

Morgan Stanley Financials Conference

June 11, 2013

Joseph A. Sullivan
Chief Executive 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, 2013 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 3,000 Employees with 31 Offices Around the World
- Headquartered in Baltimore, Maryland
- Ticker: LM (NYSE)

As of March 31, 2013:

- Revenue TTM: \$2.6B
- Shares Outstanding: 125.3M
- Institutional Holdings: 86%
- AUM: \$654¹
- Total Enterprise Value²: \$3.3B
- Equity Market Cap²: \$4.2B
- Stock Price²: \$33.47

Fourth Quarter Highlights

- Net Income \$29.2M or \$0.23 per diluted share
 - Included real estate related losses of \$52.8M or \$0.27 per diluted share
 - Also reflected \$8.5M or \$0.04 per diluted share of senior management restructuring costs
- Adjusted Income \$66.7M or \$0.52 per diluted share
- Fauchier Partners closed in March
- New executive leadership team appointed
- Purchased 3.7M shares for \$109M
- Cash position of \$0.9B
- Over 80% of strategy AUM exceeds performance benchmark for all periods
- Long-term outflows decreased 80% from the prior quarter

Driving Sustainable Earnings Per Share Growth

Products

- Launched over 20 new products with over \$3 billion of AUM
- Acquired Fauchier Partners adding new product capabilities and distribution outlets for Permal products

Performance

- Improved year over year performance in 1- year, 3-year, 5-year and 10-year Strategy performance vs. benchmark
- Western Asset, Brandywine, ClearBridge, LMCM and Royce received various industry awards for performance

Distribution

- Global distribution net flows are up \$4.5B from FY12
- Significant improvement in US distribution sales and net flows
- Improving persistency rate in US Distribution

Productivity

- Occupancy consolidation resulting in future savings
- LMCM/ClearBridge operations consolidation
- Reduced debt and lowered interest expense

Returning Capital to Shareholders

Share Buybacks/Dividends

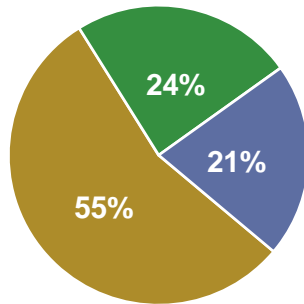
World Class Brands Offer a Competitive Advantage



