

October 31, 2014

---

# Fiscal Second Quarter Review

Joseph A. Sullivan  
Chairman and CEO

Peter H. Nachtwey  
Chief Financial Officer



**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 Second Quarter

---

Net Income \$4.9M or \$0.04 per diluted share

- Results include debt refinancing charge of \$107.1M or \$0.59 per diluted share
- 

Assets Under Management of \$708B

- Long-term inflows of \$0.7B
  - Record Global Distribution gross and net sales
  - Raised \$327M in Western Asset Middle Market Income closed-end fund launch
- 

Greater than 80% of strategy AUM exceeds benchmarks for all periods

---






Announced acquisition of Martin Currie (closed October 1, 2014)

---

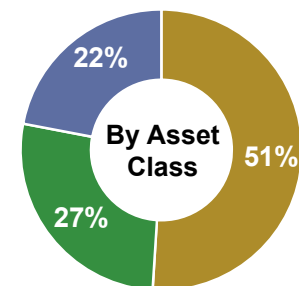
Repurchased 1.8M shares for \$90M

---

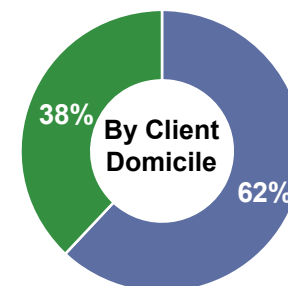
# Assets Under Management (\$ billions)

Affiliate <sup>1</sup>	Sep 14	Jun 14	% Change	Sep 13
 WESTERN ASSET	\$458.8	\$454.9	1%	\$441.5
 ClearBridge <sup>2</sup> Investments	103.0	101.2	2%	82.3
Royce & Associates	33.5	38.1	(12%)	38.6
 PERMAL	20.4	20.0	2%	20.0
 Brandywine GLOBAL	60.9	57.6	6%	47.8
 QS Investors <sup>3</sup>	14.4	15.2	(5%)	11.4

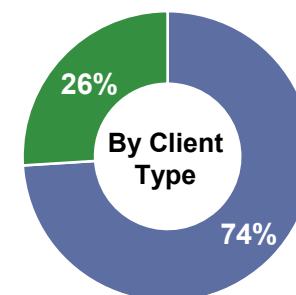
Total AUM \$708B



■ Fixed Income ■ Equity ■ Liquidity



■ US ■ Non-US



■ Institutional ■ Retail

<sup>1</sup> Primary affiliates ordered by contribution to fiscal year to date 2015 pre-tax earnings

<sup>2</sup> ClearBridge includes Legg Mason Capital Management. Prior periods have been restated

<sup>3</sup> QS Investors AUM for Sep 13 consists of Batterymarch and Legg Mason Global Asset Allocation, which are being integrated into QS Investors over time.

# Fiscal Second Quarter Affiliate Overview



- \$4.3B record total inflows
- \$3.2B fixed income, \$1.1B equity inflows
- \$1.1B unfunded wins



- \$1.9B inflows
- 7<sup>th</sup> consecutive quarter of inflows
- \$1.3B unfunded wins



- Announced the acquisition of Martin Currie in July
- Acquisition closed on October 1, 2014



- \$0.7B inflows, best since March 2011
- \$1.0B mandate funded in September
- \$0.1B unfunded wins



- \$0.4B outflows
- Significant pipeline
- \$0.6B unfunded wins



- Announced Chris Clark as president
- \$1.8B outflows



- \$12.7B liquidity inflows
- \$4.0B long-term outflows (incl. \$5.4B of low fee reds.)
- \$3.0B unfunded wins

# Expansion of Legg Mason's Investment Capabilities\*

Worldwide Product Opportunities	Legg Mason Investment Capabilities	
	2012	2014
Domestic Equity	+	+
Domestic Fixed Income	+	+
Global Fixed Income	+	+
Emerging Market Debt	+	+
Fund of Hedge Funds	+	+
Global/International Equity	+/-	+
Emerging Market Equity	+/-	+
Liquid Alternatives	+/-	+
Solutions/Multi-Asset Class	+/-	+
Other Illiquid Alternatives	+/-	+/-
Passive	-	-

