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# Citi 2013 US Financial Services Conference

March 5, 2013

Pete Nachtwey
Chief Financial Officer


Batterymarch • Brandywine Global • ClearBridge Investments • Legg Mason Capital Management • Legg Mason Global Equities Group
Permal • 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, 2012, in the Company’s quarterly reports on Form 10-Q, and in the Company’s current report on Form 8-K filed January 22, 2013.

# Legg Mason Today

- A Diversified Global Asset Management Firm
- Serving Individual and Institutional Investors for Over a Century
- Approximately 3,000 Employees with 32 Offices Around the World
- Headquartered in Baltimore, Maryland
- Ticker: LM (NYSE)

As of December 31, 2012:

- Revenue TTM: $2.6B
- Shares Outstanding:131.5M
- Institutional Holdings: 90%
- AUM: $654B[1]
- Equity: $4.9B
- Market Cap[2]: $3.7B
- Stock Price[2]: $28.50

1 Preliminary AUM as of January 31, 2013
2 As of February 28, 2013



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# The Industry Has Changed in Three Key Areas

## Client Access

**Future**

- Global retail vs. institutional
- Emerging vs. developed markets
- Importance of SWFs
- Retirement / demographics

**Past**

- Developed markets
- Institutional vs. Retail
- Defined Benefit vs. Defined Contribution

## Investments

**Future**

- Solutions / Risk controlled / Multi-asset class
- Passive / ETFs
- Alternatives
- Global / int'l equity
- Specialized FI / credit
- Absolute return

**Past**

- Domestic equities
- Core fixed income
- Benchmark tracking

## Operating Environment

**Future**

- Low return, low yields, high volatility capital markets
- Slow organic growth rate for active
- Increased fee pressure
- Regulatory environment
- More selective / strategic M&A

**Past**

- High return, high yields capital markets
- Strong organic growth rate for active
- Robust M&A environment



Source: Casey Quirk and Legg Mason

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# A "New Normal" Environment has Emerged

| | From Old Normal… | | …to New Normal |
|---|---|---|---|
| **Growth** | *12% growth in assets (CAGR 2002-07) …* | ❯ | *…to no growth (0% CAGR since 2007) driving declining share of total asset pool* |
| **Geography** | *Developed market growth of 11% CAGR (pre-2007) …* | ❯ | *…to developed market growth of -0.8% CAGR (2007-11), developing market growth of 7%* |
| **Profitability** | *30-35 bps RoA, 35-40% operating margin…* | ❯ | *…to 30 bps RoA, 30-35% operating margin driving 10-15% decline in profit pool* |
| **Profit Pool** | *Capturing most of the margin in the value chain…* | ❯ | *…to diminished power and declining share of margin pool to distribution (gatekeeper)* |
| **Products** | *Traditional, long-only domestic stand-alone products…* | ❯ | *…to passive, alternative, emerging-market products, increasingly sold as part of a solution* |
| **Competitive Environment** | *Broad participation by asset managers in industry growth …* | ❯ | *…to only a few asset managers capturing nearly all the new flows in the market* |
| **Shareholder Value** | *High-growth, high-margin, high-ROE component of a diversified portfolio…* | ❯ | *…to direct competitor for deposits and regulatory capital* |

Source: Boston Consulting Group

# "New Normal" Implications for Legg Mason

- Growth opportunities in current product portfolio are overweight Global Fixed Income and US Equity
- Under-represented in key growth products including alternatives, global equity, and solutions/multi-asset class
- Business and market concentration risk in fixed income
- Passive strategies gaining market share – traditional active management experiencing fee pressure
- Well positioned to capture institutional and global retail flows
- Existing LMGD infrastructure provides opportunity to capitalize on industry consolidation trends
- 4 key success factors: products, performance, distribution and operating efficiency
- Status quo is not an option

# Competitive Positioning Drives Significant Financial Flexibility

## Competitive Advantages

**Respected Brands** | **Scale** | **Diversity** | **Global Distribution**

## Three Priorities for Improving Shareholder Value

### Growing Organically

- Continued strong performance
- Product development
- Demand for existing products

### Filling Product Gaps

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

### Returning Capital

- Refinanced debt
- Shares repurchases
- Dividend growth

# Competitive Advantage – “The Power of Together”

Western Asset

ClearBridge Investments

Permal

Royce & Associates

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Brandywine GLOBAL

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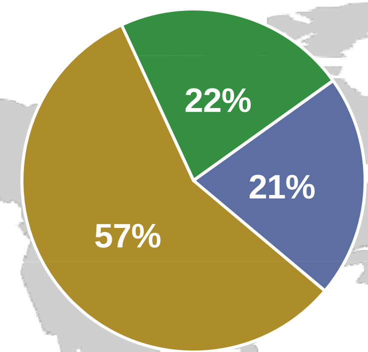
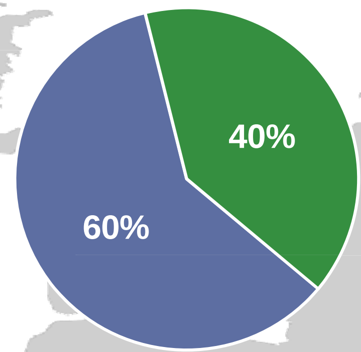
# Competitive Advantage - Scale & Diversity

