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# Wells Fargo Asset Manager, Brokers & Exchanges Forum

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March 22, 2016

Joseph A. Sullivan  
Chairman & Chief Executive 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, 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.

# Recent Company Highlights

## Fiscal Third Quarter

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Net Loss \$138.6M or \$1.31 per diluted share

- Includes non-cash impairment charge of \$371M or \$2.79 per diluted share
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Assets Under Management \$671B

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Long-term net outflows \$2.4B

- Equity outflows \$4.6B, partially offset by fixed income inflows \$2.2B
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Global Distribution quarterly gross and net sales of \$18.2B and \$0.1B, respectively

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Closed acquisition of RARE Infrastructure

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Launched four new ETF products

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Retired 0.6M shares for approximately \$25M

## Recent Developments

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

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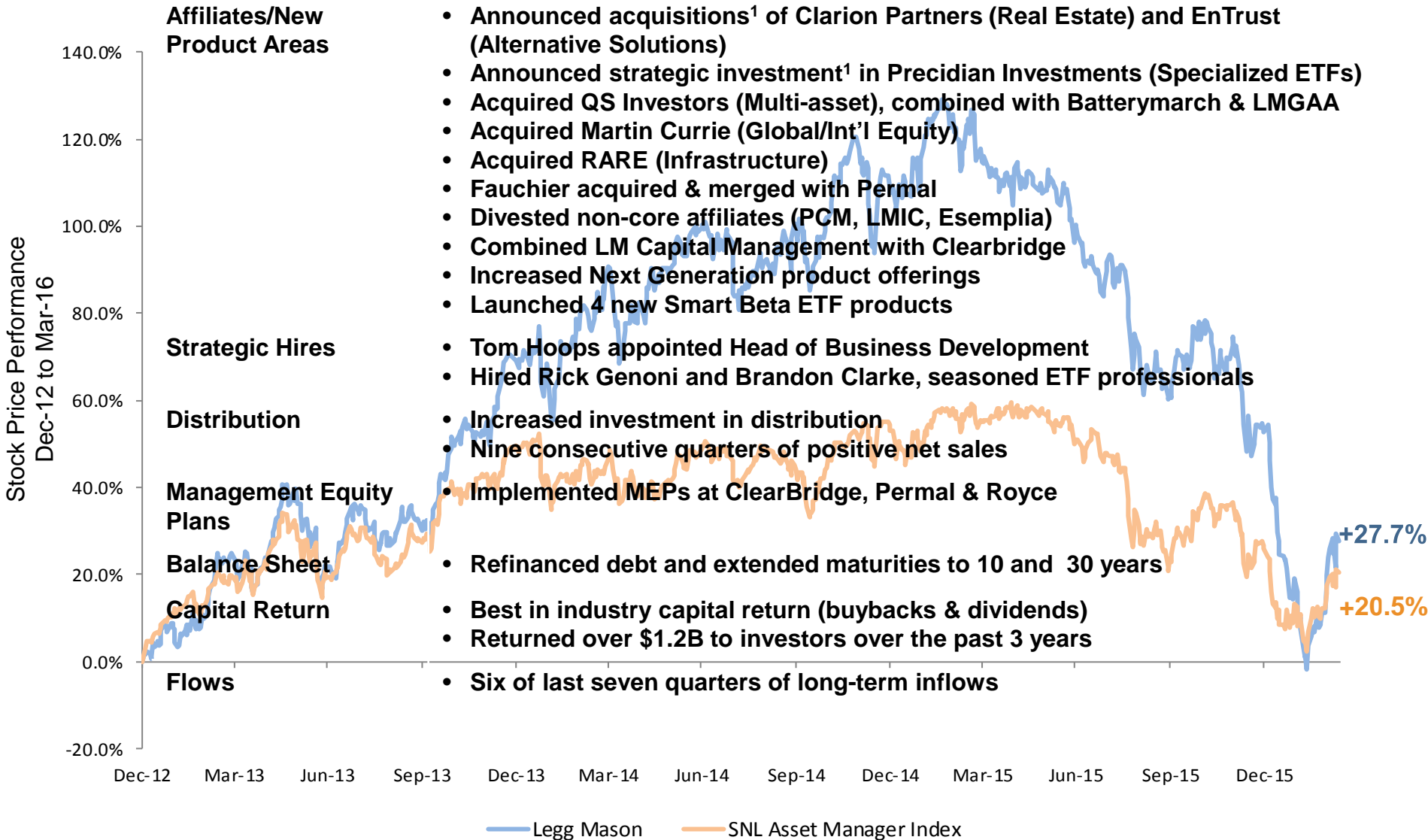
Announced agreement to acquire EnTrust Capital, a leading hedge fund solutions provider

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

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# Actively Building a Better Legg Mason

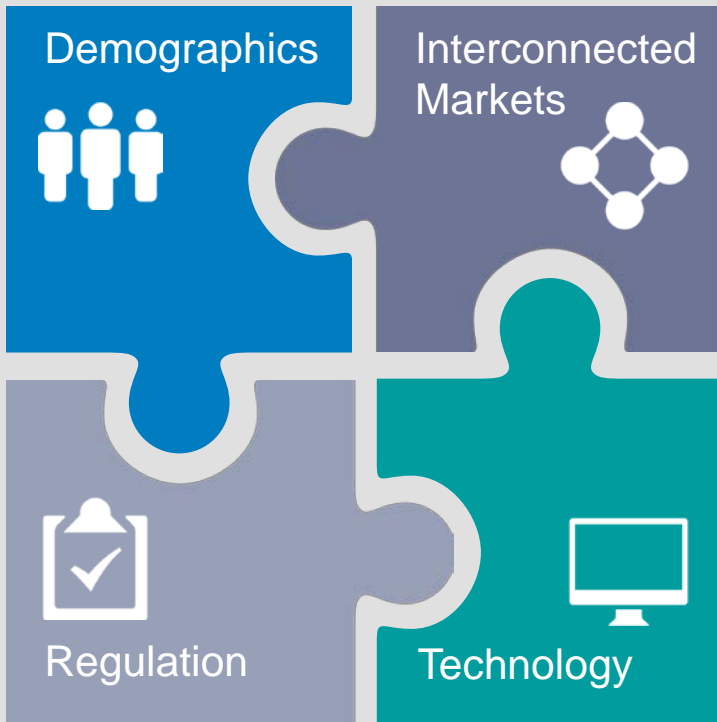


Note: Returns are 12/31/2012 through 3/14/2016

<sup>1</sup> January 2016 announced agreement to acquire Clarion Partners, and EnTrust, as well as an investment in Precidian Investments, which have not closed