+ LM Capability   
 +/- LM Capability, but Sub-Scale   
 - No LM Capability

# Growing Momentum in Global Distribution

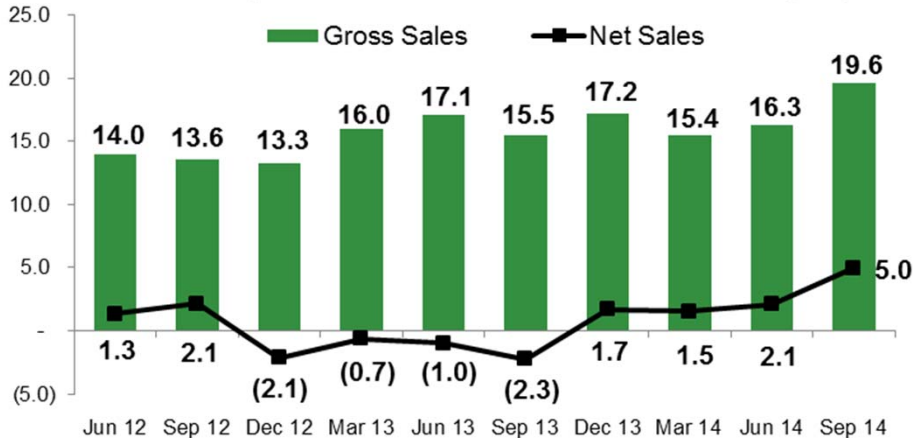
**Total Long-Term Assets<sup>1</sup>: \$262B**

## Distribution Highlights

- Gross sales of \$19.6B vs \$16.3B in F1Q15
- Net sales increased \$2.9B to \$5.0B in F2Q15
- Fourth consecutive quarter of positive net sales
  - Both US and International positive
- Quarterly global redemption rate remained at 22%
  - US redemption rate 18%

(\$ Billions)	F2Q15	F1Q15	FYTD15	FYTD14
<b>Gross Sales<sup>1</sup>:</b>				
US	\$12.3	\$ 10.2	\$22.6	\$20.3
Int'l	7.3	6.1	13.3	12.3
<b>Total</b>	<b>\$19.6</b>	<b>\$16.3</b>	<b>\$35.9</b>	<b>\$32.6</b>
<b>Net Sales<sup>1</sup>:</b>				
US	\$ 2.5	\$ 0.5	\$ 3.0	\$ (1.7)
Int'l	2.5	1.6	4.1	(1.6)
<b>Total</b>	<b>\$ 5.0</b>	<b>\$ 2.1</b>	<b>\$ 7.1</b>	<b>\$ (3.3)</b>