## Total AUM $649B

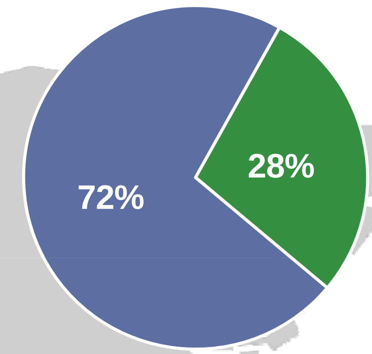
### AUM by Asset Class



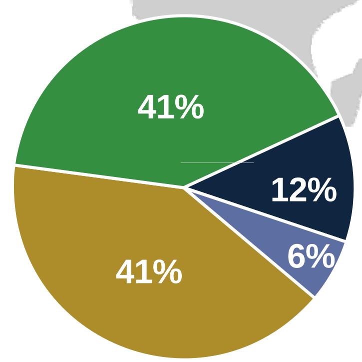

### AUM by Client Domicile




### AUM by Client




## FYTD 2013 Gross Revenues $1,945M




Data as of December 31, 2012



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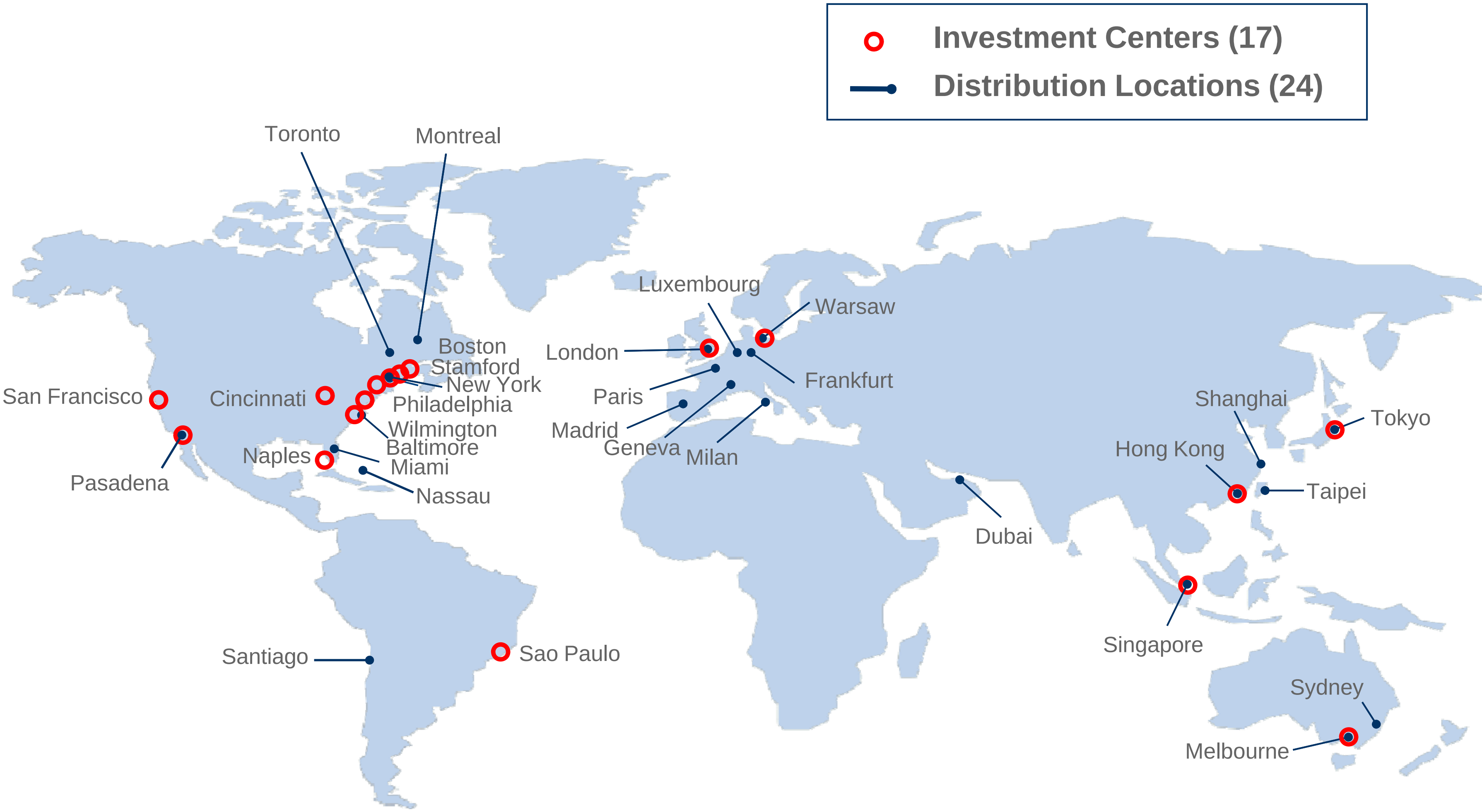
# Competitive Advantage – Significant Global Footprint






