



Bank of America  
Merrill Lynch  
Banking and Financial  
Services Conference

November 15, 2011

Mark R. Fetting  
Chairman & CEO



# 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, 2011 and in the Company’s quarterly reports on Form 10-Q.

# Legg Mason Today

- A Diversified Global Asset Management Firm
- Serving Individual and Institutional Investors for Over a Century
- Approximately 3,200 Employees with 30 Offices Around the World
- Headquartered in Baltimore, Maryland
- Ticker: LM (NYSE)

As of September 30, 2011:

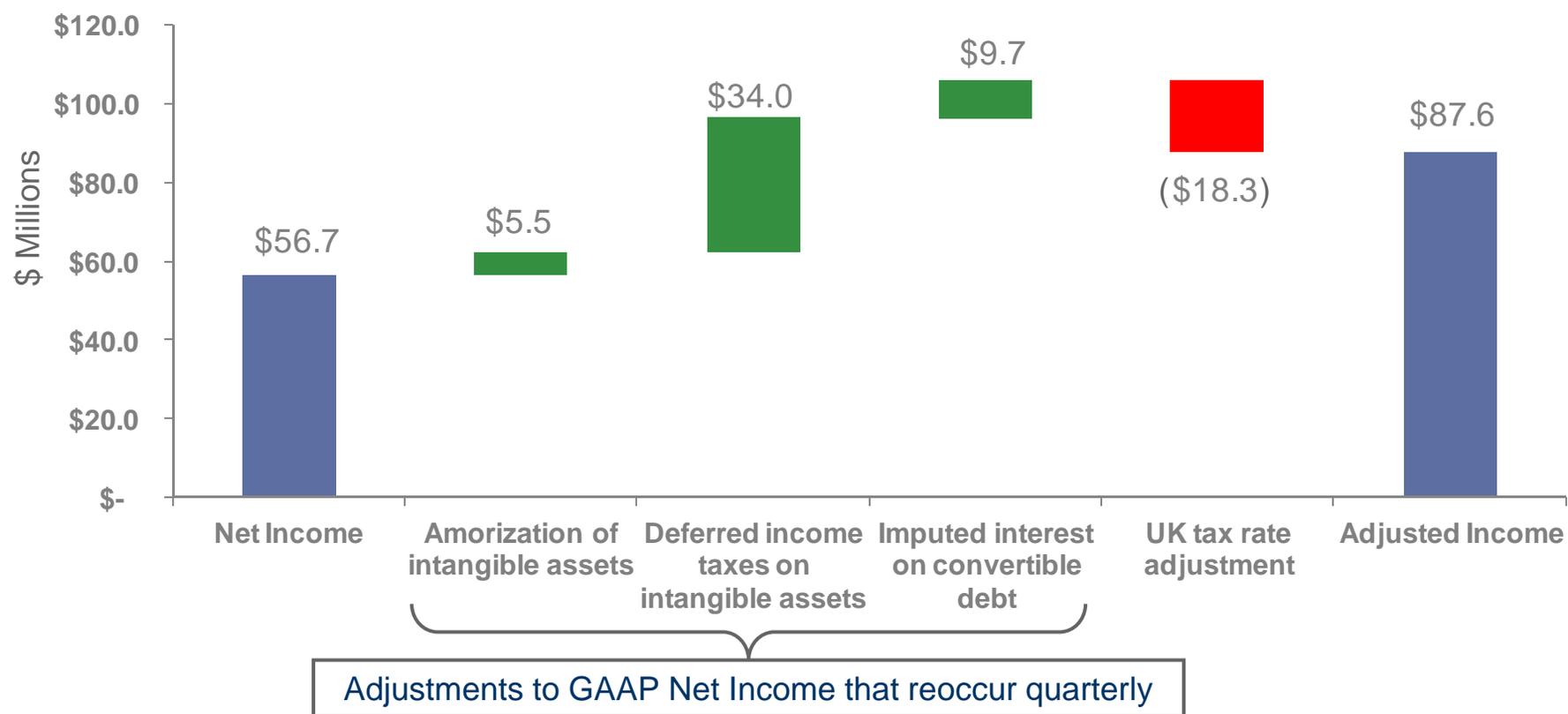
- Revenue TTM: \$2.8B
- Shares Outstanding<sup>1</sup>: 139.8M
- Institutional Holdings: 89%
- AUM<sup>2</sup>: \$629B
- Equity: \$5.6B
- Market Cap<sup>1</sup>: \$4.0B
- Stock Price<sup>1</sup>: \$27.04

# Second Quarter Highlights

- Net Income \$56.7M or \$0.39 per diluted share
- Adjusted Income \$87.6M or \$0.61 per diluted share
- Operating margin 16.0% and Operating margin, as adjusted<sup>1</sup>, 21.3%
- Results reflect significant market volatility in August and September
  - AUM of \$612B, impacted by \$33B of market depreciation (including \$4B related to FX)
  - Net MTM losses on corporate investments - \$20M
- Realized \$26M in transition-related savings
- Lower effective tax rate reflecting impact of U.K. tax rate reduction
- Repurchased 7.6M shares in second quarter, 13.6M fiscal year to date, and 28.2M shares since the Board authorized the current program

# Net Income vs Adjusted Income<sup>1</sup> – QE Sep-11

Adjusted Income, which includes mark-to-market volatility, is an important valuation metric