## Quarterly Gross and Net Sales Trends (\$B)



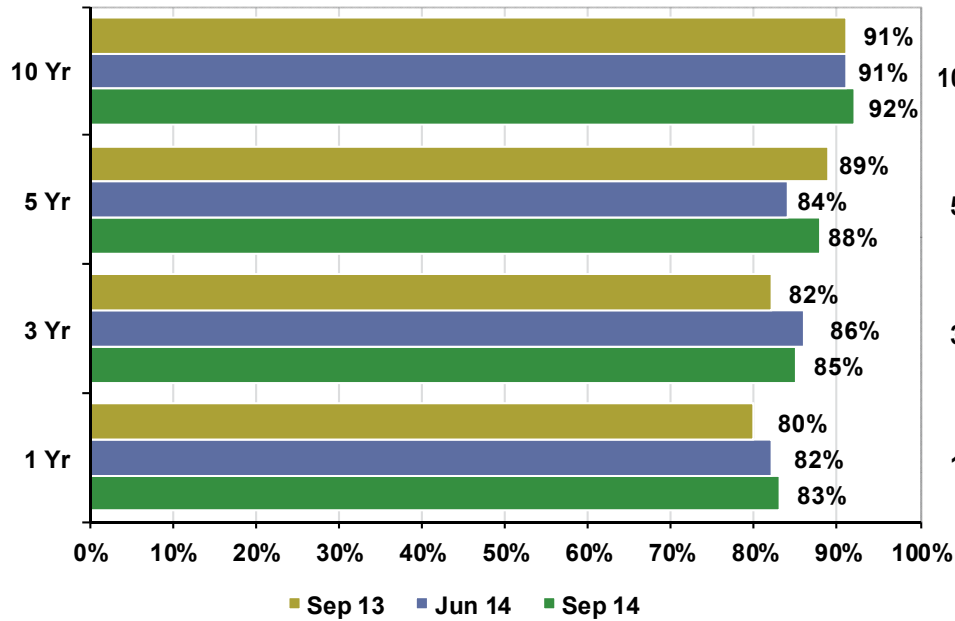
## Top Funds Driving Gross Sales FYTD

- Western Asset Core Plus Bond Fund
- ClearBridge Aggressive Growth Fund
- Legg Mason ClearBridge US Aggressive Growth Fund
- LM WA Macro Opportunities Bond Fund
- Western Asset Core Bond Fund
- LM BW Global Sovereign Credit Fund
- LM Australian Bond Fund
- ClearBridge Small Cap Growth Fund
- Legg Mason Brandywine Global Opportunities Bond Fund
- LM BW Global Fixed Income Absolute Return Fund
- Western Asset Short Duration Municipal Income Fund
- Legg Mason Western Asset Global High Yield Fund

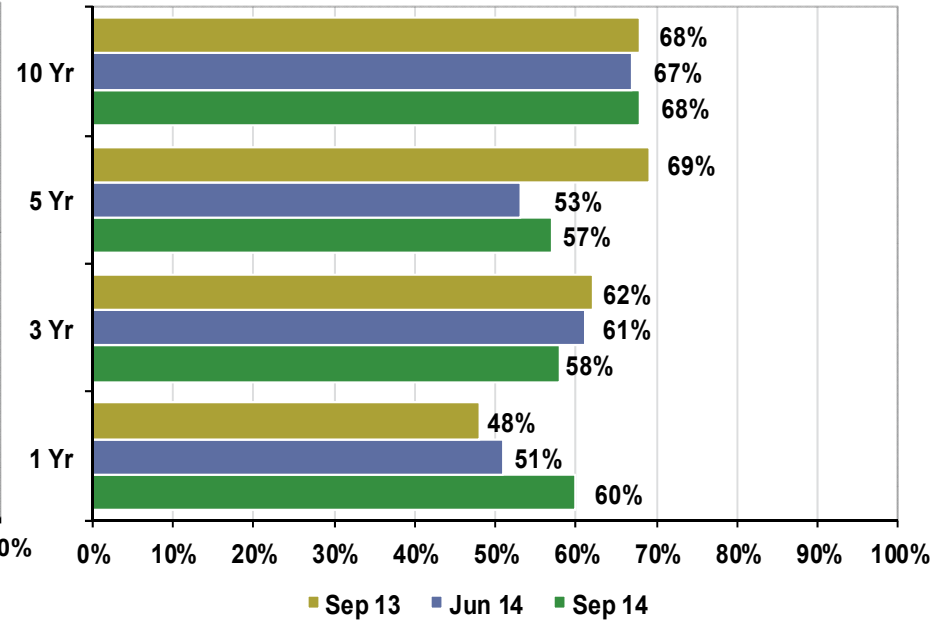
<sup>1</sup> For LMGD, AUA is included in long-term assets, gross sales and net sales. Net Sales equals gross sales less redemptions. As of September 30, 2014 Long-Term Assets include \$5.9B of AUA. Quarterly AUA gross and net sales for F2Q15 are \$0.8B and \$0.5B, respectively, and for F1Q15 are \$0.8B and \$0.7B, respectively

# Investment Performance

% of Strategy AUM beating Benchmark<sup>1</sup>



% of Long-Term U.S. Fund Assets beating Lipper Category Average<sup>2</sup>



<sup>1</sup> See appendix for details regarding strategy performance

<sup>2</sup> 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.