# Inflection Point in the Asset Management Industry

## Key drivers of evolving investor preferences

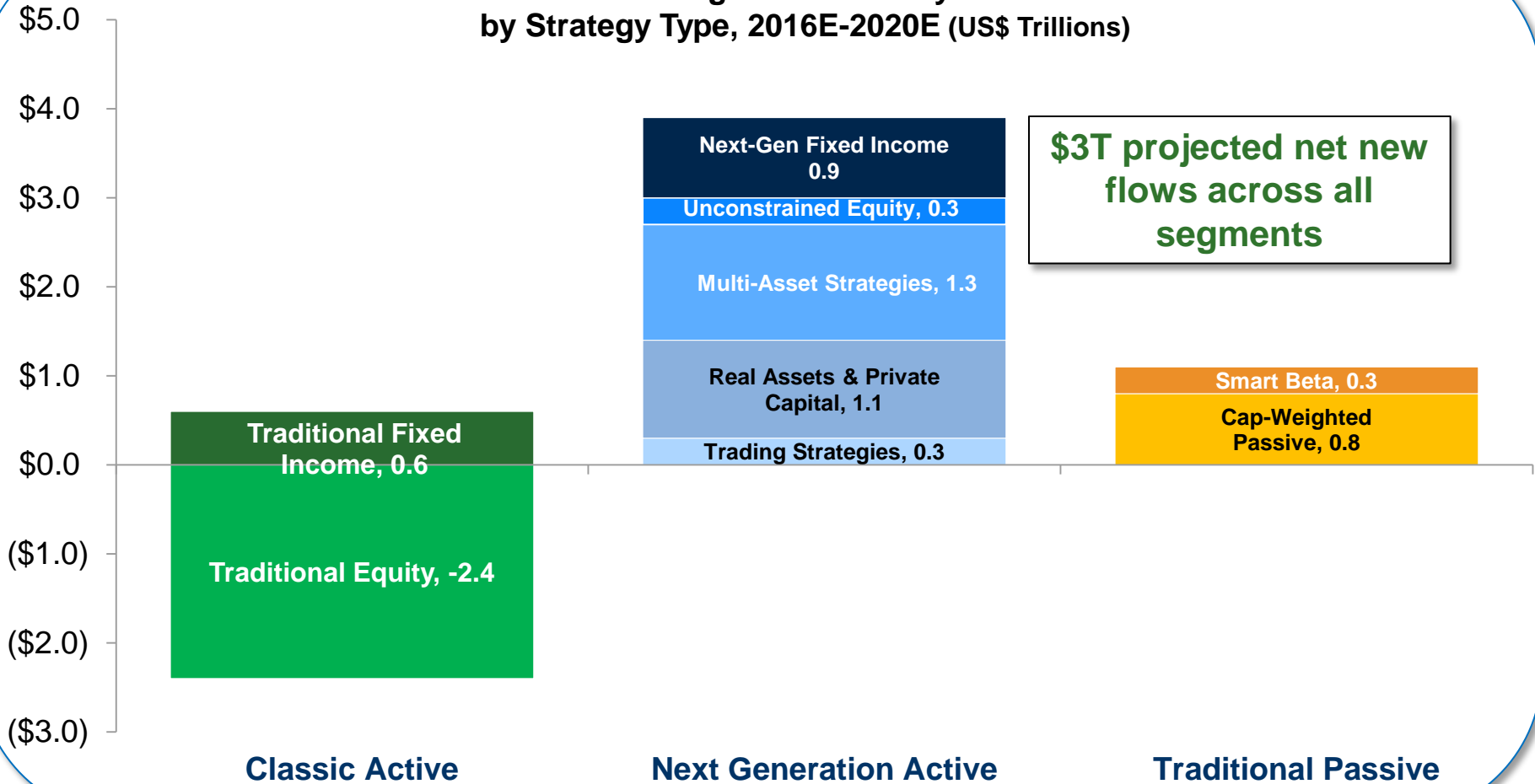


**Implications  
on the  
Industry:  
Investors  
Demanding  
More  
Choice**



# Changing Investor Demand Driving Investment Strategy Migration

**Global Asset Management Industry Net New Flows  
by Strategy Type, 2016E-2020E (US\$ Trillions)**

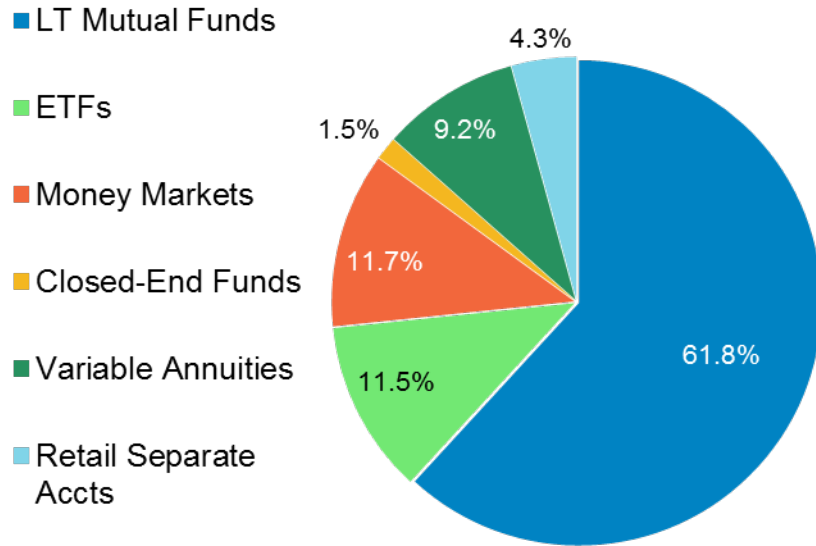


Note: Excludes China

Source: Casey Quirk Report: The Roar of the Crowd: How Individual Investors Transform Competition in Asset Management. November 2015

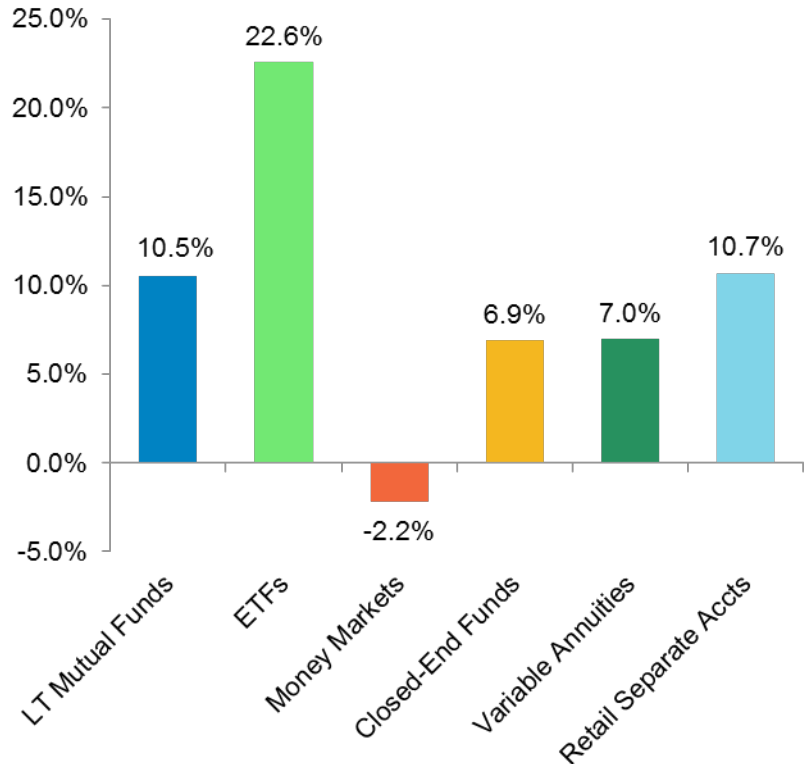
# Changing Demand for US Investment Vehicles

## 2015E US Investment Vehicles Marketshare



- Since 2000, mutual fund asset market-share<sup>1</sup> has declined as investors moved into ETFs where the share is approximately 11% vs. less than 1% in 2000. This trend is expected to accelerate in the next five years

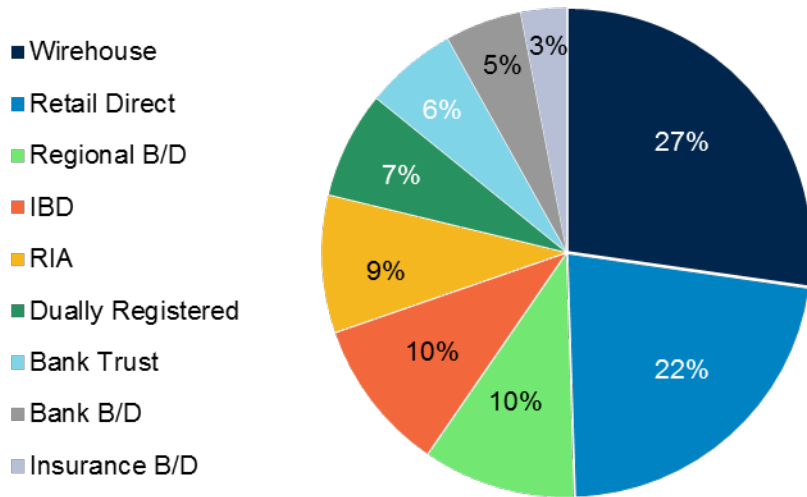
## 2015E- 2018E US Investment Vehicle Projected 3 Yr Annualized Growth



<sup>1</sup> Reflects short-term and long-term mutual funds combined  
Source: Cerulli Associates

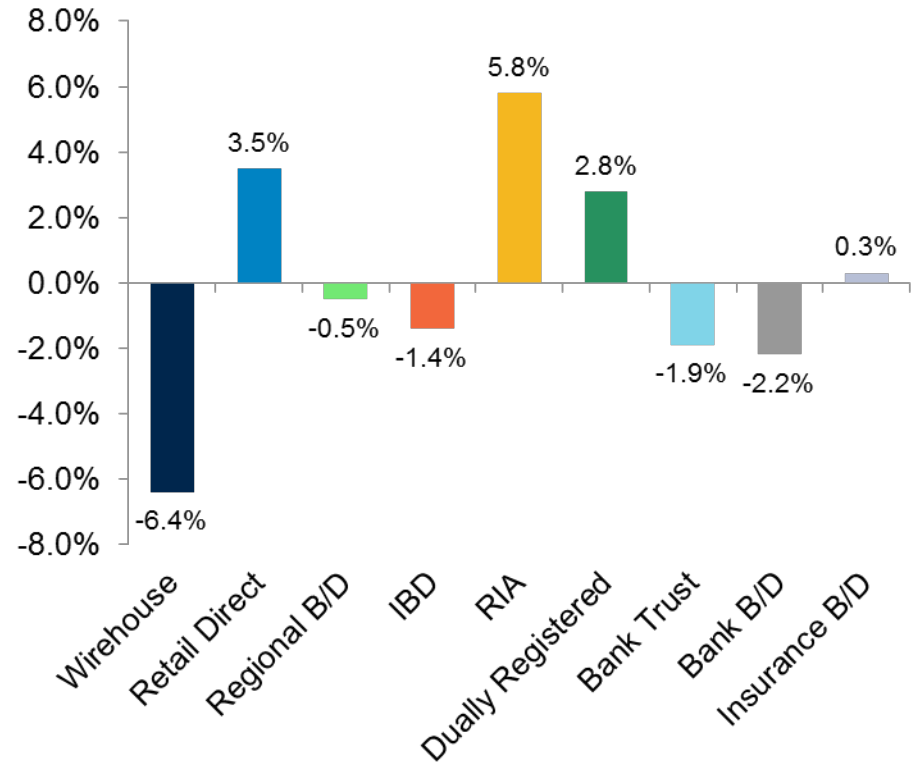
# Industry Marketshare by Distribution Channel

## 2014 Marketshare By Channel



- Marketshare in the wirehouse channel fell from 31% in 2008 to 27% in 2014
- Retail direct has benefited since 2008 as its marketshare has increased from 18% to 22%
- RIA channel also has increased marketshare from 7% in 2008 to 9% in 2014

## 2008-2019E Marketshare Gain/Loss





# Legg Mason – Vision and Strategy

VISION	STRATEGY
<p>Legg Mason is <b>intentionally designed to:</b></p> <ul style="list-style-type: none"><li>• Create a highly diversified firm offering greater investor choice</li><li>• Invest where client preferences are moving</li><li>• Deliver more balanced earnings for shareholders</li></ul>	<p>Pursue growth through <b>diversification of:</b></p> <ul style="list-style-type: none"><li>• Investment capabilities</li><li>• Products and vehicles</li><li>• Distribution channel and delivery method</li></ul>

# Expansion of Legg Mason's Investment Capabilities







Worldwide Product Opportunities	Legg Mason Investment Capabilities	
	2012	2016*
Domestic Equity	+	+
Domestic Fixed Income	+	+
Global Fixed Income	+	+
Emerging Market Debt	+	+
Fund of Hedge Funds	+	+
Global/International Equity	+/-	+
Emerging Market Equity	+/-	+
Liquid Alternatives	+/-	+
Solutions/Multi-Asset Class	+/-	+
Smart Beta ETFs	-	+
Active ETFs	-	+
Other Illiquid Alternatives	+/-	+
Passive	-	-

+ LM Capability   
 +/- LM Capability, but Sub-Scale   
 - No LM Capability




# Transitioning to Building the Legg Mason of Tomorrow

- Began by building a better Legg Mason positioned to win today
- Transitioning to building the Legg Mason of tomorrow

