



Citi Financial Services Conference

March 7, 2012

Mark R. Fetting
Chairman & CEO



Batterymarch • Brandywine Global • ClearBridge Advisors • Legg Mason Capital Management • Legg Mason Global Equities Group
Permal • Private Capital Management • Royce & Associates • Western Asset Management

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 3,100 Employees with 30 Offices Around the World
- Headquartered in Baltimore, Maryland
- Ticker: LM (NYSE)

As of December 31, 2011:

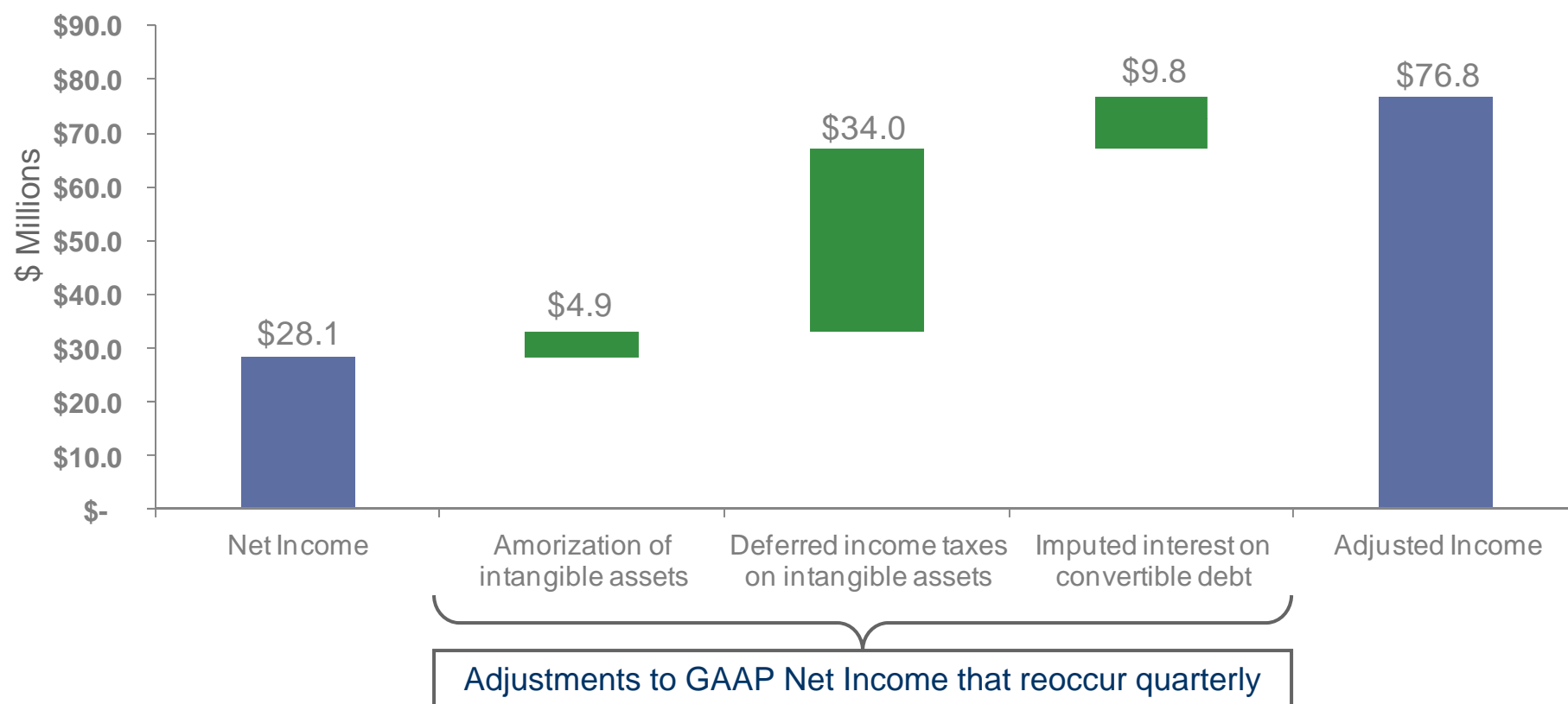
- Revenue TTM: \$2.7B
- Shares Outstanding: 139.8M
- Institutional Holdings: 89%
- AUM¹: \$631B
- Equity: \$5.6B
- Market Cap²: \$4.0B
- Stock Price²: \$27.73

Third Quarter Highlights

- Net Income \$28.1M or \$0.20 per diluted share
 - Results primarily impacted by the market driven decline in average AUM and reduced performance fees
 - Transition-related costs of \$42M or \$0.21 per diluted share
- Adjusted Income \$76.8M or \$0.55 per diluted share
- Completed streamlining initiative on time and on budget
 - \$26M in quarterly savings, \$35M or \$140M annual savings in FQ4
 - Transition-related costs to date of \$126M (\$3M additional costs in FQ4)
 - Corporate headcount reductions of 33%
- Cash position over \$1.2B
- Long term outflows improved 18% from the September quarter