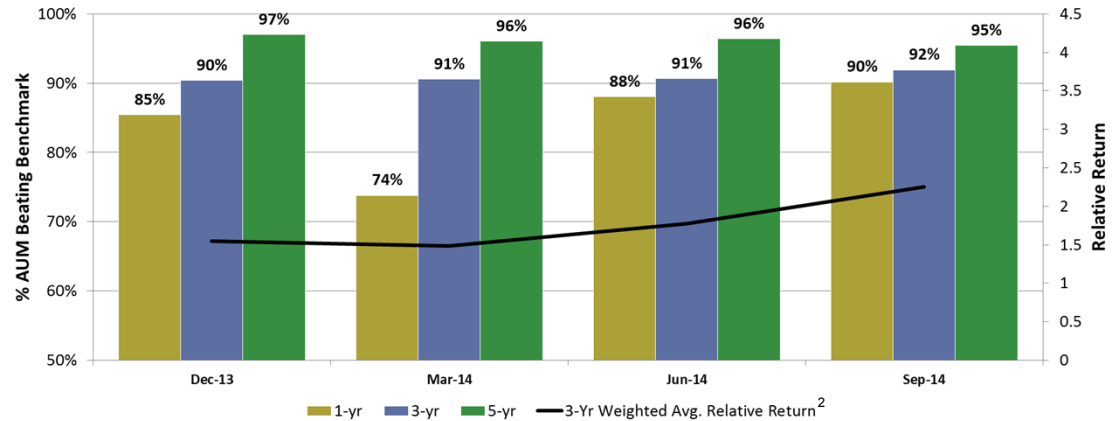


# Significant Opportunity in Fixed Income Across Affiliates

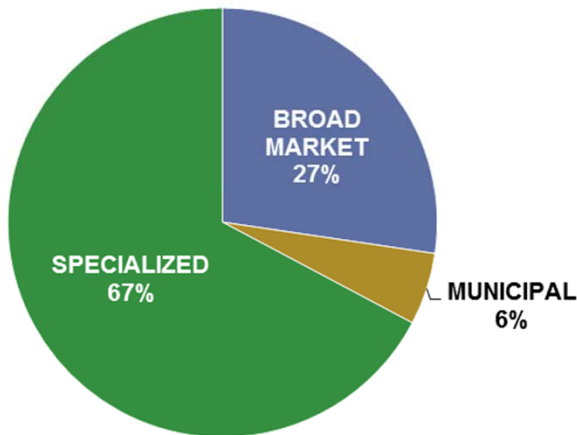
## Fixed Income Strengths

- Broad global capabilities
- Significant size and scale
- Strong investment performance
- Products in high demand categories

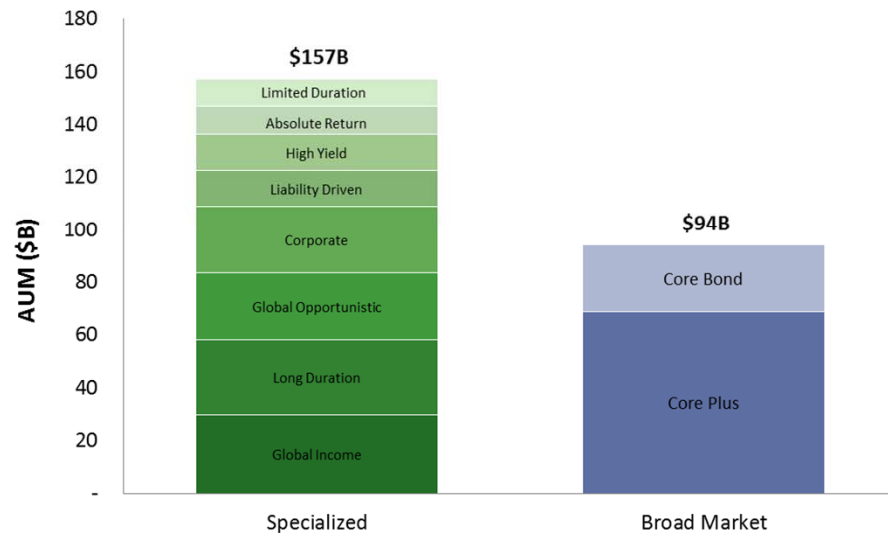
## Combined Fixed Income Strategy Performance<sup>1</sup>



## Fixed Income AUM - \$360B



## Top 10 Strategies by AUM



<sup>1</sup> 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.