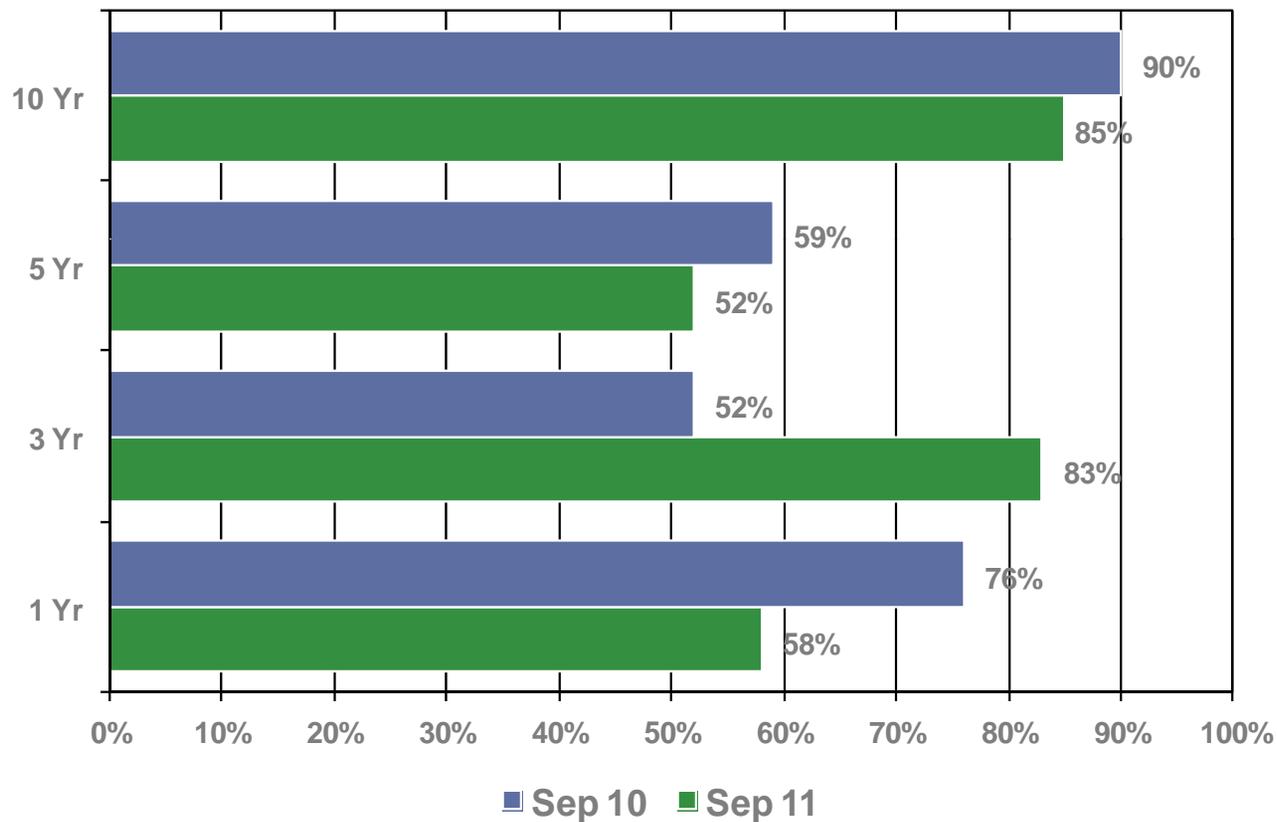


# Affiliate Model Drives Value



# Marketed Composite Performance<sup>1</sup>

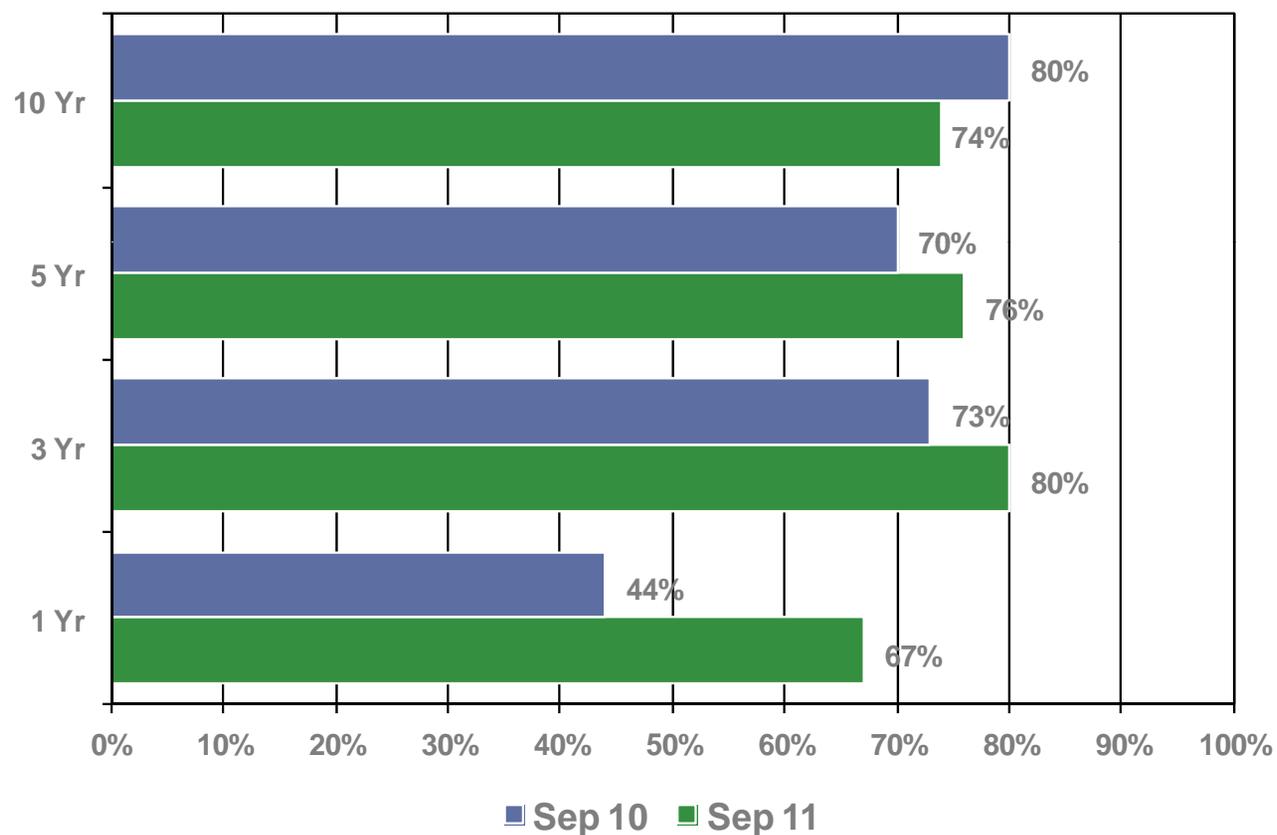
% of AUM beating Benchmark



<sup>1</sup> Represents 89% of total AUM as of September 30, 2011. Includes liquidity.  
Benchmark source: Lipper and Morningstar

# Long-Term Fund Performance

% of Long-Term U.S. Fund Assets beating Lipper Category Average<sup>1</sup>



<sup>1</sup> As of September 30, 2011, includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc. and Morningstar  
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.