Priorities identified in 2013	
<b>Multi-Asset Solutions</b>	<ul style="list-style-type: none"> <li>• Add talent/capabilities</li> <li>• Few stand-alone platforms, focus on under levered subs</li> </ul>
<b>International Equity</b>	<ul style="list-style-type: none"> <li>• Prioritize actionable, high performing platforms</li> </ul>
<b>Alternative Solutions Platform (Hedge Fund Solutions)</b>	<ul style="list-style-type: none"> <li>• Opportunistic M&amp;A</li> </ul>
<b>Liquid Alternatives</b>	<ul style="list-style-type: none"> <li>• Strategies include broad hedge fund universe (e.g. distressed debt, commodities/CTA)</li> <li>• Prioritize quality, sub-scale players</li> </ul>
<b>Illiquid Alternatives</b>	<ul style="list-style-type: none"> <li>• Strategies include private equity, real estate, infrastructure, natural resources/energy</li> <li>• Few quality options that offer both institutional and retail products</li> </ul>
<b>Specialized ETFs</b>	<ul style="list-style-type: none"> <li>• Focus on active ETFs and niche oriented firms</li> <li>• Few available scale players</li> </ul>

Steps Taken







# Overview of Announced Transactions

			
<b>Total Assets</b>	\$12B	\$40B	ActiveShares awaiting SEC approval
<b>Location</b>	New York, NY	New York, NY	Bedminster, NJ
<b>Description</b>	<ul style="list-style-type: none"> <li>• Leading Hedge Funds Solutions provider</li> <li>• Investment Capabilities across Core Funds, Strategic Partnerships and Special Opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Leading Real Estate investment manager</li> <li>• Broad Real Estate investment capabilities across Core, Core-plus and Value-Add / Opportunistic themes</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative ETF product and market structure solutions</li> <li>• Relatively easy integration into existing broker dealer systems and capability to mask daily holdings from threat of reverse engineering</li> </ul>
<b>Themes Addressed</b>	<b>Alternative Solutions Platform (Hedge Fund Solutions)</b>	<b>Illiquid Alternatives (Real Estate)</b>	<b>Specialized ETFs</b>
<b>Strategic Rationale</b>	<ul style="list-style-type: none"> <li>• Leading Alternative Asset Management brand</li> <li>• Platform to grow multi-alternative capabilities</li> <li>• Consistent AUM growth through market cycles; approx. 18% CAGR since 2007</li> <li>• Combined firm will be #3 in the industry</li> </ul>	<ul style="list-style-type: none"> <li>• Well known historical brand</li> <li>• Fills gap in Real Estate capabilities</li> <li>• Demonstrated ability to grow: AUM up 50% since 2010</li> <li>• High quality earnings attributes</li> <li>• New product potential in LM Global Distribution</li> </ul>	<ul style="list-style-type: none"> <li>• Address ETF product gap</li> <li>• Proprietary technology and expertise in creation of innovative financial products</li> <li>• Specialization in ETF and mutual fund development, and associated trading and pricing techniques</li> </ul>

# Royce&Associates Management Equity Plan<sup>1</sup> - Increased Revenue Share to LM Shareholders

- A component of Royce's existing share of revenues equitized into a minority interest, through the issuance of equity units, with an option for additional equitization over the next three years
  - The initial awards to key employees will total 7%-9% of revenues with 3%-5% held for issuance in future years
- As part of the transaction, Legg Mason will receive a permanent increase of two net revenue percentage points, phased in over 12 months
- Financial Impact
  - Increases LM revenue share and operating margin
  - Approximate non-cash charge of \$35 – \$50 million on initial issuance
  - Projected non-cash charges on additional issuances of approximately \$15 – \$30 million
  - No cash charge, now or in the future, for issuance of additional equity
- Strategically we believe this form of management equity is more appropriate for where Royce's business is today versus our "traditional" MEP

1. The proposed Management Equity Plan terms have been agreed in principle. Final documentation must be signed to implement the plan. The final implementation is expected to occur in F4Q16

## F4Q16 & FY17 Expected Charges Related to Deal Activity

Charges Related to:	F4Q16	FY17
<b>Royce MEP</b>		
Non-cash charge	\$35M to \$50M	
<b>Clarion Investments</b>		
Non-cash MEP Charge		\$10M to \$15M
<b>EnTrust/Permal Combination</b>		
Severance and related charges	\$30M to \$35M	\$20M to \$25M
Non-cash real estate related	\$5M to \$10M	\$30M to \$35M
<b>LM Corporate</b>		
Bankers' fees and accounting/legal costs	\$5M to \$10M	\$5M to \$10M



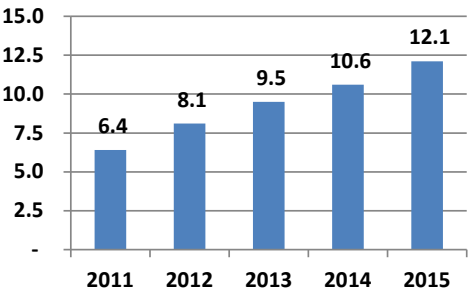
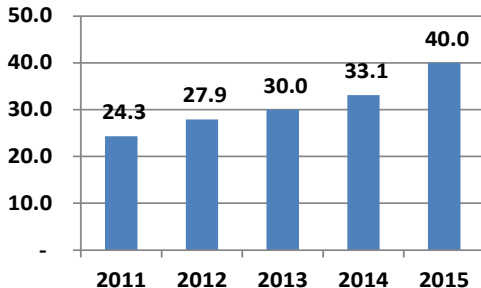
# M&A Financing Options

	<u>Current Rates</u>	<u>Current Debt</u>	<u>Potential Financing Options</u>	<u>Total Interst/Div Year 1</u>
US Senior Debt 5 year	2.70%	\$250		
US Senior Debt 10 year	3.95%	\$250		
US Senior Debt 30 year	5.625%	\$550		
AUD Debt 7 year	3.60%		\$200	\$7
US Senior Debt 10 year	4.31%		\$500	\$22
Preferred/Hybrid	6.50%		\$300	\$20
Bank Term Loan/Revolver <sup>1</sup>	Yr1 2.30%	<u>\$40</u>	<u>\$400</u>	<u>\$9</u>
	Yr2 2.80%			
<b>Total Interest / Pref Div Expense</b>				\$58
<b>Total Debt/Preferred</b>		\$1,090	\$1,400	\$1,350 <sup>2</sup>

If debt markets are closed, we have the financial flexibility to finance all announced transactions with our Bank Term Loan and cash

# P&L Impacts From Announced Transactions

Year 1 estimated EPS accretion \$0.10 - \$0.20<sup>1</sup>

																										
<b>Assets<sup>2</sup> / AEFR</b>	\$12B / 125bps	\$40B / 50bps																								
<b>Location</b>	New York, NY	New York, NY																								
<b>Description</b>	<ul style="list-style-type: none"> <li>• Leading Hedge Funds Solutions provider</li> <li>• Investment Capabilities across Core Funds, Strategic Partnerships and Special Opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Leading Real Estate investment manager</li> <li>• Broad Real Estate investment capabilities across Core, Core-plus and Value-Add / Opportunistic themes</li> </ul>																								
<b>Themes Addressed</b>	<b>Alternative Solutions Platform (Hedge Fund Solutions)</b>	<b>Illiquid Alternatives (Real Estate)</b>																								
<b>Asset Trend<sup>2</sup></b>	 <table border="1"> <caption>EnTrust Assets (2011-2015)</caption> <thead> <tr> <th>Year</th> <th>Assets</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>6.4</td> </tr> <tr> <td>2012</td> <td>8.1</td> </tr> <tr> <td>2013</td> <td>9.5</td> </tr> <tr> <td>2014</td> <td>10.6</td> </tr> <tr> <td>2015</td> <td>12.1</td> </tr> </tbody> </table>	Year	Assets	2011	6.4	2012	8.1	2013	9.5	2014	10.6	2015	12.1	 <table border="1"> <caption>Clarion Assets (2011-2015)</caption> <thead> <tr> <th>Year</th> <th>Assets</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>24.3</td> </tr> <tr> <td>2012</td> <td>27.9</td> </tr> <tr> <td>2013</td> <td>30.0</td> </tr> <tr> <td>2014</td> <td>33.1</td> </tr> <tr> <td>2015</td> <td>40.0</td> </tr> </tbody> </table>	Year	Assets	2011	24.3	2012	27.9	2013	30.0	2014	33.1	2015	40.0
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- **Intangible amortization** estimated between \$20M - \$30M, subject to change based on final purchase price allocation

- **Intangible amortization** shared according to equity ownership







- **Tax shield** increase of \$0.9B, resulting in \$0.4B tax benefit over time

<sup>1</sup>Based on LM equity ownership of 65% and 83% in EnTrustPermal and Clarion, respectively. Net of taxes and minority interest. Assumes an average effective fee rate (ex Performance fees) of approximately 125bps and 50bps for EnTrust and Clarion, respectively. Reflects expected year one cost saves, offset by amortization of intangibles, cost of additional debt service and 35% minority interest in Permal. Excludes expected deal related charges noted on slide 14.

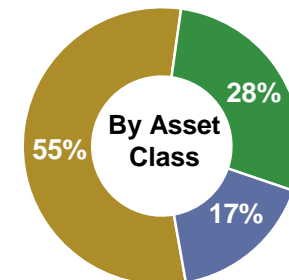
<sup>2</sup>Total EnTrust assets include AUM, assets under advisory and unfunded contractually committed assets.



