

KBW Asset Management  
Conference  
June 6, 2012

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Chief Financial Officer



# Forward-Looking Statements

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

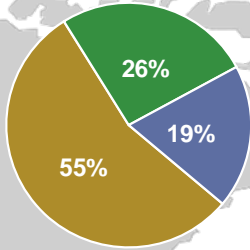
These forward-looking statements are not statements of facts or guarantees of future performance, and are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those discussed in the statements.

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, 2012 and in the Company’s quarterly reports on Form 10-Q.

# Diversity & Scale

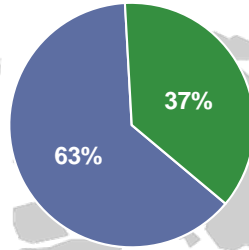
**Total AUM \$643B**

AUM by Asset Class



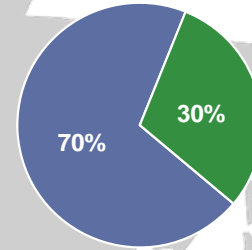
■ Fixed Income ■ Equity ■ Liquidity

AUM by Client Domicile



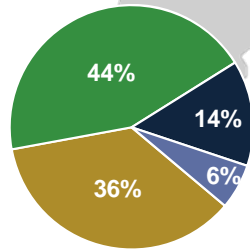
■ US ■ Non-US

AUM by Client



■ Institutional ■ Retail

**FY2012 Gross Revenues \$2.7B**



■ Fixed Income ■ Equity  
■ Alternative ■ Liquidity

Data as of March 31, 2012

# Achievements Against Strategy

## Outstanding independent investment managers

- 80% of marketed composite AUM performance is beating benchmark for the critical three year time period
- Managers received numerous recognitions for performance
- Launched new specialized mandates

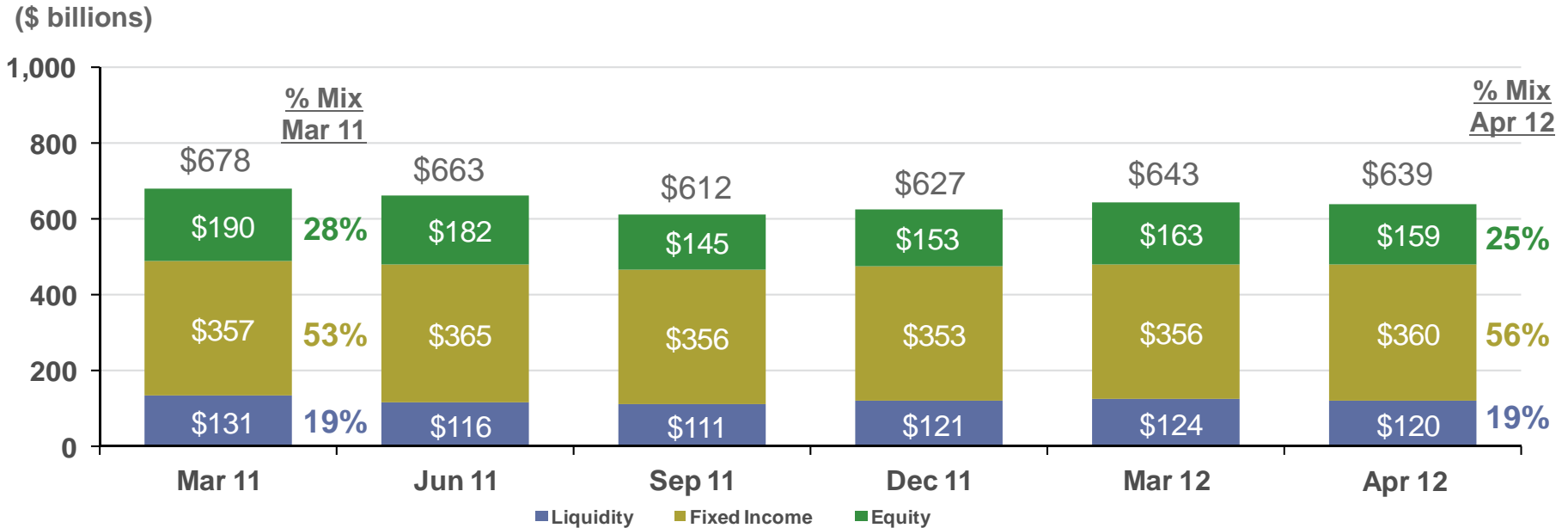
## A corporate center that delivers strategic value

