

F3Q16 Earnings Review



Brandywine  GLOBAL

ClearBridge
Investments

martin
currie

 PERMAL

 QS Investors

Royce & Associates

 WESTERN ASSET

LEGG MASON
GLOBAL ASSET MANAGEMENT

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, 2015 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 Loss \$138.6M or \$1.31 per diluted share

- Includes non-cash impairment charge of \$371M or \$2.79 per diluted share
-

Assets Under Management \$671B

Long-term net outflows \$2.4B

- Equity outflows \$4.6B, partially offset by fixed income inflows \$2.2B
-

Global Distribution quarterly gross and net sales of \$18.2B and \$0.1B, respectively

Closed acquisition of RARE Infrastructure

Launched four new ETF products

Retired 0.6M shares for approximately \$25M





Recent Developments

Announced agreement to acquire Clarion Partners, a leading diversified real estate firm

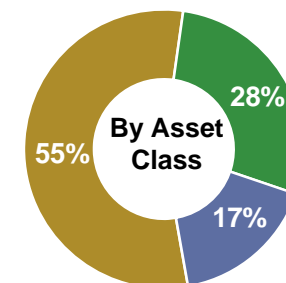
Announced agreement to acquire EnTrust Capital, a leading hedge fund solutions provider

Announced agreement to acquire minority interest in Precidian Investments, a leading creator of innovative ETF intellectual property

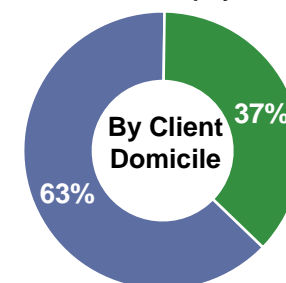
Assets Under Management (\$ billions)

Affiliate ¹	Dec 15	Sep 15	% Change	Dec 14
 WESTERN ASSET	\$426.4	\$438.3	(3%)	\$455.5
 ClearBridge Investments	99.3	96.5	3%	108.1
 Brandywine GLOBAL	68.8	65.6	5%	63.3
 Royce & Associates	18.6	21.2	(13%)	32.1
 PERMAL	17.6	18.2	(3%)	20.0
 RARE ²	6.5	-	-	-
 QS Investors	18.0	17.2	5%	13.6
 martin currie	11.4	10.7	6%	11.8

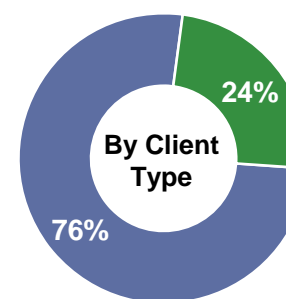
Total AUM \$671B



■ Fixed Income ■ Equity ■ Liquidity



■ US ■ Non-US



■ Institutional ■ Retail

¹ Primary affiliates ordered by contribution to fiscal year 2016 pre-tax earnings

² Acquired in Oct 15

Fiscal Third Quarter Affiliate Overview



- \$2.8B total inflows
- \$3.1B fixed income
- (\$0.3B) equity
- \$1.2B unfunded wins



- \$2.0B outflows
- \$1.4B unfunded wins



- \$0.1B total inflows
- \$0.1B unfunded wins



- \$0.5B outflows
- \$0.4B unfunded wins



- \$0.3B inflows



- Breakeven flows



- \$2.8B outflows



- \$0.8B long-term outflows
- \$10.9B liquidity outflows
- \$3.5B unfunded wins

Global Distribution

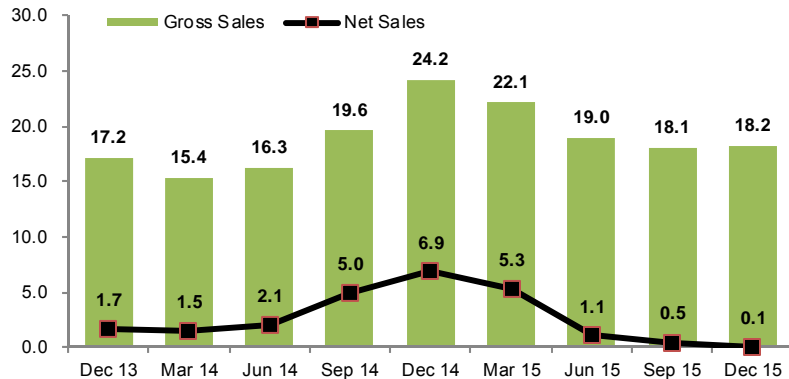
Total Long-Term Assets¹: \$265B

Distribution Highlights

- Gross sales of \$18.2B
 - Up 1% from F2Q16
 - Down 25% from F3Q15
- Net sales of \$0.1B vs \$0.5B in F2Q16
- Ninth consecutive quarter of positive net sales
- Quarterly global redemption rate at 27%
 - US redemption rate 26%