<sup>2</sup> The 3-year weighted average relative return is the asset-weighted average variance of the 3-year strategy absolute return and the 3-year benchmark absolute return for all strategies. Weighted average returns are gross of fees.

# Financial Highlights Second Quarter FY 2015

- Net Income of \$4.9M, or \$0.04 per diluted share
  - Results include debt refinancing charge of \$107.1M or \$0.59 per diluted share
- Adjusted income<sup>1</sup> of \$40.6M, or \$0.35 per diluted share
  - Compared to \$107.2M or \$0.91 per diluted share in prior quarter
- Average AUM of \$704.1B, up \$12.8B
  - Long-term average AUM increased \$6.0B or 1% compared to prior quarter
- Operating revenues \$704M, up \$10M or 1% from the prior quarter
  - Driven by higher average long-term AUM and one additional day in the quarter
- Operating expenses \$574M, decreased slightly from the prior quarter
  - Includes \$5.7M decrease in costs related to QS Investors integration and corporate initiatives, which totaled \$8.7M or \$0.05 per diluted share this quarter
  - Current quarter also included \$5.6M of costs related to a closed-end fund launch, partially offset by a lease reserve adjustment of \$4.5M
- Operating income \$130M, operating margin 18.5%
- Operating income, as adjusted<sup>1</sup> \$131M, operating margin, as adjusted<sup>1</sup> 23.8%
- Repurchased 1.8M shares for \$90M

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

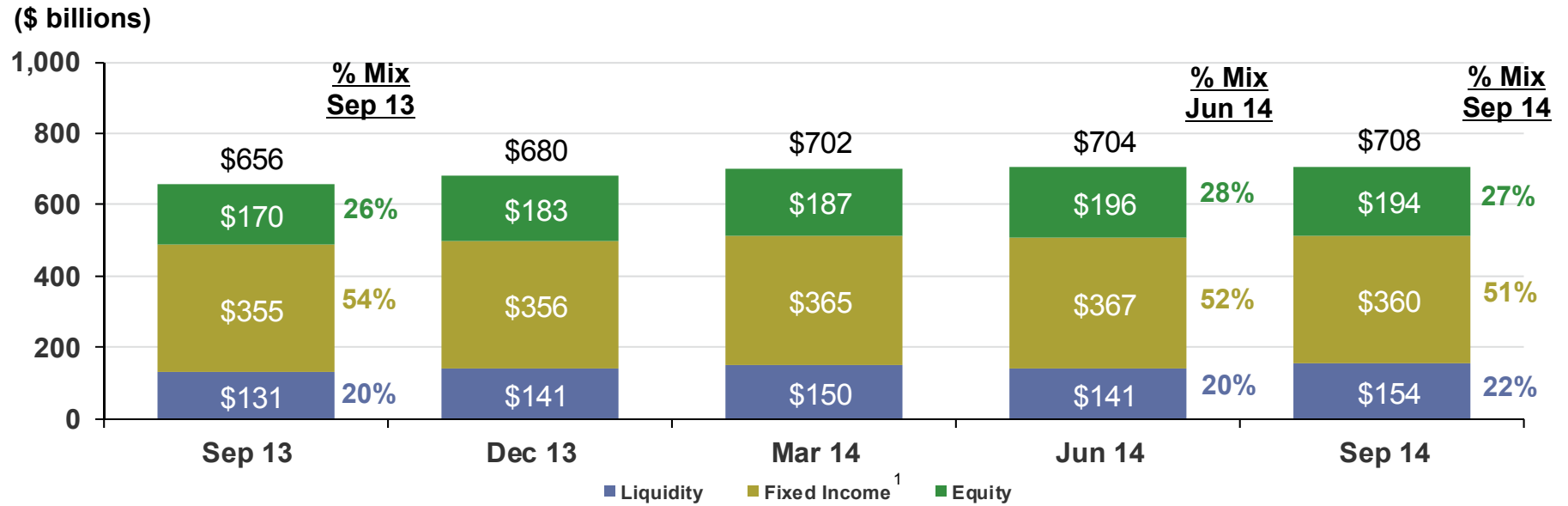
# Operating Results Second Quarter FY 2015