- Flattened global distribution organization to have more “feet on the street”
- Launched two closed-end funds managed by Brandywine and ClearBridge during the fiscal year
- Growing internationally - new distribution office in Geneva

## Allocating capital for diversified growth and returning capital to shareholders as appropriate

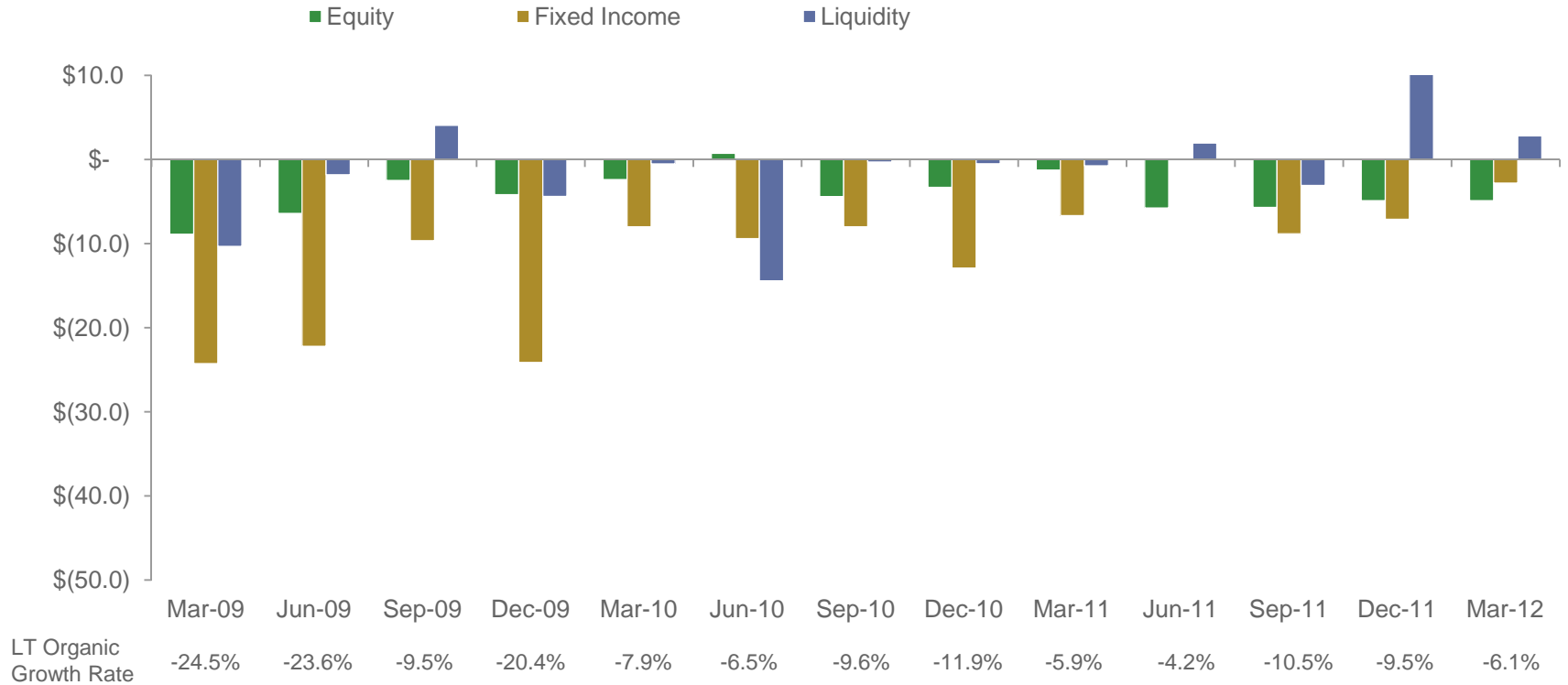
- Strong cash position of \$1.4B
- Repurchased 13.6M shares in FY12
- Seed capital of \$387M invested in products with AUM of \$27B
- Increased dividend 38% to \$0.11 per share
- Financial flexibility for bolt-on and targeted acquisitions

