**LEGG MASON**
GLOBAL ASSET MANAGEMENT

# LEGG MASON ACQUISITIONS

Joe Sullivan Joe Sullivan
*Chairman & CEO Officer,*
Legg Mason

Excerpts of comments by Chairman & CEO Joe Sullivan at the company's Investor Day:

## We have a very simple and focused strategy: providing our global clients with an increasing number of choices for investment strategies, product, vehicle and distribution access.

Clients today expect that commitment. To meet it, Legg Mason continues to diversify our investment capabilities, our product and vehicle options, and access to them through multiple distribution channels.

Thoughtful diversification expands client choice and drives growth. And that growth will benefit the investors in Legg Mason and other stakeholders.

It is the intentional design of the Legg Mason model that provides us with the agility to grow by investing where client preferences are moving, establishing capabilities where we can take a leadership position and serving our client through our global centralized distribution platform.

In so doing, we can deliver a more balanced earnings stream to our financial stakeholders over time and market cycles.

Remember, ours is a strategic M&A approach focused on growth and opportunities to leverage global distribution as opposed to simply a financial one.

Over just the past few years we've added multi-asset class solutions capabilities with QS Investors; international equity capability with Martin Currie; liquid alternatives expertise in infrastructure investing with RARE Infrastructure; and the transactions announced today will extend our investment capabilities and broaden our product and vehicle capabilities further.

We are adding scale and complementary investment capability and distribution in the hedge fund alternatives category with the merger of EnTrust with Permal. This combination creates one of the largest and most diversified firms in hedge fund solutions.

The acquisition of Clarion Partners, a leading private equity real estate investment firm, adds illiquid real assets, alternatives capability in an enduring asset class that is projected to attract increasing allocations by both institutional and retail investors.

The investment in Precidian Investments supports our ability to innovate and create better and more diverse investment vehicle choices for investors. Precidian is an industry thought leader and innovator in creating products and vehicles — specifically in ETFs — to solve market structure issues.

### Mr. Sullivan's comments specific to Clarion Partners:

We have great conviction that the financially attractive acquisition of Clarion Partners makes Legg Mason a better firm for our clients and for our shareholders.

There are so many compelling reasons for this transaction. It exemplifies a fundamental part of our corporate strategy.

Clarion is a world-class firm that provides us with strategic diversification of investment strategies, vehicles and earnings. Our portfolio of investment strategies will be thoughtfully expanded to include a leading private equity real estate firm with a 33-year history.

With roughly $40 billion in assets under management, and offerings in office, retail, industrial and multifamily, Clarion has delivered consistently attractive performance to more than 300 global clients.

Its investment vehicles are evenly split between separate account and open-end funds.

Now Clarion will have access to a wider variety of distribution channels through Legg Mason.

The revenue and earnings streams we're acquiring should be significantly more predictable than any that we've had which can diversify and stabilize our revenue and earnings going forward.

But before we could feel confident that now was the time to make the acquisition, we first had to answer three questions, questions that our Board and many of you have raised.

First, are we paying too much?

If we were paying what had been rumored over the past several weeks, then the answer would be yes — but we are not. We are paying significantly less. We have acquired 83 percent of Clarion for $585 million.

We expect the quarter-end run rate EBITDA multiple at the time of close to be in the neighborhood of 10.5 times. Based on what we now see, it would not be heroic to see a forward multiple for the first year from close at around 9.5 times.

Second, is this the top of the real estate market?

Certainly that's a view commonly held that it absolutely is. Yet when you look carefully at the fundamentals of commercial real estate, the supply demand curve, increasing institutional allocations to real estate and the burgeoning retail and foreign demand, we see the real potential for continued upside.

As importantly, our new real estate colleagues see this continued growth so much that they have reinvested a significant part of their equity in the business alongside us.

Then finally, we know it's on everybody's mind: will we be able to continue the buyback?

Quite simply, it is our view that these transactions actually strengthen, at least in the short run, our ability to continue our share repurchase at our historic pace.

Let me now just spend a minute to give you a bit more detail about Clarion, which adds to Legg Mason a leading private equity real estate capability with a 33-year history.