(\$ Billions)	F3Q16	F2Q16	F3Q15
Gross Sales¹:			
US	\$10.9	\$13.9	\$17.9
Int'l	7.3	4.2	6.5
Total	\$18.2	\$18.1	\$24.4
Net Sales¹:			
US	\$(3.1)	\$ 0.6	\$ 6.5
Int'l	3.2	(0.1)	0.4
Total	\$ 0.1	\$ 0.5	\$ 6.9

Quarterly Gross and Net Sales Trends (\$B)



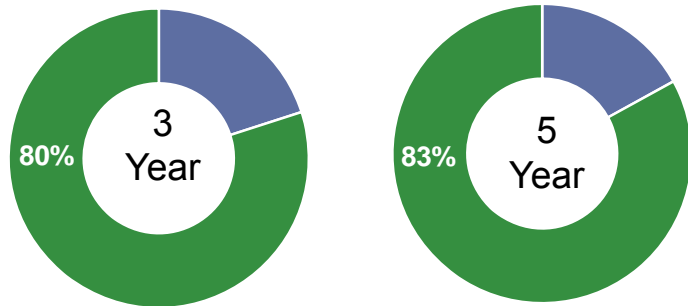
Top Funds Driving Gross Sales FYTD16

- Western Asset Core Plus Bond Fund
- ClearBridge Aggressive Growth Fund
- Western Asset Macro Opportunities Bond Fund
- Western Asset Core Bond Fund
- ClearBridge US Aggressive Growth Fund (Dublin)
- Brandywine Global Sovereign Credit Fund
- Brandywine Global Opportunities Bond Fund
- ClearBridge Dividend Strategy Fund
- Western Asset Managed Municipals Fund
- ClearBridge Appreciation Fund

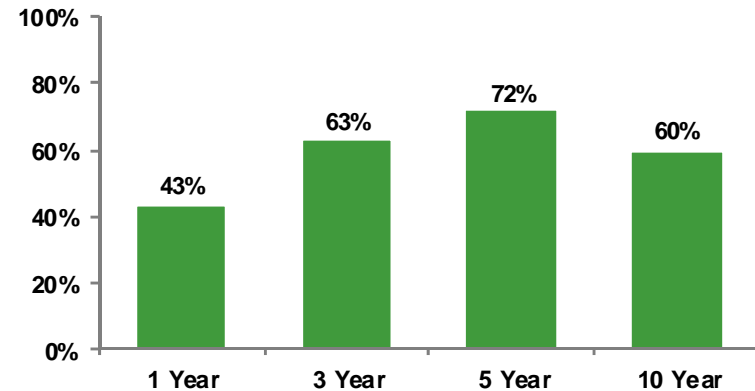
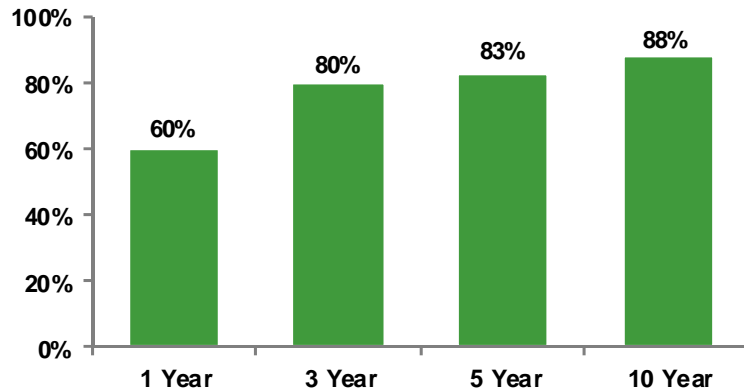
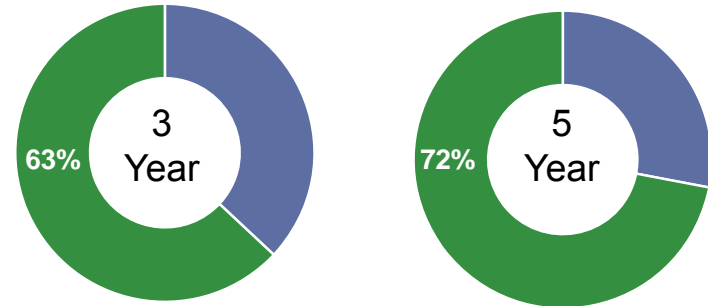
¹ For LMGD, Assets Under Advisement are included in long-term assets, gross sales and net sales. Net sales equals gross sales less redemptions. As of December 31, 2015 long-term assets include \$9.3B of AUA. Quarterly AUA gross and net sales for F3Q16 are \$1.0B and \$0.4B, respectively, for F2Q16 are \$1.0B and \$0.4B, respectively, and for F3Q15 are \$1.2B and \$0.7B, 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 2016