# Assets Under Management by Asset Class



- Market appreciation \$24.4B, net of negative FX impact of \$2.0B in F4Q12
  - Equity and Fixed Income market appreciation \$16.8B and \$7.3B, respectively
- Average AUM of \$635B in F4Q12 up \$13B or 2% from prior quarter

# Net Flows



- Long term outflows improved each of the last past two quarters
- Equity outflows remained flat while Fixed Income outflows decreased 60%

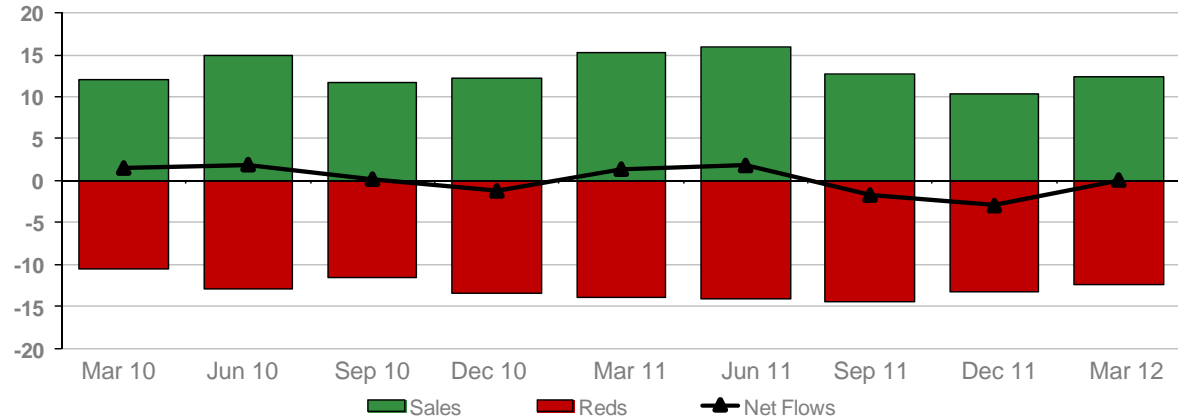
# Global Distribution

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

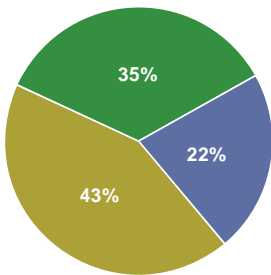
**Total AUM:** \$220 Billion

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

Quarterly Net Flows (\$B)<sup>1</sup>

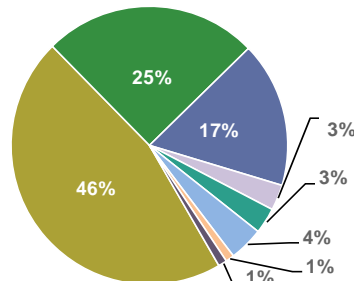


AUM by Channel



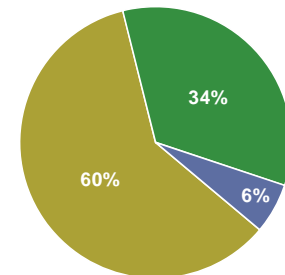
■ US Retail ■ US Individual ■ International