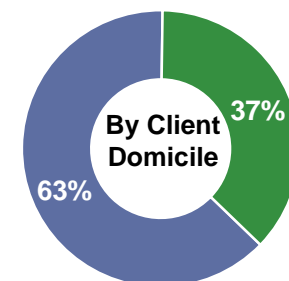
# Assets Under Management (\$ billions)

Affiliate <sup>1</sup>	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 <sup>2</sup>	6.5	-	-	-
 QS Investors	18.0	17.2	5%	13.6
 martin currie	11.4	10.7	6%	11.8

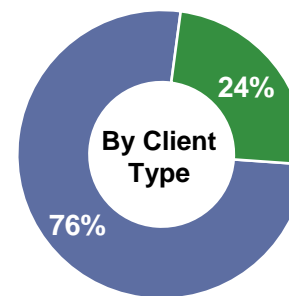
Total AUM \$671B



■ Fixed Income ■ Equity ■ Liquidity



■ US ■ Non-US



■ Institutional ■ Retail

<sup>1</sup> Primary affiliates ordered by contribution to fiscal year 2016 pre-tax earnings

<sup>2</sup> 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

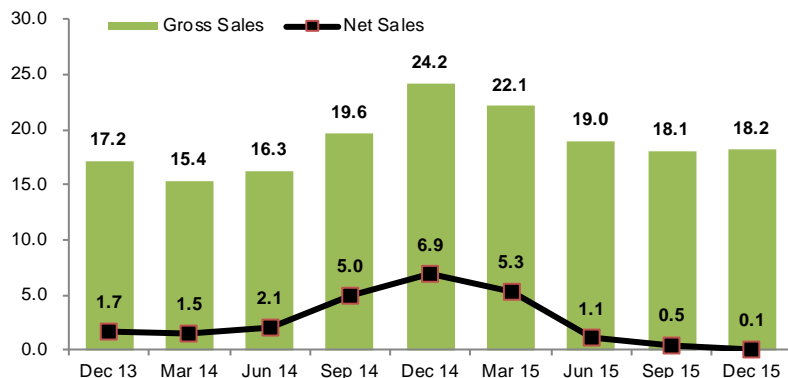
**Total Long-Term Assets<sup>1</sup>: \$265B**

## 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
<b>Gross Sales<sup>1</sup>:</b>			
US	\$10.9	\$13.9	\$17.9
Int'l	7.3	4.2	6.5
<b>Total</b>	<b>\$18.2</b>	<b>\$18.1</b>	<b>\$24.4</b>
<b>Net Sales<sup>1</sup>:</b>			
US	\$(3.1)	\$ 0.6	\$ 6.5
Int'l	3.2	(0.1)	0.4
<b>Total</b>	<b>\$ 0.1</b>	<b>\$ 0.5</b>	<b>\$ 6.9</b>

## Quarterly Gross and Net Sales Trends (\$B)



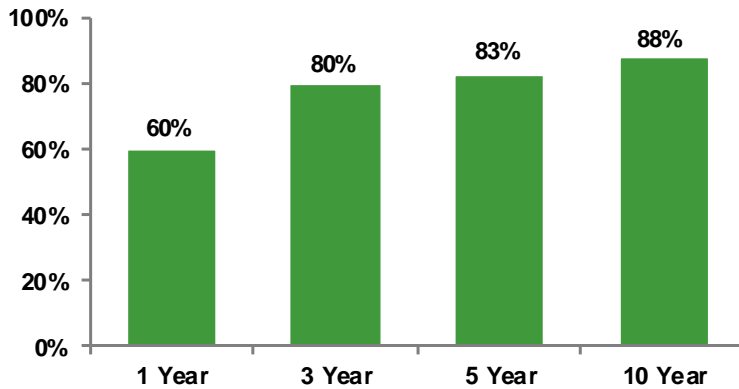
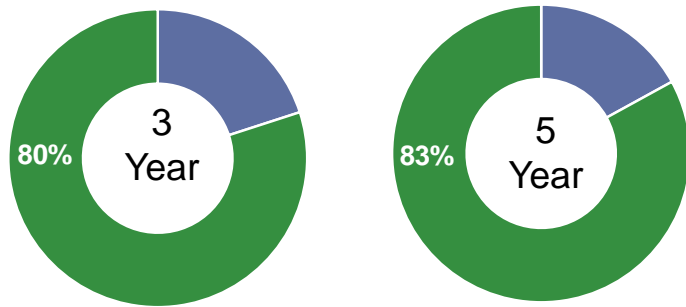
## Top Funds Driving Gross Sales FYTD16

- 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

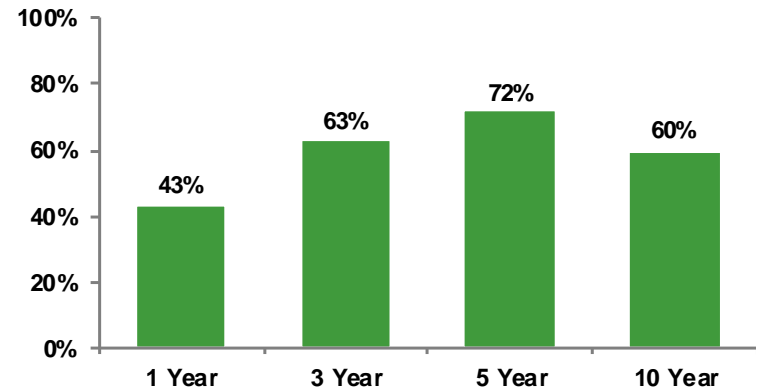
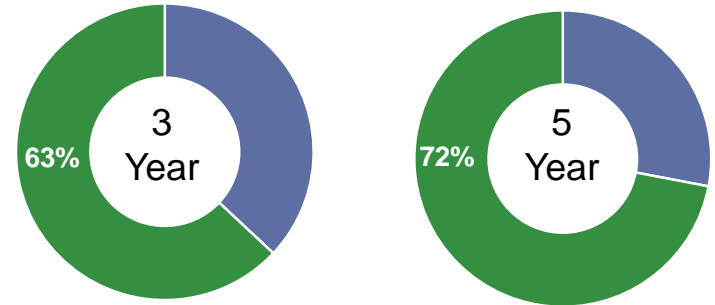
<sup>1</sup> For LMGD, Assets Under Advisement are included in long-term assets, gross sales and net sales. Net sales equals gross sales less redemptions. As of December 31, 2015 long-term assets include \$9.3B of AUA. Quarterly AUA gross and net sales for F3Q16 are \$1.0B and \$0.4B, respectively, for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

# Investment Performance

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



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



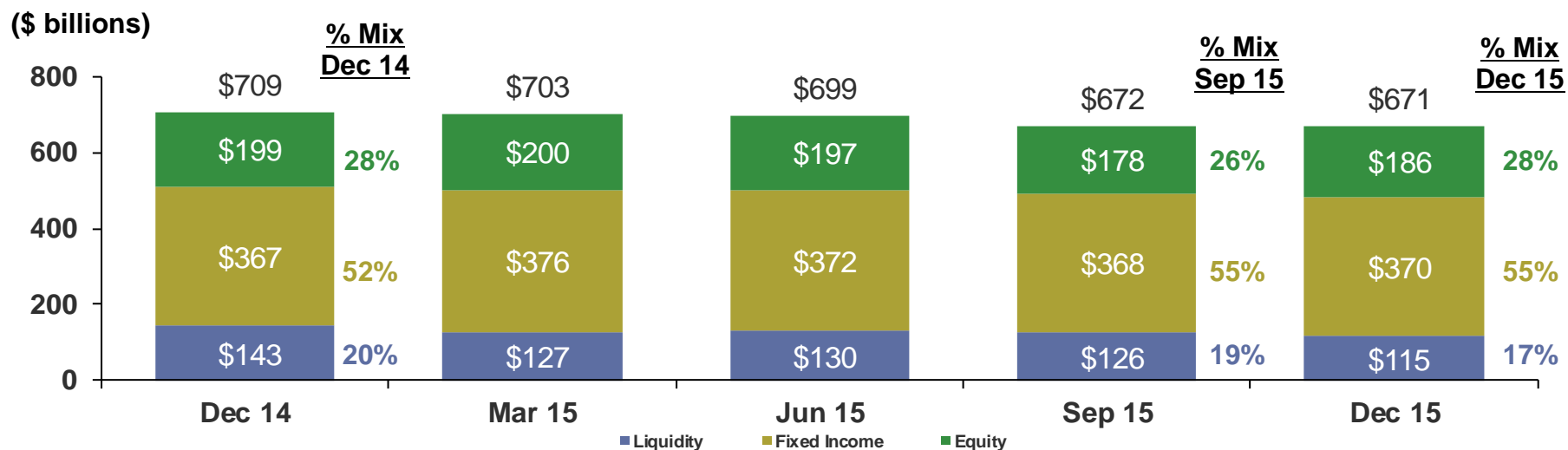
<sup>1</sup> See appendix for details regarding strategy performance

<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.