Net Income vs Adjusted Income¹ – QE Dec-11

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



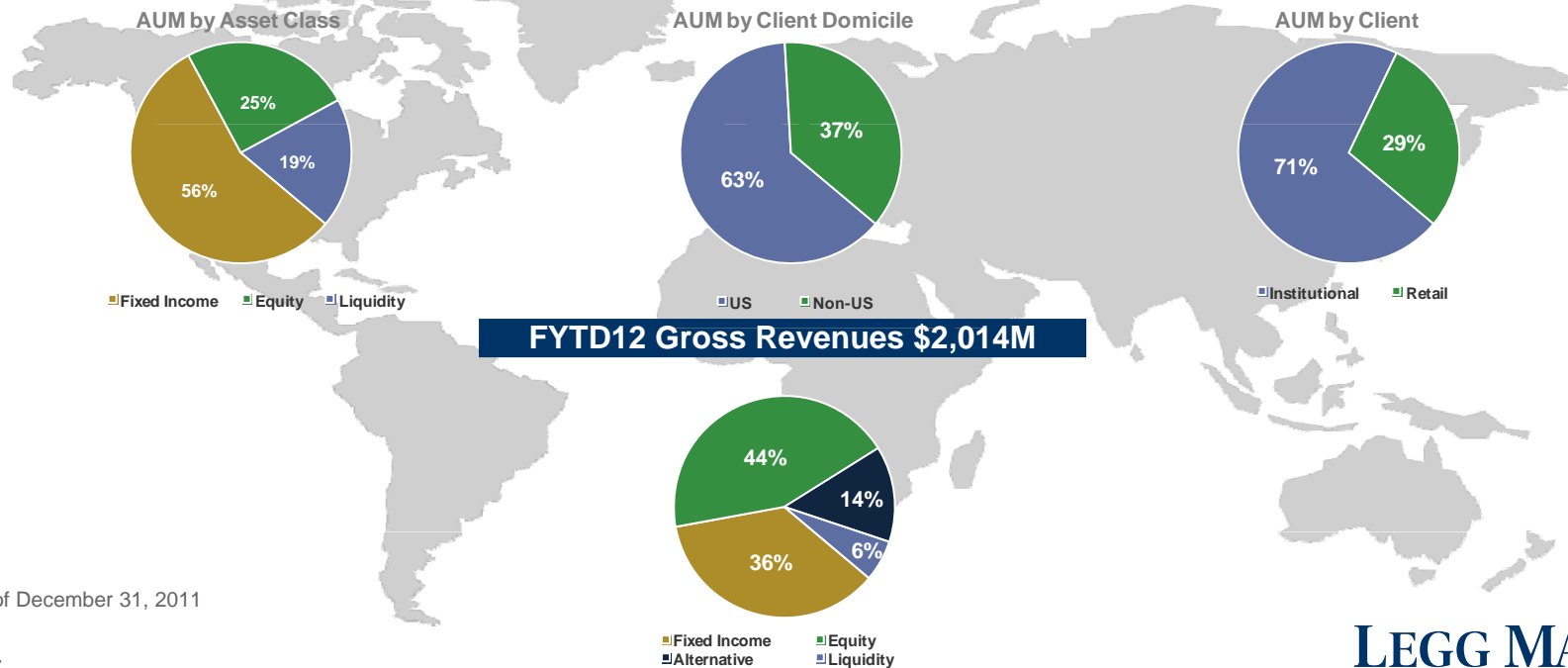
Strategy to Deliver Value

Outstanding independent investment managers

A corporate center that delivers strategic value

A balanced portfolio across asset classes, geographies and channels

Total AUM \$627B



Data as of December 31, 2011

Our Core Affiliates



LEGG MASON
CAPITAL MANAGEMENT



LEGG MASON
GLOBAL ASSET MANAGEMENT

Royce & Associates

BATTERY MARCH
FINANCIAL MANAGEMENT, INC.

 **PERMAL**

LEGG MASON
Global Equities Group

Strength of Business

Managers by Worldwide Assets ¹		Worldwide Institutional Managers ¹		Small Cap Managers ^{2,3}		Hedge Fund of Funds ⁴	
BlackRock	\$3,561	BlackRock	\$2,556	Fidelity	\$49.0	Blackstone	\$37.2
State Street Global	2,010	State Street Global	1,744	Vanguard	41.2	UBS	30.8
Fidelity Investments	1,812	BNY Mellon Asset Mgmt	1,042	Royce & Associates	29.9	HSBC	29.8
Vanguard Group	1,765	Vanguard Group	1,017	DFA	28.4	Grosvenor	24.4
JPMorgan Asset Mgmt	1,298	Fidelity Investments	1,014	Columbia	26.7	Goldman Sachs	23.6
PIMCO	1,242	PIMCO	1,005	T Rowe Price	22.1	Permal	23.1
BNY Mellon Asset Mgmt	1,172	JPMorgan Asset Mgmt	738	Neuberger Berman	11.4	BlackRock	18.4
Capital Research	1,091	Amundi	679	Baron Cap Mgmt	9.5	Morgan Stanley	18.0
Amundi	921	Wellington Mgmt	633	Wells Fargo	7.5	Lyxor	16.4
Goldman Sachs	840	AXA Investment	628	Invesco	7.2	Pacific Alternative Asset	16.3
Prudential	784	Prudential	564				
Deutsche Asset Mgmt	730	Legg Mason	562				
AXA Investment	692	Northern Trust	489				
BNP Paribas Investment	685	BNP Paribas Investment	425				
Legg Mason	672	Legal & General Investment	423				

Fixed Income Managers ⁵		Active Domestic Fixed Income ^{1,6}		Sovereign Wealth Fund Assets ¹		Closed-End Fund Managers ²	
BlackRock	\$1,292	PIMCO	\$300.5	State Street	\$322.4	Nuveen Investments	\$46.0
Allianz/PIMCO	1,111	Legg Mason	159.2	BlackRock	70.6	BlackRock	37.2
Prudential	423	BlackRock	156.9	Northern Trust	50.6	Eaton Vance	22.1
Vanguard	422	TIAA-CREF	125.0	Legg Mason	41.0	PIMCO/Allianz Gbl	12.9
State Street	404	Prudential Financial	120.1	JP Morgan	37.0	Legg Mason	12.2
Legg Mason	367	Loomis, Sayles	95.6	Goldman Sachs	33.0	Invesco	12.0
Goldman Sachs	340	JP Morgan	85.1	PIMCO	30.6	Calamos	7.6
JP Morgan	290	Principal Global Investors	68.0	T Rowe Price	21.6	Cohen & Steers	6.8
Wellington	279	Fidelity	62.3	Morgan Stanley	13.6	Virtus Invest Ptnrs	6.2
Franklin Templeton	268	Wellington	62.0	HSBC Global Asset	13.3	Gabelli	5.7