AUM by Affiliate



■ WAM ■ CBA ■ Royce ■ LMCM ■ BFM ■ BGIM ■ LM Gib Eq ■ Other

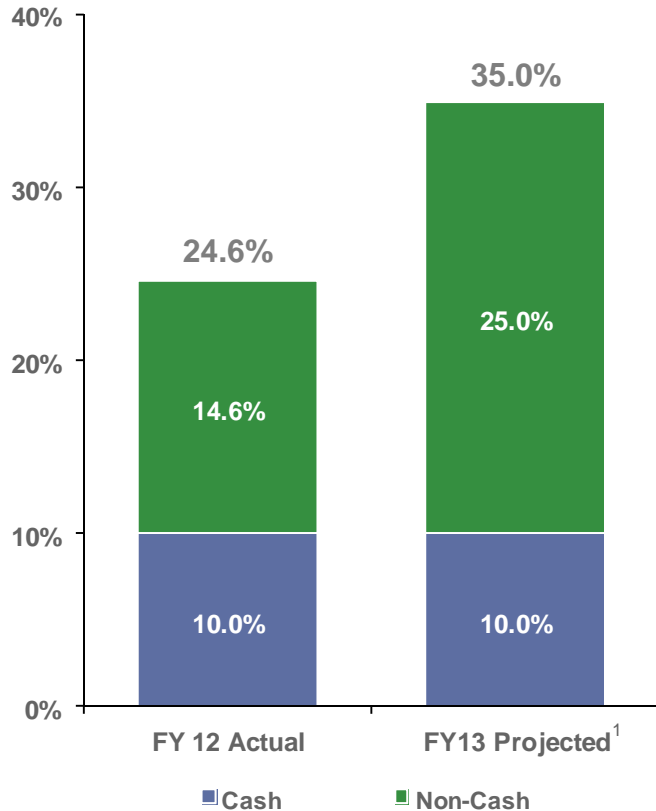
AUM by Product



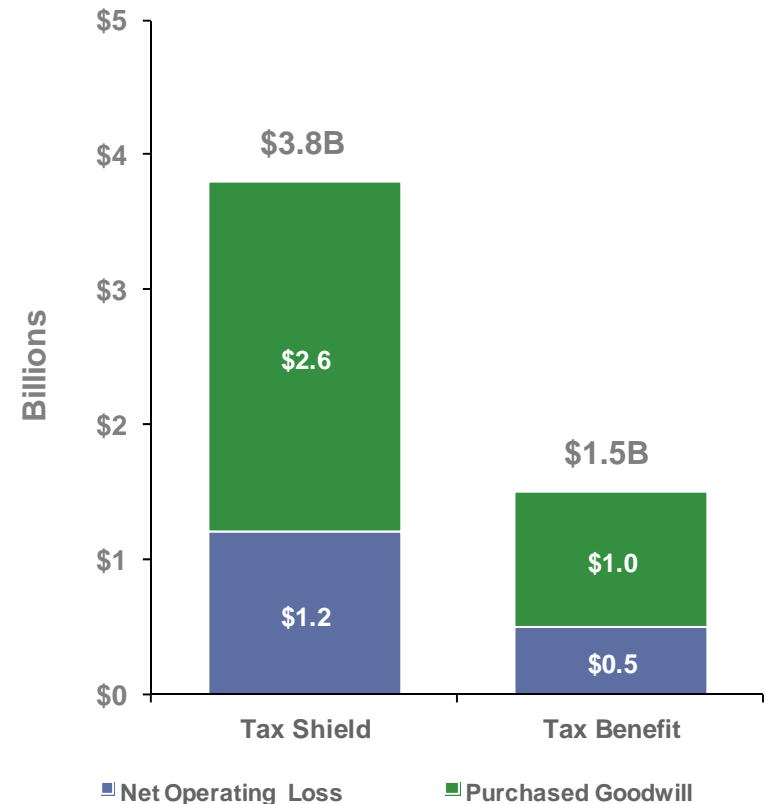
■ Funds ■ SMA/Sep Accts ■ Closed End

<sup>1</sup> Represents long-term sales, redemptions and net flows by Legg Mason's centralized global distribution platform

# Significant Tax Benefit



- FY12 impacted by non-cash benefit of 2% UK rate reduction



- Future income of \$3.8 billion is sheltered from federal or state income tax, subject to usage of NOL, FTC carryforwards and amortization of tax deductible goodwill