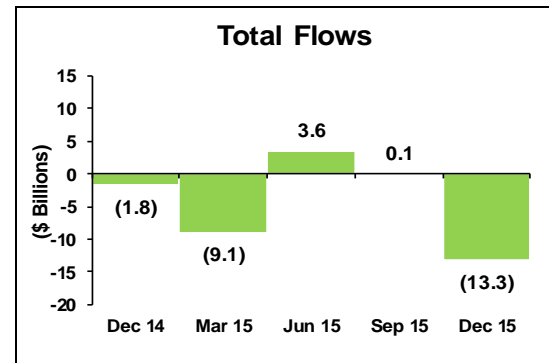
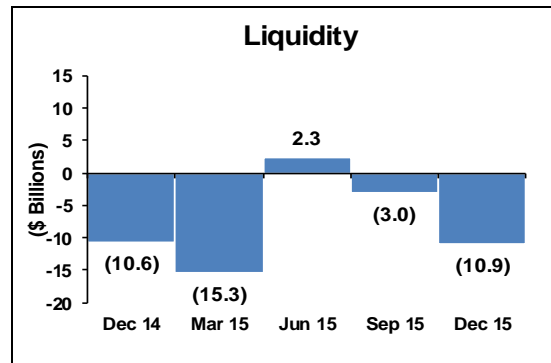
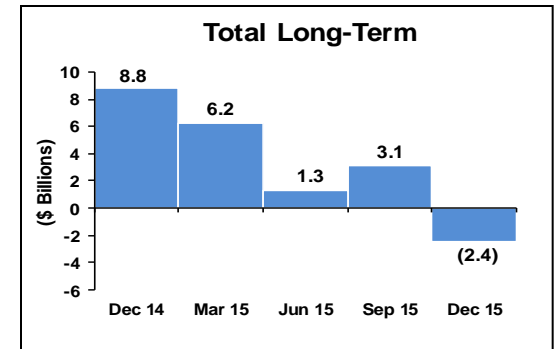
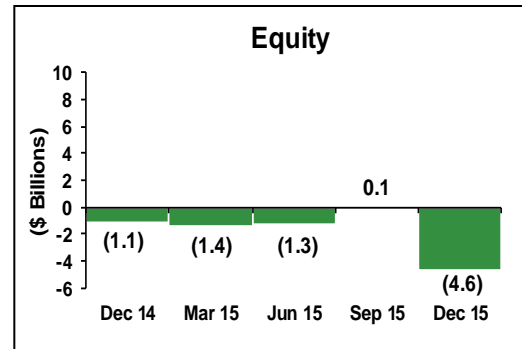
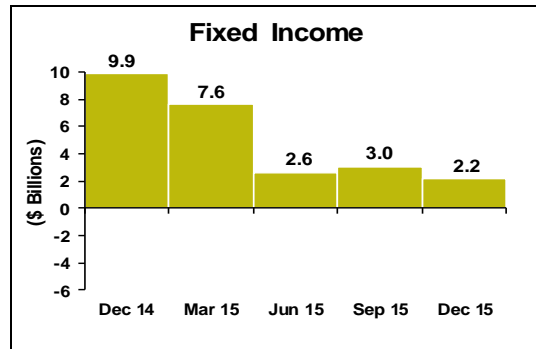
\* As of December 31, 2015

# Assets Under Management by Asset Class



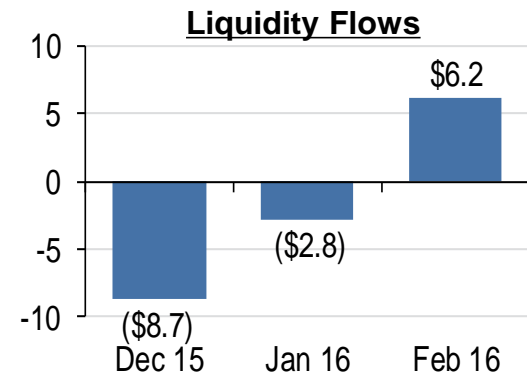
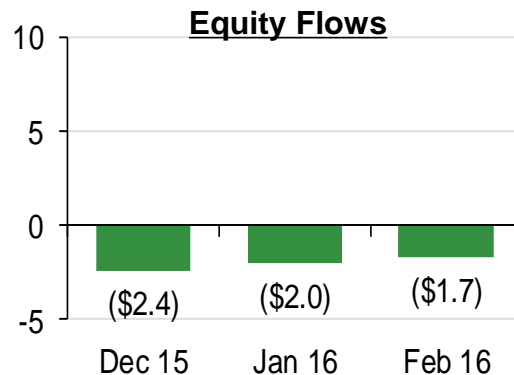
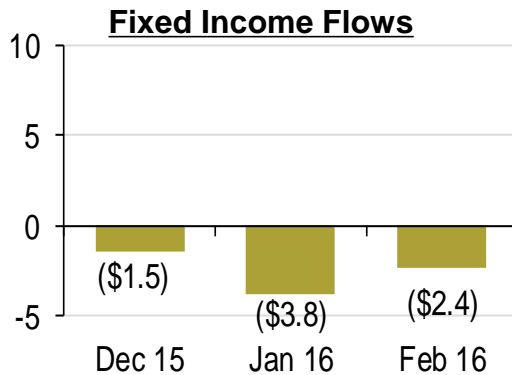
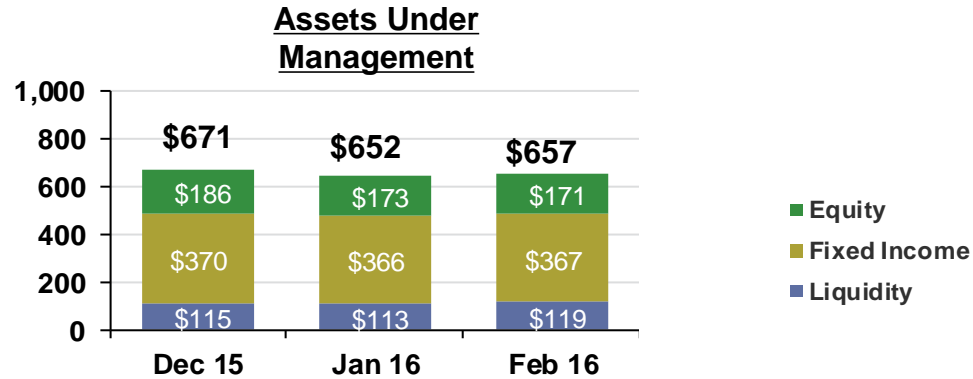
- AUM decreased \$0.6B from prior quarter
  - Market appreciation of \$6.4B and negative FX impact of \$0.5B
  - Acquisition of RARE Infrastructure \$6.8B
  - Liquidity outflows of \$10.9B
  - Long-term outflows of \$2.4B

# 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

# February Monthly AUM and Net Flow Update (\$B)



- Equity outflows declined vs the prior month as Royce and Brandywine improved over the prior month
- Fixed income outflows in February included \$1.6B of low fee redemptions
- Pipeline of unfunded wins at the end of January were approximately \$10B

# Financial Highlights - Third Quarter FY 2016

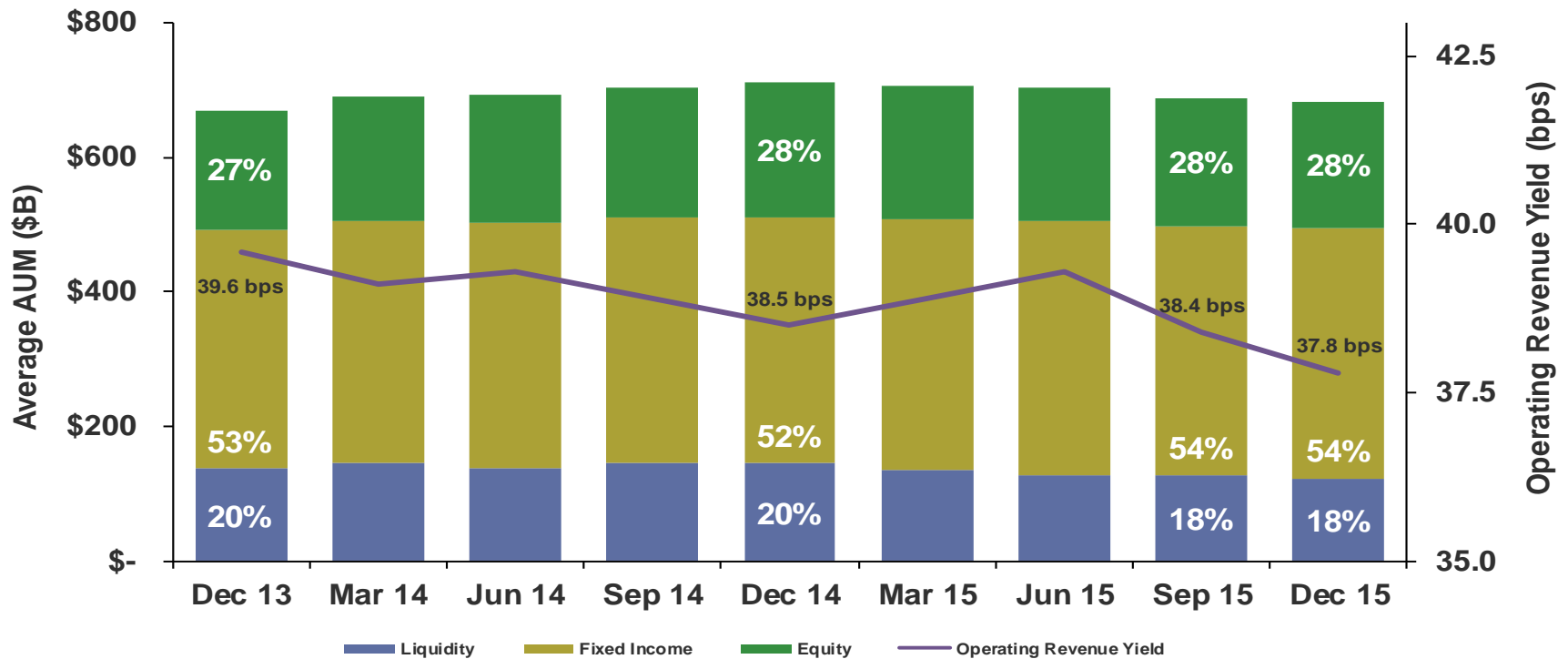
- Net Loss of \$138.6M, or \$1.31 per diluted share
  - Includes the net expense impact of \$204.7M or \$1.90<sup>1</sup> per diluted share due to
    - Non-cash impairment charge and real estate lease write-off
    - Partially offset by contingent consideration adjustments, gain on Australian dollar hedge and various tax benefits
- Adjusted income<sup>2</sup> 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 adjusted<sup>2</sup> \$108.4M, operating margin, as adjusted<sup>2</sup> 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

<sup>1</sup> Also includes \$0.02 EPS impact of using basic versus diluted shares