# Assets Under Management by Asset Class

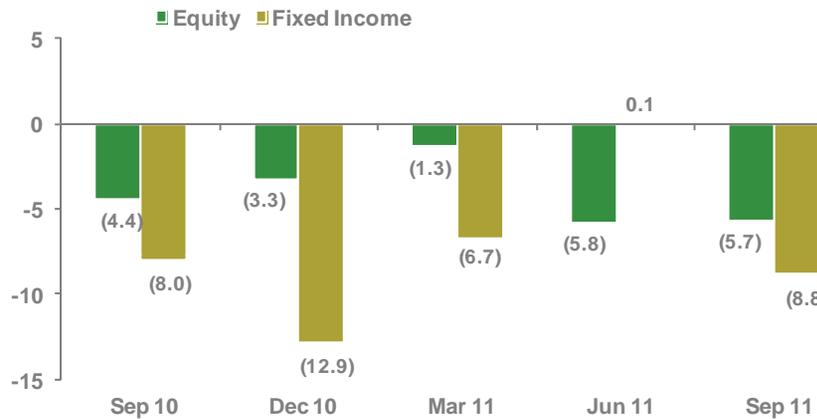
(\$ billions)



- Market depreciation \$32.9B, including FX impact of \$4.2B, for Sep 11
  - Equity AUM market depreciation \$30.9B
- Sep 11 average AUM of \$643B down \$28B or 4% compared to prior quarter

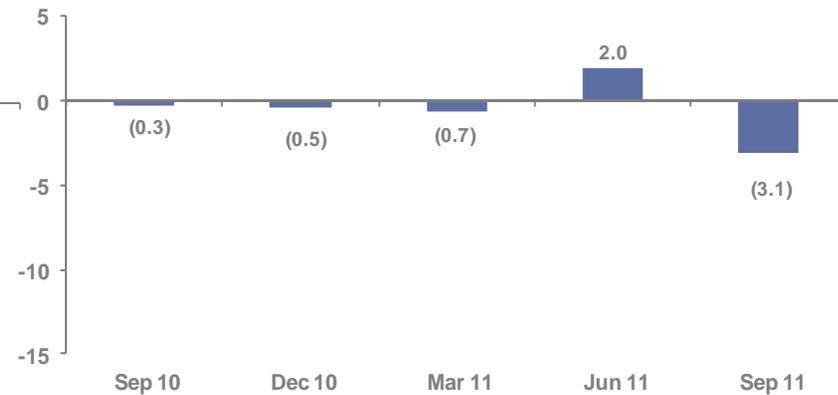
# Net Flows

### Long Term Net Flows (\$B)



Organic Growth Rate -9.6%    -11.9%    -5.9%    -4.2%    -10.5%

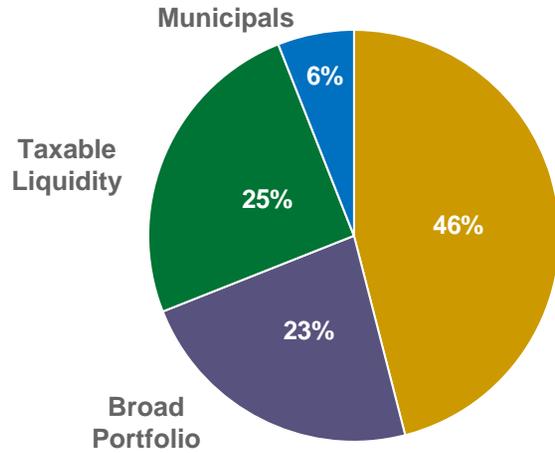
### Liquidity Net Flows (\$B)



- Sep 11 quarter fixed Income net outflows largely due to portfolio rebalancing, client shifts to passive strategies, and continued reduction in Global Sovereign mandate
- Sep 11 quarter equity net outflows down slightly from prior quarter