*Global presence includes Legg Mason and its affiliates
As of December 31, 2012

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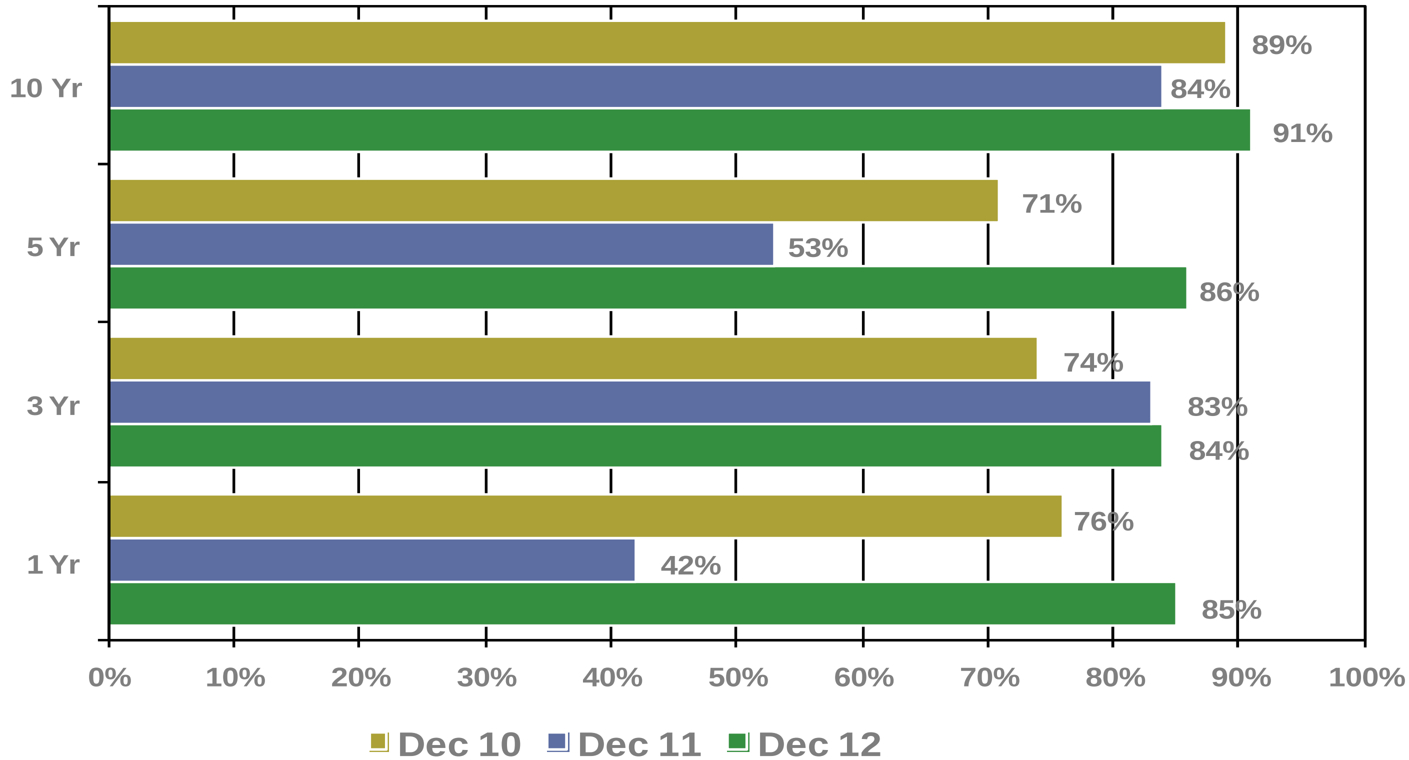
# Strategic Priority – Growing Organically

**80% of marketed composite AUM performance beating benchmarks for 1-, 3-, 5- and 10-years**

% of Strategy AUM beating Benchmark[1]