- Net Loss of \$138.6M, or \$1.31 per diluted share
 - Includes the net expense impact of \$204.7M or \$1.90¹ per diluted share due to
 - Non-cash impairment charge and real estate lease write-off
 - Partially offset by contingent consideration adjustments, gain on Australian dollar hedge and various tax benefits
- Adjusted income² of \$158.5M, or \$1.45 per diluted share
- Average AUM of \$683.0B, down \$4.2B
 - Long-term average AUM decreased \$0.5B compared to prior quarter
- Operating revenues \$659.6M, down \$13.5M or 2% from the prior quarter
 - Largely driven by lower yielding product mix, partially offset by RARE acquisition
- Operating expenses \$900.2M increased \$360.1M from prior quarter largely driven by intangible asset impairment charge of \$371M
- Operating loss \$240.6M
- Operating income, as adjusted² \$108.4M, operating margin, as adjusted² 20.6%
- Other non-operating expenses \$1.6M, up \$40.8M from the prior quarter
 - Lower losses on corporate investments not offset in compensation
 - Australian dollar hedge gain of \$6.6M in current quarter, loss of \$11.1M in prior quarter

¹ Also includes \$0.02 EPS impact of using basic versus diluted shares

² See Appendix for GAAP reconciliation

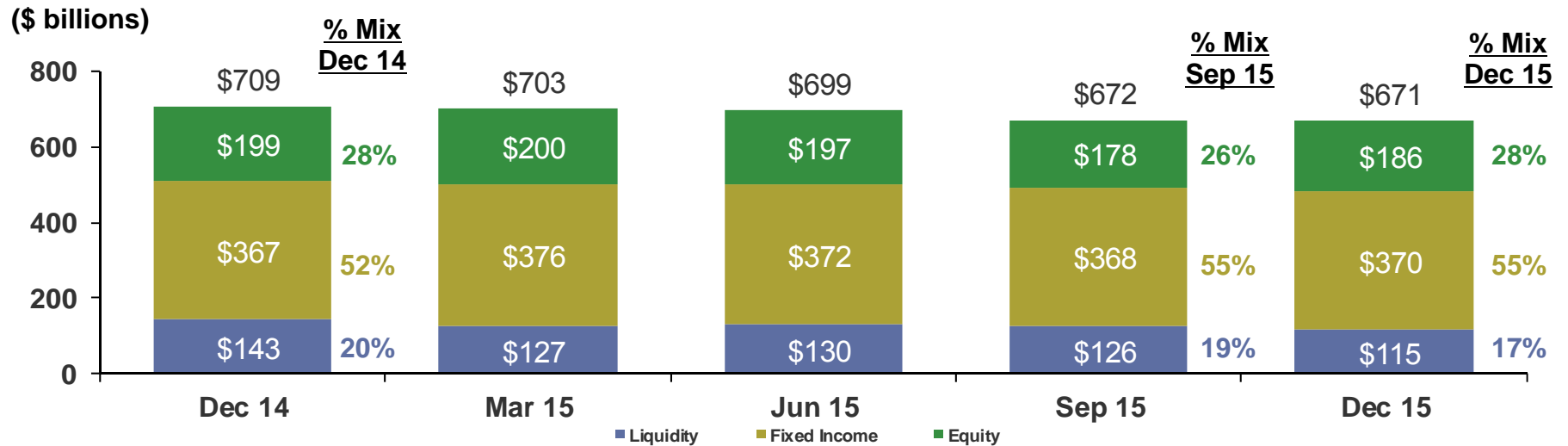
Operating Results Third Quarter FY 2016

(\$ millions, except per share amounts)	Dec 15 Qtr	Sep 15 Qtr	Dec 14 Qtr	\$ Change vs.	
				Sep 15 Qtr	Dec 14 Qtr
Operating Revenues	\$659.6	\$673.1	\$ 719.0	\$ (13.5)	\$ (59.4)
Operating Expenses	900.2	540.1	599.6	360.1	300.6
Operating Income/(Loss)	(240.6)	133.0	119.4	(373.6)	(360.0)
Net Income/(Loss)	(138.6)	64.3	77.0	(202.9)	(215.6)
Diluted EPS	(1.31)	0.58	0.67	(1.89)	(1.98)
Adjusted Income¹	158.5	99.1	113.1	59.4	45.4
Adjusted Income per diluted share¹	1.45	0.89	0.98	0.56	0.47
Operating Margin, as adjusted¹	20.6%	24.0%	21.4%		
Effective Tax Rate GAAP²	42.8%	30.5%	32.2%		