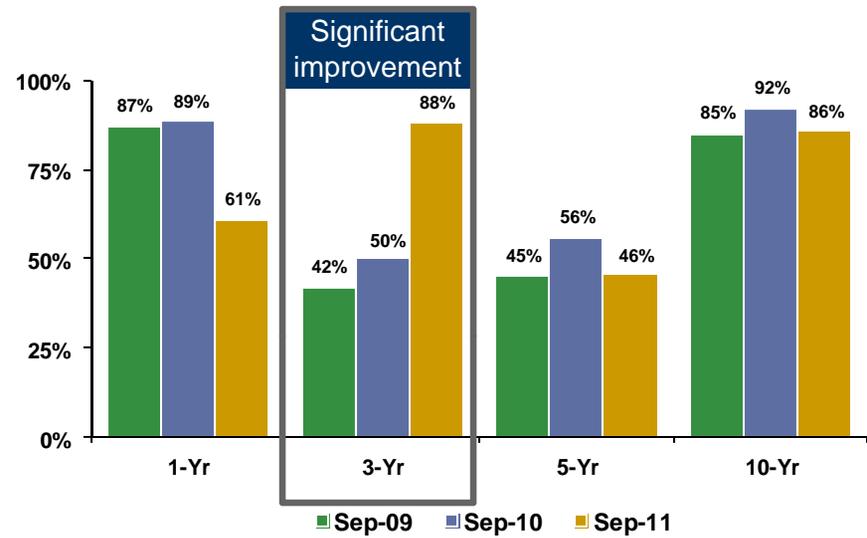
# Western Update

**Total AUM by Mandate: \$433B**

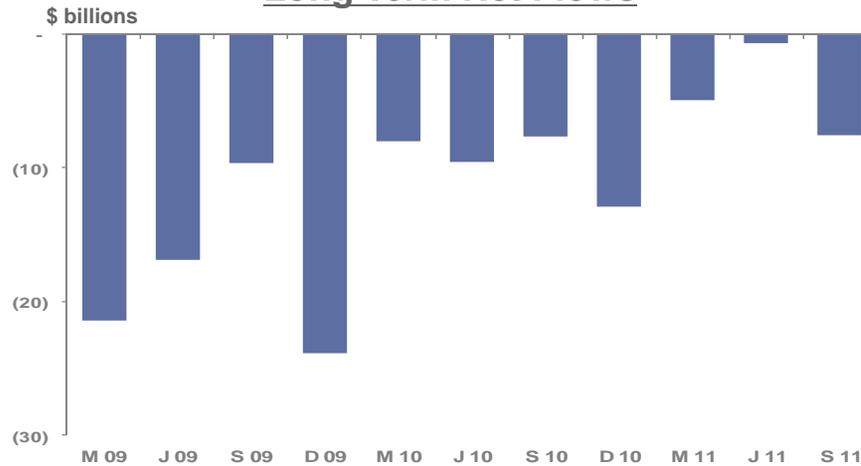


**Specialized**  
 (Corporate, Emerging Markets, Long Duration, Global Portfolio, Inflation-Linked)

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



**Long Term Net Flows**

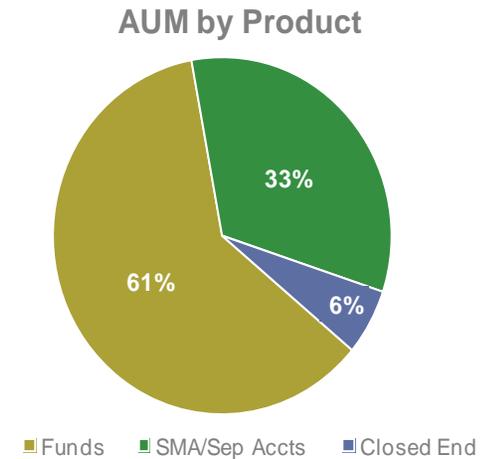
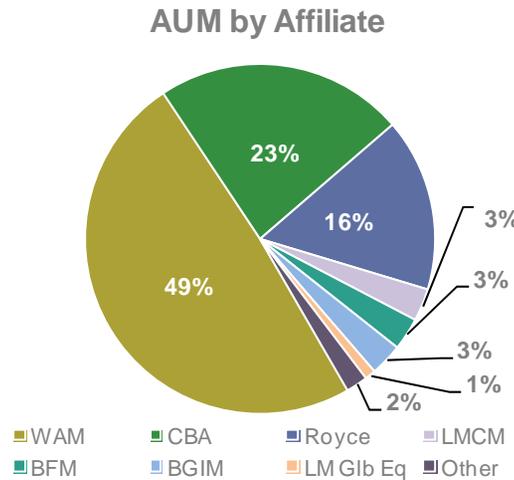
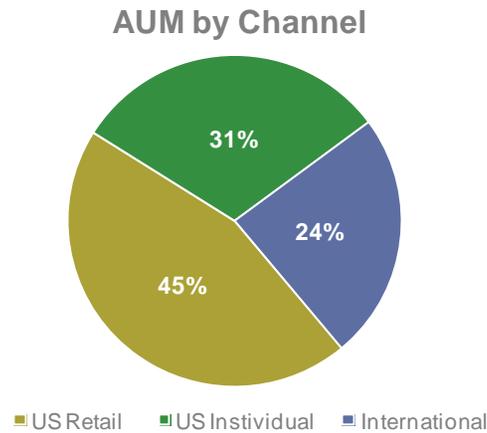


# Global Distribution - Overview

Overview: Centralized Distribution Platform for Retail, Individual and Selected International Institutional Markets