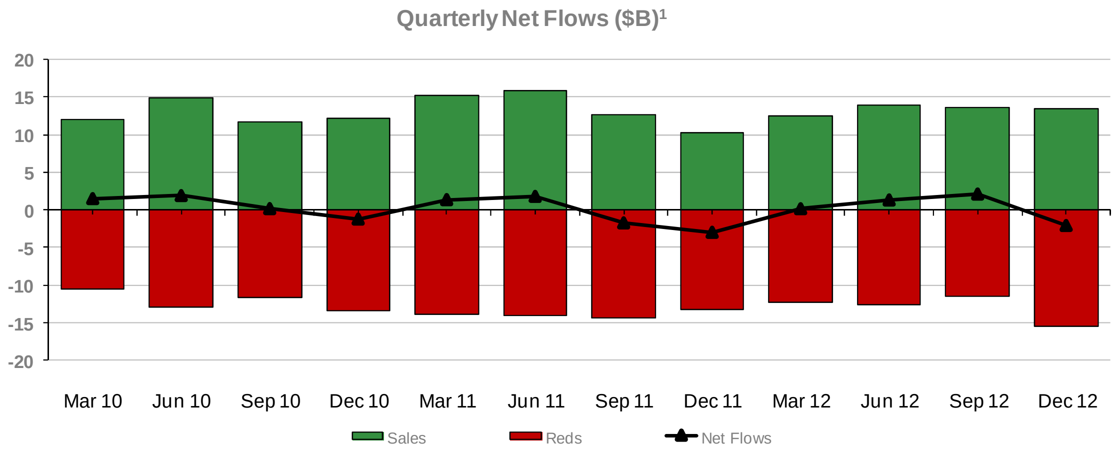

[1] See appendix for details regarding strategy performance

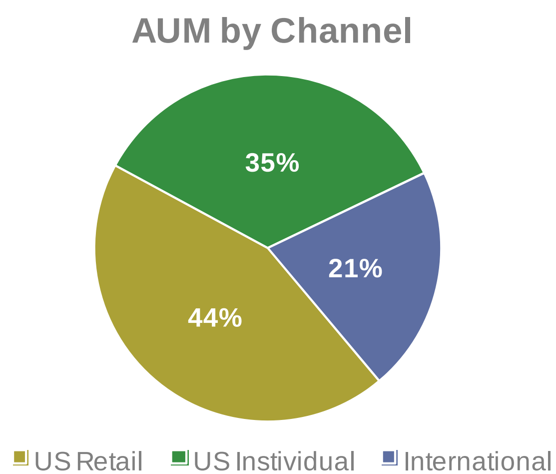
Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ

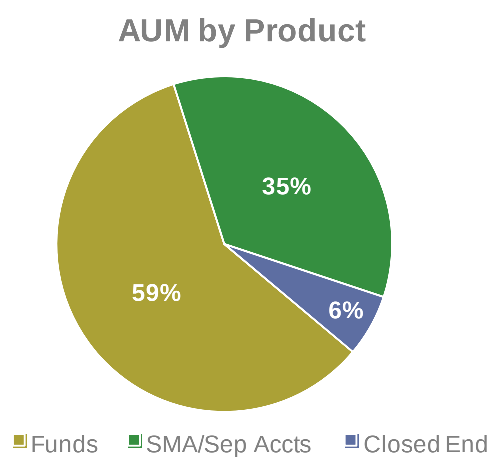
# Competitive Advantages - Global Distribution

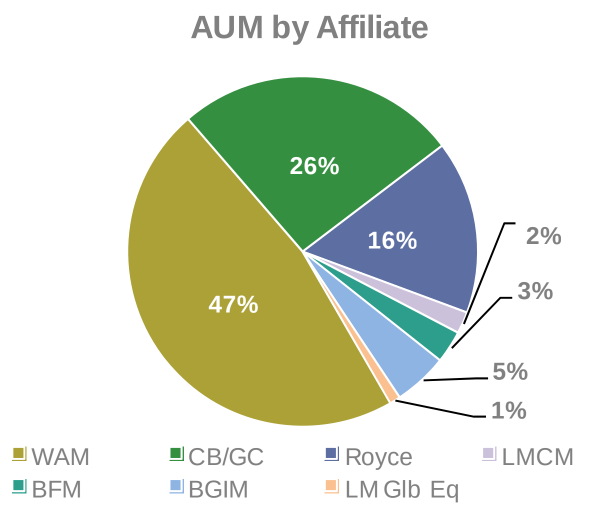
**Total Long-Term AUM: $222B**

- Net inflows in eight of last twelve quarters
- Sixteen consecutive quarters of net inflows for International Distribution




[1] Represents long-term sales, redemptions and net flows by Legg Mason's centralized global distribution platform



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# Strategic Priority – Growing Organically

**Fiscal year-to-date, we have launched 15 new products with assets of $1.4B as of year-end, in the key focus areas of Alternatives, Solutions and Income**