Note: \$ in Billions

1 Pension & Investments, December 31, 2010

2 Strategic Insight, December 2011

3 Data includes Domestic Open-End Small Cap Mutual Funds

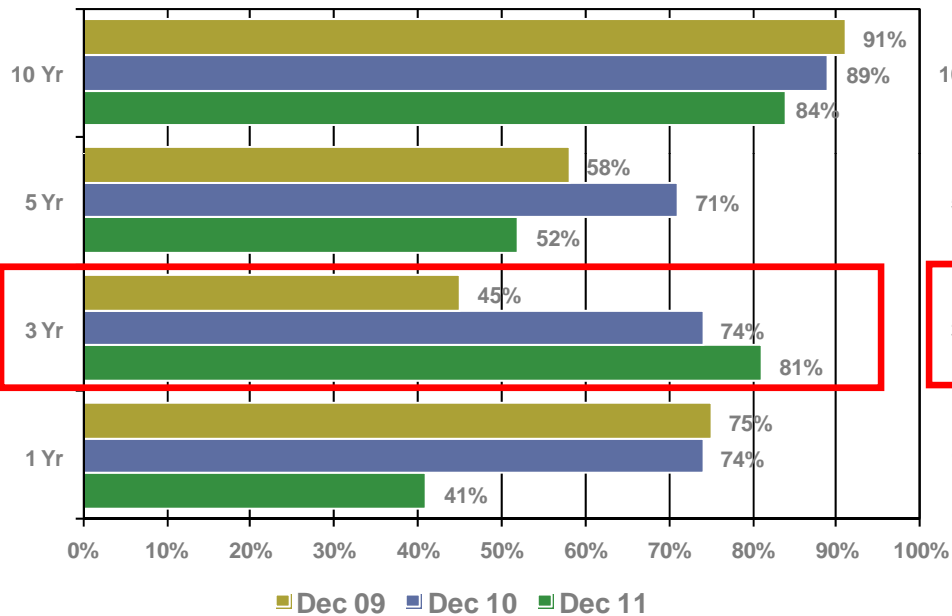
4 InvestHedge, June 2011

5 Institutional Investor US Money Managers Ranking, December 31, 2010

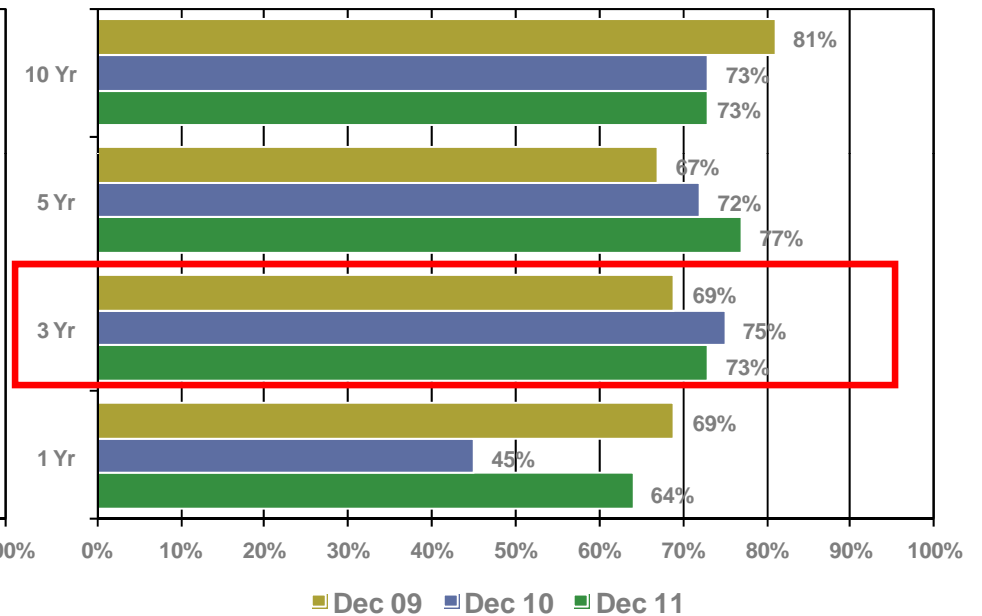
6 Data includes US Institutional, tax-exempt assets

Investment Performance

Marketed Composite Performance¹
% of AUM beating Benchmark



% of Long-Term U.S. Fund Assets
beating Lipper Category Average²

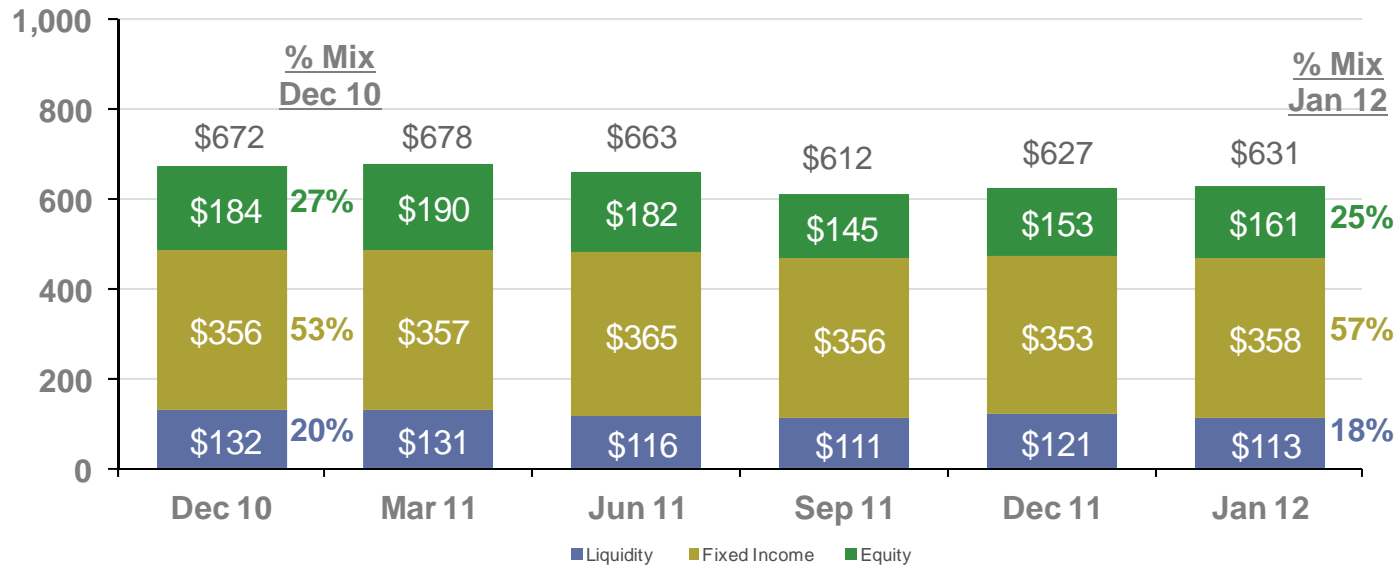


¹ Represents 90% of total AUM as of December 31, 2011. Includes liquidity.

² As of December 31, 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.