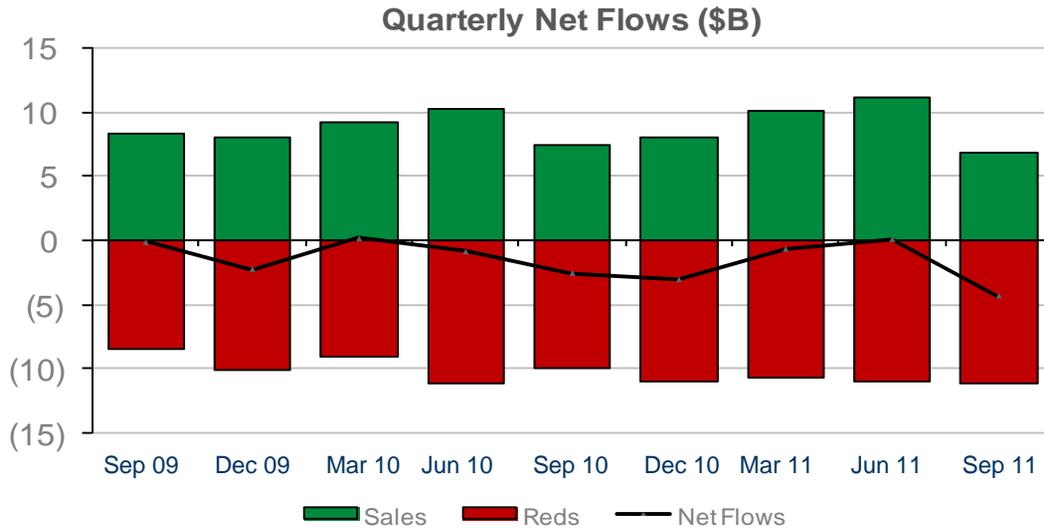
Total AUM: \$203 Billion

Locations: Offices in the US, Asia, Europe, Australia, Japan and Canada

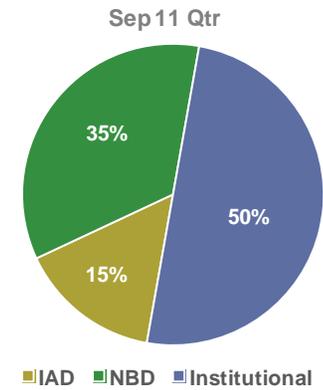


# Global Distribution Long-Term Flow Trends

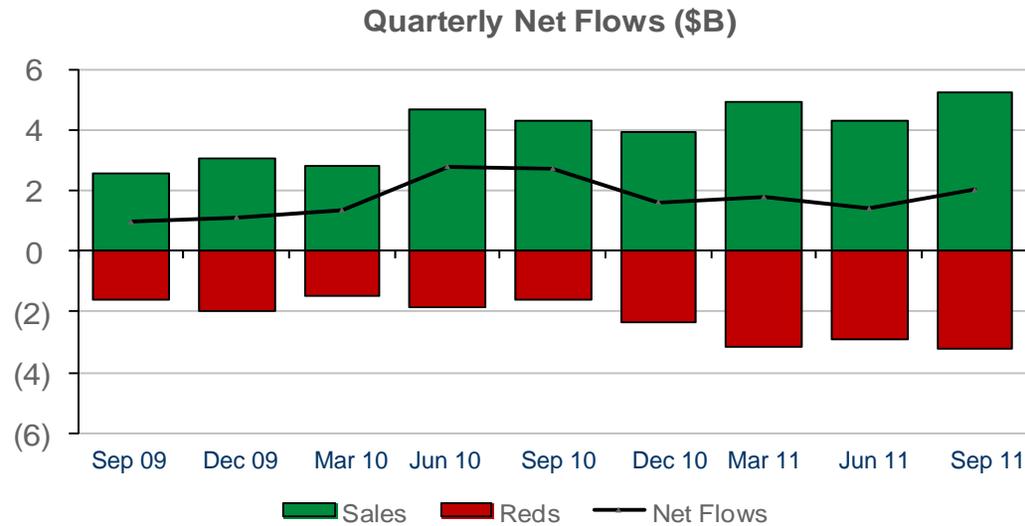
**US<sup>1</sup>**



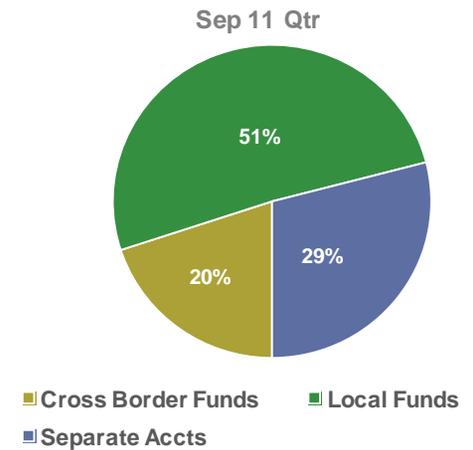
### Gross Sales by Channel



**Int'l<sup>2</sup>**



### Long Term AUM by Product



# Positioned for Long Term Earnings Growth

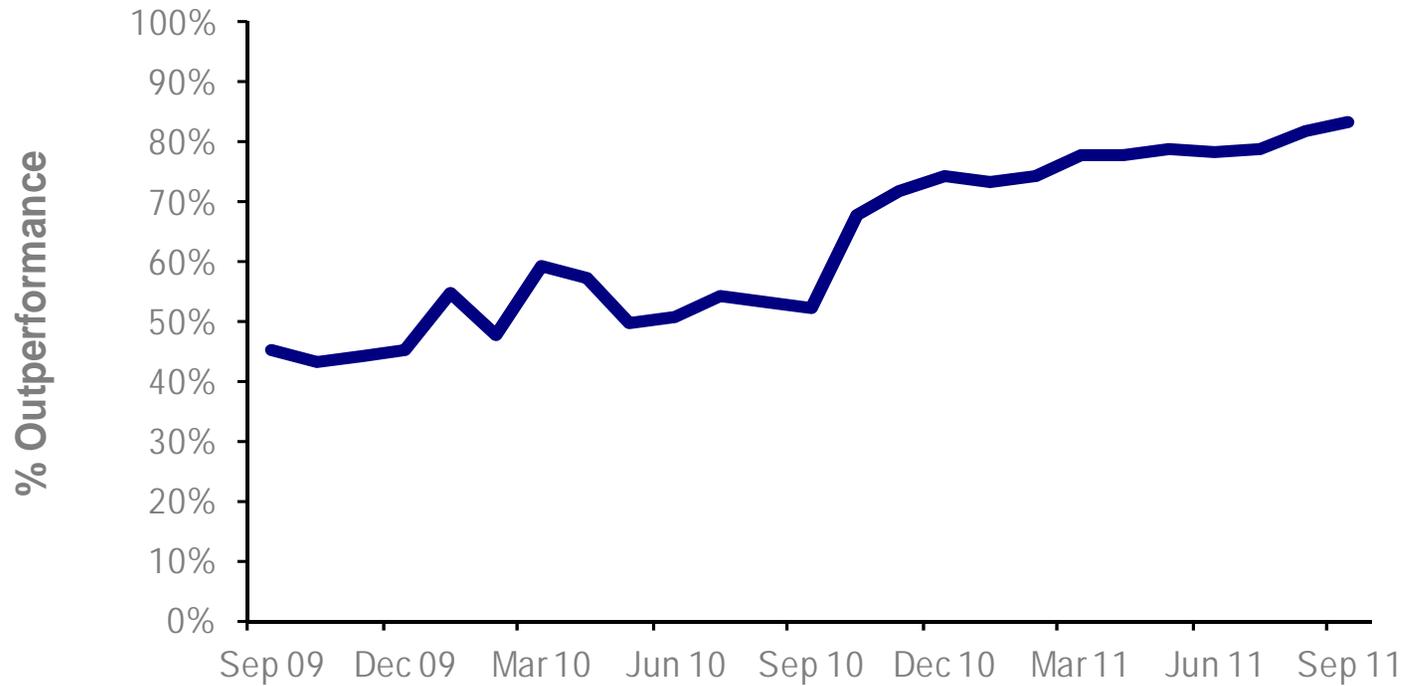
- Continued improvement of the critical 3 year investment performance amid market volatility
- Strong financial position
- Utilizing balance sheet to increase shareholder value
- Effectively managing costs
- Pursuing diversified growth through new products and multi-channel distribution approach

# Positioned for Long-Term Earnings Growth

## Improved Investment Performance Amid Market Volatility

History tells us that flows follow performance, so we understand how critical it is to maintain this trend line

