

July 31, 2014

Fiscal First Quarter Review

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Chief Executive Officer

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BUILDING
MOMENTUM

If the wind will not serve, take to the oars.
-Latin proverb

Important Disclosures

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, 2014 and in the Company’s quarterly reports on Form 10-Q.

Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures. These non-GAAP measures are in addition to, not a substitute for or superior to, measures of financial performance determined in accordance with GAAP. The company undertakes no obligation to update the information contained in this presentation to reflect subsequently occurring events or circumstances.

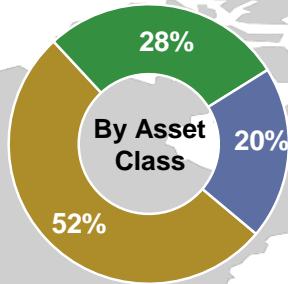
Company Highlights

Fiscal First Quarter

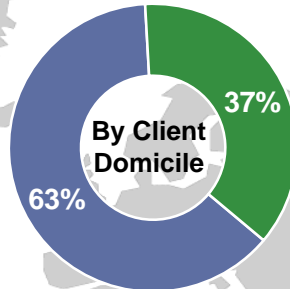
- Net Income \$72.2M or \$0.61 per diluted share
- Repurchased 1.9M shares for \$90M
- Long-term flows positive at \$0.7B
 - Fixed income inflows of \$2.5B
 - Equity outflows of \$1.8B
- Assets Under Management of \$704B, Assets Under Advisement of \$119B
- Greater than 80% of strategy AUM exceeds benchmarks for all periods
- Successful debt issuance and refinancing
- Closed acquisition of QS Investors
- Announced sale of Legg Mason Investment Counsel
- In July, announced agreement to acquire Martin Currie

Significant Asset & Revenue Diversity

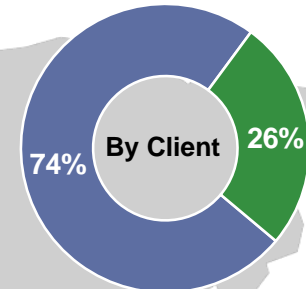
Total AUM \$704B



■ Fixed Income ■ Equity ■ Liquidity

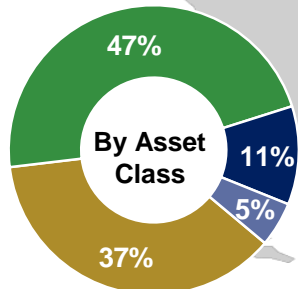


■ US ■ Non-US

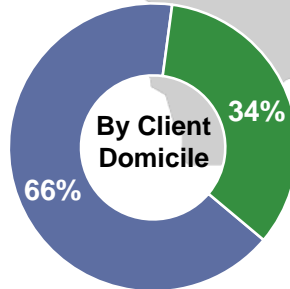


■ Institutional ■ Retail

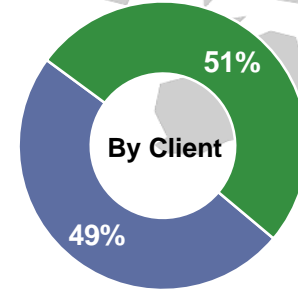
YTD Jun 14 Operating Revenues \$694M



■ Fixed Income ■ Equity
■ Alternative ■ Liquidity



■ US ■ Non-US



■ Institutional ■ Retail

Assets Under Management (\$ billions)

AUM by Affiliate ¹	Jun 14 AUM	Mar 14 AUM	Jun 13 AUM	% Change vs.	
				Mar 14	Jun 13
Western Asset	\$454.9	\$ 467.1	\$ 435.6	(3)%	4%
ClearBridge ²	101.2	95.9	76.6	5%	32%
Royce & Associates	38.1	38.6	36.7	(1)%	4%
Permal Group	20.0	19.7	20.2	2%	(1)%
Brandywine	57.6	52.2	47.3	10%	22%
QS Investors ³	15.2	11.3	12.6	34%	21%

¹ Primary affiliates ordered by contribution to fiscal year to date 2015 pre-tax earnings

² ClearBridge includes Legg Mason Capital Management. Prior periods have been restated

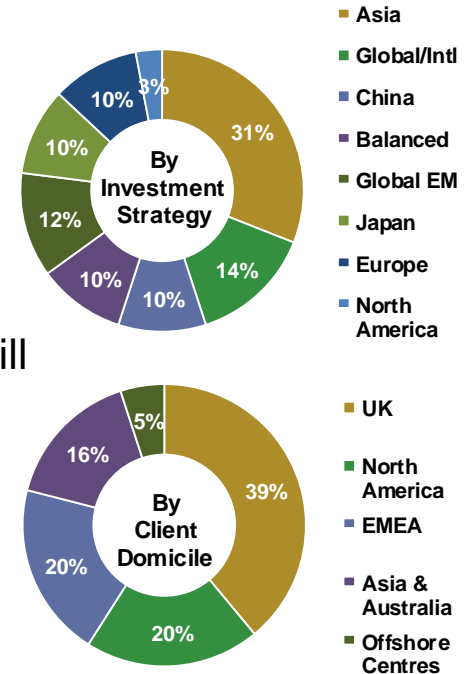
³ QS Investors AUM for Mar 14 and Jun 13 includes only AUM of Batterymarch and Legg Mason Global Asset Allocation, which are being integrated into QS Investors over time. QS Investors AUM as of May 31, 2014 acquisition date was \$5.0B. Jun 14 excludes \$5.5B AUM subadvised by other LM affiliates

Acquisition:



- Active international equity specialist based in the United Kingdom with US\$9.8B¹ in AUM
- Expands Legg Mason’s product capabilities in active equity strategies to include: Global Equity, Global Emerging Markets, Asian Equity, European Equity and strategies focused on Japan and China
- A broad international and institutional client base spread across Australia, Asia, Europe/Middle East/Africa (EMEA) and the US
- Legg Mason Australian Equities (LMAE) with US\$2.5B¹ in AUM will be integrated into Martin Currie
- Key professionals have signed new long-term employment contracts
- Transaction expected to be slightly accretive to year 1 EPS
- Scheduled to close during F3Q15