(\$ millions, except per share amounts)	Sep 14 Qtr	Jun 14 Qtr	Sep 13 Qtr	\$ Change vs.	
				Jun 14 Qtr	Sep 13 Qtr
<b>Operating Revenues</b>	\$ 703.9	\$ 693.9	\$ 669.9	\$ 10.0	\$ 34.0
<b>Operating Expenses</b>	573.5	574.4	563.5	(0.9)	10.0
<b>Operating Income</b>	130.4	119.5	106.4	10.9	24.0
<b>Net Income</b>	4.9	72.2	86.3	(67.3)	(81.4)
<b>Diluted EPS</b>	0.04	0.61	0.70	(0.57)	(0.66)
<b>Adjusted Income<sup>1</sup></b>	40.6	107.2	104.5	(66.6)	(63.9)
<b>Adjusted Income per diluted share<sup>1</sup></b>	0.35	0.91	0.85	(0.56)	(0.50)
<b>Operating Margin, as adjusted<sup>1</sup></b>	23.8%	22.9%	22.3%		
<b>Effective Tax Rate GAAP<sup>2</sup></b>	43.1%	35.6%	17.9%		

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

<sup>2</sup> Includes the impact of Consolidated Investment Vehicles (CIVs) of 0.3%, (0.4%), and (0.2%) in Sep 14, Jun 14, and Sep 13, respectively.

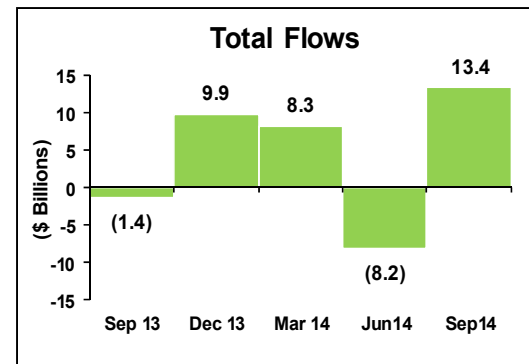
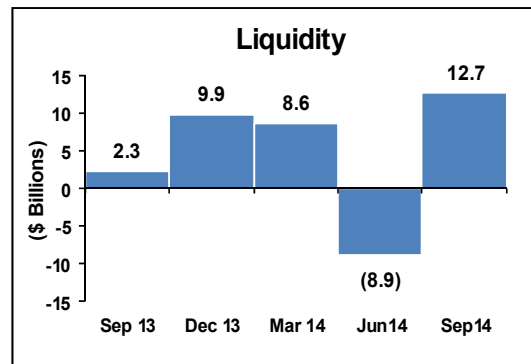
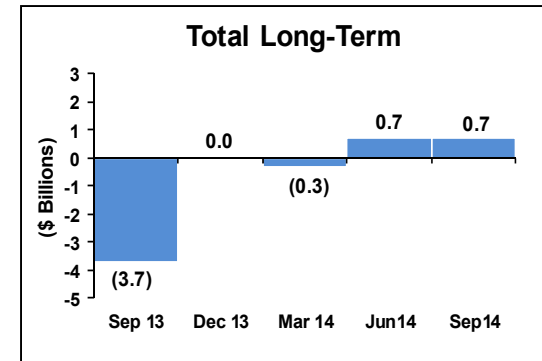
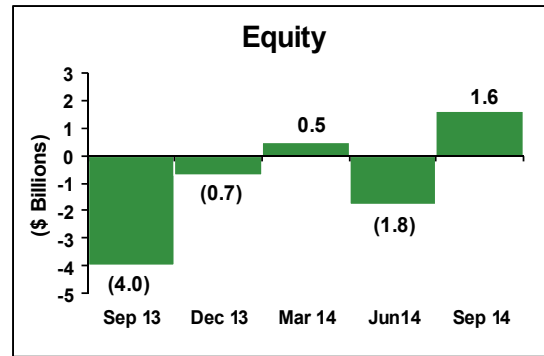
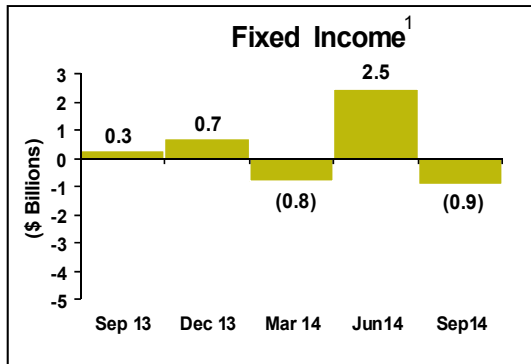
# Assets Under Management by Asset Class