¹ See Appendix for GAAP reconciliation

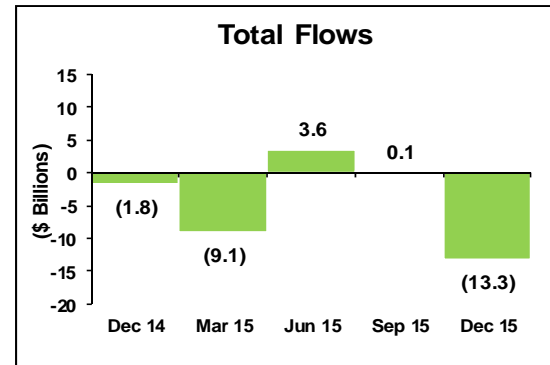
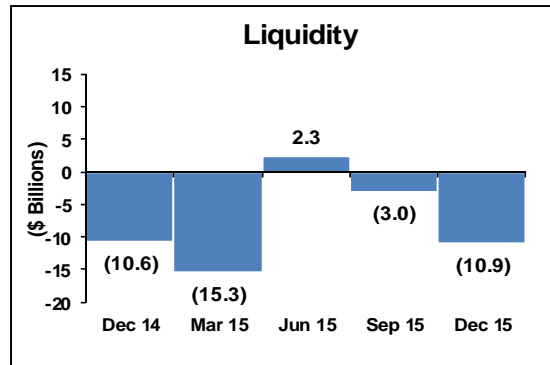
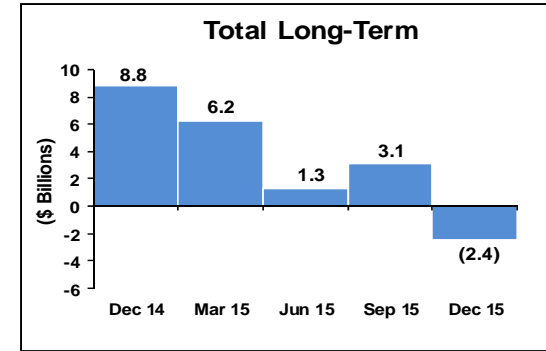
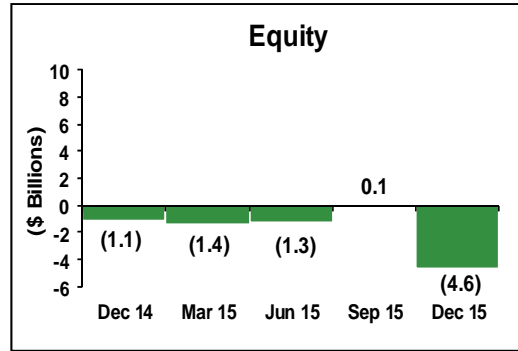
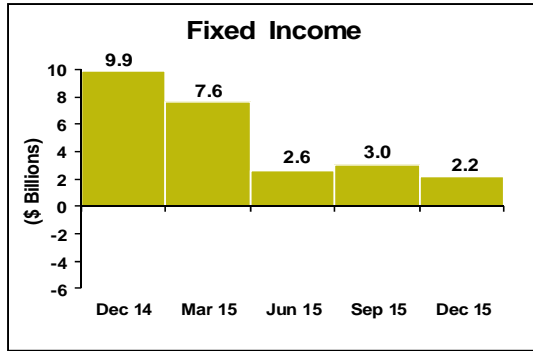
² Includes the impact of Consolidated Investment Vehicles (CIVs) of (0.2%), 0.5%, and (0.8%) in Dec 15, Sep 15, and Dec 14, respectively

Assets Under Management by Asset Class



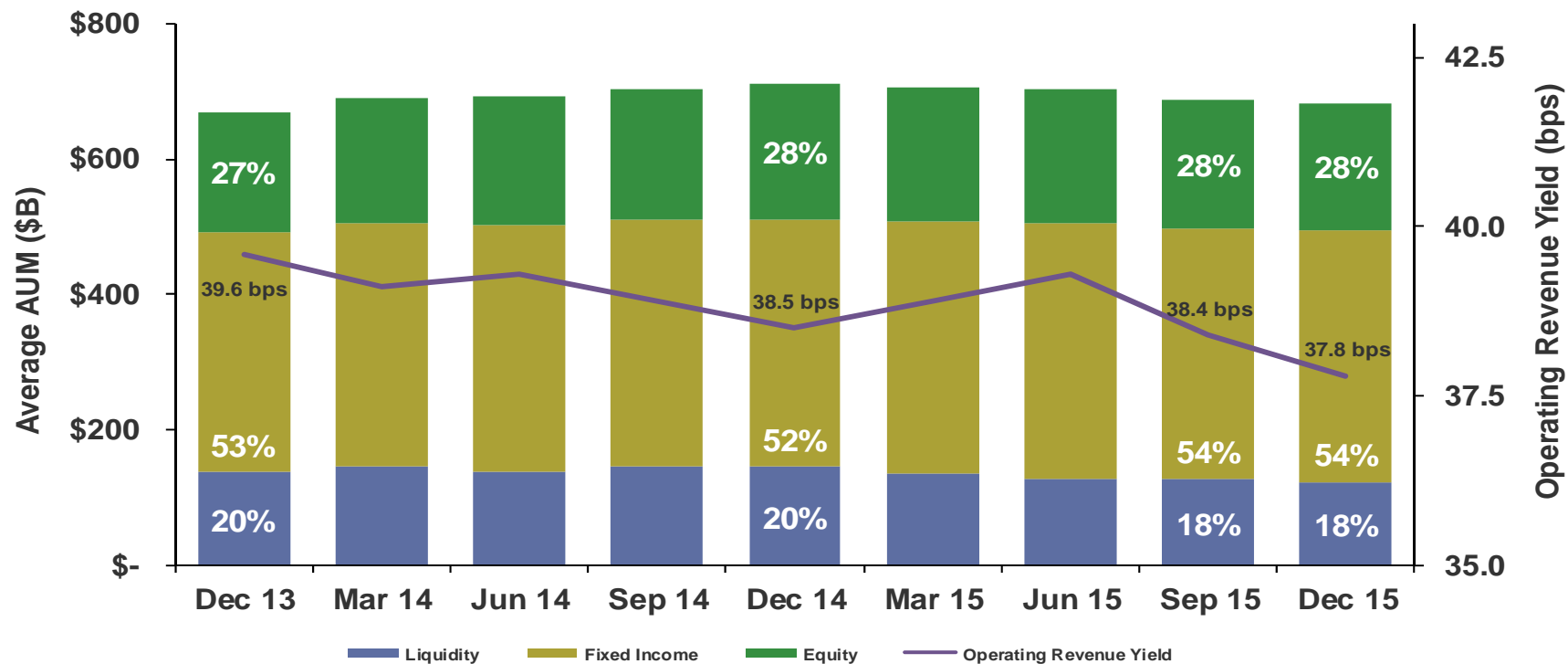
- AUM decreased \$0.6B from prior quarter
 - Market appreciation of \$6.4B and negative FX impact of \$0.5B
 - Acquisition of RARE Infrastructure \$6.8B
 - Liquidity outflows of \$10.9B
 - Long-term outflows of \$2.4B