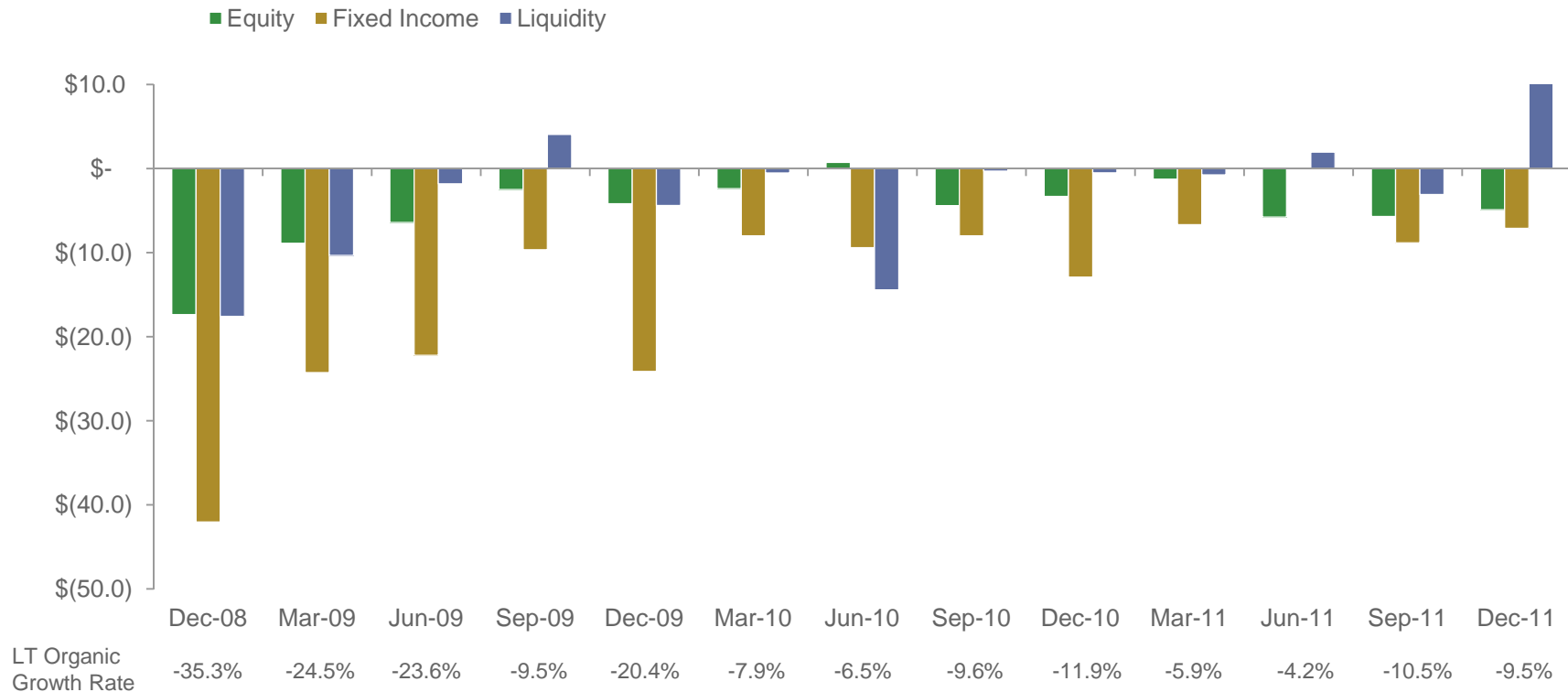
Assets Under Management by Asset Class

(\$ billions)



- Market appreciation \$17.6B, including FX impact of \$0.3B in FQ3
 - Equity and Fixed Income AUM market appreciation \$13.3B and \$4.2B, respectively
- Average AUM of \$622B down \$21B or 3% compared to FQ2

Net Flows



- Long term outflows improved from prior quarter
- Fixed income outflows improved from September quarter and were significantly better than the three prior December quarters

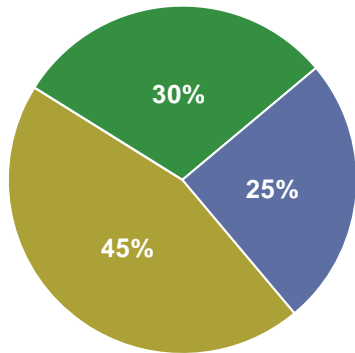
Global Distribution – Overview

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

Total AUM: \$213 Billion

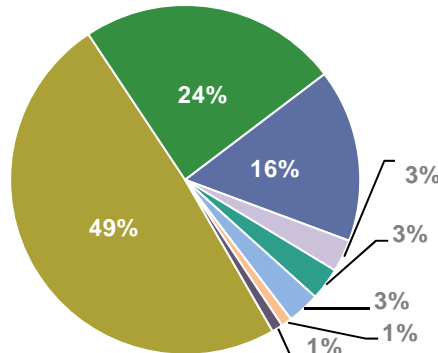
Locations: Offices in the US, Asia, Europe, Australia, Japan and Canada

AUM by Channel



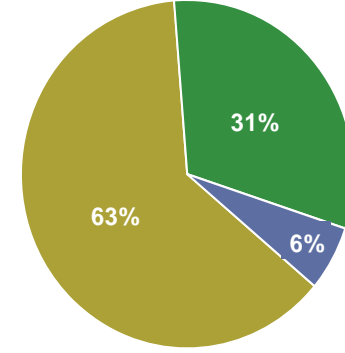
■ US Retail ■ US Individual ■ International

AUM by Affiliate



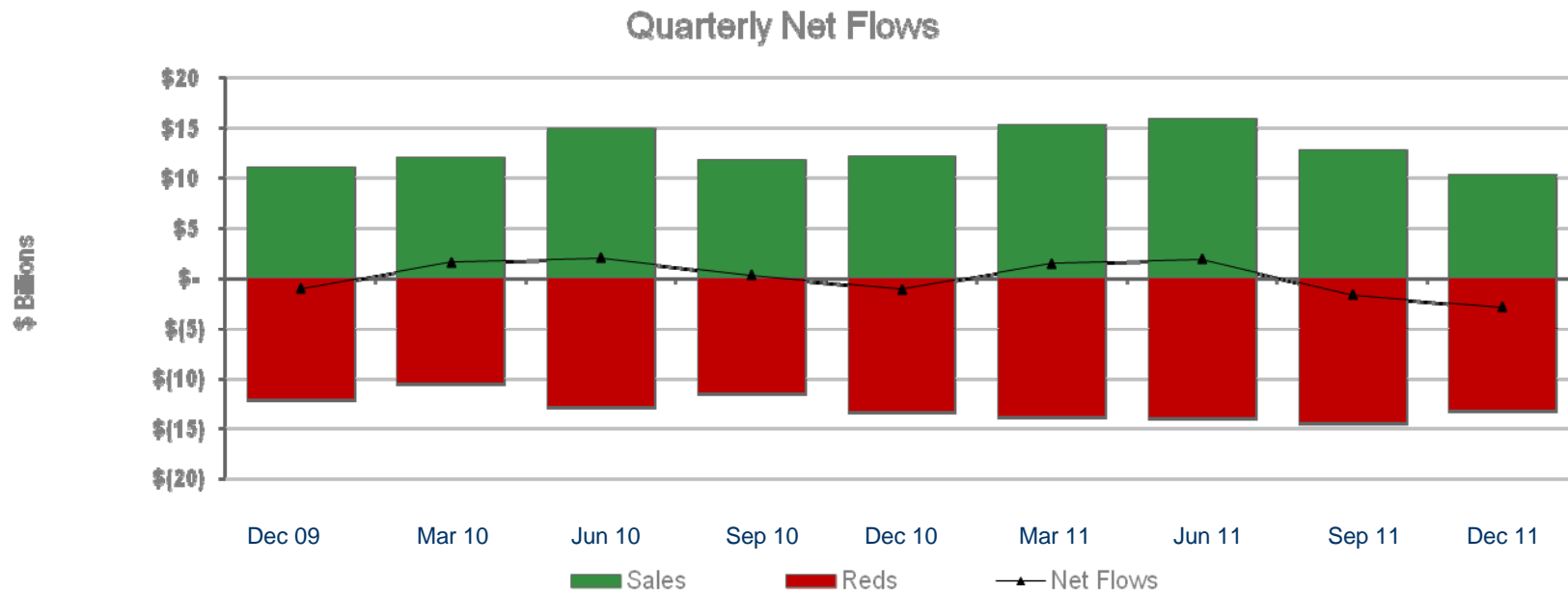
■ WAM ■ CBA ■ Royce ■ LCMC
 ■ BFM ■ BGIM ■ LM Glb Eq ■ Other

AUM by Product



■ Funds ■ SMA/Sep Accts ■ Closed End

Global Distribution Long-Term Flow Trends



- Positive net flows in five of the last eight quarters
 - International has had twelve straight quarters of positive net flows
- Dec-11 quarter reduction in net flows driven by decline in sales of sector specific fixed income mandates in Japan