Again, this transaction is entirely consistent with our diversification theme in important ways.

First, the business of Clarion itself is highly — and I would say unusually — diversified within the context of the real estate industry. Specifically, Clarion is well diversified by both strategy and across sectors within the real estate space. Clarion's $40 billion in AUM is split roughly 50–50 between separate account and open-end fund vehicles and is spread across products in core strategies, core plus strategies, value add and opportunistic strategies.

Clarion has delivered attractive performance on both a levered and de-levered basis, or non-levered basis, over the short, medium, and long term periods. This strong investment performance has allowed them to generate consistent growth in AUM, revenue and earnings over the past several years. And the stability and predictability of the revenue streams associated with Clarion's business can act as a stabilizer to our broader business.

### Excerpts of comments by Legg Mason Chief Financial Officer Pete Nachtwey:

As we disclosed in the press release this morning, we will be acquiring an 83 percent ownership stake in Clarion Partners for $585 million, depending on final negotiations amongst their existing management team owners. We may end up acquiring a slightly smaller percentage ownership as a result of those negotiations amongst the management team, but at a prorated price.

The Clarion management team will be retaining 17 percentage points of the outstanding equity, again subject to final negotiations. This means they are effectively rolling over more than one-third of the equity they currently own. So a very meaningful statement as to what they believe the future prospects of their platform are as part of Legg Mason.

We expect to close the deal in the second calendar quarter of 2016. The transaction is expected to be modestly accretive on a GAAP basis, but materially more on an adjusted income basis in the first year after closing, of course excluding deal-related costs.

It is important to point out that performance fees related to Clarion's historical AUM are not included in the deal or priced into the purchase valuation. These will be passed through to the management team and we will highlight these pass-throughs as they hit our profit and loss (“P&L”) in the future.

A restricted stock grant of approximately $27 million will be awarded to management at close — but will not vest until prospective EBITDA hurdles are met. This grant promotes alignment of interest between Clarion's management and Legg Mason shareholders.

There will be a modest $10 million to $15 million non-cash charge related to putting in place a version of our traditional management equity plan for key Clarion employees, which will entitle the participants to share in any increase in Clarion's value down the road.

As with EnTrust, this is structured as a non-revenue share affiliate, so we will share in our percentage of the earnings side-by-side with management.

### Excerpts of comments by Steve Furnary, Chairman & CEO of Clarion Partners:

Why Legg Mason for our firm? And why is there a transaction now?

Five years ago we bought our firm back from ING Group. That wasn't because we were so smart to execute that process at the depths of the global financial crisis. It's because the Dutch government required ING to sell the real estate platform. We had a great relationship with ING for 12 years.

We partnered up with Lightyear Capital, a private equity firm, to execute the buyback from ING. Private equity: it's transitional capital. Approaching the five-year mark, Lightyear began to focus on an exit. Clarion went into this process the exact same way we went into the process with ING: we would lead a management buyout, and we were going to find a new partner going forward.

Legg Mason stepped out in front of the crowd. They offered us their affiliate model, which is a perfect fit for us because we want to continue to be owners in our business. We had alternative partners, but it was mind-boggling that a number would not allow us to co-invest with them, i.e., they would only own 100 percent of the company, which we really had no interest in pursuing.

Clarion has always been a partnership, and the word “partners” has been in our name — that's not accidental. That part of our branding is extremely important. It is embedded in our culture. The fact that we can keep our brand is hugely important to us, and it’s important to our clients.

We are investing $125 million of our money alongside Legg Mason. That is individuals’ money from our senior team invested in this transaction; we also have over $60 million of our money invested alongside our clients in our funds. We like the significant co-investment levels. We weren't required to do invest as much as we did, we wanted to. The Legg Mason structure is unique in that it provides us the ability to do that.

I believe we will be able to tap Legg Mason for additional co-investment ideas and possible expansions to this firm. We will explore possible M&A transactions. We've done M&A. We know how to do it. As we expand this platform, I suspect that we will get our sights set on going back to Europe and Asia, where we invested when we were together with ING.