Net Flows – Quarterly



- Fixed income inflows driven by Global Opportunistic \$2.8B and Corporate Bond \$1.3B, partially offset by outflows of Long Duration \$0.8B and Structured Securities \$0.6B
- Equity outflows driven by Small Cap \$3.1B, Large Cap \$0.7B and Equity Income \$0.5B

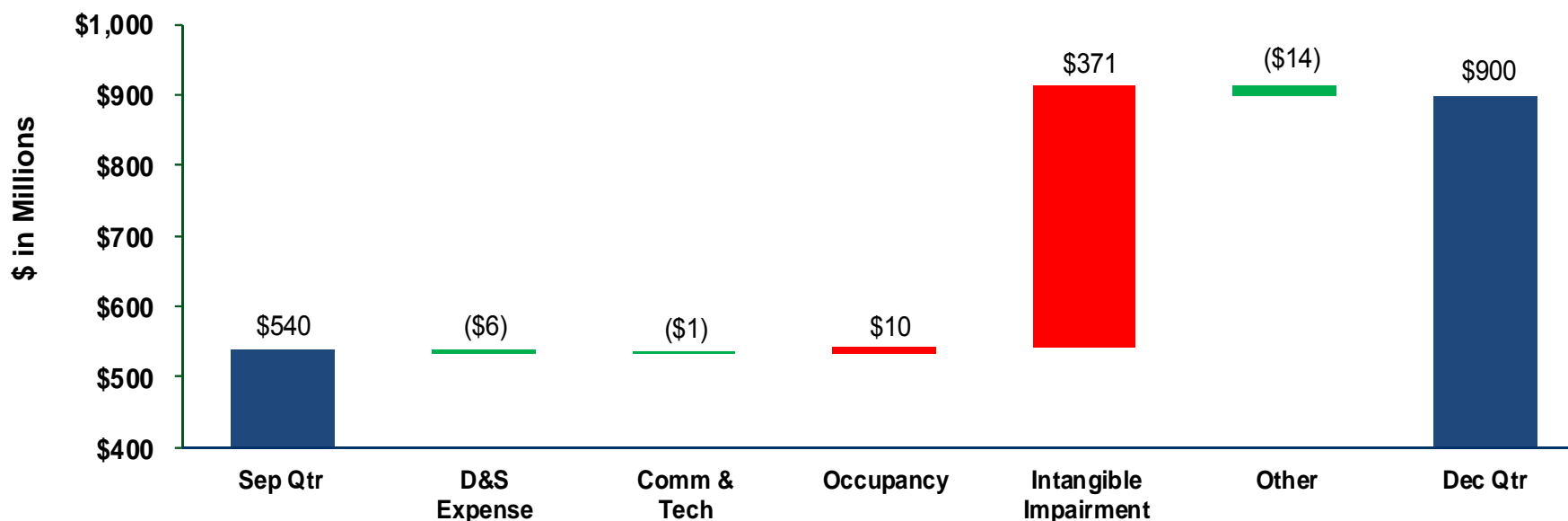
Operating Revenue Yield¹ / Average AUM



- Total average AUM down \$4.2B
 - Equity AUM down \$1.4B and fixed income AUM up \$0.9B
 - Liquidity AUM down \$3.6B
- Operating revenue yield down 0.6 bps primarily due to lower yield driven by a change in product mix

¹ Operating revenues = total operating revenues less performance fees
 Performance fees for Dec 14, Sep 15, and Dec 15 are \$29.1M, \$7.9M, and \$9.2M, respectively