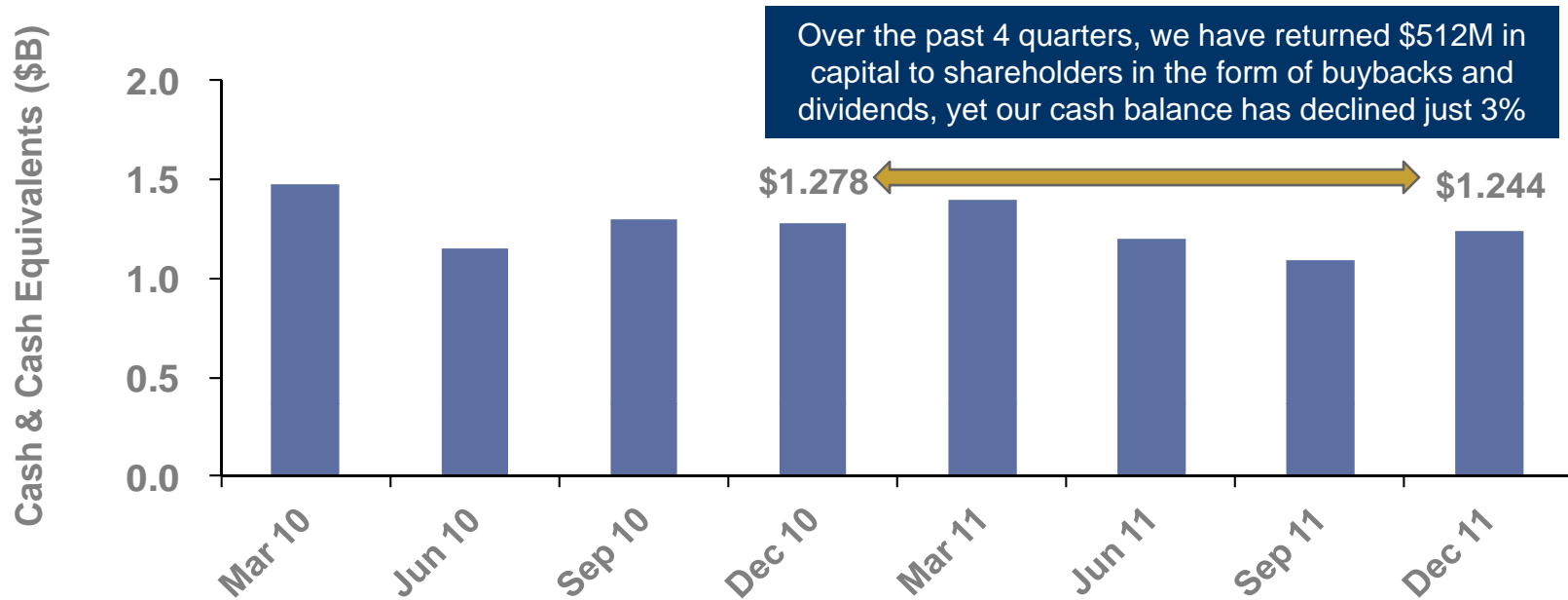
Global Distribution Themes

Mindset has changed from a *distribution business*
to a *sales organization*

- Flattening organization to have more “feet on the street”
- More compelling product offerings, due to improved investment performance, than in recent history
- Developing products to meet investor needs
- Robust global retail distribution capabilities
 - Strong distribution network in US and Japan
 - Expanding Asia and Europe distribution presence

Selling More - Selling Quality - Selling Efficiently

Cash Balance and Share Repurchase History



Shares Repurchased	Transaction
14.6M	\$445M in share repurchases - FY 2011
13.6M	\$400M in share repurchases- FYTD 2012
28.2M	Total shares repurchased represent \$845M of \$1B Board authorization

Update on Streamlining our Business Model

Streamlining initiative was completed on time with transition-related expenses and targeted cost savings inline with original guidance

- Plan announcement / employee notification - **COMPLETED**
- Detailed transition schedules - **COMPLETED**
- Completion of Shared Services transition - **COMPLETED**
- Consolidate Baltimore operations at Harbor East - **COMPLETED**
- Run rate cost savings of \$140M per annum - **COMPLETED**
- Transition-related expenses to date of \$126M - **ON TARGET**
- Clean-up / LM Corporate transition
 - Expect \$3M of additional transition-related expenses in FQ4

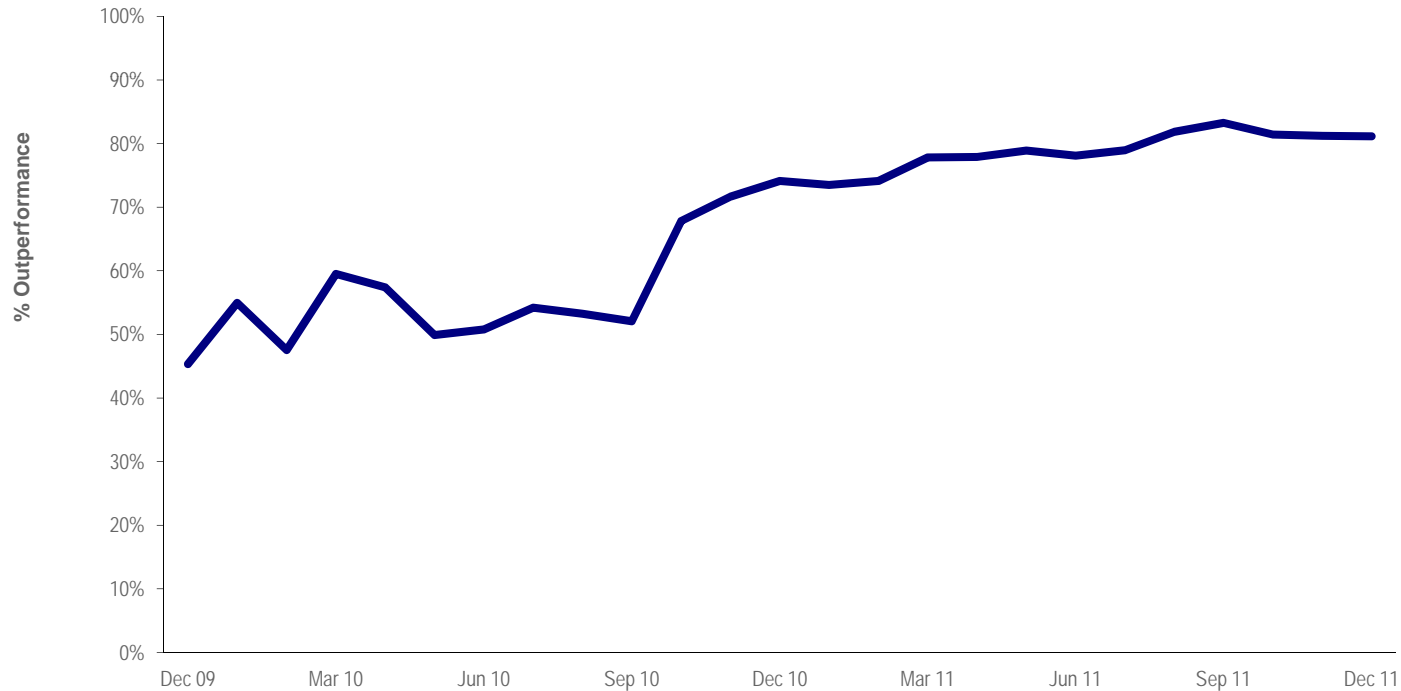
Positioned for Long Term Earnings Growth