<sup>2</sup> See Appendix for GAAP reconciliation



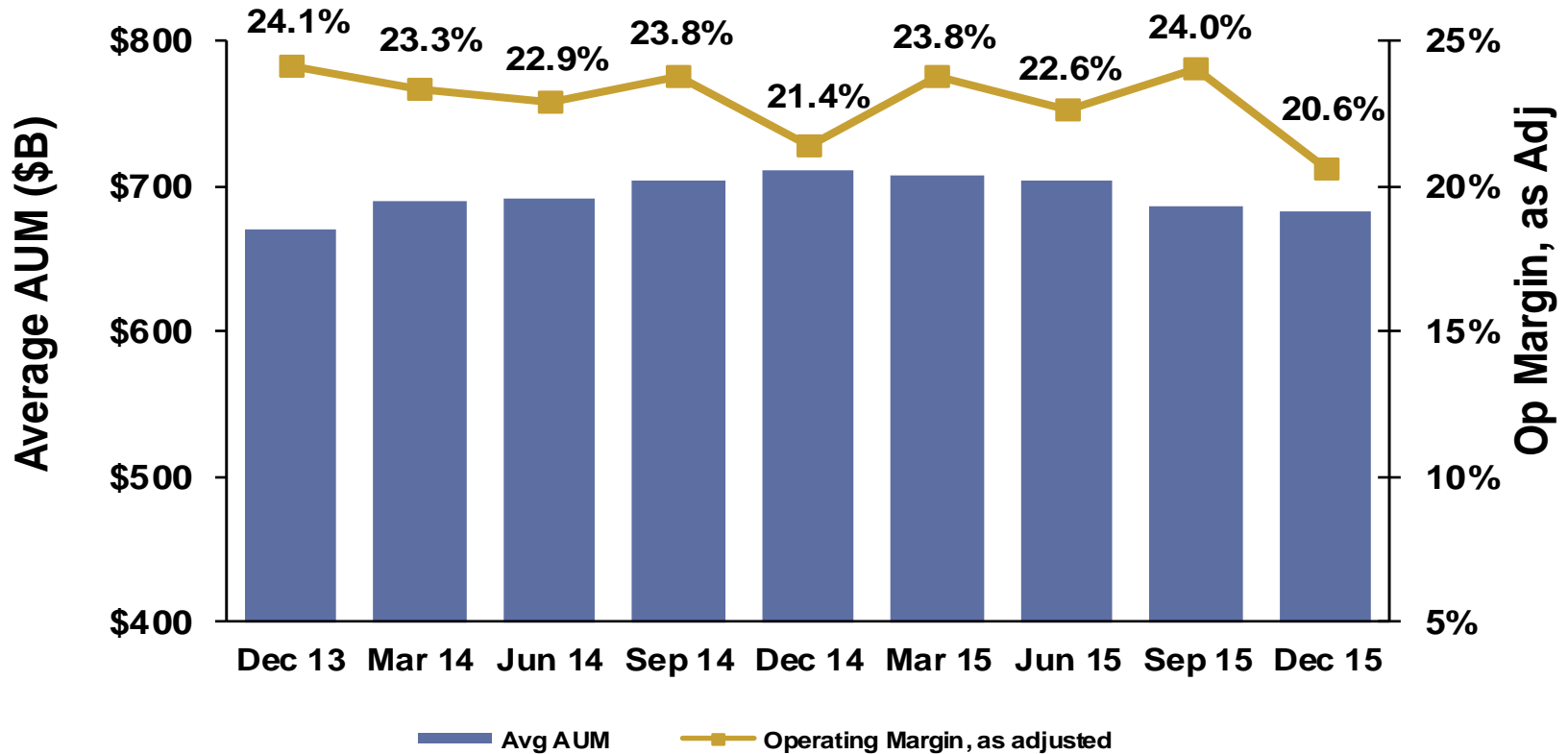
# Operating Revenue Yield<sup>1</sup> / Average AUM



- 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

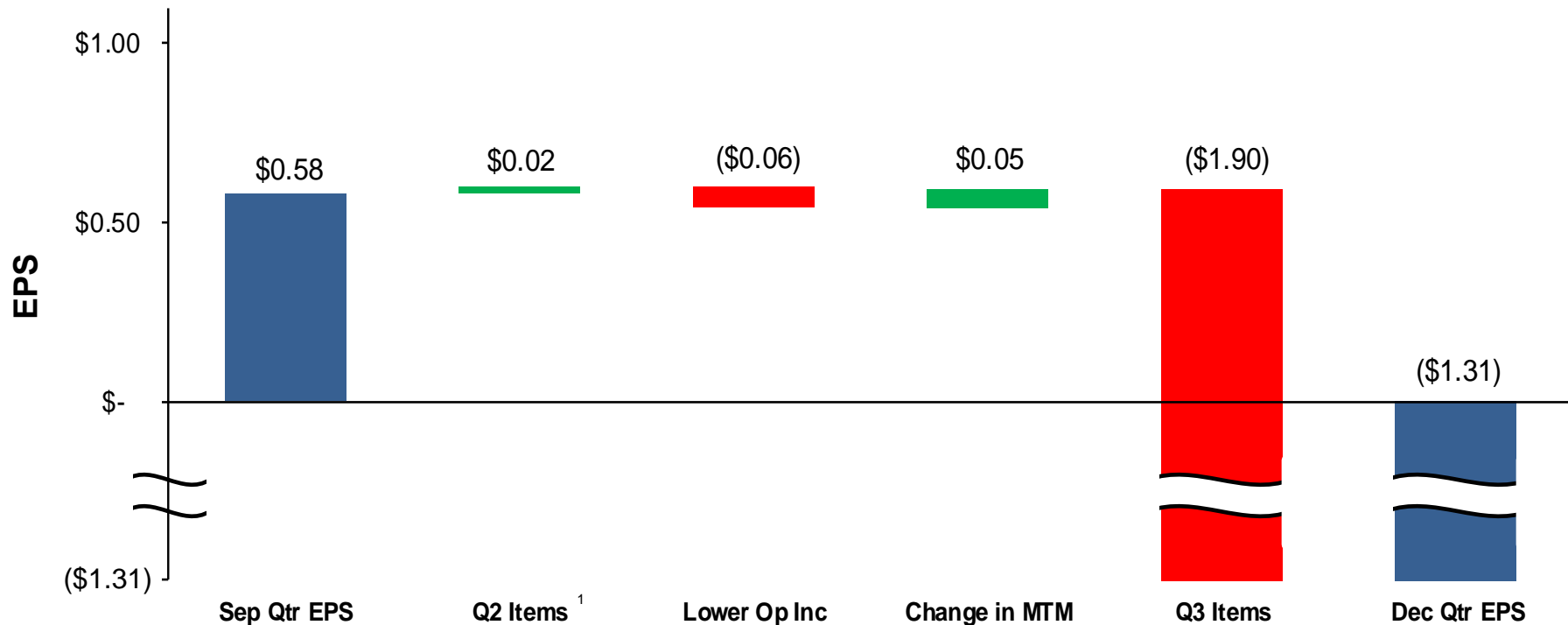
<sup>1</sup> Operating revenues = total operating revenues less performance fees  
 Performance fees for Dec 14, Sep 15, and Dec 15 are \$29.1M, \$7.9M, and \$9.2M, respectively

# Operating Margin, as Adjusted



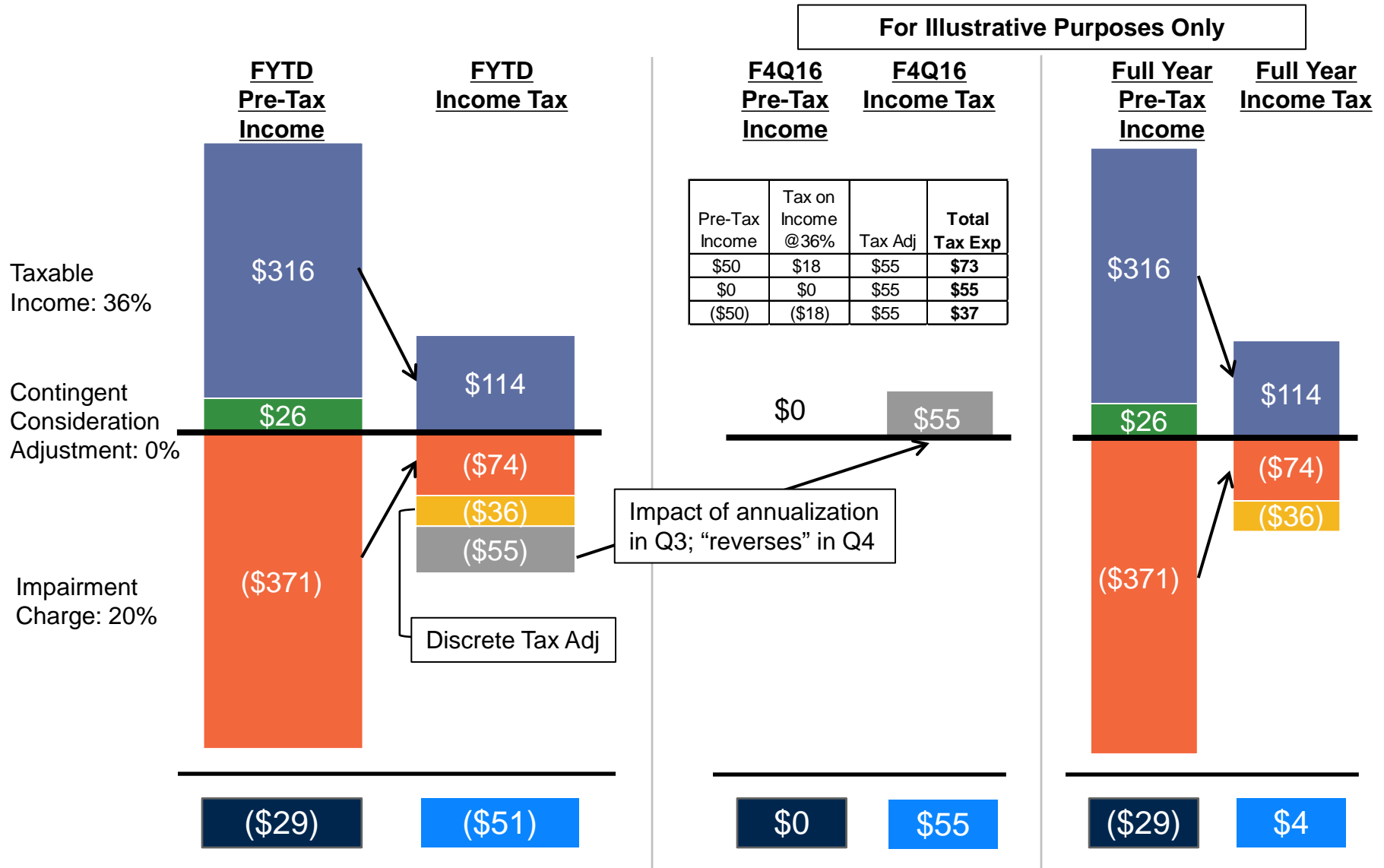
- Impact of real estate charges and deal-related costs on operating margin, as adjusted was 2.0%