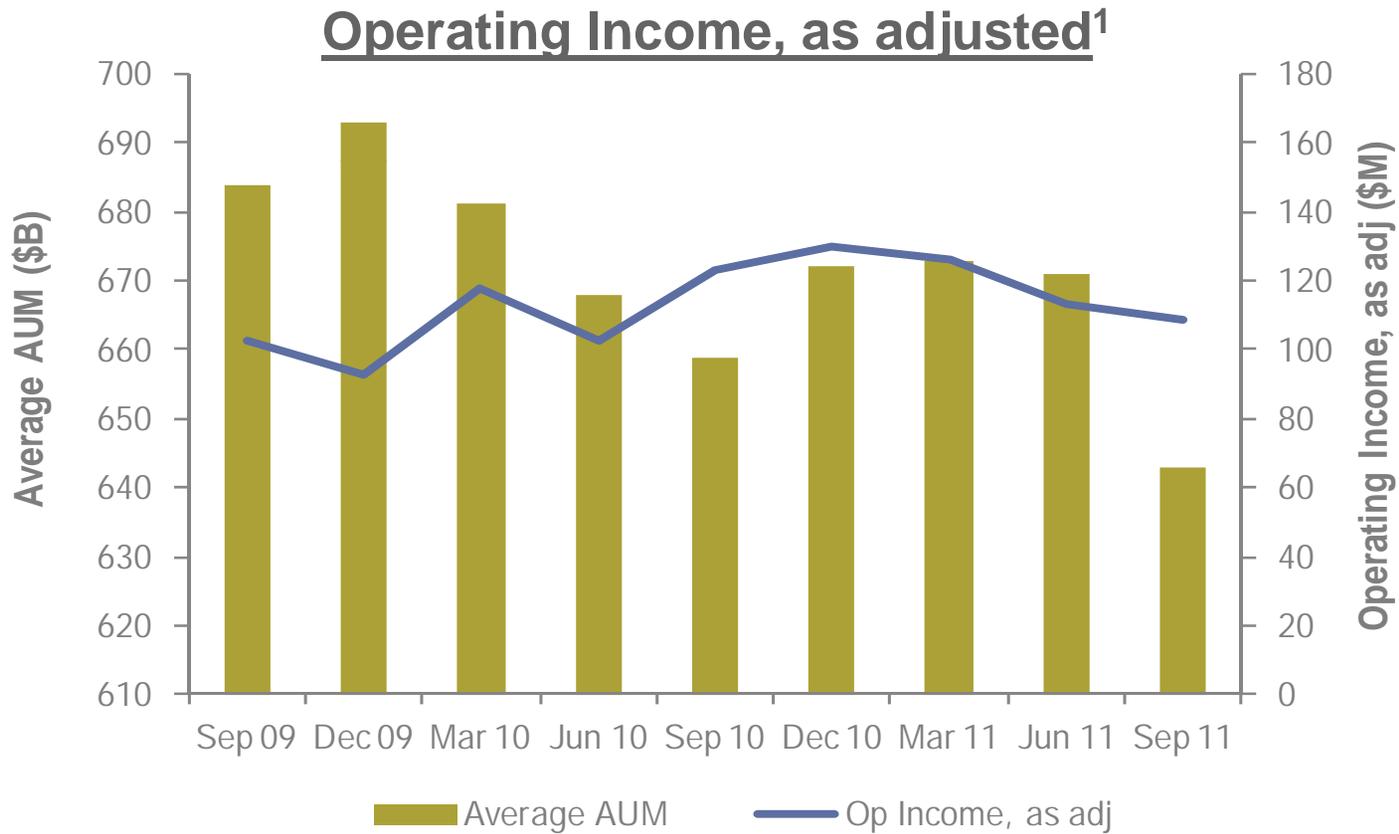
### 3 Year Composite Outperformance<sup>1</sup>



# Positioned for Long-Term Earnings Growth

## Strong Financial Position

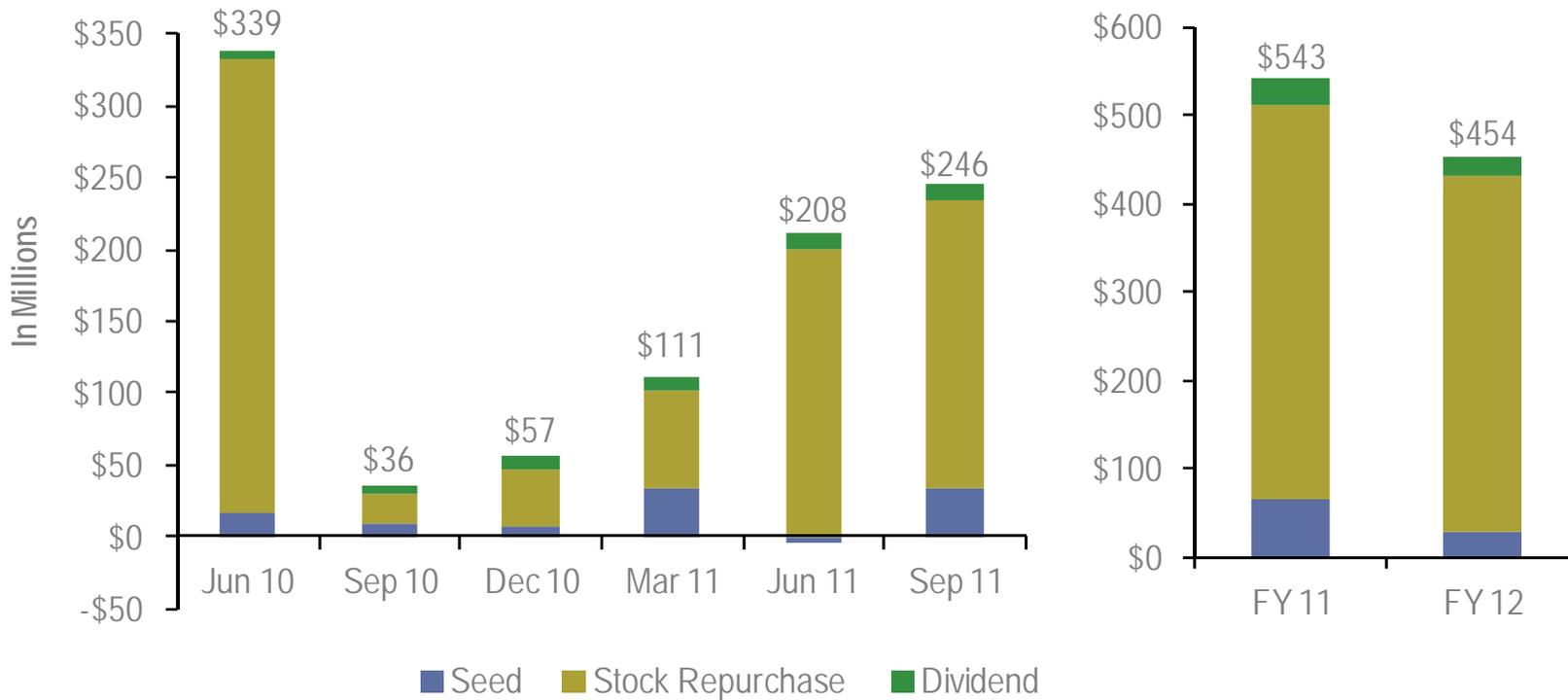
Despite market turmoil, Operating Income, as adjusted has been consistent, which reflects the benefits of the affiliate model