- US
  - ClearBridge Energy MLP Total Return Fund
  - ClearBridge Select Fund
  - Legg Mason Brandywine Global High Yield Fund
  - Legg Mason Dynamic Multi-Strategy Fund
  - Legg Mason Esemplia Long-Short Emerging Market Fund
  - Western Asian Opportunities Fund
  - Western Middle Market Debt Fund
  - Western Municipal Income Plus SMA
- International
  - Brandywine Global Fixed Income Absolute Return Fund
  - Brandywine Global Sovereign Credit Fund
  - Brandywine Investment Grade Focus Fund
  - Brandywine Global High Yield Fund
  - Brandywine Sovereign Bond Fund
  - Western Asset Emerging Blue Chip Fund
  - Western Asset Global Credit Fund



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# Strategic Priorities - Investing With & In Affiliates

## Effectively deploy capital to develop new products and add investment talent / capabilities

- Bolt-On Acquisitions and Lift-Out Opportunities
  - Add investment talent and capabilities
  - Broaden investment and management team depth
  - Access new markets / channels / products
  - Remain disciplined on price
  - Financial key is the ability to deliver AUM and enhance growth



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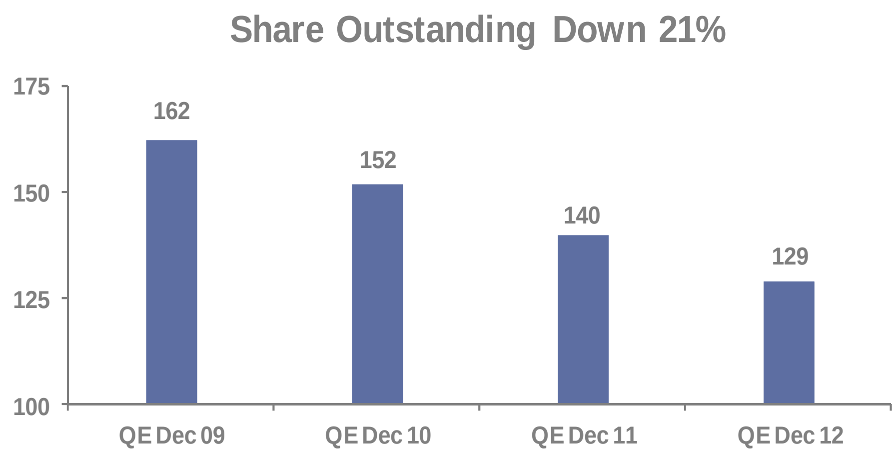
# Strategic Priorities – Example of a Bolt-on

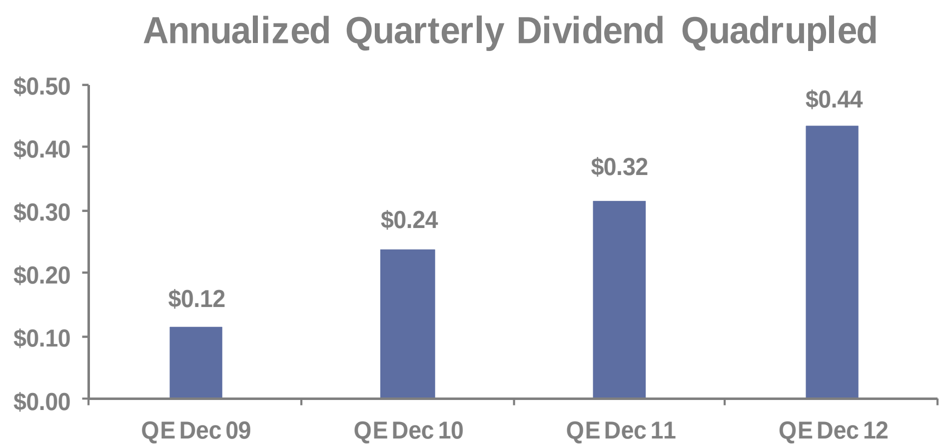
## Fauchier Partners Acquisition

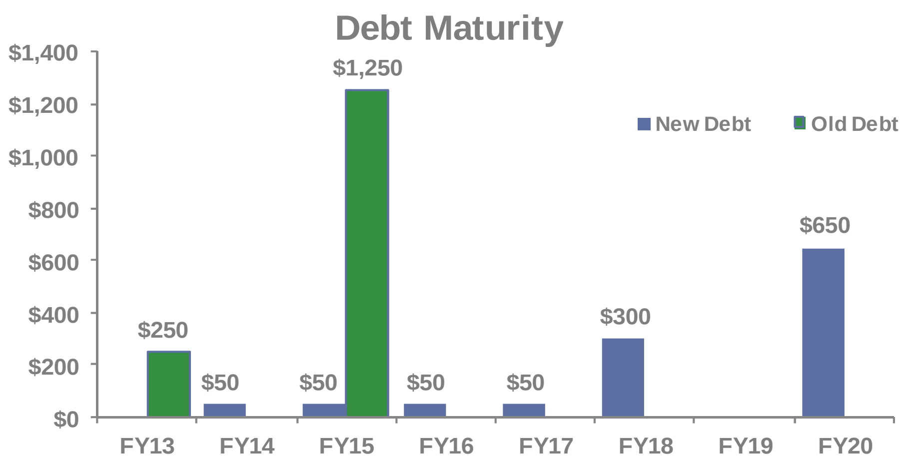
| | Fauchier Partners | Permal |
|---|---|---|
| Business Mix | Institutional (87%) | HNW (58%) |
| Client Geographic Footprint | UK (49%), France (12%), Australia (12%), Japan (8%) | Europe (25%), Latin America (19%), Middle East (17%), Asia (17%) |
| Product Strength | Equity Long/Short, Event Driven | Fixed Income, Macro |