Operating Expenses



- Total Operating expenses, excluding non-cash impairment of intangible assets decreased \$11M compared to the prior quarter
 - Occupancy expense increased due to real estate charge of \$9.4M
 - Decrease in other expenses primarily due to
 - \$26M credit related to contingent consideration adjustments
 - Partially offset by increased advertising, conference and ETF expenses, as well as deal-related costs

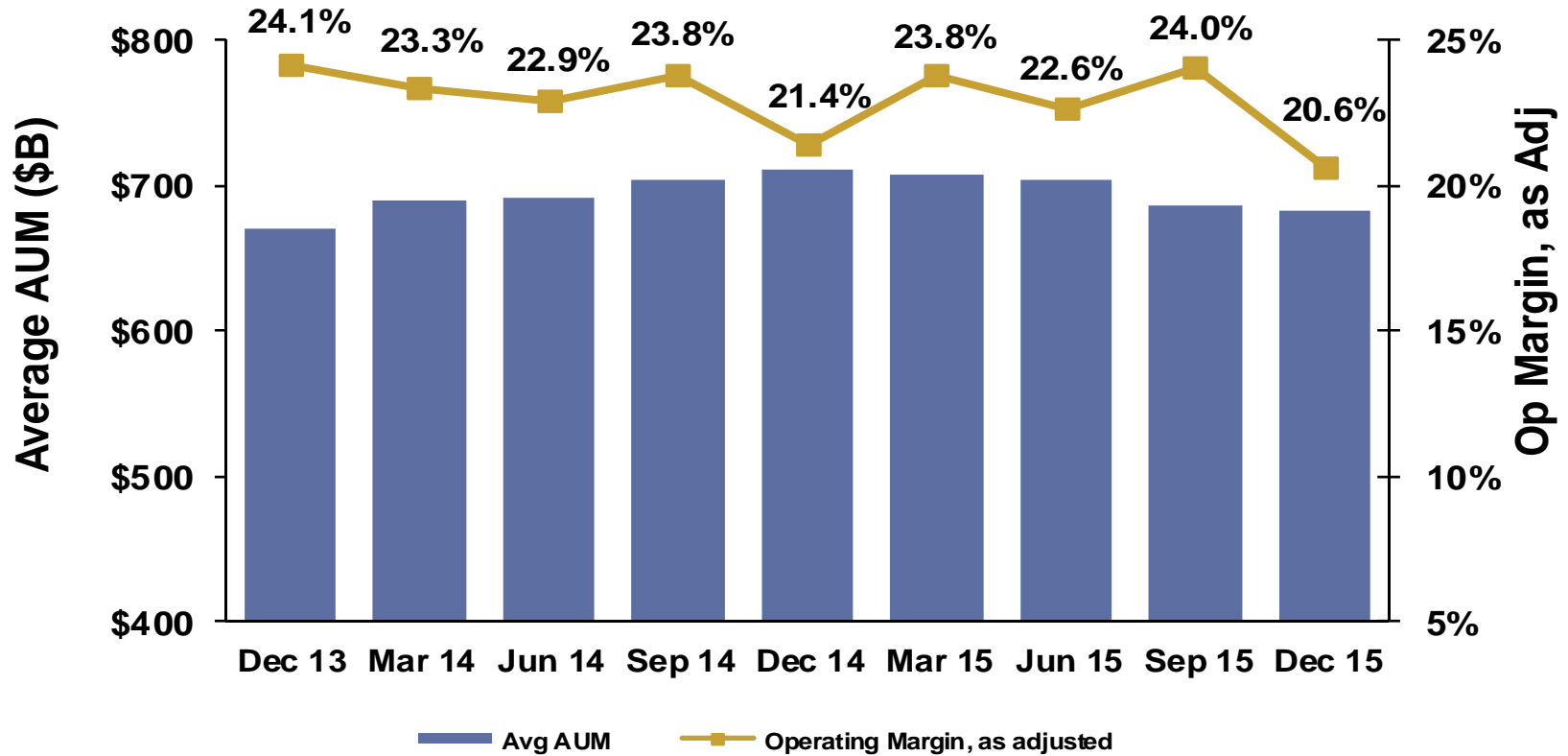
Compensation and Benefits

(\$ millions)

	Dec Qtr	% of Net Rev. ¹	Sep Qtr	% of Net Rev. ¹	\$ Change
Salary and incentives	\$ 227.7	43%	\$ 235.0	44%	\$ (7.3)
Benefits and payroll taxes	51.7	10%	52.7	10%	(1.0)
Subtotal Compensation and benefits	279.4	53%	287.7	54%	(8.3)
Transition costs and severance	0.6	0%	0.2	0%	0.4
MTM deferred comp. and seed investments	2.8	1%	(5.5)	(1%)	8.3
Total Compensation and benefits	<u>\$ 282.8</u>	54%	<u>\$ 282.4</u>	53%	<u>\$ 0.4</u>

- Salary and incentives declined largely due to lower affiliate incentives related to decreased revenues