Asset & Revenue Diversity

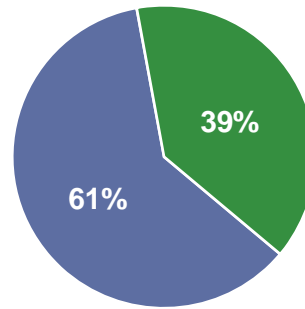
Total AUM \$665B

AUM by Asset Class



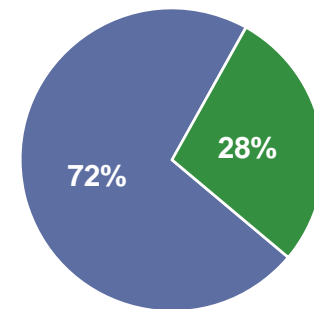
■ Fixed Income ■ Equity ■ Liquidity

AUM by Client Domicile



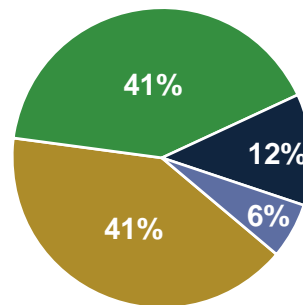
■ US ■ Non-US

AUM by Client



■ Institutional ■ Retail

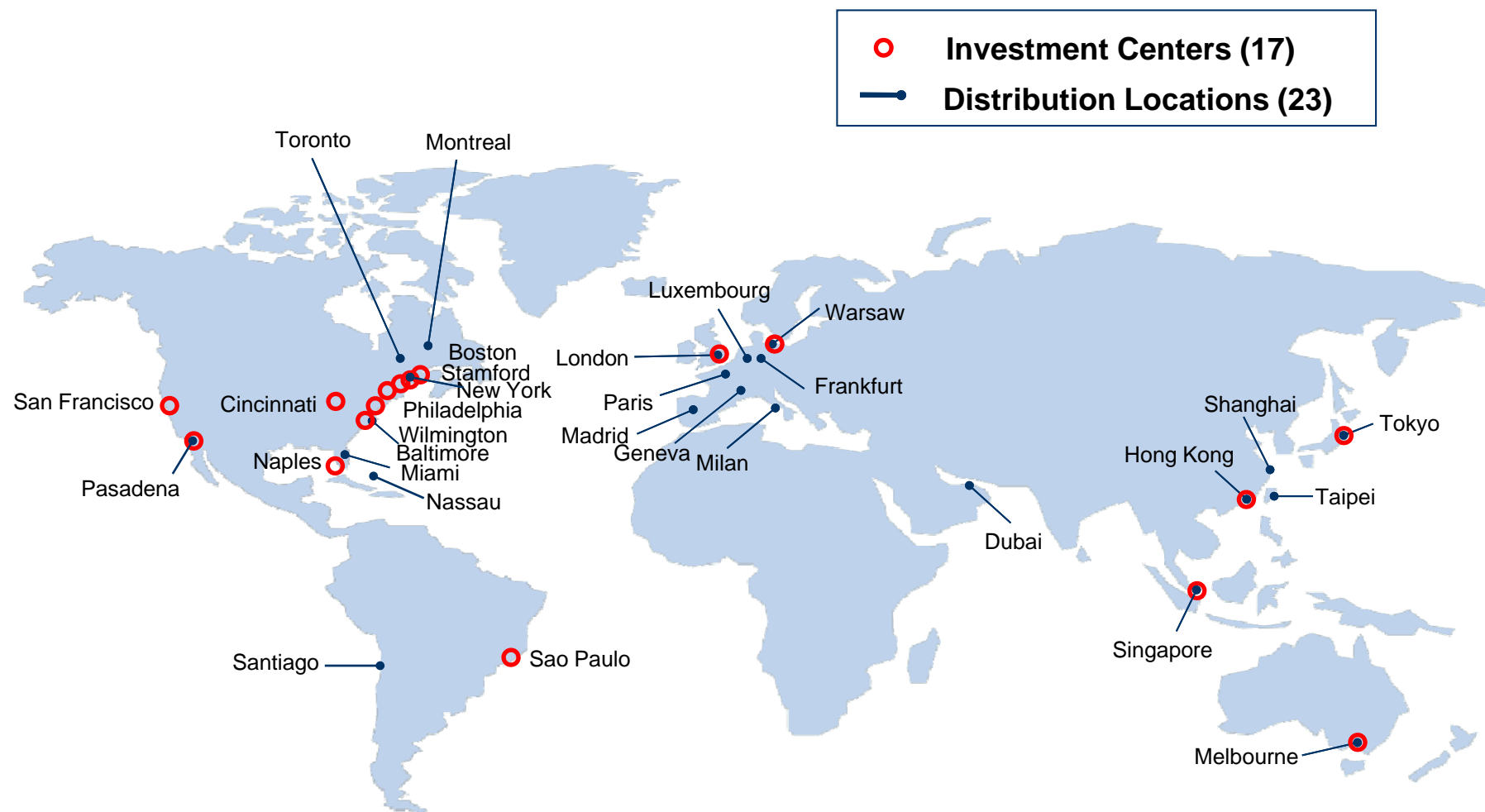
FY 2013 Gross Revenues \$2,613M



■ Fixed Income ■ Equity
■ Alternative ■ Liquidity

Data as of March 31, 2013

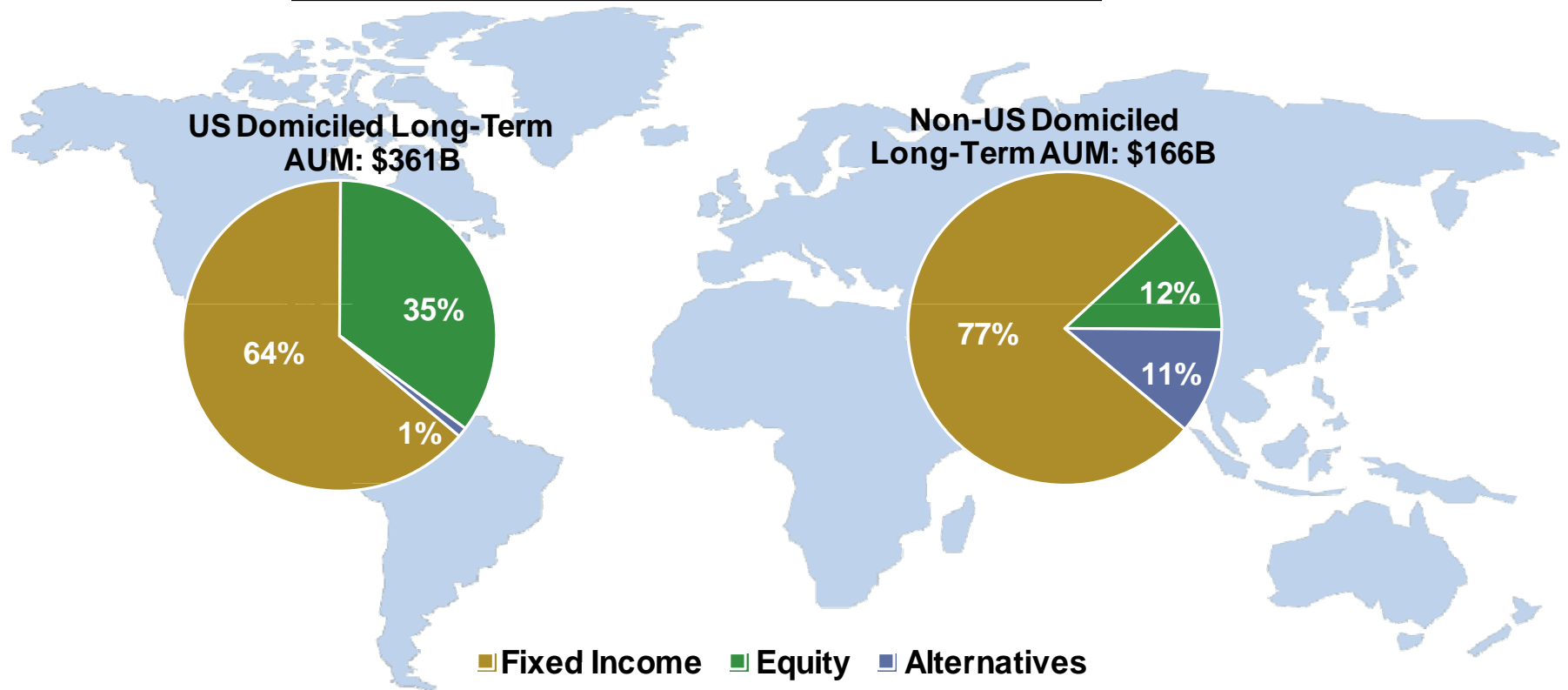
Significant Global Opportunity



Asset Diversity - Filling Product Gaps

Global distribution is well positioned to sell more products, but we need to address our gap in international equities and alternatives