# Third Quarter Earnings Per Share Rollforward



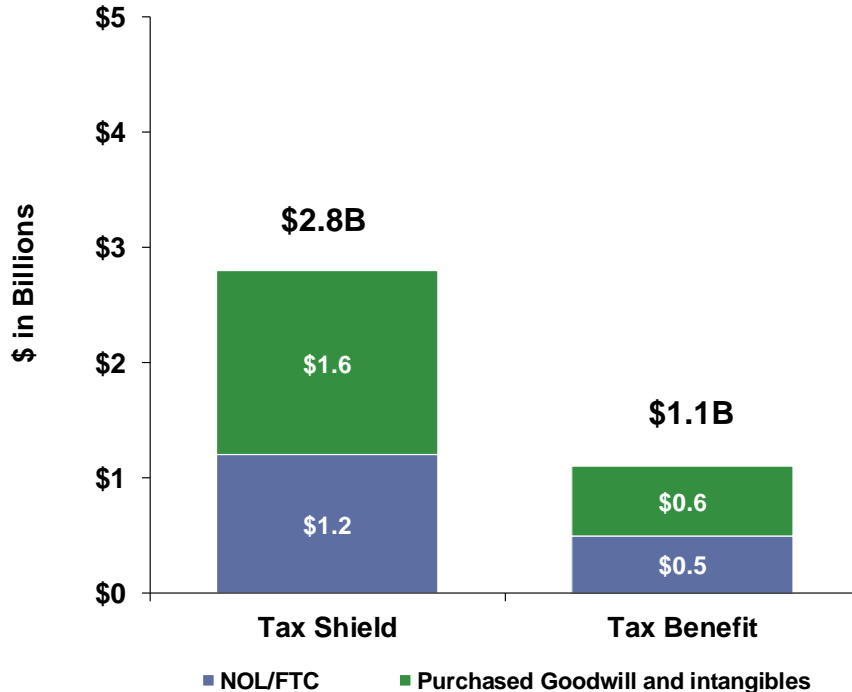
- Lower operating income due to decline in operating revenue yield driven by a change in product mix, increased advertising, conference and ETF expenses, as well as deal-related costs
- Q3 items include intangible assets impairment charge, contingent consideration adjustments, real estate lease write-off,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

# Effect of F3Q16 Impairment Charge on Tax Expense



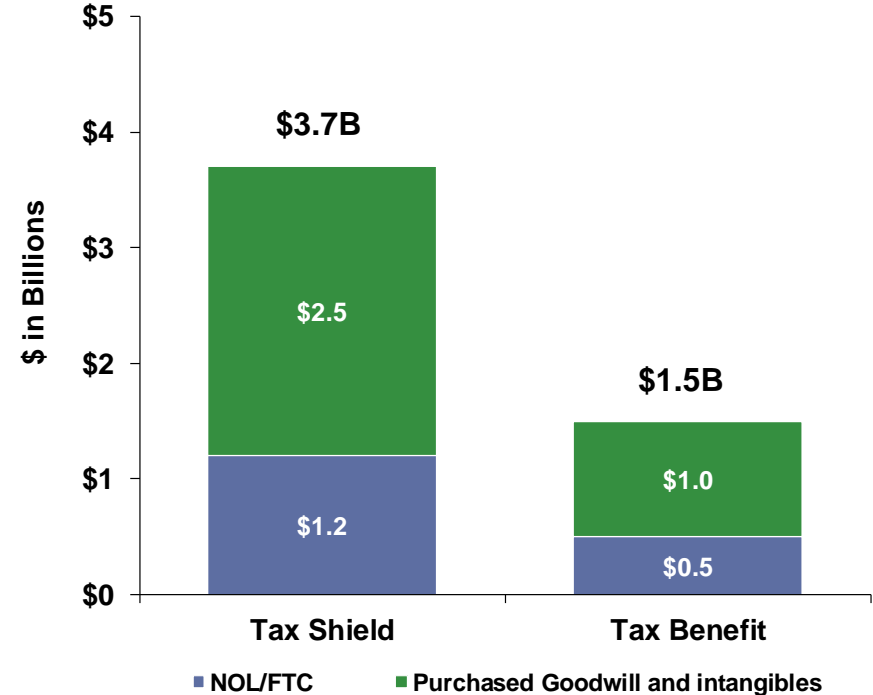
# Significant Tax Benefit

**Current  
Tax Benefit**



- Projected to begin reducing the tax shield in FY19, start paying US tax in FY21 and fully utilize the tax shield in FY24

**Projected  
Tax Benefit**

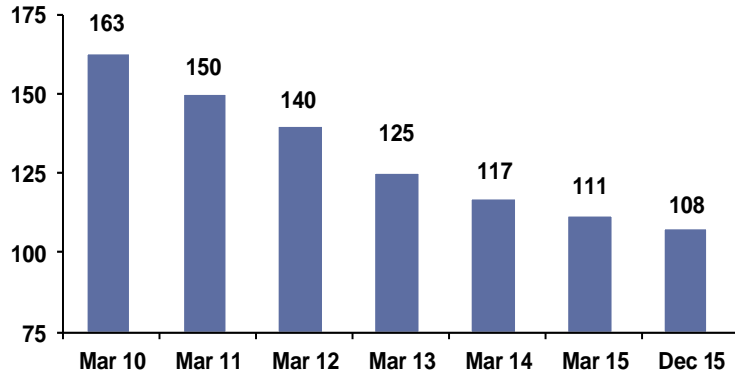


- Projected to begin reducing the tax shield in FY17, start paying US tax in FY19 and fully utilize the tax shield in FY31

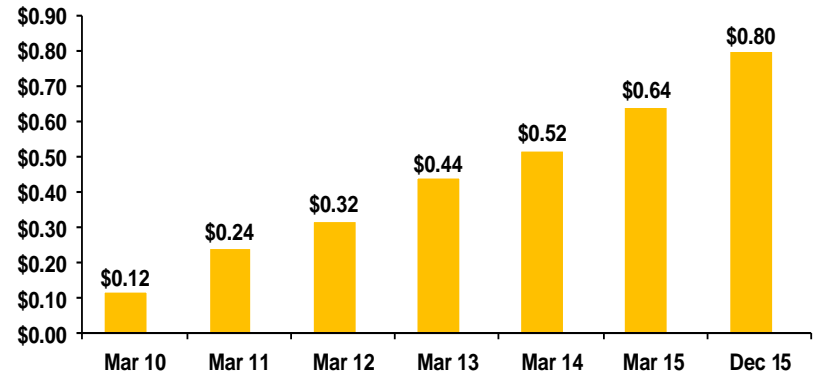
# Capital Deployment

- Industry leader in the rate of returning capital, while continuing to invest in the business
- Since March 2010 returned \$2.5B

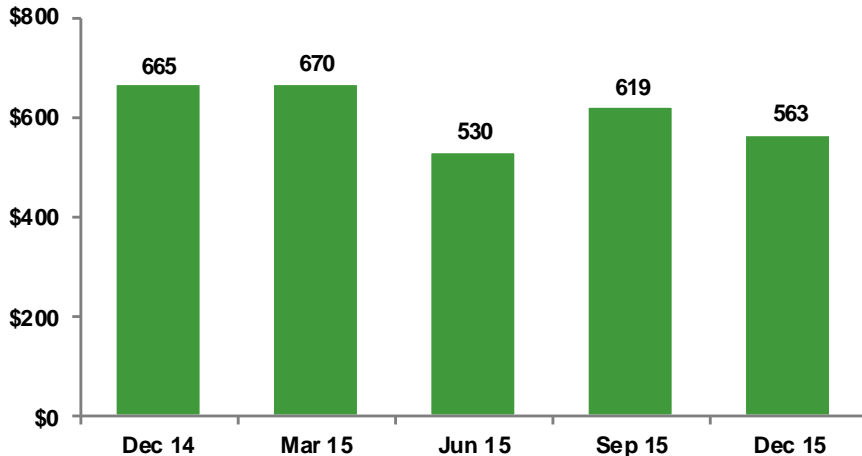
Shares Outstanding (M)



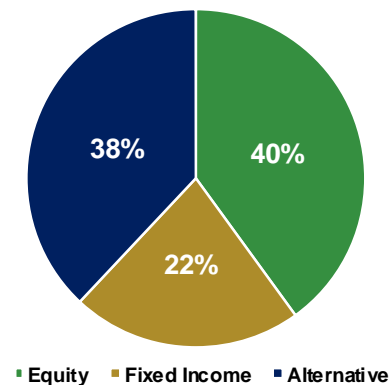
Annualized Quarterly Dividend Declared (Per Share)



Quarterly Cash Position (\$M)