- Continued improvement of the critical 3 year investment performance amid market volatility
- Strong financial position
- Effectively managing costs
- Utilizing balance sheet to increase shareholder value
- New products target long-term AUM growth

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 Outperformance¹

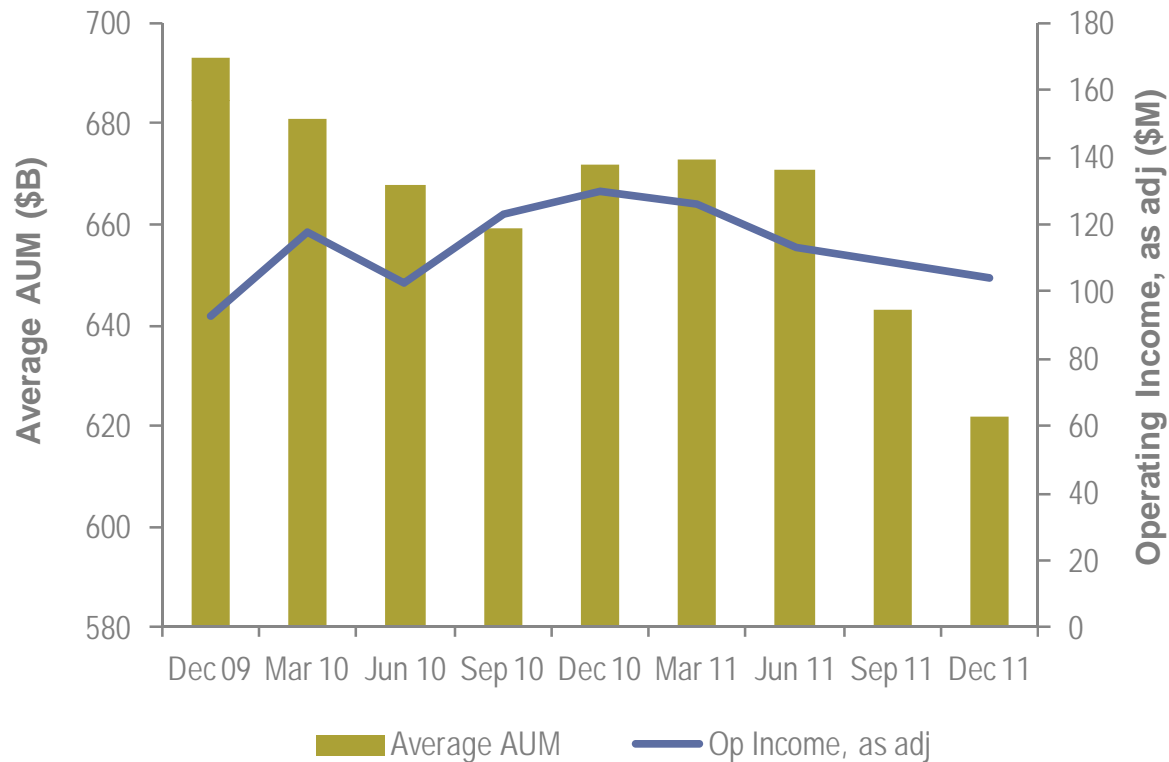


Positioned for Long-Term Earnings Growth

Strong Financial Position

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

Operating Income, as adjusted¹

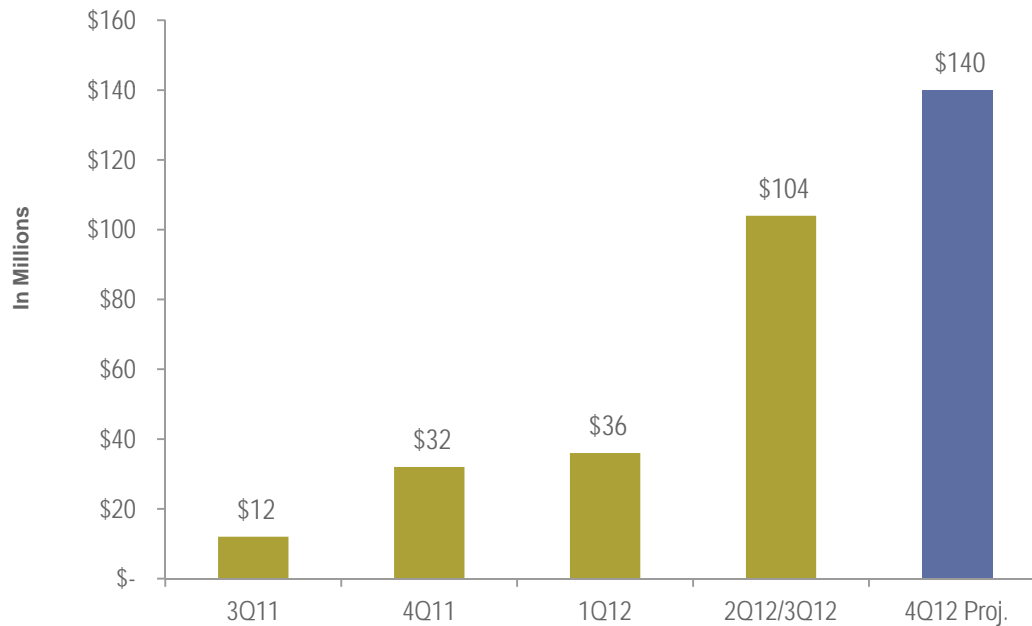


Positioned for Long-Term Earnings Growth

Effectively Managing Costs

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

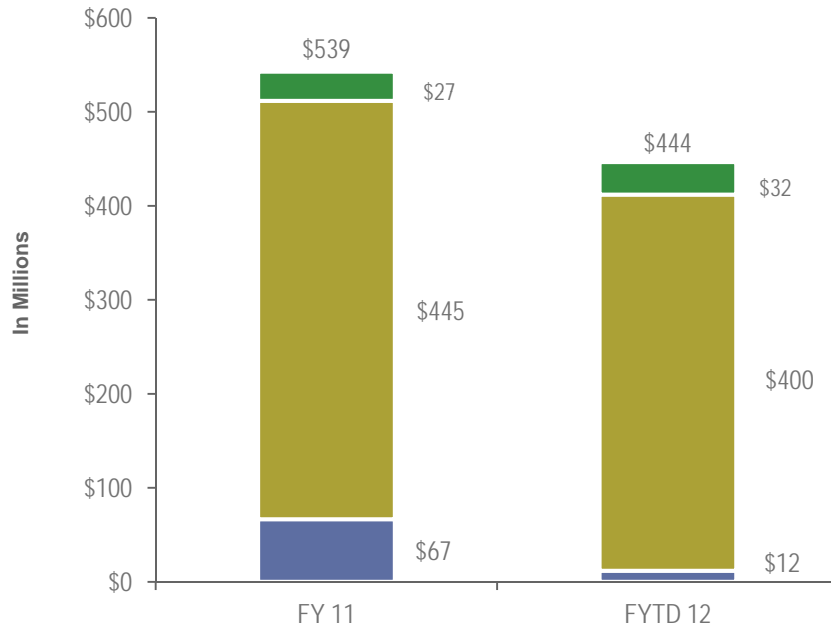
Annualized Cost Savings



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

Over the last seven quarters, \$875M has been returned to shareholders in dividends and buybacks. Additionally, \$184M has been used to seed new investments, of which \$105M was redeployed from existing seed investments