Total Long-Term AUM: \$527B



Data as of March 31, 2013

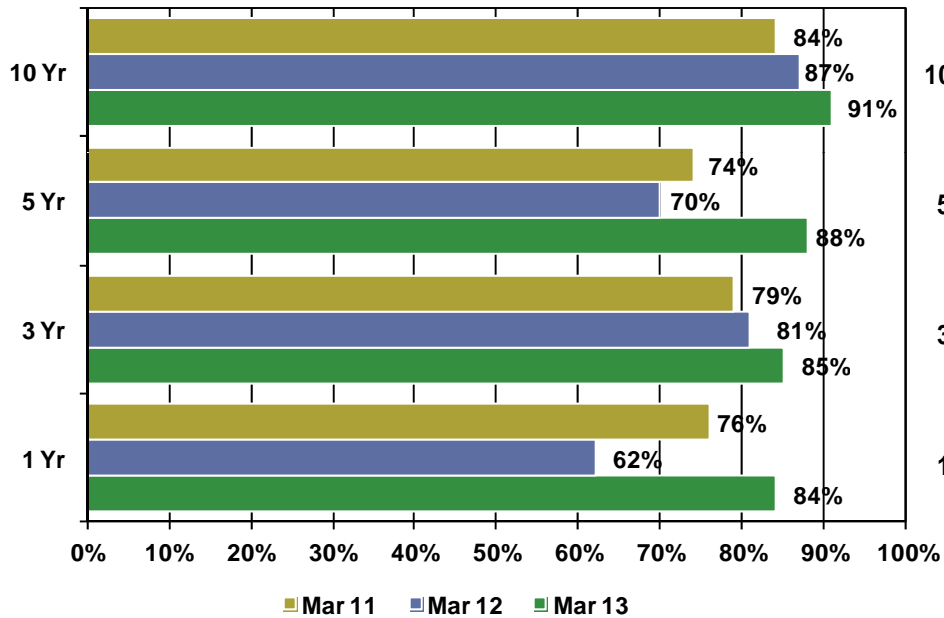
Investing With & In Affiliates is a Key Growth Driver

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

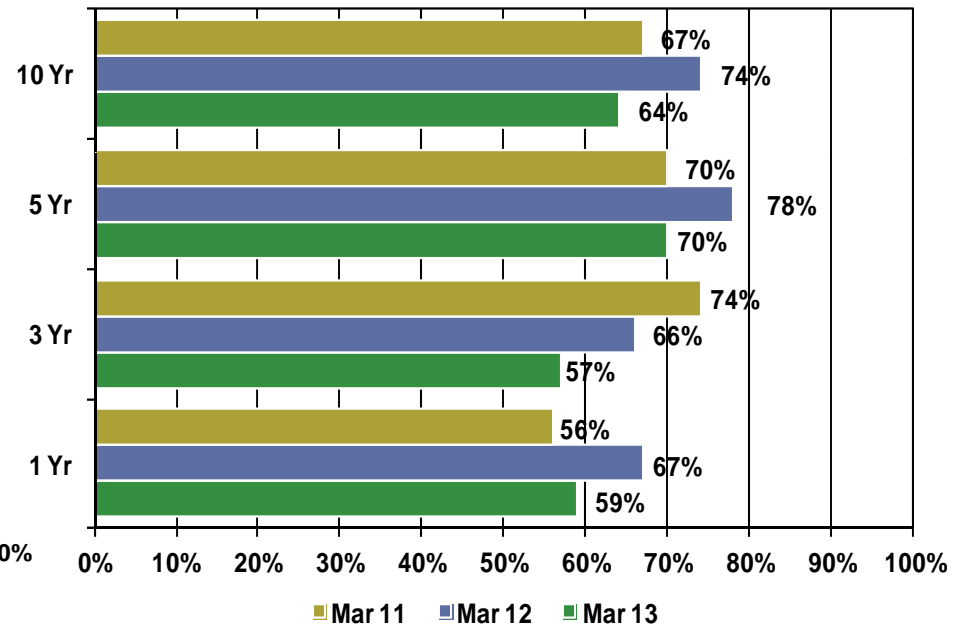
- Seed Capital Investment
 - Incubation of products with significant growth potential
 - Launch differentiated products that leverage Affiliates' investment capabilities and LM distribution
 - Total seed capital balance of approximately \$306 million as of March 31, 2013
- Bolt-On Acquisitions and Lift-Out Opportunities
 - Add investment talent and capabilities
 - Broaden investment and management team depth
 - Access new markets / channels / products
 - Remain disciplined on price
 - Goal is to smartly deliver AUM & position LM for diversified, sustainable growth