To take a very long view, we are not setting this company up for the next two years. I think it will be great for the next two years, but we are setting it up for the next long-term.

For example, defined benefit pension plan assets are going to continue to decline, while defined contribution plan assets are increasing. These plans offer individuals the opportunity to make choices to invest their personal assets in real estate. The private equity market has not yet found broad success at creating products that feed into the defined contribution market.

We would like to get out in front of the crowd — and I believe we can. The technology is there. We have open-end funds. There are additional liquidity requirements, but we already mark our assets to market with a very robust valuation process, generally quarterly, and we have the technology in place to do it daily.

Working with this great Legg Mason team, we can create liquid products and be industry leaders. That will set up this Legg Mason/Clarion Partners platform for the long-haul.

Clarion has about $40 billion of assets under management, and in the real estate investment management space that is scale. Scale is really important in our space because it is actually a very people-intensive business. Every time we buy a building, it's like a private equity firm buying a company. We have marketing people, security people, leasing people. Capital improvements go into the building. We have to buy it, and we have to sell it. It actually operates as a company. Having the scale to spread people across the organization and have a decent profit margin is very, very difficult to do if you're a small investment management firm.

Altogether we have 1,000 properties in our portfolio. Virtually every major U.S. city has a Clarion property. We invest in the four major property types, plus hotels. We have scale within each sector; within the United States, we are among the largest owners in each property type.

We are both an operator and an allocator. That is really important. Most real estate companies view themselves as only real estate companies, and most investment managers are not real estate people. We run a very unusual model. We have nine offices across the U.S., UK and Brazil and a presence in Mexico.

Candidly most of what we do is buying and selling buildings, and of course run them in the middle. But over time, we poke at the market and try to determine: is there a way we can create a new vehicle that provides clients with additional solutions? Or can we identify an arbitrage opportunity in the market?

We went into the REIT securities business in 1995. The market was rapidly securitizing at that time. We built that into a big business that got sold as we left ING Group. In 1999, we went into the opportunistic fund business, our closed-end fund business. We are now on Fund IV. It's a very small part of our business, but it's important for clients that want to invest in opportunistic real estate strategies.

This sector fund appeals to investors who are simply underweight in industrial, or who like to see a specialist manager manage those assets.

In the apartment business, if I go back to 2005, we did a public-to-private transaction. Now it is really hard to take a public company private. We did that because we saw an arbitrage where multifamily was trading at a discount in the public market. We then converted what was a closed-end fund into an open-end fund. This was a highly complex and labor intensive deal.

We now have three open-end funds and two closed-end funds that represent almost half of our assets under management.

### Excerpts of remarks by Pat Tully, Chief Financial Officer of Clarion Partners:

To give a sense of the historical growth rates, it's helpful to split into two time periods: the last six years, which would take you from the depths of the global financial crisis to today; and over the longer-term, let's say a 12-year period. You'll see remarkably consistent growth in both time periods.

We've seen compound annual growth over both those periods in AUM and asset management fee revenues in the 12 to 13 percent range.

If you think about earnings, EBITDA, we've seen over a longer period about a 17 percent compound annual growth rate. That has increased markedly over the more recent period, main reason being that we're harnessing the power of our open-end fund products. They are highly scalable, and they answer a fundamental need for our clients.

If we look forward, our outlook is a slow and steady growth rate. We still see positive flows, given that our institutional real estate clients need real estate assets in their overall portfolio allocations. We feel the firm has a compelling suite of products to satisfy those needs.

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Brandywine Global

ClearBridge Investments

Martin Currie

Permal

QS Investors

RARE Infrastructure

Royce & Associates

Western Asset

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The views expressed are as of the date indicated, are subject to change. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

* As of December 31, 2015.

**EBITDA** is an abbreviation for "Earnings Before Interest, Taxes, Depreciation and Amortization," a measure of a company's cash flow.

**Generally Accepted Accounting Principles (GAAP)** is a framework of accounting standards, rules and procedures defined by the professional accounting industry, which has been adopted by nearly all publicly traded U.S. companies.