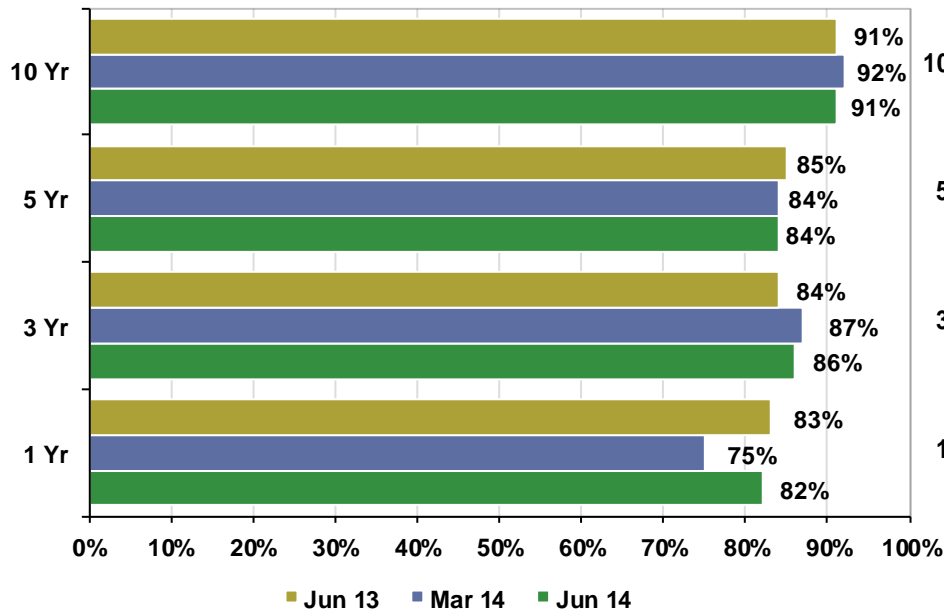
AUM US\$9.8B



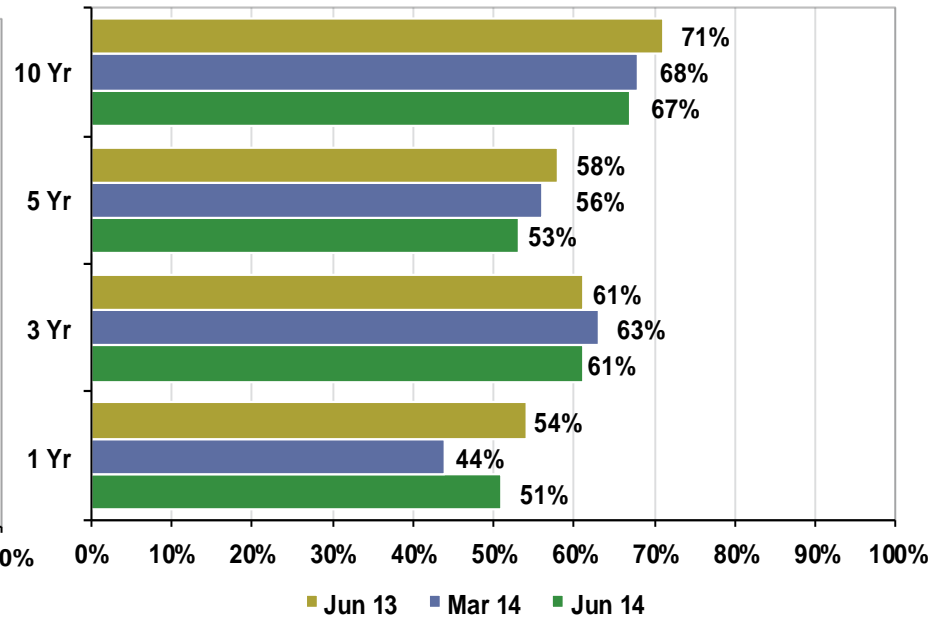
The acquisition of Martin Currie fills Legg Mason’s largest product gap and is a complement to existing investment capabilities. Additionally, our global distribution platform will be able to meaningfully leverage Martin Currie’s broad investment capabilities

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.

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.

Global Distribution

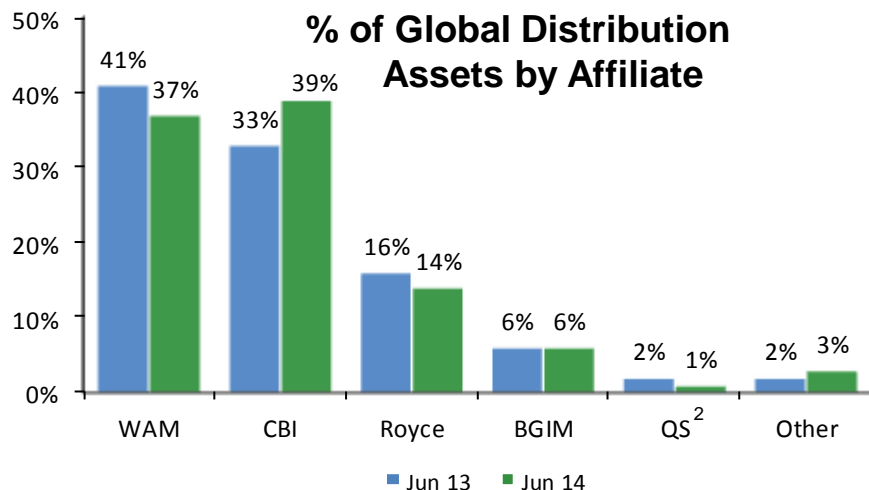
Total Long-Term Assets¹: \$263B

Distribution Highlights

- Gross sales of \$16.3B vs \$15.4B in F4Q14
- Net sales increased \$0.6B to \$2.1B in F1Q15
- 3rd consecutive quarter of positive net sales
 - Both US and International positive
- All regions achieved positive net sales
- Quarterly redemption rate at 22%
 - Lowest level since F2Q13
 - US redemption rate at 18%

Quarterly Sales

(\$ Billions)	F1Q15	F4Q14	Change
Gross Sales:			
US	\$10.2	\$ 9.7	\$ 0.5
Int'l	6.1	5.7	0.4
Total	\$16.3	\$15.4	\$ 0.9
Net Sales¹:			
US	\$ 0.5	\$ 0.2	\$ 0.3
Int'l	1.6	1.3	0.3
Total	\$ 2.1	\$ 1.5	\$ 0.6



Top Funds Driving Gross Sales FYTD

- ClearBridge Aggressive Growth Fund
- ClearBridge Equity Income Fund
- ClearBridge Small Cap Growth Fund
- Legg Mason Brandywine Absolute Return Opportunities Fund
- Legg Mason ClearBridge US Aggressive Growth Fund
- Legg Mason Royce US Small Cap Opportunity Fund
- Legg Mason Western Asset Global High Yield Fund
- LM Australian Bond Fund (QII Only)
- LM WA Macro Opportunities Bond Fund
- WA Short Duration High Income Fund
- Western Asset Core Plus Bond Fund

¹ For LMGD, AUA is included in long-term assets, gross sales and net sales. Net Sales equals gross sales less redemptions. As of June 30, 2014 Long-Term Assets include \$5.3B of AUA. Quarterly gross and net sales for F1Q15 are \$0.8B and \$0.7B, respectively, for F4Q14 are \$0.6B and \$0.3B, respectively

² QS Investors AUM for Jun 13 is Batterymarch and Legg Mason Global Asset Allocation AUM which are being integrated into QS Investors over time