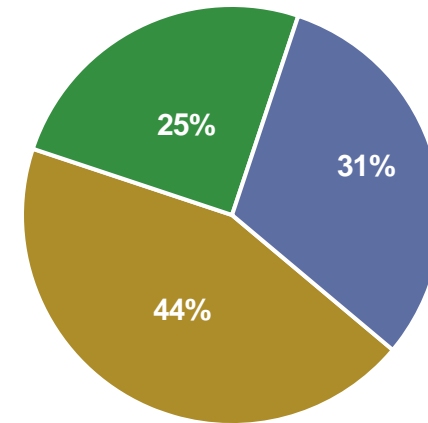
Capital Allocation



■ Seed ■ Stock Repurchase ■ Dividend

Seed Capital by Asset Class

\$394M as of 12/31/11



■ Fixed Income ■ Equity ■ Alternative

Positioned for Long-Term Growth

New Products Target Long-Term AUM Growth

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

Product	Launch Date	Sales Region	Assets at Dec-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	\$ 2.5B
ClearBridge Energy MLP Fund	Jun-10	US	\$ 1.9B
Legg Mason Global Plus	Aug-07	Asia Pacific	\$ 1.3B
RLJ Western Asset Public/Private Master Fund	Nov-09	US	\$ 1.2B
Legg Mason Brandywine Global Opportunities Bond Fund	Nov-06	US	\$ 1.1B
Legg Mason Global Multi Strategy Bond Fund	May-08	Europe	\$ 823M
ClearBridge Energy MLP Opportunity Fund	Jun-11	US	\$ 766M
Legg Mason Western Asset Asian Opportunities Bond Fund	Jun-08	Multi Regional	\$ 731M

Closing Comments

- Highly diversified asset manager by AUM, revenues, geography, client, distribution, and brand
- Scale player with \$631B in AUM as of January 2012
- Global presence through a portfolio of world-class affiliates
- Powerful, diversified distribution model
- Strong long-term investment performance
- Strong core earnings
- Significant liquidity and financial flexibility
- Clear progress on capital deployment and business initiatives

Appendix

Appendix - GAAP Reconciliation

Consolidated Statements of Income excluding Investment Vehicles¹

(\$ millions)	Quarter Ended December 31, 2011			Quarter Ended September 30, 2011			Quarter Ended December 31, 2010		
	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles
Operating Revenues:									
Investment advisory fees	\$ 545.2	\$ 0.8	\$ 546.0	\$ 582.8	\$ 0.6	\$ 583.5	\$ 625.1	\$ 1.2	\$ 626.3
Distribution and service fees	80.7	-	80.7	85.8	-	85.8	95.5	-	95.5
Other	1.0	-	1.0	1.3	-	1.3	1.3	-	1.3
Total operating revenues	627.0	0.8	627.7	669.9	0.6	670.5	721.9	1.2	723.1
Operating Expenses:									
Compensation and benefits	263.2	-	263.2	270.0	-	270.0	309.2	-	309.2
Distribution and servicing	148.3	(0.0)	148.3	160.4	(0.0)	160.4	187.4	(0.0)	187.4
Other	156.2	(0.1)	156.1	132.7	(0.2)	132.4	128.3	0.5	128.9
Total operating expenses	567.7	(0.1)	567.6	563.0	(0.3)	562.8	624.9	0.5	625.5
Operating Income	59.3	0.9	60.2	106.9	0.9	107.7	97.0	0.6	97.6
Other Non-Operating Income (Expense)									
Net interest income (expense)	(19.3)	-	(19.3)	(18.7)	-	(18.7)	(20.2)	-	(20.2)
Other income (expense)	7.7	(7.8)	(0.1)	(32.4)	(1.5)	(33.9)	10.3	7.7	18.0
Other non-operating income (expense)	(11.6)	(7.8)	(19.4)	(51.1)	(1.5)	(52.6)	(9.8)	7.7	(2.2)
Income Before Income Tax Provision	47.7	(6.9)	40.8	55.8	(0.6)	55.1	87.2	8.3	95.5
Income tax (benefit) provision	12.6	-	12.6	(1.6)	-	(1.6)	33.8	-	33.8
Net Income	35.1	(6.9)	28.2	57.4	(0.6)	56.7	53.4	8.3	61.7
Less: Net income (loss) attributable to noncontrolling interests	7.0	(6.9)	0.1	0.7	(0.6)	0.1	(8.3)	8.3	0.0
Net Income Attributable to Legg Mason, Inc.	\$ 28.1	\$ -	\$ 28.1	\$ 56.7	\$ -	\$ 56.7	\$ 61.6	\$ -	\$ 61.6
Effective Income Tax Rate	26.4%			-2.9%			38.8%		
Effective Income Tax Rate Excluding Consolidated Investment Vehicles			30.9%			-2.9%			35.4%

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

Appendix – GAAP Reconciliation Adjusted Income¹

	Quarters Ended		
	Dec 11	Sep 11	Dec 10
(\$ millions, except per share amounts)			
Net Income attributable to Legg Mason, Inc.	\$ 28.1	\$ 56.7	\$ 61.6
Plus (Less):			
Amortization of intangible assets	4.9	5.5	5.8
Deferred income taxes on intangible assets:			
Tax amortization benefit	34.0	34.0	33.7
UK tax rate adjustment	-	(18.3)	-
Imputed interest on convertible debt	9.8	9.7	9.2
Adjusted Income	<u>\$ 76.8</u>	<u>\$ 87.6</u>	<u>\$ 110.3</u>
Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ 0.20	\$ 0.39	\$ 0.41
Plus (Less):			
Amortization of intangible assets	0.04	0.04	0.04
Deferred income taxes on intangible assets:			
Tax amortization benefit	0.24	0.24	0.22
UK tax rate adjustment	-	(0.13)	-
Imputed interest on convertible debt	0.07	0.07	0.06
Adjusted Income per Diluted Share	<u>\$ 0.55</u>	<u>\$ 0.61</u>	<u>\$ 0.73</u>