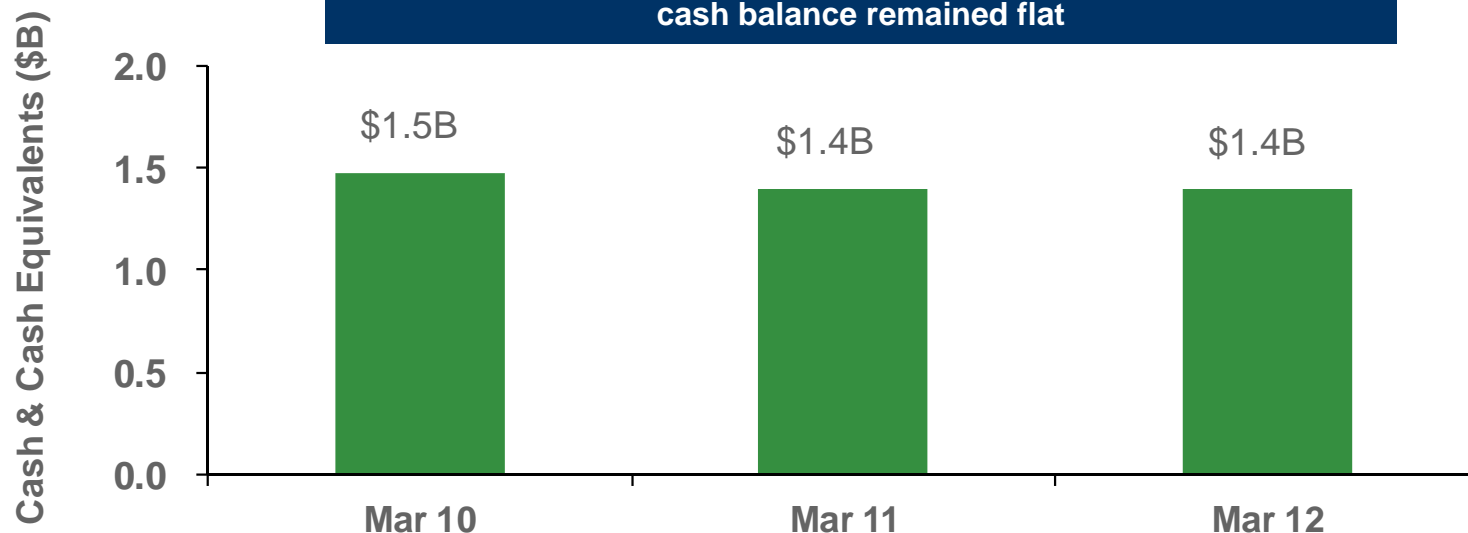
Data as of March 31, 2012

<sup>1</sup> FY13 projection prior to potential UK tax rate reduction



# Cash Balance, Share Repurchase and Dividend History

Over the past 2 fiscal years, we have returned over \$900M in capital to shareholders in the form of buybacks and dividends, yet our cash balance remained flat



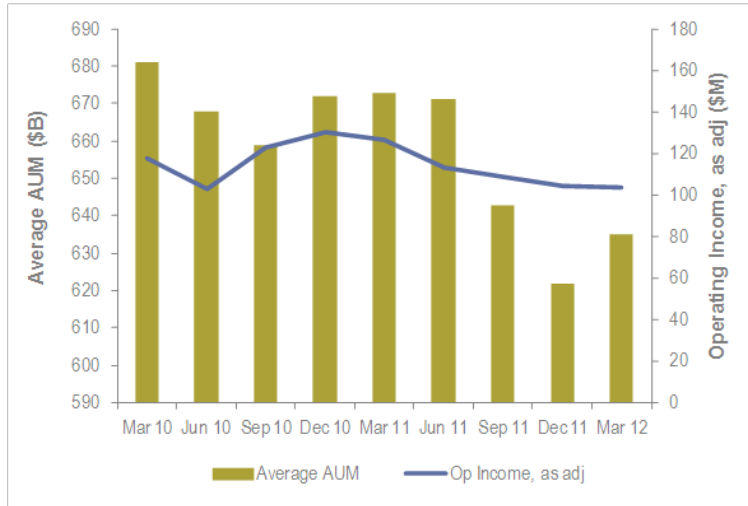
- 28.2M shares repurchased for \$845M under \$1B Board authorization
  - 14.6M shares repurchased for \$445M in FY 2011
  - 13.6M shares repurchased for \$400M in FY 2012
- Paid dividends of \$44M in FY12 and \$27M in FY11

