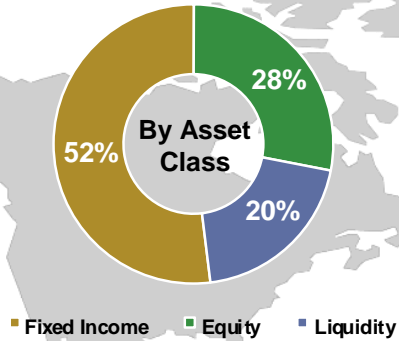
(\$ millions)	Quarters Ended									
	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	
Operating Revenues, GAAP basis	\$ 673.9	\$ 667.8	\$ 670.4	\$ 669.9	\$ 720.1	\$ 681.4	\$ 693.9	\$ 703.9	\$ 719.0	
Plus (less):										
Operating revenues eliminated upon consolidation of investment vehicles	0.6	0.6	0.6	0.5	0.5	0.3	0.2	0.2	0.2	
Distribution and servicing expense excluding consolidated investment vehicles	(143.4)	(142.3)	(170.1)	(155.1)	(148.8)	(144.9)	(148.7)	(155.1)	(147.5)	
Operating Revenues, as Adjusted	<u>\$ 531.1</u>	<u>\$ 526.1</u>	<u>\$ 500.9</u>	<u>\$ 515.3</u>	<u>\$ 571.8</u>	<u>\$ 536.8</u>	<u>\$ 545.4</u>	<u>\$ 549.0</u>	<u>\$ 571.7</u>	
Operating Income (Loss), GAAP basis	\$ (633.3)	\$ 43.0	\$ 83.5	\$ 106.4	\$ 121.7	\$ 119.3	\$ 119.5	\$ 130.4	\$ 119.4	
Plus (less):										
Gains on deferred compensation and seed investments	3.7	7.2	1.9	4.2	6.5	4.4	4.5	(0.4)	2.1	
Amortization of intangible assets	3.5	3.5	3.6	3.6	4.2	0.9	0.9	0.5	0.7	
Impairment of intangible assets	734.0	-	-	-	-	-	-	-	-	
Contingent consideration fair value adjustment	-	-	-	-	5.0	-	-	-	-	
Operating income and expenses of consolidated investment vehicles	0.7	0.8	0.7	0.6	0.6	0.5	0.2	0.2	0.2	
Operating Income, as Adjusted	<u>\$ 108.6</u>	<u>\$ 54.5</u>	<u>\$ 89.7</u>	<u>\$ 114.8</u>	<u>\$ 138.0</u>	<u>\$ 125.1</u>	<u>\$ 125.1</u>	<u>\$ 130.7</u>	<u>\$ 122.4</u>	
Operating Margin, GAAP basis	-94.0%	6.4%	12.5%	15.9%	16.9%	17.5%	17.2%	18.5%	16.6%	
Operating Margin, as Adjusted	20.4%	10.4%	17.9%	22.3%	24.1%	23.3%	22.9%	23.8%	21.4%	

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

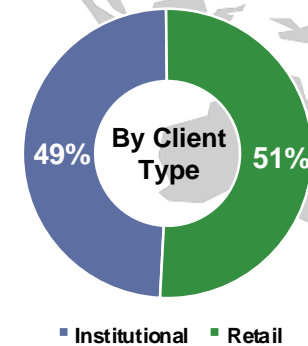
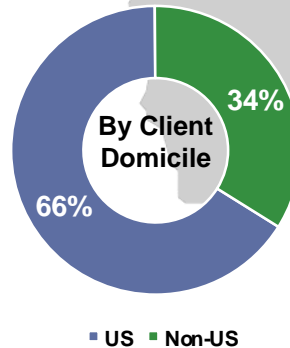
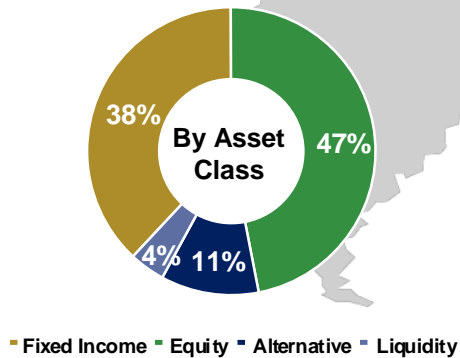
Note: Adjusted results have been changed to remove the impact of Amortization of intangible assets. Prior periods have been restated.

Appendix - Asset & Revenue Diversity

Total AUM \$709B



FYTD Dec 14 Operating Revenues \$2.1B



Appendix – Additional Investment Performance Detail

% of Strategy AUM Beating Benchmark¹

	December 31, 2014				December 31, 2013			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (includes liquidity)	75%	85%	86%	91%	80%	86%	89%	92%
Equity:								
Large cap	57%	61%	75%	88%	65%	90%	78%	75%
Small cap	10%	28%	22%	69%	24%	17%	40%	80%
Total Equity (includes other equity)	47%	59%	64%	82%	55%	64%	63%	76%
Fixed Income:								
US taxable	74%	94%	93%	88%	94%	95%	95%	97%
US tax-exempt	100%	100%	100%	100%	3%	100%	100%	100%
Global taxable	83%	89%	88%	94%	86%	81%	100%	93%
Total Fixed Income	79%	92%	92%	91%	85%	90%	97%	96%

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

	December 31, 2014				December 31, 2013			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (excludes liquidity)	62%	63%	60%	71%	36%	61%	58%	68%
Equity:								
Large cap	76%	79%	70%	66%	50%	86%	71%	53%
Small cap	19%	23%	22%	72%	20%	17%	23%	75%
Total Equity (includes other equity)	53%	56%	52%	66%	38%	52%	48%	61%
Fixed Income:								
US taxable	79%	84%	84%	82%	44%	88%	92%	90%
US tax-exempt	69%	55%	58%	86%	22%	63%	57%	86%
Global taxable	85%	86%	80%	54%	23%	68%	86%	32%
Total Fixed Income	77%	75%	75%	81%	33%	77%	79%	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.

Approximately ninety one percent of total AUM is included in strategy AUM as of December 31, 2014, 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.