- Adds key distribution partner for Permal – BNP Paribas Investment Partners
- Year 1 EPS accretion expected and anticipated FY13 close

# Strategic Priorities – Cash Utilization & Balance Sheet Improvement




- Shares outstanding have been reduced by 33M shares or 21% over the past three years
- Quarterly dividends per share have nearly quadrupled since 2009
- Reduced debt and extended maturities



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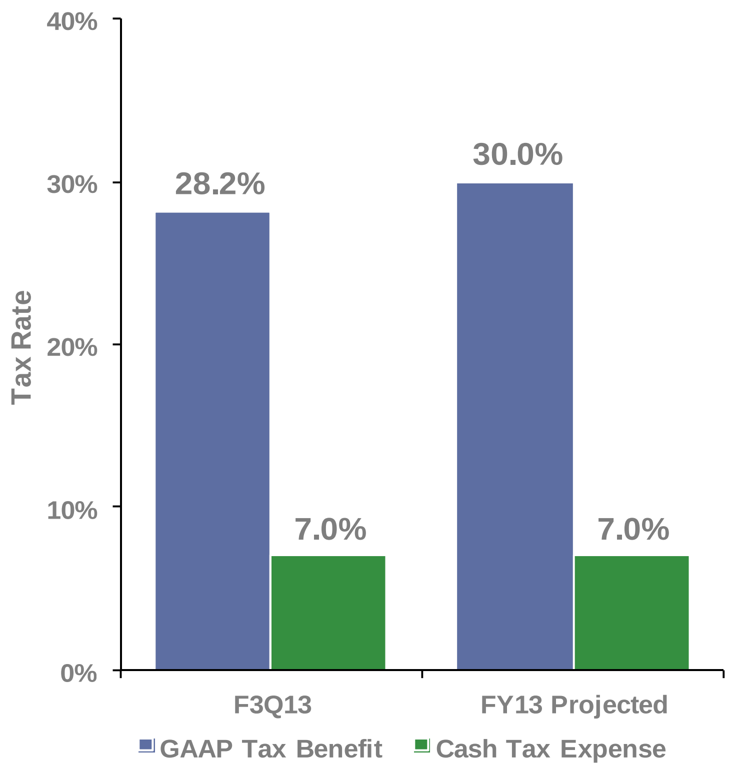
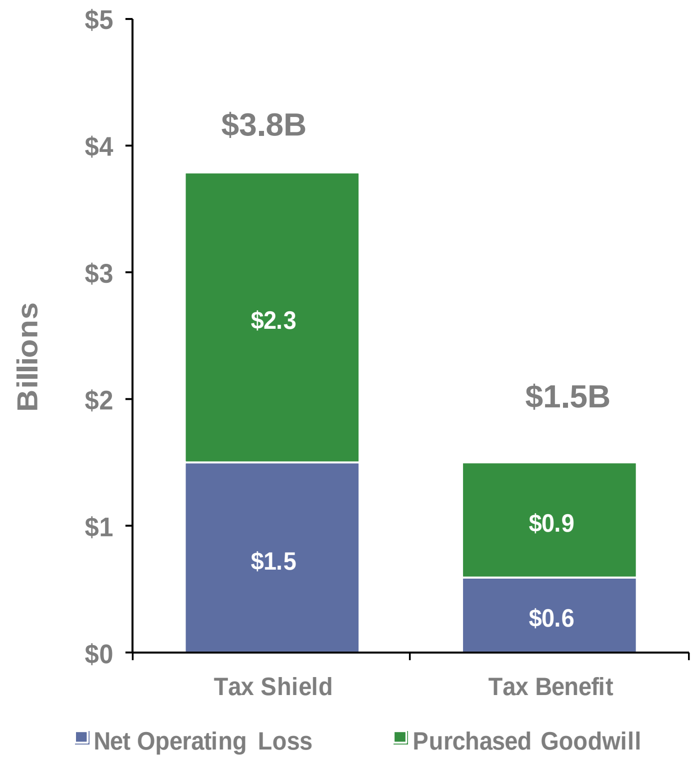
# Strategic Priorities – Utilize Significant Tax Benefit

**$3.8B of future income is sheltered from taxes, benefiting shareholders as the tax benefit could be used for growth opportunities, share repurchases and dividends**