Financial Highlights First Quarter FY 2015

- Net Income of \$72.2M, or \$0.61 per diluted share
- Adjusted income¹ increased to \$107M, or \$0.91 per diluted share
 - Compared to \$104M or \$0.86 per diluted share in prior quarter
- Average AUM of \$691B, up \$2.3B
 - Long-term average AUM increased \$8.8B or 2% compared to prior quarter
- Operating revenues \$694M, up \$13M or 2% from the prior quarter
 - Driven by higher average long-term AUM and one additional day in the quarter
- Operating expenses \$574M, increased \$12M or 2% from the prior quarter
 - Includes \$3.1M increase in costs related to QS Investors integration and corporate initiatives, which totaled \$14.4M or \$0.08 per diluted share this quarter
 - Prior quarter included \$4.7M franchise tax reserve reduction
- Operating income \$120M, operating margin 17.2%
- Operating income, as adjusted¹ \$125M, operating margin, as adjusted¹ 22.9%
- Repurchased 1.9M shares for \$90M

¹ See appendix for GAAP reconciliation

Operating Results First Quarter FY 2015

(\$ millions, except per share amounts)	Jun 14 Qtr	Mar 14 Qtr	Jun 13 Qtr	\$ Change vs.	
				Mar 14 Qtr	Jun 13 Qtr
Operating Revenues	\$ 693.9	\$ 681.4	\$ 670.4	\$ 12.5	\$ 23.5
Operating Expenses	574.4	562.1	586.9	12.3	(12.5)
Operating Income	119.5	119.3	83.5	0.2	36.0
Net Income	72.2	68.9	47.8	3.3	24.4
Diluted EPS	0.61	0.58	0.38	0.03	0.23
Adjusted Income¹	107.2	103.5	85.2	3.7	22.0
Adjusted Income per diluted share¹	0.91	0.86	0.68	0.05	0.23
Operating Margin, as adjusted^{1, 2}	22.9%	23.3%	17.9%		
Effective Tax Rate GAAP³	35.6%	41.9%	34.4%		

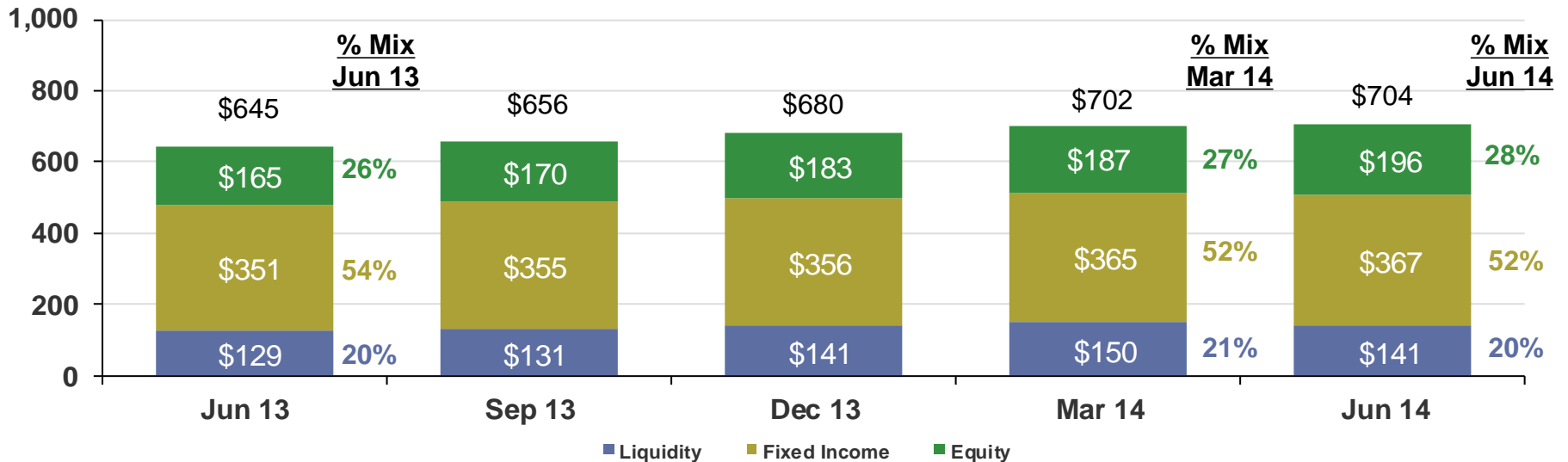
¹ See Appendix for GAAP reconciliation

² Operating margin, as adjusted for all periods excludes intangible amortization

³ Includes the impact of Consolidated Investment Vehicles (CIVs) of (0.4%), 1.5%, and (0.6%) in Jun 14, Mar 14, and Jun 13, respectively.

Assets Under Management by Asset Class

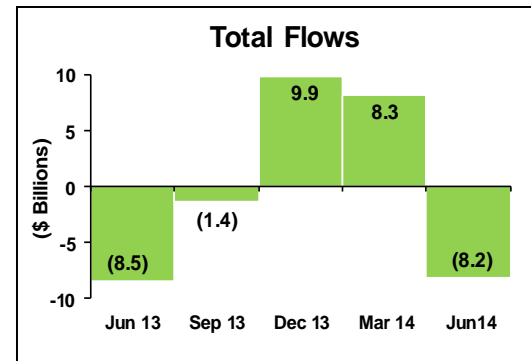
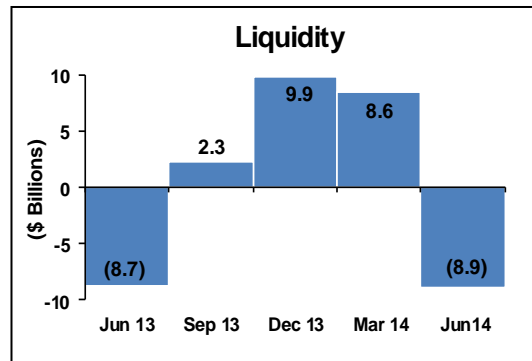
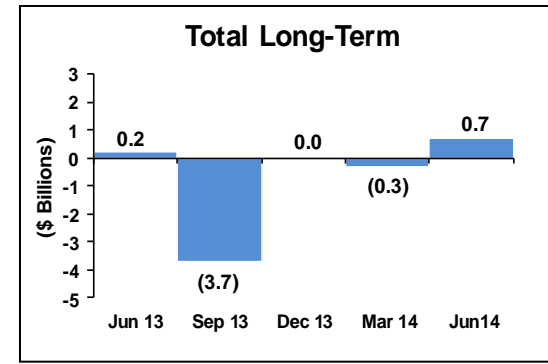
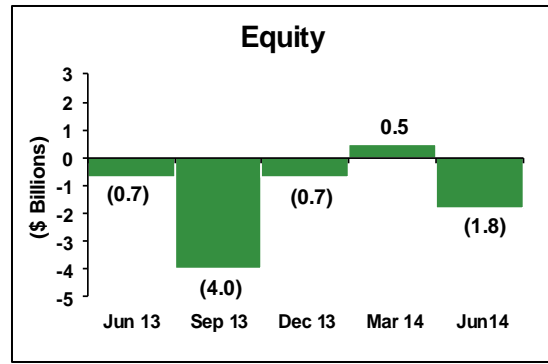
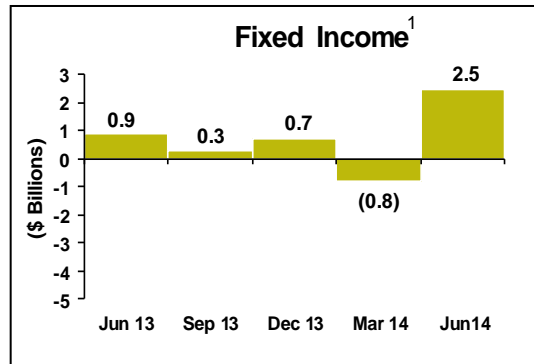
(\$ billions)