Investment Performance

% of Strategy AUM beating Benchmark¹



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

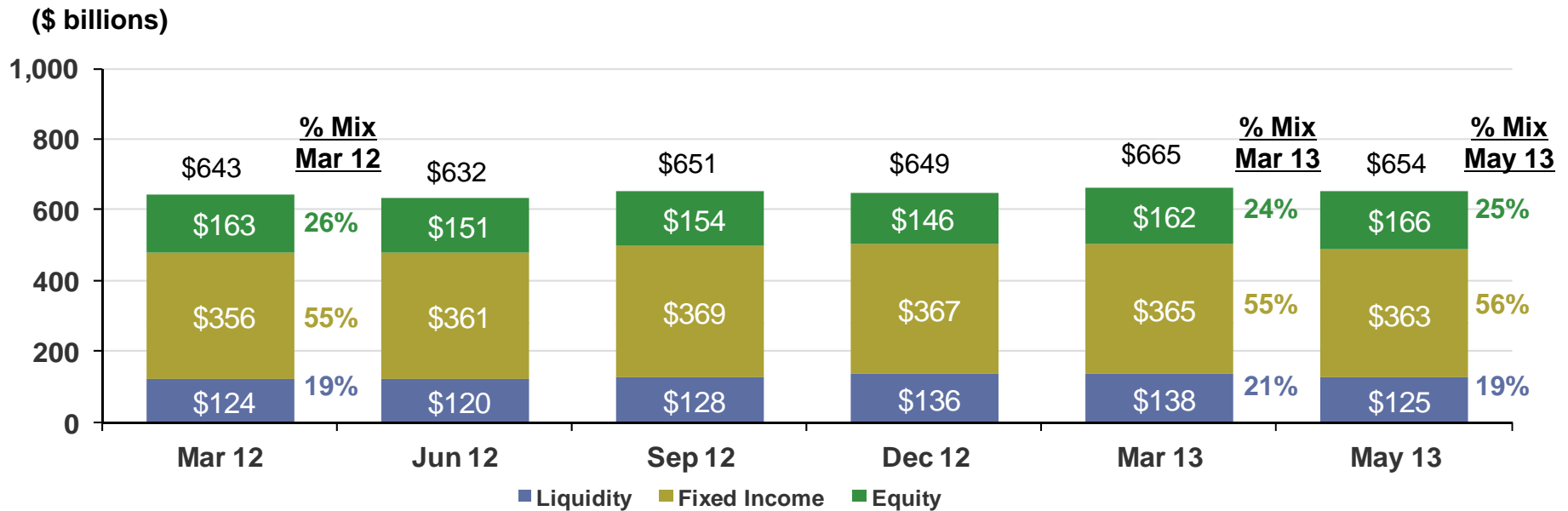


¹ See appendix for details regarding strategy performance

² Includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.

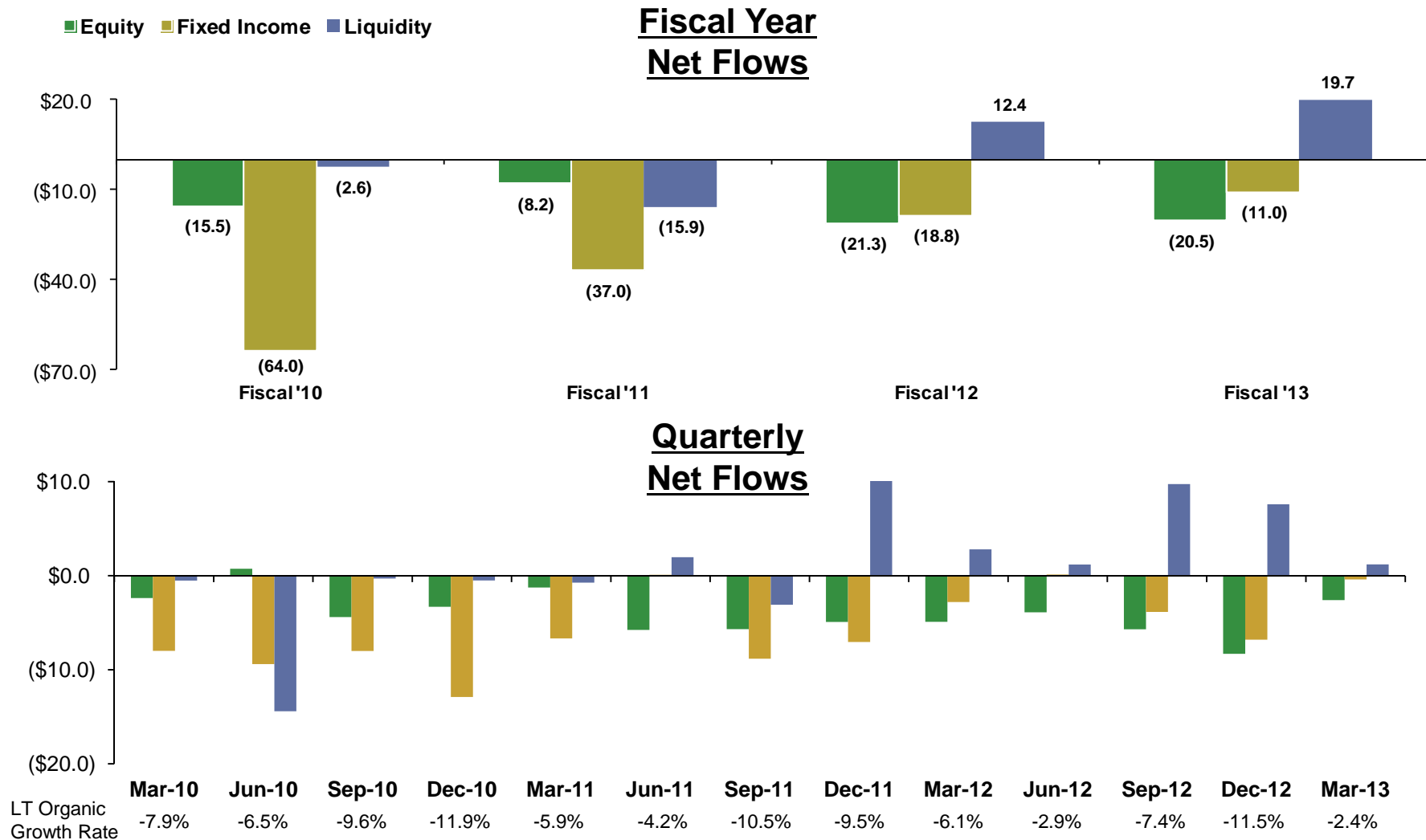
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Assets Under Management by Asset Class