- GAAP tax benefit driven by non-cash impairment charge

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

 Data as of December 31, 2012

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# Continuous Focus on Adding Shareholder Value

**Over the last few years, we have taken significant steps to strengthen Legg Mason and will continue to add shareholder value through incremental improvements**

- Large scale initiatives
  - Streamlining initiative reduced corporate costs by over $140M
  - Large scale share buybacks
  - Reduced outstanding debt and extended maturities

- Incremental improvements
  - Merged affiliates to reduce costs and focus investment teams on growth
  - Agreed to acquire Fauchier Partners
  - Revised equity plan at Permal
  - Global distribution reorganization
  - Launched new products
  - Re-branding initiatives continue

# Going Forward - Adding Shareholder Value

- Continue to believe in the multi-manager model
- Remain focused on maintaining operating expense controls
- Maintain strong performance track record
- Launch new products
- Continue to leverage global distribution platform
- Work with affiliates to grow the business
  - Seed new investment ideas
  - Strategic acquisitions to fill out product lineup with bolt-ons/lift-outs
- Discuss revising equity plans/revenue share changes with affiliates
- Continue rebranding efforts
- Return capital to shareholders through buybacks and dividends
- 4 key success factors: products, performance, distribution and operating efficiency
- Status quo is not an option

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# Appendix

# Appendix – GAAP Reconciliation
## Adjusted Income[1]

| ($ millions, except per share amounts) | Quarters Ended Dec 12 | Sep 12 | Dec 11 |
|---|---|---|---|
| **Net Income (Loss) Attributable to Legg Mason, Inc.** | $ (453.9) | $ 80.8 | $ 28.1 |
| Plus (less): | | | |
| Amortization of intangible assets | 3.5 | 3.5 | 4.9 |
| Impairment of intangible assets | 734.0 | - | - |
| Deferred income taxes on intangible assets: | | | |
| Impairment charges | (225.7) | - | - |
| Tax amortization benefit | 33.9 | 33.9 | 34.0 |
| U.K. tax rate adjustment | - | (18.1) | - |
| Imputed interest on convertible debt (2.5% senior notes) | - | - | 9.8 |
| **Adjusted Income** | $ 91.8 | $ 100.1 | $ 76.8 |
| | | | |
| **Net Income (Loss) per Diluted Share Attributable to Legg Mason, Inc. Common Shareholders** | $ (3.45) | $ 0.60 | $ 0.20 |
| Plus (less): | | | |
| Amortization of intangible assets | 0.03 | 0.03 | 0.04 |
| Impairment on intangible assets | 5.58 | - | - |
| Deferred income taxes on intangible assets: | | | |
| Impairment charges | (1.72) | - | - |
| Tax amortization benefit | 0.26 | 0.25 | 0.24 |
| U.K. tax rate adjustment | - | (0.13) | - |
| Imputed interest on convertible debt (2.5% senior notes) | - | - | 0.07 |
| **Adjusted Income per Diluted Share** | $ 0.70 | $ 0.75 | $ 0.55 |

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



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# Appendix – GAAP Reconciliation
## Operating Margin, as adjusted[1]

| ($ millions) | Dec 10 | Mar 11 | Jun 11 | Sep 11 | Dec 11 | Mar 12 | Jun 12 | Sep 12 | Dec 12 |
|---|---|---|---|---|---|---|---|---|---|
| | Quarters Ended | | | | | | | | |
| **Operating Revenues, GAAP basis** | $ 721.9 | $ 713.4 | $ 717.1 | $ 669.9 | $ 627.0 | $ 648.6 | $ 630.7 | $ 640.3 | $ 673.9 |
| Plus (less): | | | | | | | | | |
| Operating revenues eliminated upon consolidation of investment vehicles | 1.2 | 1.2 | 1.1 | 0.6 | 0.8 | 0.7 | 0.6 | 0.6 | 0.6 |
| Distribution and servicing expense excluding consolidated investment vehicles | (187.4) | (174.8) | (180.7) | (160.4) | (148.3) | (160.3) | (169.8) | (145.1) | (143.4) |
| **Operating Revenues, as Adjusted** | $ 535.7 | $ 539.8 | $ 537.4 | $ 510.1 | $ 479.5 | $ 489.0 | $ 461.5 | $ 495.8 | $ 531.1 |
| | | | | | | | | | |
| **Operating Income (Loss), GAAP basis** | $ 97.0 | $ 99.1 | $ 100.4 | $ 106.9 | $ 59.3 | $ 72.2 | $ 76.1 | $ 79.7 | $ (633.3) |
| Plus (less): | | | | | | | | | |
| Gains (losses) on deferred compensation and seed investments | 8.6 | 10.2 | (2.4) | (14.2) | 1.7 | 28.7 | 1.2 | 24.4 | 3.7 |
| Transition-related costs | 24.0 | 15.7 | 13.7 | 15.1 | 42.3 | 1.9 | - | - | - |
| Impairment of intangible assets | - | - | - | - | - | - | - | - | 734.0 |
| Operating income and expenses of consolidated investment vehicles | 0.6 | 1.4 | 1.2 | 0.9 | 0.9 | 0.8 | 0.6 | 0.9 | 0.7 |
| **Operating Income, as Adjusted** | $ 130.2 | $ 126.4 | $ 112.9 | $ 108.6 | $ 104.2 | $ 103.7 | $ 77.9 | $ 105.0 | $ 105.1 |
| | | | | | | | | | |
| Operating Margin, GAAP basis | 13.4% | 13.9% | 14.0% | 16.0% | 9.5% | 11.1% | 12.1% | 12.5% | -94.0% |
| Operating Margin, as Adjusted | 24.3% | 23.4% | 21.0% | 21.3% | 21.7% | 21.2% | 16.9% | 21.2% | 19.8% |