- AUM increased \$2.5B from prior quarter
- Change driven by:
 - Market appreciation/ other of \$18.5B (including favorable FX impact of \$1.6B)
 - QS Investors acquisition of \$5.0B
 - Long-term inflows of \$0.7B and liquidity outflows of \$8.9B
 - Reclassification of \$12.8B to Assets Under Advisement¹
- Assets Under Advisement were \$119B, due to \$101B increase from QS Investors acquisition

¹Low fee Global Sovereign mandate of \$12.6B reclassified to AUA Jun-14 quarter

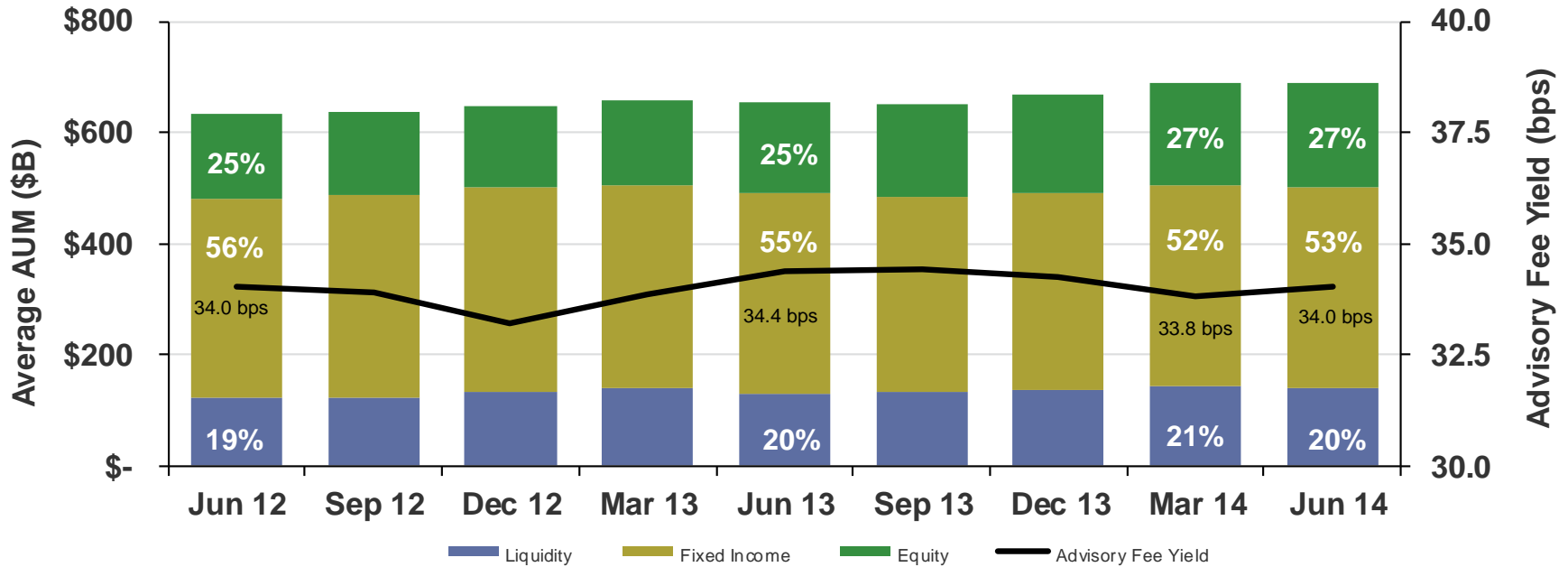
Net Flows



- Fixed Income inflows largely driven by Brandywine
- Equity outflows reflect continued Royce headwinds and the loss of legacy Batterymarch AUM, partially offset by inflows at Brandywine

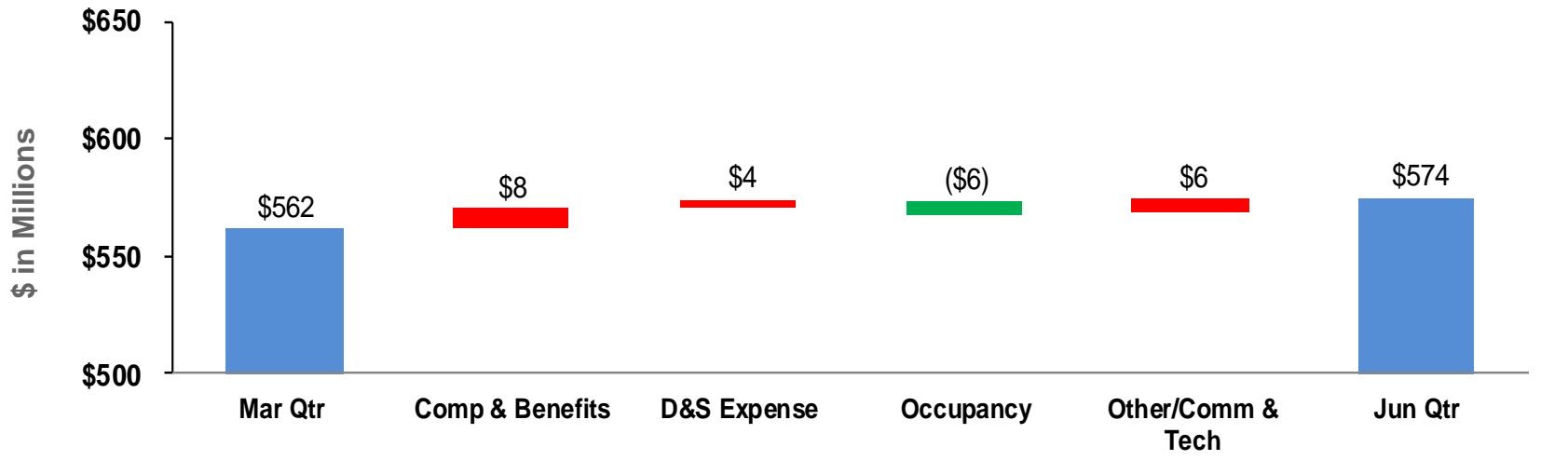
¹ Low fee Global Sovereign mandate outflows for the current period (\$1.0B) are excluded from the table. Included in prior period outflows were (\$1.3B) Jun 13, (\$0.9B) Sep 13, (\$1.1B) Dec 13 and (\$1.4B) Mar 14