- May-13 AUM decreased by 2% from prior quarter
- May-13 decrease from prior quarter driven by:
 - Liquidity outflows of \$13B
 - Market appreciation of \$6B (excluding negative FX impact of \$5B)
 - Improving long term flow trends

Net Flows



Global Distribution

Total Long-Term AUM: \$232B¹

Distribution Highlights

- F4Q13 gross sales of \$16.0B, best quarter in over three years
- F4Q13 net outflows include \$3.3B of retail Japanese investor redemptions
- FY13 gross sales of \$57B up 15% from prior year
- FY13 net flows were the best since FY07
- FY13 US net outflows improved by \$7.5B

New Product Summary – FY13

	Income	Solutions	Alternatives
# of Products	US: 6 Int'l: 2	US: 3 Int'l: 5	US: 3 Int'l: 1
AUM ¹	\$1.6B	\$0.7B	\$0.3B

Quarterly Net Flows (\$B)

	FQ4	FQ3	Change
US	\$1.5	(\$3.2)	+\$4.7
Int'l	(\$2.2)	\$1.2	(\$3.4)
Total	(\$0.7)	(\$2.0)	+\$1.3

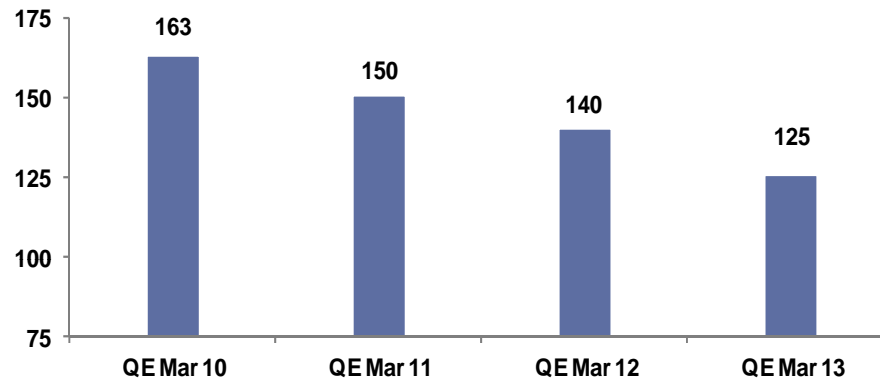
Fiscal Year Net Flows (\$B)

	FY13	FY12	Change
US	(\$0.6)	(\$8.1)	+\$7.5
Int'l	\$2.8	\$5.8	(\$3.0)
Total	\$2.2	(\$2.3)	+\$4.5

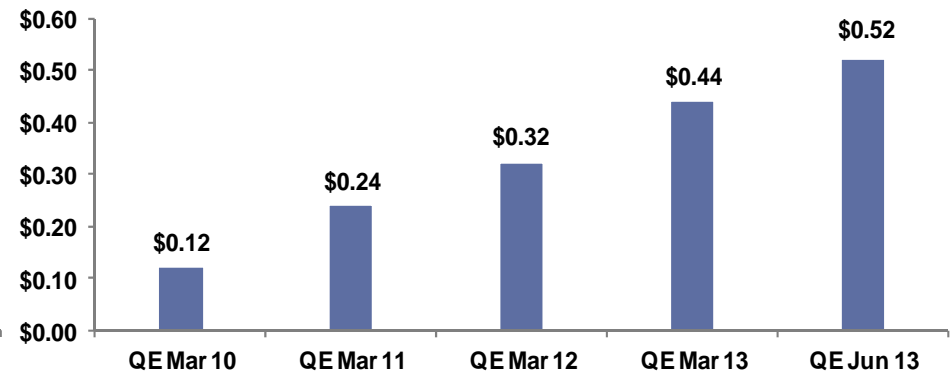
¹ As of March 31, 2013

Allocating Cash for the Benefit of Shareholders

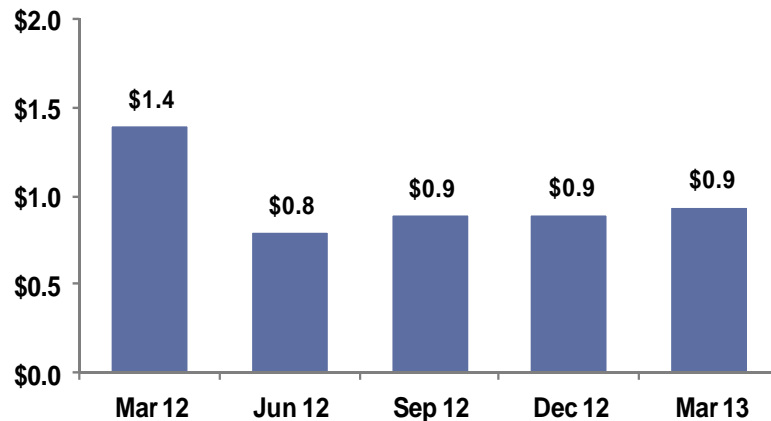
Share Outstanding (in Millions)



Annualized Quarterly Dividend (Per Share)