# Positioned for Long-Term Earnings Growth Utilizing Balance Sheet to Increase Shareholder Value

Over the last six quarters, \$900M has been returned to shareholders in dividends and buybacks, while an additional \$100M has been used to seed investments

## Capital Allocation

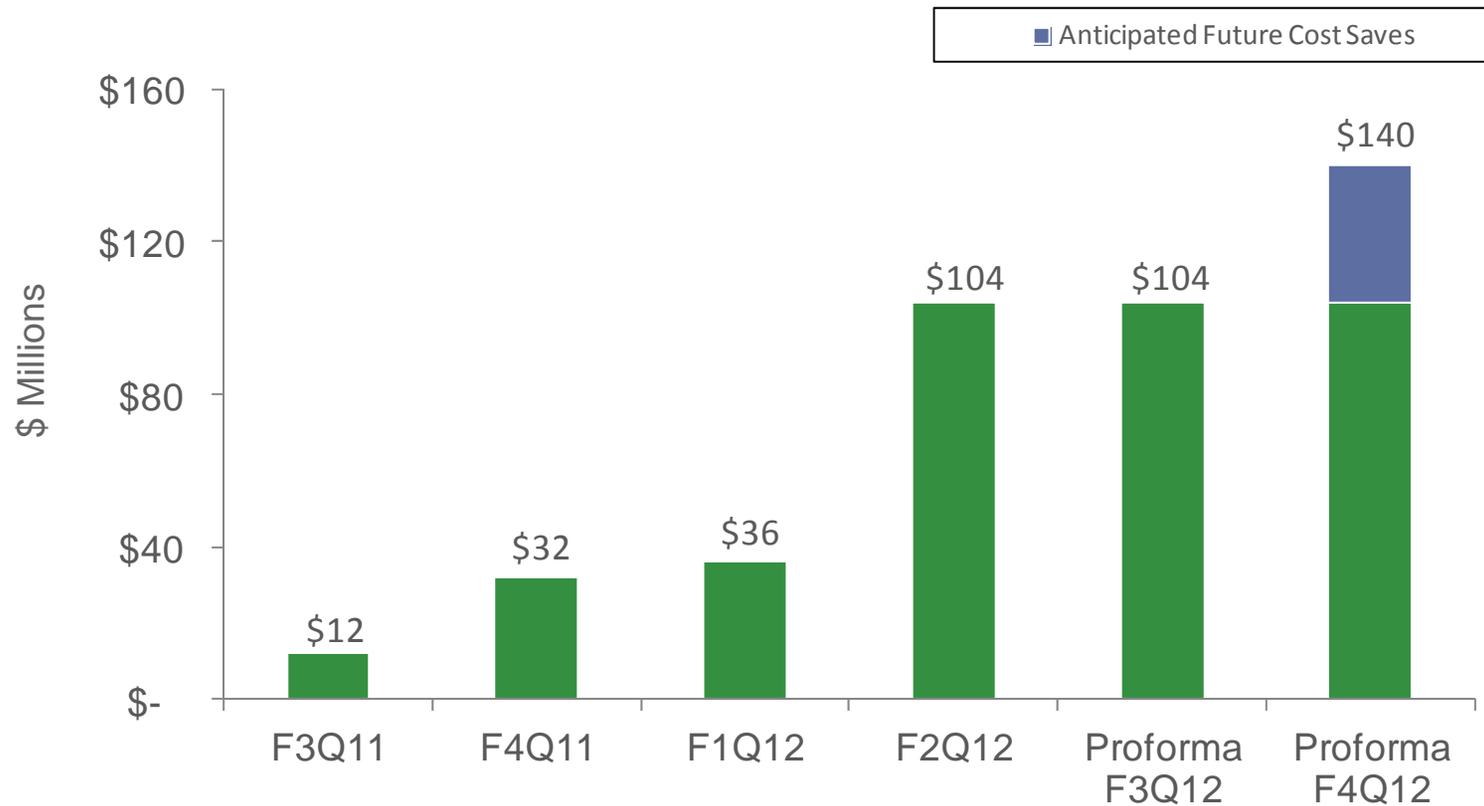


# Positioned for Long-Term Earnings Growth

## Effectively Managing Costs

Streamlining initiatives are close to completion and will contribute to significant earnings leverage going forward

### Annualized Cost Savings



## Positioned for Long-Term Earnings Growth

### New Products Target Long-Term AUM Growth

Leveraging global reach and partnering with affiliates to respond to investor demand for specialized products

Top Product Launches	Launch Date	Sales Region	Assets at Sep-11
Legg Mason Foreign Investment Grade Credit Bond Fund	Feb-09	Asia Pacific	\$ 6.5B
Legg Mason Brazilian Government Bond Fund	Oct-08	Asia Pacific	\$ 4.3B
Legg Mason Australian Bond Fund	May-08	Asia Pacific	\$ 1.9B
ClearBridge Energy MLP Fund	Jun-10	US	\$ 1.7B
Legg Mason Global Plus	Aug-07	Asia Pacific	\$ 1.4B
RLJ Western Asset Public/Private Master Fund	Nov-09	US	\$ 1.3B
Legg Mason Brandywine Global Opportunities Bond Fund	Nov-06	US	\$ 874M
Legg Mason Global Multi Strategy Bond Fund	May-08	Europe	\$ 807M
Legg Mason Western Asset Asian Opportunities Bond Fund	Jun-08	Multi Regional	\$ 737M
ClearBridge Energy MLP Opportunity Fund	Jun-11	US	\$ 684M