# F1Q13 Activities

- Repurchased \$1.25B Convertible Senior Notes in May
  - Non-cash GAAP charge of \$70M to \$80M for early extinguishment of the convertible notes
  - Repaid at Par, prepayment fee of \$6.25M with issuance of warrants
  - Using \$250M from bank line, proceeds from newly issued \$650M of senior notes at 5.5% and \$350M of existing cash
  - Plan to refinance \$500M revolving credit facility with a term loan
- Repurchasing \$155M of shares
  - Issued 1.5M shares related to annual incentive awards
- Board Authorization for new \$1B share repurchase plan
  - Limited to 65% of net operating cash flows
- ClearBridge is in the market with a new closed-end fund MLP product
- Western launched REIT IPO in May

# Significant Progress in Volatile Markets

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



## Capital Allocation



## Annualized Cost Savings



## 3 Year Composite Outperformance<sup>2</sup>



<sup>1</sup>See Appendix for GAAP reconciliation

<sup>2</sup>Includes liquidity

Benchmark source: Lipper and Morningstar

# Revenue & EPS Growth

## Competitive Positioning

Respected Brands

Scale

Diversity

Global Distribution

## Drives Significant Financial Flexibility

Over \$900M operating income, as adjusted generated in last eight quarters

## Three Priorities for Improving Shareholder Value

### Growing Organically

- Strong performance
- Institutional expansion
- Global retail momentum
- Customized solutions

### Filling Product Gaps

- Select bolt-ons and lift-outs
- International equities
- Alternatives

### Returning Capital

- Over \$440M returned to shareholders in FY12
- Increased quarterly dividend 38% to \$0.11 per share
- Over past two years the quarterly dividend has increased from \$0.04 to \$0.11

# Appendix

# Appendix - Streamlined Legg Mason Business Model



# Appendix – GAAP Reconciliation

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

(\$ millions)	Quarters Ended									Twelve Months Ended	
	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Mar 11	Mar 12
<b>Operating Revenues, GAAP basis</b>	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 717.1	\$ 669.9	\$ 627.0	\$ 648.6	\$ 2,784.3	\$ 2,662.6
Plus (Less):											
Operating revenues eliminated upon consolidation of investment vehicles	0.5	0.8	1.0	1.2	1.2	1.1	0.6	0.8	0.7	4.1	3.1
Distribution and servicing expense excluding consolidated investment vehicles	(167.4)	(184.7)	(165.8)	(187.4)	(174.8)	(180.7)	(160.4)	(148.3)	(160.3)	(712.8)	(649.7)
<b>Operating Revenues, as adjusted</b>	<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>	<u>\$ 479.5</u>	<u>\$ 489.0</u>	<u>\$ 2,075.7</u>	<u>\$ 2,016.0</u>
<b>Operating Income, GAAP basis</b>	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 100.4	\$ 106.9	\$ 59.3	\$ 72.2	\$ 386.8	\$ 338.8
Plus (Less):											
Gains (losses) on deferred compensation and seed investments	11.2	(4.6)	22.1	8.6	10.2	(2.4)	(14.2)	1.7	28.7	36.3	13.8
Transition-related costs	-	3.2	11.6	24.0	15.7	13.7	15.1	42.3	1.9	54.4	73.1
Operating income and expenses of consolidated investment vehicles	0.8	1.2	1.5	0.6	1.4	1.2	0.9	0.9	0.8	4.7	3.7
<b>Operating Income, as adjusted</b>	<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>	<u>\$ 104.2</u>	<u>\$ 103.7</u>	<u>\$ 482.2</u>	<u>\$ 429.3</u>
Operating margin, GAAP basis	15.8%	15.2%	13.0%	13.4%	13.9%	14.0%	16.0%	9.5%	11.1%	13.9%	12.7%
Operating margin, as adjusted	23.3%	20.9%	24.1%	24.3%	23.4%	21.0%	21.3%	21.7%	21.2%	23.2%	21.3%

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