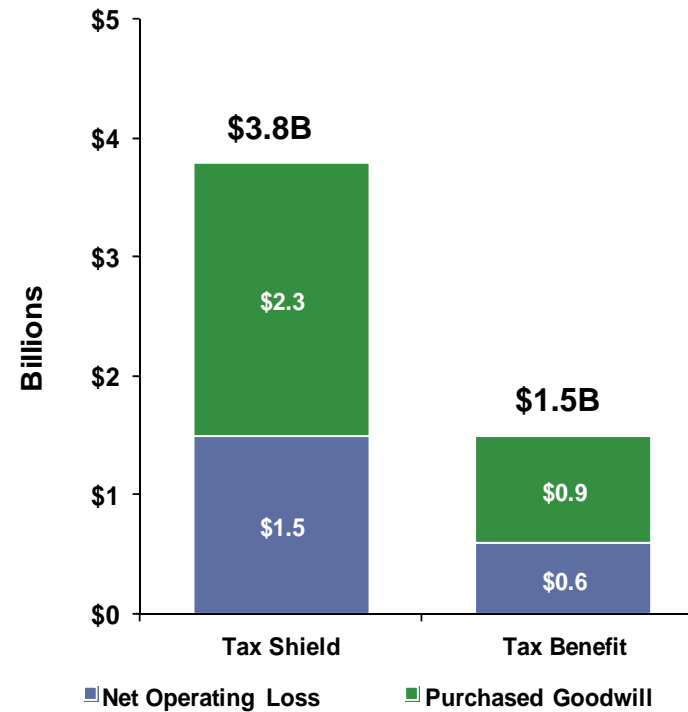
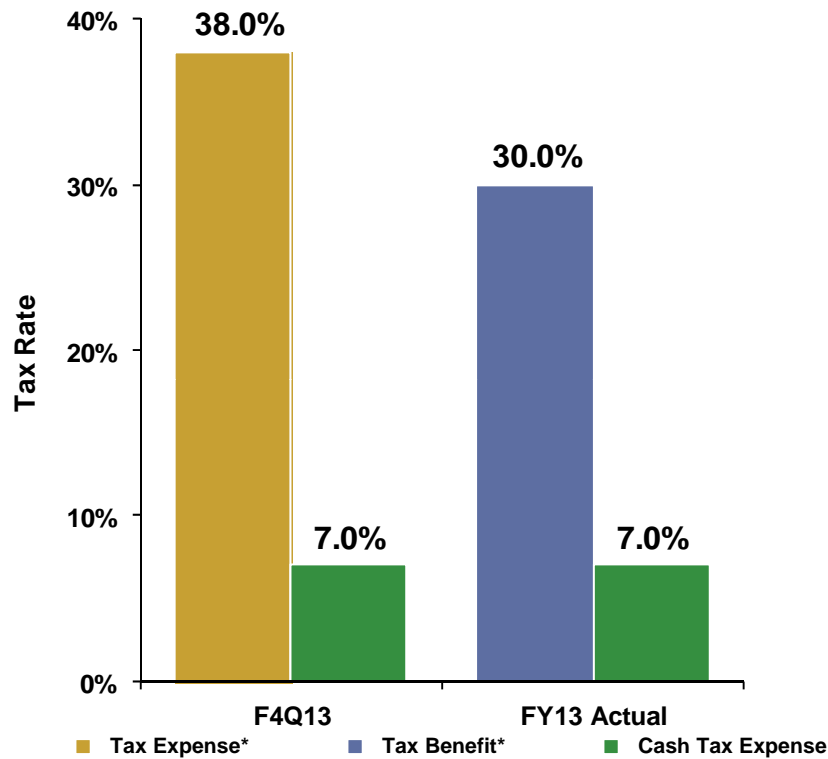


Quarterly Cash Position (in Billions)



- Shares outstanding has been reduced by 38M shares or 23% over the past three years
- Quarterly dividends per share have more than quadrupled since QE Mar 10
- Maintained significant cash position despite dividends and repurchases

Significant Tax Benefit - \$3.8B of Future Income Sheltered



- FY13 tax benefit driven by non-cash impairment charge
- FY13 includes the impact of UK rate reductions in F2Q

- 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 March 31, 2013
 * Excludes the impact of CIVs

Positioning Legg Mason for Future Earnings Leverage

Creating value by optimizing the affiliate portfolio, efficiently managing expenses and effectively allocating capital at the parent level

- Large scale initiatives
 - Streamlining initiative reduced corporate costs by over \$140M
 - Returned \$1.4B of capital to shareholders since 2009 through share repurchases and dividends
 - Reduced outstanding debt by \$350M and extended maturities by 7 years
- Incremental improvements
 - Combined affiliates back offices to allow investment teams to focus on growth
 - Acquired Fauchier Partners
 - Created management equity plan at Permal
 - Global distribution reorganization
 - Launched new products
 - Re-branding initiatives continue

Driving Shareholder Value

Products

- Offer relevant products in high investor demand categories: we must continually review and evolve our product lineup to meet changing investor needs and client preferences

Performance

- Deliver compelling investment performance: we must consistently deliver for our investor clients compelling investment performance in an increasingly competitive landscape

Distribution

- Distribute our products effectively across channels and geographies: the standard for our institutional and retail distribution teams is nothing short of world class

Productivity

- Manage our business with a focus on operating productivity and effectiveness: quite simply, operating effectiveness and efficiency are competitive imperatives in our industry and for Legg Mason