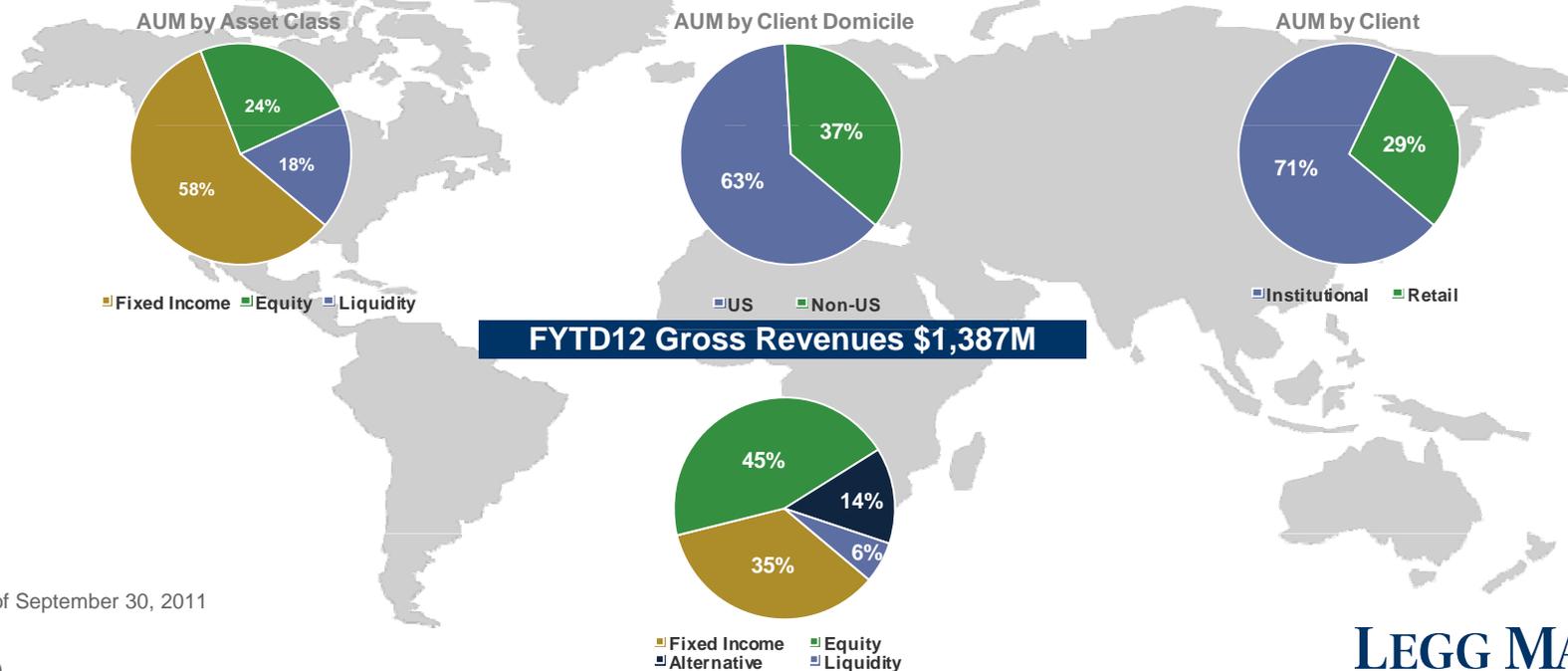
# Our Strategy to Deliver Value

Outstanding independent investment managers

A corporate center that delivers strategic value

A growth oriented portfolio across asset classes, geographies and channels

Total AUM \$612B



Data as of September 30, 2011

# Appendix

# Appendix – GAAP Reconciliation Adjusted Income<sup>1</sup>

	Quarters Ended		
	Sep 11	Jun 11	Sep 10
(\$ millions, except per share amounts)			
<b>Net Income attributable to Legg Mason, Inc.</b>	\$ 56.7	\$ 60.0	\$ 75.3
Plus (Less):			
Amortization of intangible assets	5.5	5.6	5.7
Deferred income taxes on intangible assets:			
Tax amortization benefit	34.0	34.0	33.7
UK tax rate adjustment	(18.3)	-	(8.9)
Imputed interest on convertible debt	9.7	9.5	9.1
<b>Adjusted Income</b>	<u>\$ 87.6</u>	<u>\$ 109.1</u>	<u>\$ 115.0</u>
<b>Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders</b>	\$ 0.39	\$ 0.40	\$ 0.50
Plus (Less):			
Amortization of intangible assets	0.04	0.04	0.04
Deferred income taxes on intangible assets:			
Tax amortization benefit	0.24	0.23	0.22
UK tax rate adjustment	(0.13)	-	(0.06)
Imputed interest on convertible debt	0.07	0.06	0.06
<b>Adjusted Income per Diluted Share</b>	<u>\$ 0.61</u>	<u>\$ 0.73</u>	<u>\$ 0.76</u>

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

# Appendix – GAAP Reconciliation

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

(\$ millions)	Quarters Ended								
	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11
<b>Operating Revenues, GAAP basis</b>	\$ 659.9	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 717.1	\$ 669.9
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.6	0.9	0.5	0.8	1.0	1.2	1.2	1.1	0.6
Distribution and servicing expense excluding consolidated investment vehicles	<u>(174.4)</u>	<u>(177.6)</u>	<u>(167.4)</u>	<u>(184.7)</u>	<u>(165.8)</u>	<u>(187.4)</u>	<u>(174.8)</u>	<u>(180.7)</u>	<u>(160.4)</u>
<b>Operating Revenues, as adjusted</b>	<u>\$ 486.1</u>	<u>\$ 513.7</u>	<u>\$ 504.5</u>	<u>\$ 490.3</u>	<u>\$ 509.9</u>	<u>\$ 535.7</u>	<u>\$ 539.8</u>	<u>\$ 537.4</u>	<u>\$ 510.1</u>
<b>Operating Income, GAAP basis</b>	\$ 77.9	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 100.4	\$ 106.9
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	24.1	12.6	11.2	(4.6)	22.1	8.6	10.2	(2.4)	(14.2)
Transition-related costs	-	-	-	3.2	11.6	24.0	15.7	13.7	15.1
Operating income and expenses of consolidated investment vehicles	<u>0.2</u>	<u>0.8</u>	<u>0.8</u>	<u>1.2</u>	<u>1.5</u>	<u>0.6</u>	<u>1.4</u>	<u>1.2</u>	<u>0.9</u>
<b>Operating Income, as adjusted</b>	<u>\$ 102.2</u>	<u>\$ 92.5</u>	<u>\$ 117.8</u>	<u>\$ 102.6</u>	<u>\$ 123.1</u>	<u>\$ 130.2</u>	<u>\$ 126.4</u>	<u>\$ 112.9</u>	<u>\$ 108.6</u>
Operating margin, GAAP basis	11.8%	11.5%	15.8%	15.2%	13.0%	13.4%	13.9%	14.0%	16.0%
Operating margin, as adjusted	21.0%	18.0%	23.3%	20.9%	24.1%	24.3%	23.4%	21.0%	21.3%

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