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

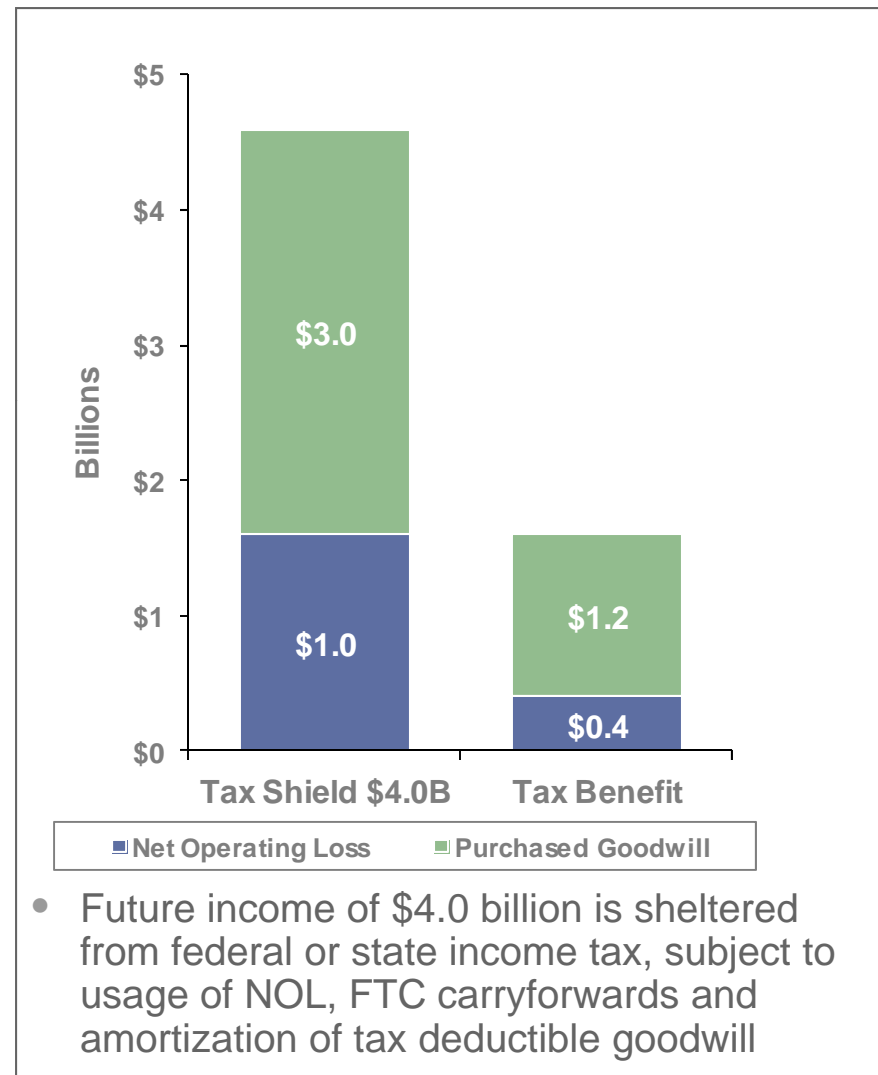
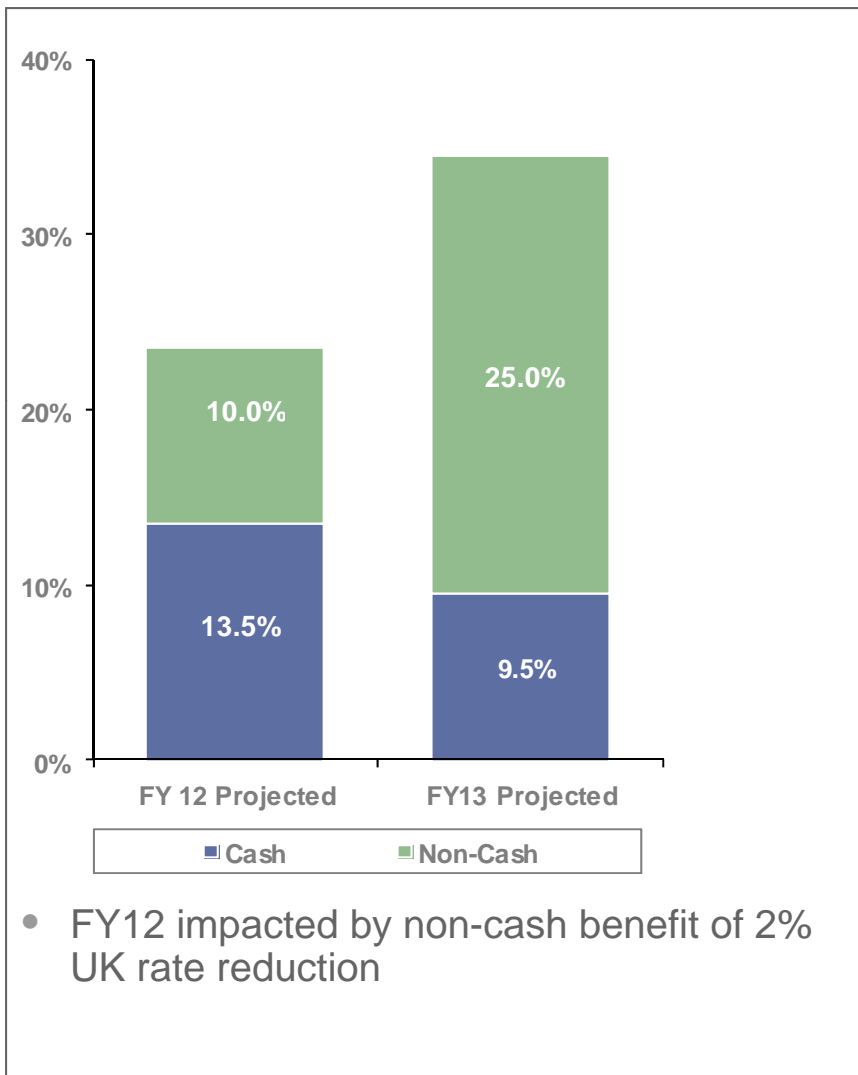
Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended								
	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11
Operating Revenues, GAAP basis	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 717.1	\$ 669.9	\$ 627.0
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.9	0.5	0.8	1.0	1.2	1.2	1.1	0.6	0.8
Distribution and servicing expense excluding consolidated investment vehicles	<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>	<u>(148.3)</u>
Operating Revenues, as adjusted	\$ 513.7	\$ 504.5	\$ 490.3	\$ 509.9	\$ 535.7	\$ 539.8	\$ 537.4	\$ 510.1	\$ 479.5
Operating Income, GAAP basis	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 100.4	\$ 106.9	\$ 59.3
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	12.6	11.2	(4.6)	22.1	8.6	10.2	(2.4)	(14.2)	1.7
Transition-related costs	-	-	3.2	11.6	24.0	15.7	13.7	15.1	42.3
Operating income and expenses of consolidated investment vehicles	<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>	<u>0.9</u>
Operating Income, as adjusted	\$ 92.5	\$ 117.8	\$ 102.6	\$ 123.1	\$ 130.2	\$ 126.4	\$ 112.9	\$ 108.6	\$ 104.2
Operating margin, GAAP basis	11.5%	15.8%	15.2%	13.0%	13.4%	13.9%	14.0%	16.0%	9.5%
Operating margin, as adjusted	18.0%	23.3%	20.9%	24.1%	24.3%	23.4%	21.0%	21.3%	21.7%

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

Appendix - Tax Provision Analysis



Data for Quarter End December 2011

Appendix - Streamlined Legg Mason Business Model