Returning Capital to Shareholders
Committed to Share Buybacks/Dividends

Appendix

Appendix – GAAP Reconciliation Adjusted Income¹

(\$ millions, except per share amounts)	Quarters Ended			Twelve Months Ended	
	Mar 13	Dec 12	Mar 12	Mar 13	Mar 12
Net Income (Loss) Attributable to Legg Mason, Inc.	\$ 29.2	\$ (453.9)	\$ 76.1	\$ (353.3)	\$ 220.8
Plus (less):					
Amortization of intangible assets	3.5	3.5	3.6	14.0	19.6
Loss on extinguishment of 2.5% senior notes, net of tax	-	-	-	54.9	-
Impairment of intangible assets	-	734.0	-	734.0	-
Deferred income taxes on intangible assets:					
Impairment charges	-	(225.7)	-	(225.7)	-
Tax amortization benefit	34.0	33.9	33.9	135.6	135.8
U.K. tax rate adjustment	-	-	-	(18.1)	(18.3)
Imputed interest on convertible debt (2.5% senior notes)	-	-	10.0	5.8	39.1
Adjusted Income	<u>\$ 66.7</u>	<u>\$ 91.8</u>	<u>\$ 123.6</u>	<u>\$ 347.2</u>	<u>\$ 397.0</u>
Net Income (Loss) per Diluted Share Attributable to Legg Mason, Inc. Common Shareholders	\$ 0.23	\$ (3.45)	\$ 0.54	\$ (2.65)	\$ 1.54
Plus (less):					
Amortization of intangible assets	0.03	0.03	0.03	0.11	0.14
Loss on extinguishment of 2.5% senior notes, net of tax	-	-	-	0.41	-
Impairment on intangible assets	-	5.58	-	5.51	-
Deferred income taxes on intangible assets:					
Impairment charges	-	(1.72)	-	(1.69)	-
Tax amortization benefit	0.26	0.26	0.24	1.02	0.95
U.K. tax rate adjustment	-	-	-	(0.14)	(0.13)
Imputed interest on convertible debt (2.5% senior notes)	-	-	0.07	0.04	0.27
Adjusted Income per Diluted Share	<u>\$ 0.52</u>	<u>\$ 0.70</u>	<u>\$ 0.88</u>	<u>\$ 2.61</u>	<u>\$ 2.77</u>

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

Appendix – GAAP Reconciliation

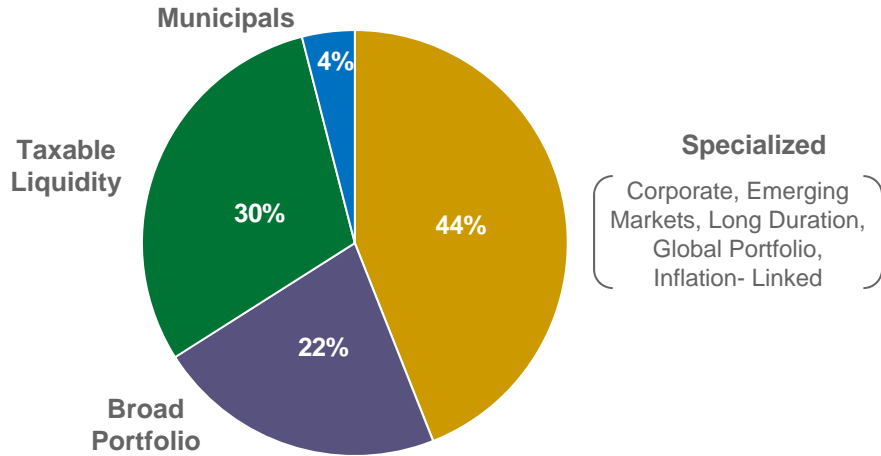
Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended									Twelve Months Ended	
	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Mar 12	Mar 13
Operating Revenues, GAAP basis	\$ 713.4	\$ 717.1	\$ 669.9	\$ 627.0	\$ 648.6	\$ 630.7	\$ 640.3	\$ 673.9	\$ 667.8	\$ 2,662.6	\$ 2,612.7
Plus (less):											
Operating revenues eliminated upon consolidation of investment vehicles	1.2	1.1	0.6	0.8	0.7	0.6	0.6	0.6	0.6	3.1	2.4
Distribution and servicing expense excluding consolidated investment vehicles	(174.8)	(180.8)	(160.4)	(148.3)	(160.3)	(169.8)	(145.1)	(143.4)	(142.3)	(649.7)	(600.6)
Operating Revenues, as Adjusted	<u>\$ 539.8</u>	<u>\$ 537.4</u>	<u>\$ 510.1</u>	<u>\$ 479.5</u>	<u>\$ 489.0</u>	<u>\$ 461.5</u>	<u>\$ 495.8</u>	<u>\$ 531.1</u>	<u>\$ 526.1</u>	<u>\$ 2,016.0</u>	<u>\$ 2,014.5</u>
Operating Income (Loss), GAAP basis	\$ 99.1	\$ 100.4	\$ 106.9	\$ 59.3	\$ 72.2	\$ 76.1	\$ 79.7	\$ (633.3)	\$ 43.0	\$ 338.8	\$ (434.5)
Plus (less):											
Gains (losses) on deferred compensation and seed investments	10.2	(2.4)	(14.2)	1.7	28.7	1.2	24.4	3.7	7.2	13.8	36.5
Transition-related costs	15.7	13.7	15.1	42.3	1.9	-	-	-	-	73.1	-
Impairment of intangible assets	-	-	-	-	-	-	-	734.0	-	-	734.0
Operating income and expenses of consolidated investment vehicles	1.4	1.2	0.8	0.9	0.9	0.6	0.9	0.7	0.8	3.6	3.0
Operating Income, as Adjusted	<u>\$ 126.4</u>	<u>\$ 112.9</u>	<u>\$ 108.6</u>	<u>\$ 104.2</u>	<u>\$ 103.7</u>	<u>\$ 77.9</u>	<u>\$ 105.0</u>	<u>\$ 105.1</u>	<u>\$ 51.0</u>	<u>\$ 429.3</u>	<u>\$ 339.0</u>
Operating Margin, GAAP basis	13.9%	14.0%	16.0%	9.5%	11.1%	12.1%	12.5%	-94.0%	6.4%	12.7%	-16.6%
Operating Margin, as Adjusted	23.4%	21.0%	21.3%	21.7%	21.2%	16.9%	21.2%	19.8%	9.7%	21.3%	16.8%