Operating Margin, as Adjusted

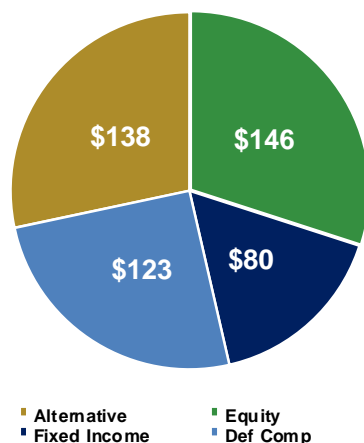


- Impact of real estate charges and deal-related costs on operating margin, as adjusted was 2.0%

Impact of Markets on Non-Operating Income – Other

(\$ millions)	<u>Dec Qtr</u>	<u>Sep Qtr</u>	<u>Change</u>
Other Income (Expense)	\$ 6.5	\$ (28.1)	\$ 34.6
Less:			
RARE Australian dollar hedge gain/(loss)	<u>6.6</u>	<u>(11.1)</u>	<u>17.7</u>
Other Inc (Exp) Ex RARE hedge gain/(loss)	(0.1)	(17.0)	16.9
Other LM Investment activity ¹	<u>1.2</u>	<u>1.6</u>	<u>(0.4)</u>
MTM on deferred comp. & seed investments	(1.3)	(18.6)	17.3
MTM offset in comp. & benefits	<u>2.8</u>	<u>(5.5)</u>	<u>8.3</u>
MTM on deferred comp. & seed Investments, not offset²	<u>\$ (4.1)</u>	<u>\$ (13.1)</u>	<u>\$ 9.0</u>
EPS Impact	\$ (0.02)	\$ (0.08)	\$ 0.05

MV of Def. Comp & Seed Inv. (\$M)

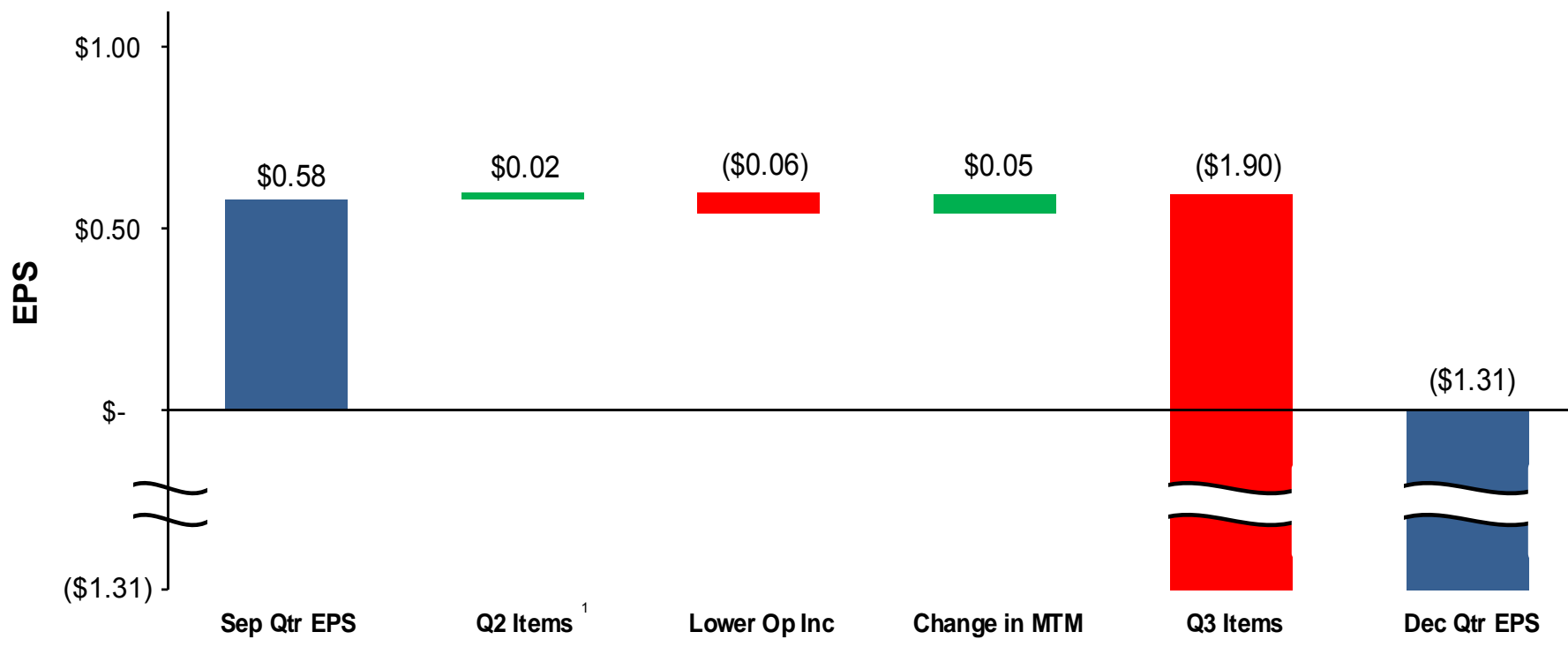


	MTM Change ²
Alternative	3.0
Equity	0.8
Fixed Income	0.9
Deferred Comp	4.3
	<u>9.0</u>