Advisory Fee Yield / Average AUM



- Total average AUM up \$2.3B
 - Equity and Fixed Income AUM up \$6.2B and \$2.6B, respectively
 - Liquidity AUM down \$(6.5B)
- Increase in advisory fee rate reflects higher average long-term AUM, primarily driven by markets, and lower average liquidity AUM

Operating Expenses



- Increase in comp & benefit expenses largely due to QS Investors integration costs
- D&S expenses increased due to higher average AUM and one additional day
- Decrease in occupancy expenses primarily due to prior quarter \$4.3 million real estate related charges
- Increase in other expenses primarily due to \$4.7M franchise tax reserve reduction in prior quarter

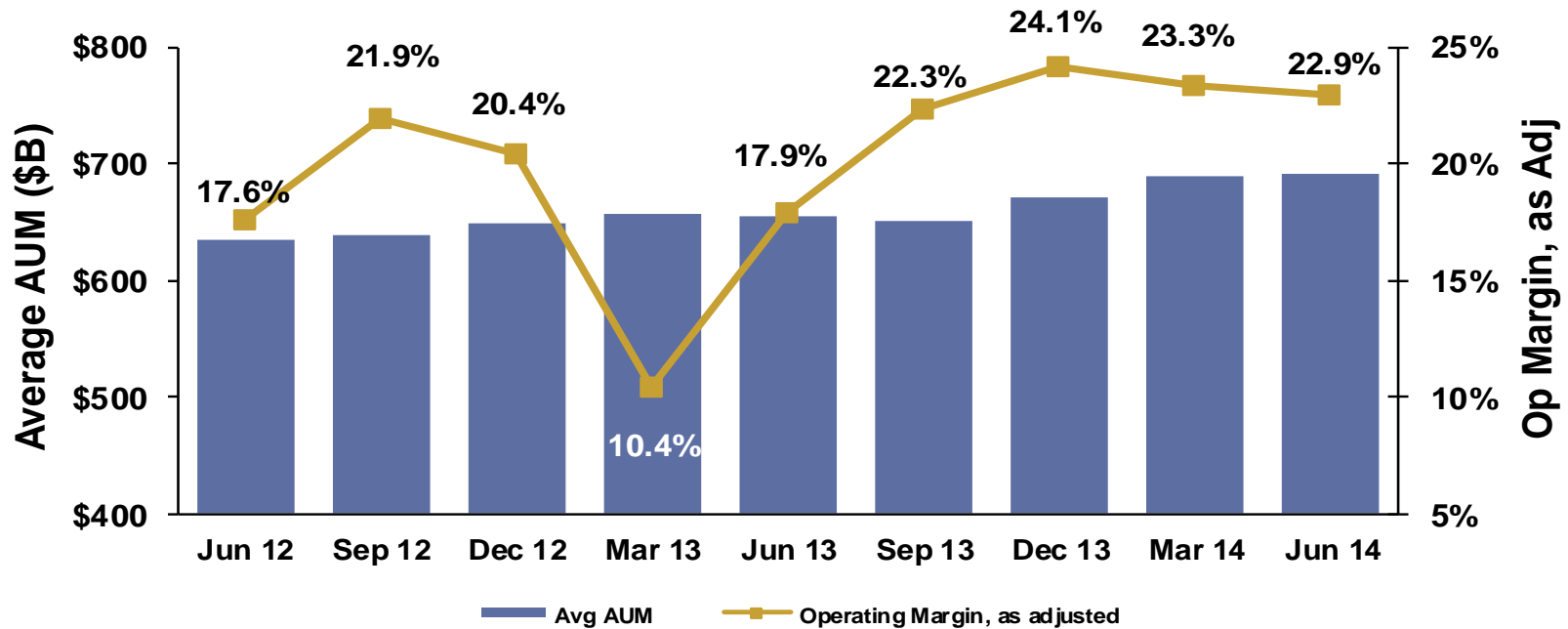
Compensation and Benefits

(\$ millions)	<u>Jun Qtr</u>	% of <u>Net Rev. ¹</u>	<u>Mar Qtr</u>	% of <u>Net Rev. ¹</u>	\$ <u>Change</u>
Salary and incentives	\$ 223.8	41%	\$ 229.3	43%	\$ (5.5)
Benefits and payroll taxes	<u>63.5</u>	<u>12%</u>	<u>56.8</u>	<u>10%</u>	<u>6.7</u>
Subtotal Compensation and benefits	287.3	53%	286.1	53%	1.2
Management transition costs and severance	13.8	2%	7.0	1%	6.8
MTM deferred comp. and seed investments	<u>4.4</u>	<u>1%</u>	<u>4.4</u>	<u>1%</u>	<u>-</u>
Total Compensation and benefits	<u>\$ 305.5</u>	56%	<u>\$ 297.5</u>	55%	<u>\$ 8.0</u>

- Increase in benefits and payroll taxes primarily due to affiliate seasonal benefit costs, largely offset in salary and incentives
- Increase in management transition costs and severance related to previously disclosed QS Investors integration costs

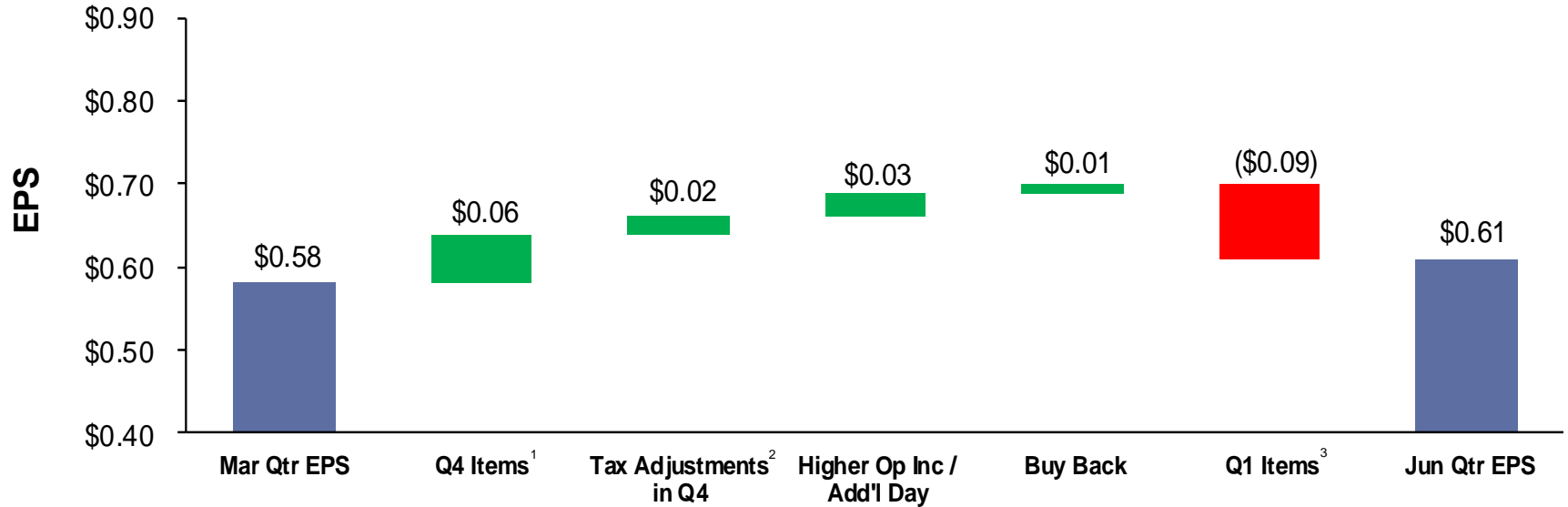
¹ Net revenue is equal to operating revenues, as adjusted