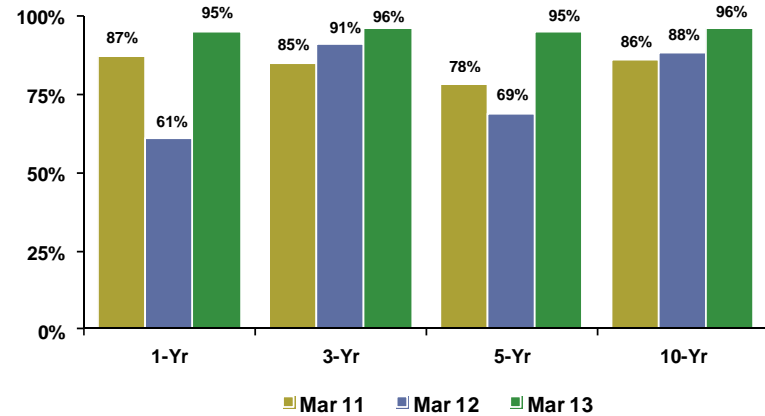
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Appendix - Western Asset Update

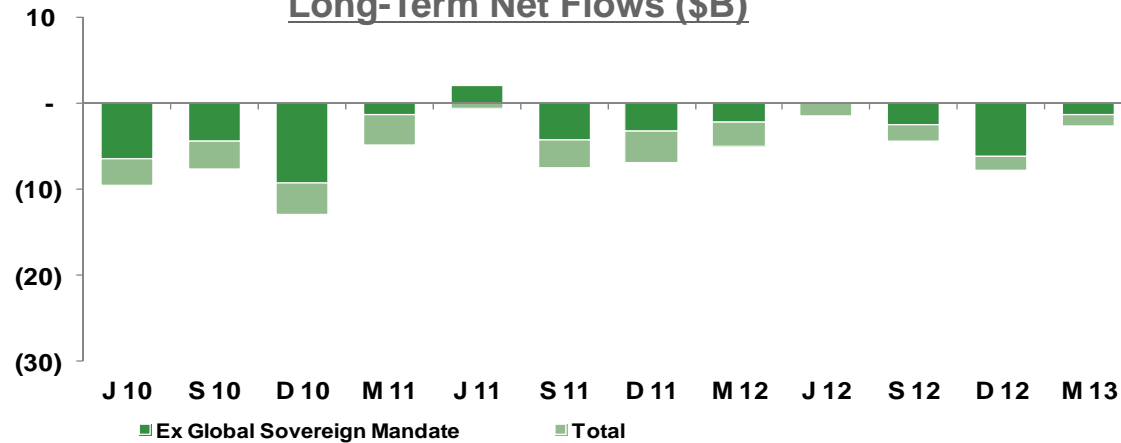
Total AUM by Mandate: \$459B



% of Strategy AUM Beating Benchmark¹



Long-Term Net Flows (\$B)



¹ Western Asset marketed strategy assets including liquidity

Appendix – Additional Investment Performance Detail

% of Strategy AUM Beating Benchmark¹

	March 31, 2013				March 31, 2012			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (includes liquidity)	84%	85%	88%	91%	62%	81%	70%	87%
Equity:								
Large cap	65%	68%	88%	80%	66%	43%	66%	78%
Small cap	13%	15%	27%	62%	49%	63%	88%	89%
Total equity (includes other equity)	48%	50%	62%	71%	53%	52%	66%	80%
Fixed income:								
US taxable	96%	94%	91%	90%	66%	95%	61%	89%
US tax-exempt	100%	100%	100%	100%	2%	2%	2%	1%
Global taxable	89%	94%	95%	98%	38%	93%	70%	97%
Total fixed income	94%	94%	93%	94%	51%	87%	60%	84%

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

Appendix – Additional Investment Performance Detail

% of Long-Term U.S. Fund Assets beating Lipper Category Average¹

	March 31, 2013				March 31, 2012			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (excludes liquidity)	59%	57%	70%	64%	67%	66%	78%	74%
Equity:								
Large cap	90%	79%	77%	40%	78%	51%	48%	45%
Small cap	27%	16%	48%	68%	44%	63%	93%	98%
Total equity (includes other equity)	56%	44%	59%	53%	57%	56%	73%	71%
Fixed income:								
US taxable	74%	92%	85%	90%	76%	91%	82%	83%
US tax-exempt	50%	57%	86%	84%	91%	70%	91%	82%
Global taxable	71%	74%	95%	54%	96%	81%	87%	83%
Total fixed income	64%	76%	87%	85%	84%	81%	87%	83%

¹ Includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.

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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 March 31, 2013, 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.