¹ Other LM Investment activity includes dividend and partnership income

² Net of market hedges and compensation and benefit offsets

Third Quarter Earnings Per Share Rollforward

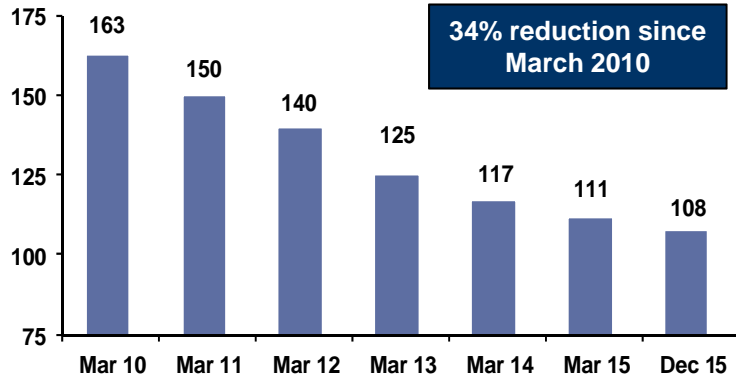


- Lower operating income due to decline in operating revenue yield driven by a change in product mix, increased advertising, conference and ETF expenses, as well as deal-related costs
- Q3 items include intangible assets impairment charge, contingent consideration adjustments, real estate lease write-off, Australian dollar hedge gain related to RARE purchase price, various tax adjustments, and the impact of using basic rather than fully diluted shares

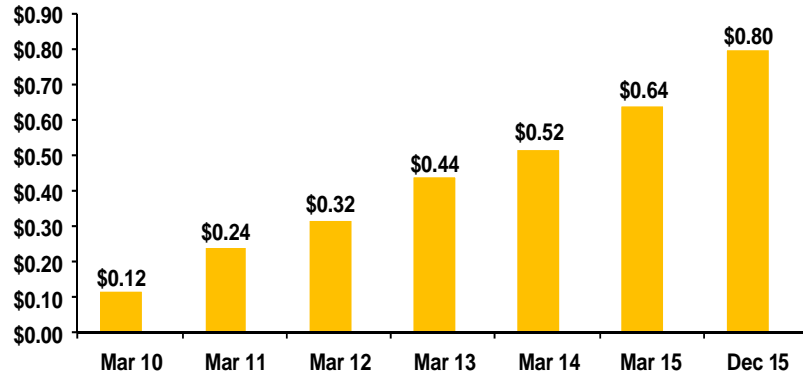
Industry Leader in the Rate of Returning Capital

Since March 2010 returned \$2.5 Billion

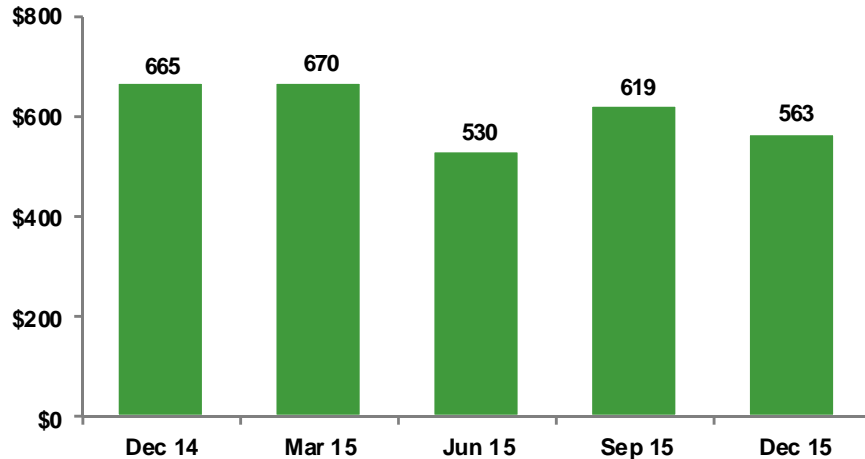
Shares Outstanding (M)



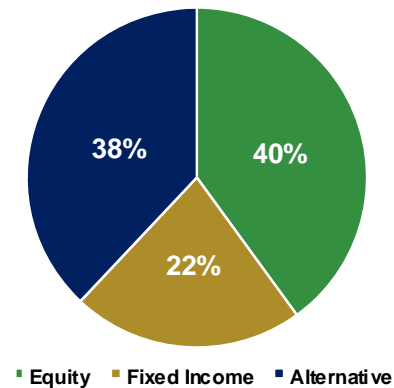
Annualized Quarterly Dividend Declared (Per Share)



Quarterly Cash Position (\$M)



Seed Investments of \$364M¹



¹ Market value as of December 31, 2015