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



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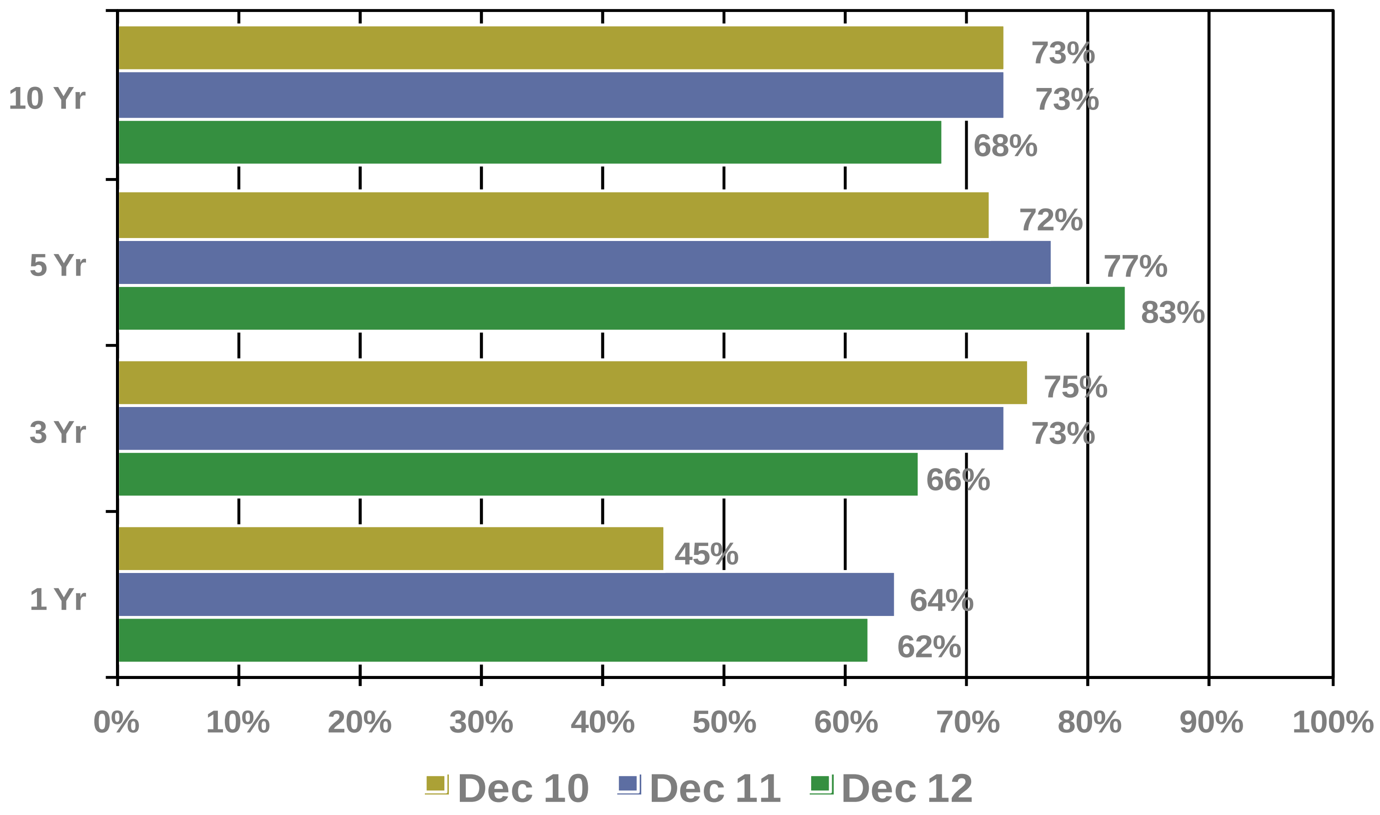
# Appendix - Investment Performance

% of Long-Term U.S. Fund Assets beating Lipper Category Average[1]




[1] 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



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# 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.

Ninety percent of total AUM is included in strategy AUM as of December 31, 2012, 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.