Operating Margin, as Adjusted



- Current quarter impact of integrating QS Investors and other corporate initiatives approximately 2.5%
- Impact on prior quarter of corporate initiatives cost net of franchise tax reserve reduction approximately 1%

First Quarter Earnings Per Share Rollforward

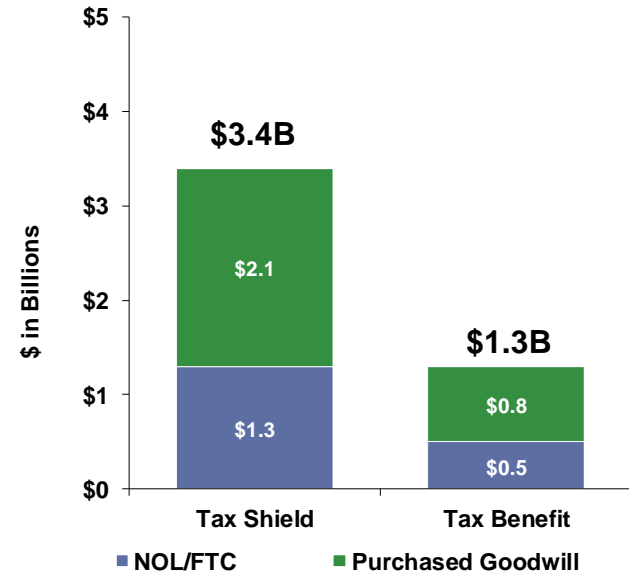
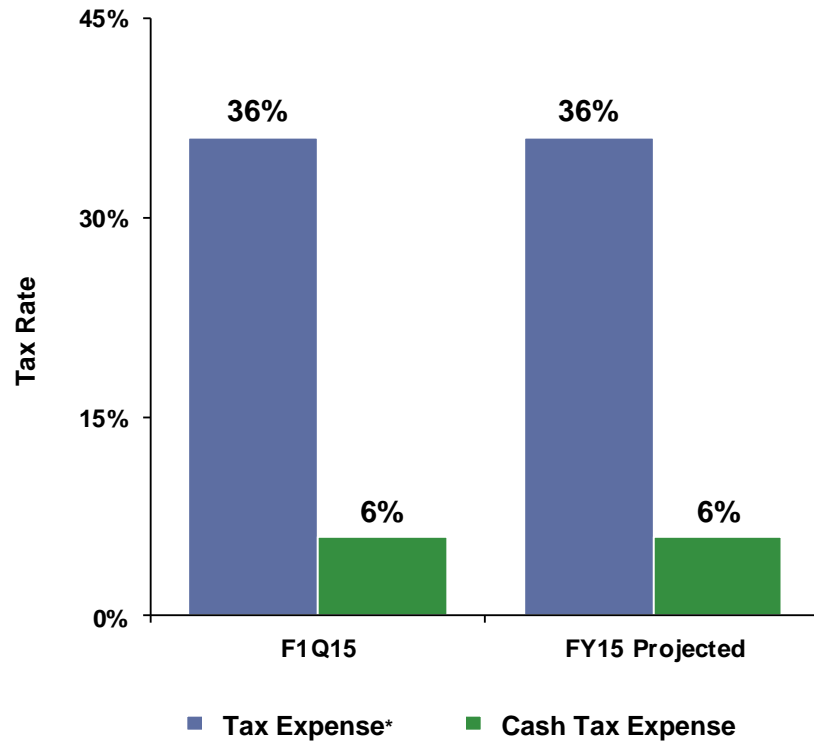


¹ Reflects costs related to various corporate initiatives of \$11.2M

² Primarily year to date adjustment related to state tax apportionment partially offset by franchise tax reserve reduction and interest expense reduction

³ Reflects costs related to QS integration and corporate initiatives of \$16.4M

Significant Tax Benefit - \$3.4B of Future Income Sheltered



- F1Q15 tax expense in-line with expectations
- FY15 debt refinance charge not expected to have a material impact on full year effective tax rate

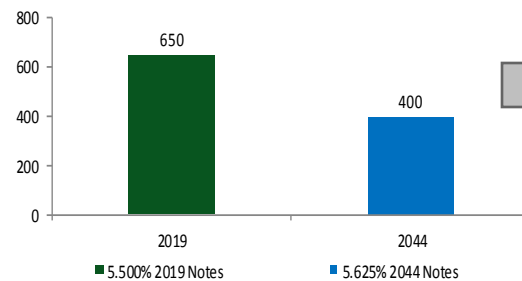
- Future income of \$3.4B is sheltered from federal or state income tax, based on usage of NOL, FTC carryforwards and amortization of tax deductible goodwill

Data as of June 30, 2014
 * Excludes the impact of CIVs

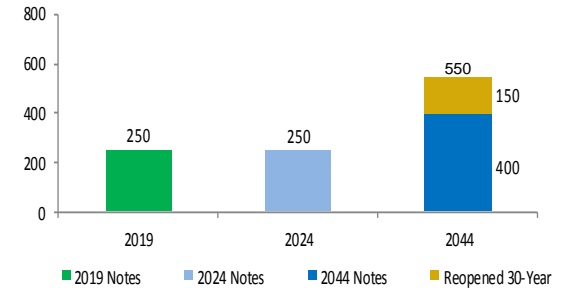
Debt Transaction Strengthens Credit Profile

	Amount	Maturity	Yield
5 Year Sr. Notes	\$250	Jun-19	2.700%
10 Year Sr. Notes	\$250	Jun-24	3.950%
30 Year Sr. Notes	\$550	Jan-44	5.625%
Total Debt	\$1,050		
Undrawn Revolver	\$750	Jun-17	