Seed Investments of \$364M<sup>1</sup>



<sup>1</sup> Market value as of December 31, 2015

# Appendix

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Brandywine  GLOBAL

**ClearBridge**  
Investments

**martin**  
**currie**

 **PERMAL**

 **QS** Investors

 **RARE**

Royce & Associates

 **WESTERN ASSET**

**LEGG MASON**  
GLOBAL ASSET MANAGEMENT

# Appendix – GAAP Reconciliation

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

(\$ millions, except per share amounts)	Quarters Ended			Nine Months Ended	
	Dec 15	Sep 15	Dec 14	Dec 15	Dec 14
<b>Net Income (loss) Attributable to Legg Mason, Inc.</b>	\$ (138.6)	\$ 64.3	\$ 77.0	\$ 20.2	\$ 154.1
Plus (less):					
Amortization of intangible assets	1.6	0.7	0.7	3.0	2.0
Impairment charges	371.0	-	-	371.0	-
Contingent consideration fair value adjustment	(26.4)	-	-	(26.4)	-
Deferred income taxes on intangible assets:					
Impairment charges	(74.2)	-	-	(74.2)	-
Tax Amortization benefit	33.5	34.1	35.4	101.8	104.8
UK tax rate adjustment	(8.4)	-	-	(8.4)	-
<b>Adjusted Income</b>	<b>\$ 158.5</b>	<b>\$ 99.1</b>	<b>\$ 113.1</b>	<b>\$ 387.0</b>	<b>\$ 260.9</b>
<b>Net Income (loss) per Diluted Share Attributable to Legg Mason, Inc.</b>	\$ (1.31)	\$ 0.58	\$ 0.67	\$ 0.17	\$ 1.32
Plus (less):					
Amortization of intangible assets	0.01	-	0.01	0.03	0.02
Impairment charges	3.49	-	-	3.41	-
Contingent consideration fair value adjustment	(0.25)	-	-	(0.24)	-
Deferred income taxes on intangible assets:					
Impairment charges	(0.70)	-	-	(0.68)	-
Tax amortization benefit	0.31	0.31	0.30	0.94	0.89
UK tax rate adjustment	(0.08)	-	-	(0.08)	-
Adjustment to include participating securities	(0.02)	-	-	(0.08)	-
<b>Adjusted Income per Diluted Share</b>	<b>\$ 1.45</b>	<b>\$ 0.89</b>	<b>\$ 0.98</b>	<b>\$ 3.47</b>	<b>\$ 2.23</b>

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



# Appendix – GAAP Reconciliation

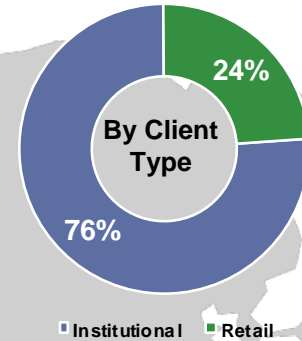
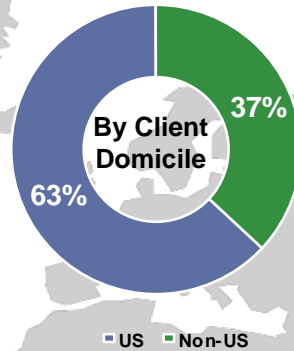
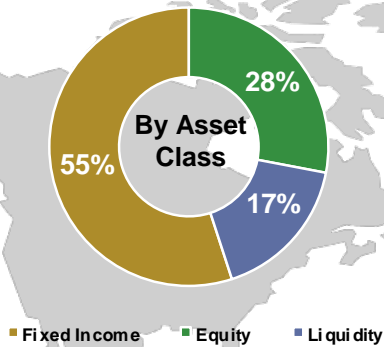
## Operating Margin, as adjusted<sup>1</sup>

(\$ millions)	Quarters Ended								
	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15
<b>Operating Revenues, GAAP basis</b>	\$ 720.1	\$ 681.4	\$ 693.9	\$ 703.9	\$ 719.0	\$ 702.3	\$ 708.6	\$ 673.1	\$ 659.6
Plus (less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.5	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Distribution and servicing expense excluding consolidated investment vehicles	(148.8)	(144.9)	(148.7)	(155.1)	(147.5)	(143.5)	(149.3)	(138.9)	(132.9)
<b>Operating Revenues, as Adjusted</b>	<u>\$ 571.8</u>	<u>\$ 536.8</u>	<u>\$ 545.4</u>	<u>\$ 549.0</u>	<u>\$ 571.7</u>	<u>\$ 559.0</u>	<u>\$ 559.4</u>	<u>\$ 534.3</u>	<u>\$ 526.8</u>
<b>Operating Income (Loss), GAAP basis</b>	\$ 121.7	\$ 119.3	\$ 119.6	\$ 130.4	\$ 119.4	\$ 128.9	\$ 124.5	\$ 133.0	\$ (240.6)
Plus (less):									
Gains (losses) on deferred compensation and seed investments, net	6.5	4.4	4.5	(0.4)	2.1	3.1	1.2	(5.5)	2.7
Contingent consideration fair value adjustment	5.0	-	-	-	-	-	-	-	(26.4)
Amortization of intangible assets	4.2	0.9	0.9	0.5	0.7	0.6	0.7	0.7	1.6
Impairment of intangible assets	-	-	-	-	-	-	-	-	371.0
Operating income of consolidated investment vehicles, net	0.6	0.5	0.2	0.2	0.2	0.3	0.1	0.1	0.1
<b>Operating Income, as Adjusted</b>	<u>\$ 138.0</u>	<u>\$ 125.1</u>	<u>\$ 125.2</u>	<u>\$ 130.7</u>	<u>\$ 122.4</u>	<u>\$ 132.9</u>	<u>\$ 126.5</u>	<u>\$ 128.3</u>	<u>\$ 108.4</u>
Operating Margin, GAAP basis	16.9%	17.5%	17.2%	18.5%	16.6%	18.4%	17.6%	19.8%	(36.5%)
Operating Margin, as Adjusted	24.1%	23.3%	23.0%	23.8%	21.4%	23.8%	22.6%	24.0%	20.6%

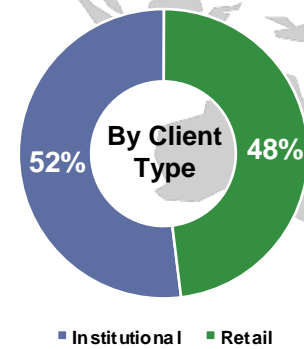
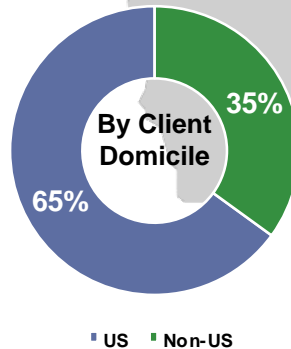
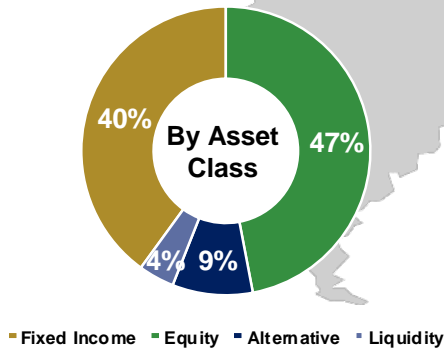
<sup>1</sup> See explanations for Use of Supplemental Data as Non-GAAP Financial Information in earnings release.

# Appendix - Asset & Revenue Diversity

Total AUM \$671B



FYTD 16 Operating Revenues \$2.0B



# Appendix – Additional Investment Performance Detail

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

	December 31, 2015				December 31, 2014			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
<b>Total (includes liquidity)</b>	<b>60%</b>	<b>80%</b>	<b>83%</b>	<b>88%</b>	<b>75%</b>	<b>85%</b>	<b>86%</b>	<b>91%</b>
<b>Equity:</b>								
<b>Large cap</b>	<b>32%</b>	<b>67%</b>	<b>64%</b>	<b>90%</b>	<b>57%</b>	<b>61%</b>	<b>75%</b>	<b>88%</b>
<b>Small cap</b>	<b>18%</b>	<b>16%</b>	<b>27%</b>	<b>39%</b>	<b>10%</b>	<b>28%</b>	<b>22%</b>	<b>69%</b>
<b>Total Equity (includes other equity)</b>	<b>38%</b>	<b>60%</b>	<b>63%</b>	<b>80%</b>	<b>47%</b>	<b>59%</b>	<b>64%</b>	<b>82%</b>
<b>Fixed Income:</b>								
<b>US taxable</b>	<b>72%</b>	<b>86%</b>	<b>86%</b>	<b>87%</b>	<b>74%</b>	<b>94%</b>	<b>93%</b>	<b>88%</b>
<b>US tax-exempt</b>	<b>100%</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>21%</b>	<b>76%</b>	<b>86%</b>	<b>84%</b>	<b>83%</b>	<b>89%</b>	<b>88%</b>	<b>94%</b>
<b>Total Fixed Income</b>	<b>57%</b>	<b>83%</b>	<b>87%</b>	<b>87%</b>	<b>79%</b>	<b>92%</b>	<b>92%</b>	<b>91%</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, 2015				December 31, 2014			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
<b>Total (excludes liquidity)</b>	<b>43%</b>	<b>63%</b>	<b>72%</b>	<b>60%</b>	<b>62%</b>	<b>63%</b>	<b>60%</b>	<b>71%</b>
<b>Equity:</b>								
<b>Large cap</b>	<b>31%</b>	<b>79%</b>	<b>87%</b>	<b>47%</b>	<b>76%</b>	<b>79%</b>	<b>70%</b>	<b>66%</b>
<b>Small cap</b>	<b>12%</b>	<b>23%</b>	<b>18%</b>	<b>51%</b>	<b>19%</b>	<b>23%</b>	<b>22%</b>	<b>72%</b>
<b>Total Equity (includes other equity)</b>	<b>33%</b>	<b>61%</b>	<b>66%</b>	<b>48%</b>	<b>53%</b>	<b>56%</b>	<b>52%</b>	<b>66%</b>
<b>Fixed Income:</b>								
<b>US taxable</b>	<b>81%</b>	<b>84%</b>	<b>84%</b>	<b>78%</b>	<b>79%</b>	<b>84%</b>	<b>84%</b>	<b>82%</b>
<b>US tax-exempt</b>	<b>23%</b>	<b>50%</b>	<b>72%</b>	<b>89%</b>	<b>69%</b>	<b>55%</b>	<b>58%</b>	<b>86%</b>
<b>Global taxable</b>	<b>33%</b>	<b>36%</b>	<b>81%</b>	<b>20%</b>	<b>85%</b>	<b>86%</b>	<b>80%</b>	<b>54%</b>
<b>Total Fixed Income</b>	<b>58%</b>	<b>67%</b>	<b>80%</b>	<b>78%</b>	<b>77%</b>	<b>75%</b>	<b>75%</b>	<b>81%</b>

<sup>1</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

# 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, 2015, 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.