Debt Maturities Pre-Refinancing



Debt Maturities Post Refinancing

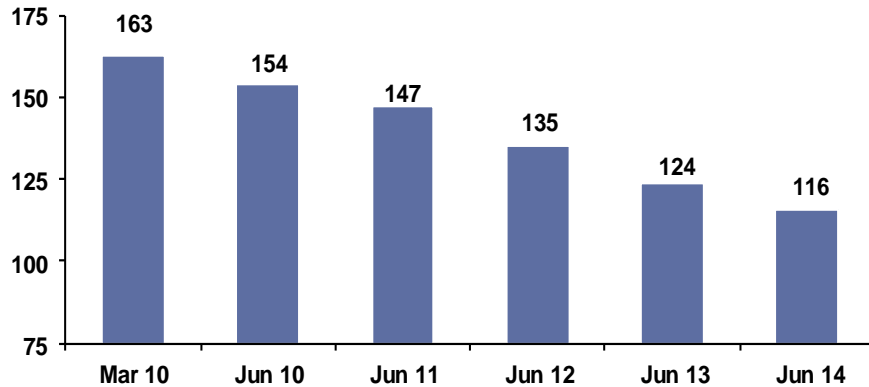


- Legg Mason successfully issued \$650M of Senior Notes
 - Reopened 30-year fixed rate notes for \$150M
 - Issued \$250M of fixed rate 10-year notes
 - Issued \$250M of fixed rate 5-year notes¹
- Redeemed \$650M 5.5% Senior Notes due May 2019 on July 23, 2014
- Cash expense of \$98M and non-cash charge of \$9M incurred July 2014
- Interest savings: Projected \$55M first five years plus expected significant ongoing savings over remaining life of debt

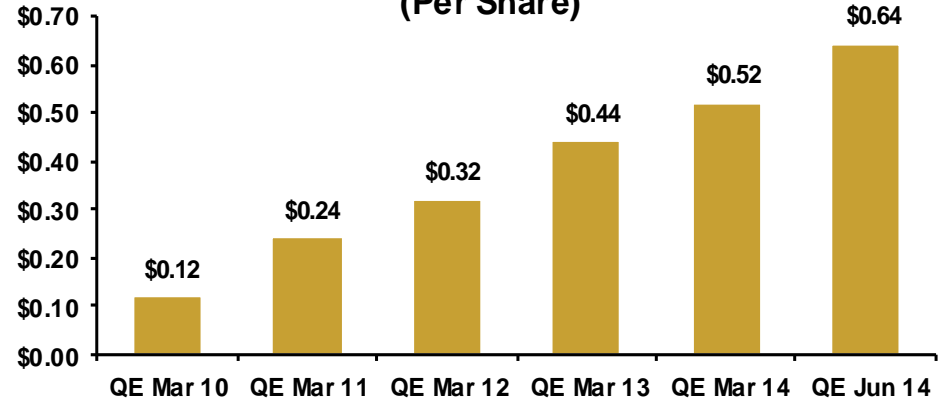
¹ 5-year notes were subsequently swapped to floating rate

Allocating Cash for the Benefit of Shareholders

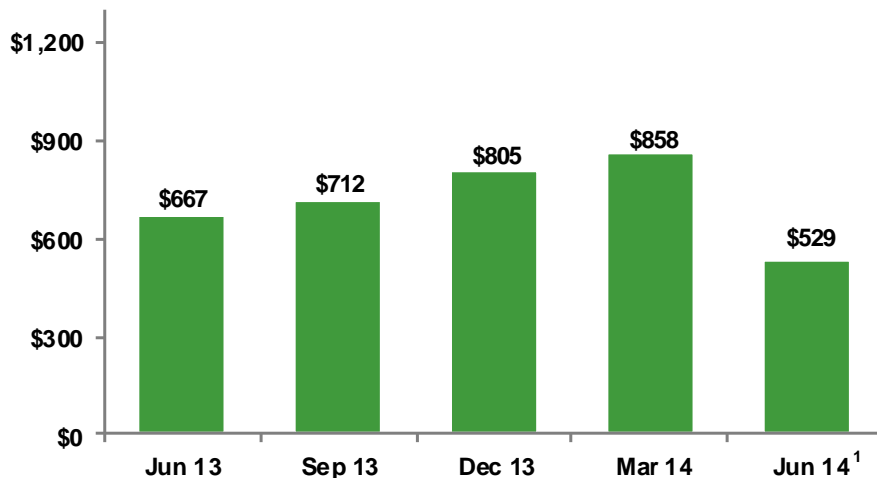
Shares Outstanding (\$M)



Annualized Quarterly Dividend Declared (Per Share)



Quarterly Cash Position (\$M)

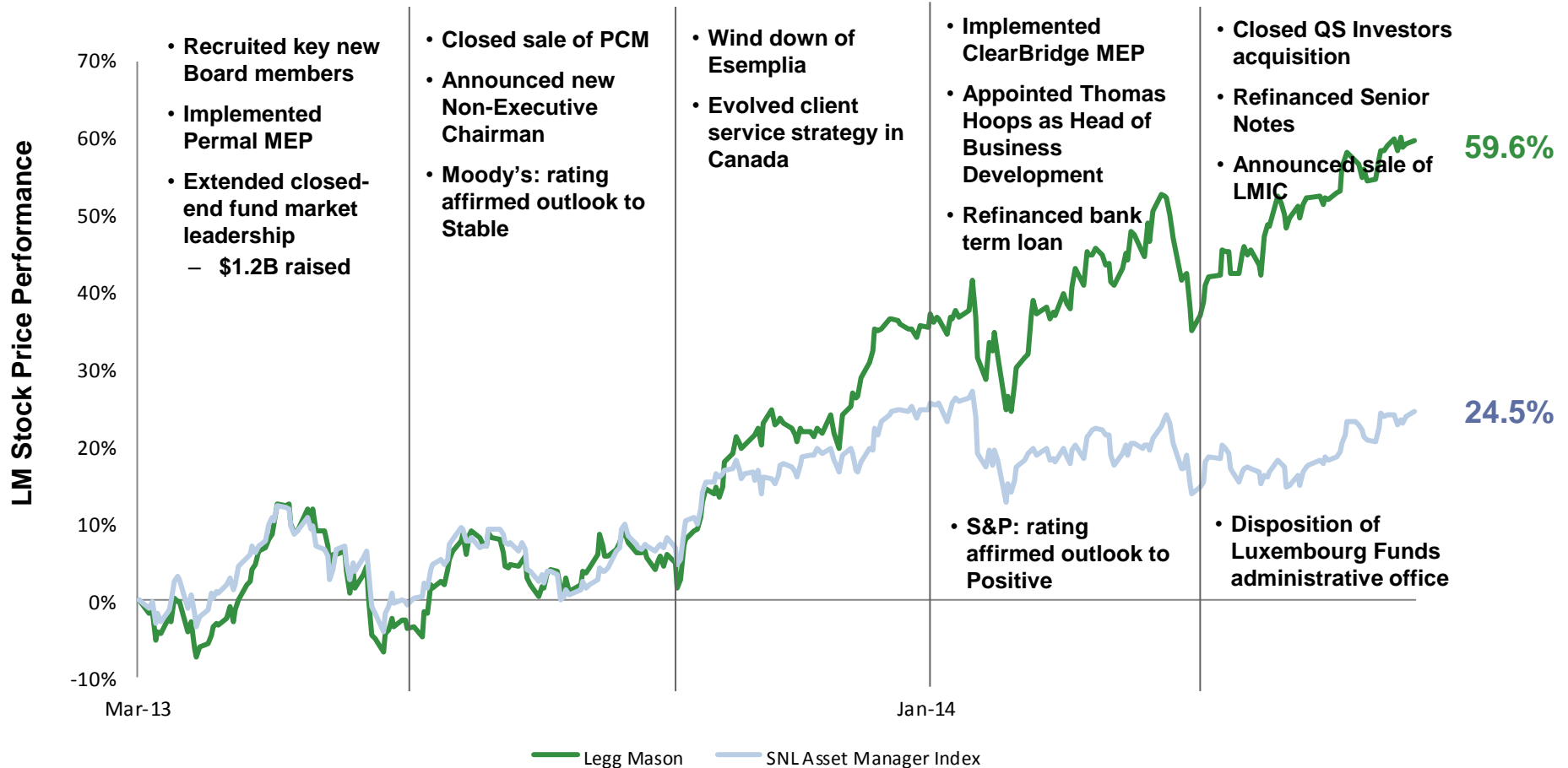


- Continued reduction in shares outstanding
 - Reduced 47M shares or 29% since March 2010
- Continued dividend growth
 - Five-fold increase since 2010
- Seed investments of \$421M²
- Industry leading payout ratio (includes dividends and share repurchases)
 - FY14 payout ratio 155%

¹ Excludes \$755M of cash held on 6/30/2014 but used to retire debt on 7/23/2014

² Market value

Actively Building a Better Legg Mason



Ongoing initiatives include re-positioning affiliate portfolio for growth, affiliate management equity plans, distribution optimization, product development, share repurchases & dividends and overall operating efficiency

Appendix



Brandywine  GLOBAL

ClearBridge
Investments

 PERMAL

 QS Investors

Royce & Associates

 WESTERN ASSET

Appendix – GAAP Reconciliation

Adjusted Income¹

	Quarters Ended		
	Jun 14	Mar 14	Jun 13
(\$ millions, except per share amounts)			
Net Income Attributable to Legg Mason, Inc.	\$ 72.2	\$ 68.9	\$ 47.8
Plus:			
Amortization of intangible assets	0.9	0.9	3.6
Tax amortization benefit	34.1	33.7	33.8
Adjusted Income	<u>\$ 107.2</u>	<u>\$ 103.5</u>	<u>\$ 85.2</u>
Net Income per Diluted Share Attributable to Legg Mason, Inc. Common Shareholders	\$ 0.61	\$ 0.58	\$ 0.38
Plus:			
Amortization of intangible assets	-	-	0.03
Tax amortization benefit	0.30	0.28	0.27
Adjusted Income per Diluted Share	<u>\$ 0.91</u>	<u>\$ 0.86</u>	<u>\$ 0.68</u>

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

Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended								
	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14
Operating Revenues, GAAP basis	\$ 630.7	\$ 640.3	\$ 673.9	\$ 667.8	\$ 670.4	\$ 669.9	\$ 720.1	\$ 681.4	\$ 693.9
Plus:									
Operating revenues eliminated upon consolidation of investment vehicles	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.3	0.2
Distribution and servicing expense excluding consolidated investment vehicles	(169.8)	(145.1)	(143.4)	(142.3)	(170.1)	(155.1)	(148.8)	(144.9)	(148.7)
Operating Revenues, as Adjusted	<u>\$ 461.5</u>	<u>\$ 495.8</u>	<u>\$ 531.1</u>	<u>\$ 526.1</u>	<u>\$ 500.9</u>	<u>\$ 515.3</u>	<u>\$ 571.8</u>	<u>\$ 536.8</u>	<u>\$ 545.4</u>
Operating Income, GAAP basis	\$ 76.1	\$ 79.7	\$ (633.3)	\$ 43.0	\$ 83.5	\$ 106.4	\$ 121.7	\$ 119.3	\$ 119.5
Plus:									
Gains on deferred compensation and seed investments	1.2	24.4	3.7	7.2	1.9	4.2	6.5	4.4	4.5
Amortization of intangible assets	3.5	3.5	3.5	3.5	3.6	3.6	4.2	0.9	0.9
Impairment of intangible assets	-	-	734.0	-	-	-	-	-	-
Contingent consideration fair value adjustment	-	-	-	-	-	-	5.0	-	-
Operating income and expenses of consolidated investment vehicles	0.6	0.9	0.7	0.8	0.7	0.6	0.6	0.5	0.2
Operating Income, as Adjusted	<u>\$ 81.4</u>	<u>\$ 108.5</u>	<u>\$ 108.6</u>	<u>\$ 54.5</u>	<u>\$ 89.7</u>	<u>\$ 114.8</u>	<u>\$ 138.0</u>	<u>\$ 125.1</u>	<u>\$ 125.1</u>
Operating Margin, GAAP basis	12.1%	12.5%	-94.0%	6.4%	12.5%	15.9%	16.9%	17.5%	17.2%
Operating Margin, as Adjusted	17.6%	21.9%	20.4%	10.4%	17.9%	22.3%	24.1%	23.3%	22.9%

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

Note: Adjusted results prior to June 2013 have been changed to remove the impact of Amortization of intangible assets.

Appendix – Additional Investment Performance Detail

% of Strategy AUM Beating Benchmark¹

	June 30, 2014				June 30, 2013			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (includes liquidity)	82%	86%	84%	91%	83%	84%	85%	91%
Equity:								
Large cap	59%	81%	50%	76%	54%	72%	79%	71%
Small cap	49%	26%	27%	74%	21%	21%	26%	68%
Total Equity (includes other equity)	57%	65%	47%	77%	47%	51%	56%	70%
Fixed Income:								
US taxable	91%	94%	94%	94%	95%	93%	90%	97%
US tax-exempt	97%	100%	100%	100%	100%	100%	100%	100%
Global taxable	82%	83%	100%	94%	90%	94%	96%	93%
Total Fixed Income	88%	91%	96%	94%	94%	94%	93%	96%

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

	June 30, 2014				June 30, 2013			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (excludes liquidity)	51%	61%	53%	67%	54%	61%	58%	71%
Equity:								
Large cap	50%	78%	51%	60%	50%	77%	62%	52%
Small cap	35%	18%	20%	60%	28%	17%	29%	76%
Total Equity (includes other equity)	44%	53%	39%	58%	46%	46%	45%	62%
Fixed Income:								
US taxable	70%	82%	92%	84%	73%	90%	85%	92%
US tax-exempt	44%	65%	58%	86%	62%	88%	85%	85%
Global taxable	76%	87%	85%	86%	66%	67%	71%	57%
Total Fixed Income	63%	77%	79%	85%	68%	86%	83%	87%

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

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 – 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.

Approximately ninety percent of total AUM is included in strategy AUM as of June 30, 2014, 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.