- AUM increased \$3.5B from prior quarter
- Change driven by:
  - Long-term inflows of \$0.7B and liquidity inflows of \$12.7B
  - Market depreciation/other of (\$9.9B) (including unfavorable FX impact of \$7.4B)
- Assets Under Advisement were \$117B

<sup>1</sup>Sep 13, Dec 13, and Mar 14 include \$15.1B, \$13.9B, and \$12.6B in fixed income AUM related to the low fee global sovereign mandate that has been reclassified as AUA

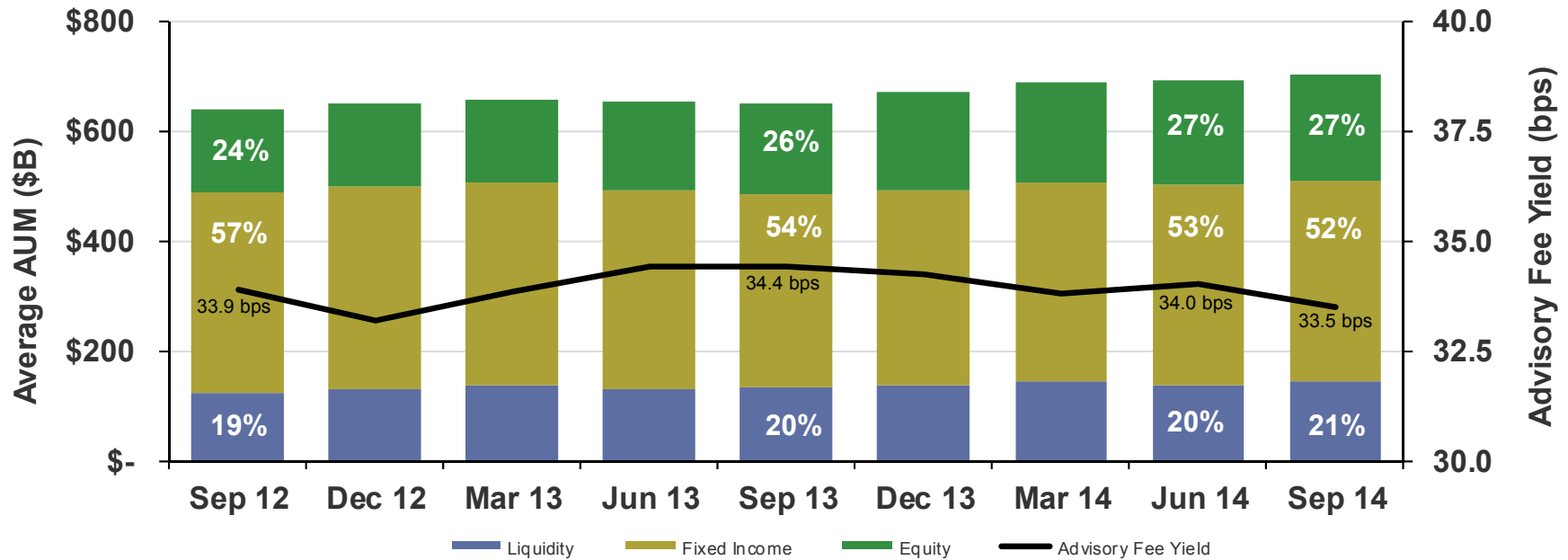
# Net Flows



- Fixed Income outflows largely driven by previously announced \$5.4B of low fee redemptions at Western Asset, largely offset by Brandywine inflows of \$3.2B
- Equity inflows driven by ClearBridge \$1.9B, Brandywine \$1.0B and Permal \$0.6B, partially offset by outflows at Royce \$1.8B

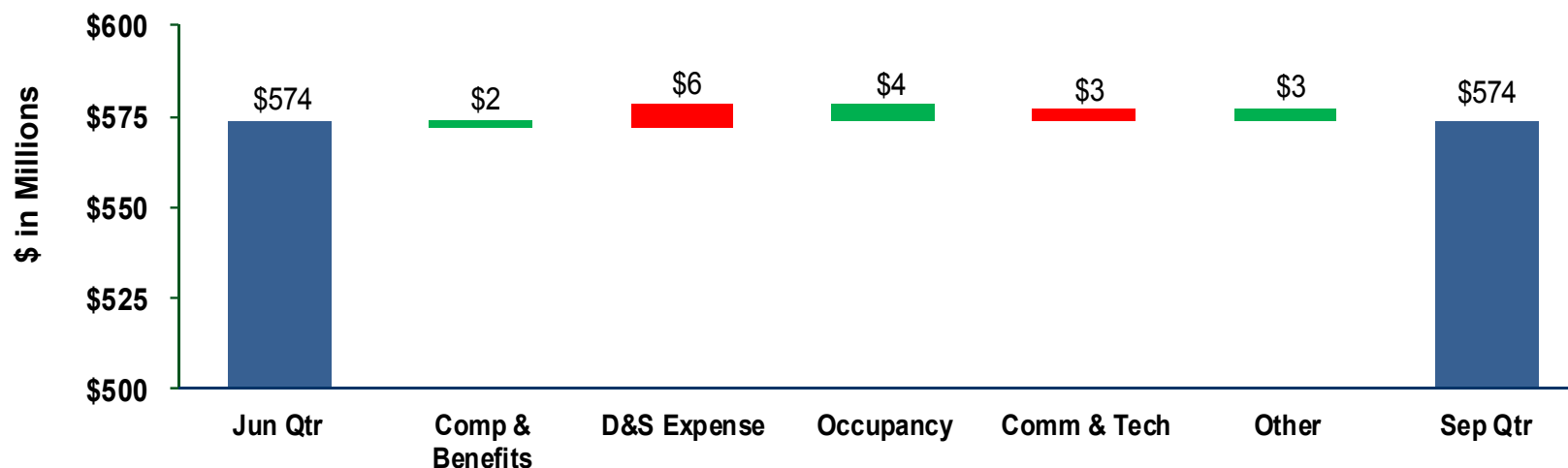
<sup>1</sup> Low fee global sovereign mandate outflows for Jun 14 (\$1.0B) and Sep 14 (\$0.9B) are excluded from the table. Included in prior period outflows were (\$0.9B) Sep 13, (\$1.1B) Dec 13 and (\$1.4B) Mar 14

# Advisory Fee Yield / Average AUM



- Total average AUM up \$12.8B
  - Equity and Fixed Income AUM up \$5.3B and \$0.7B, respectively
  - Liquidity AUM up \$6.8B
- Decrease in current quarter advisory fee yield largely reflects lower AUM at Royce

# Operating Expenses



- D&S expenses increased primarily due to closed-end fund launch costs
- Decrease in occupancy expenses primarily due to a lease reserve adjustment
- Increased communication and technology costs related to QS Investors including approximately \$1M of integration costs
- Other expenses decreased due to lower fund reimbursement costs and T&E, partially offset by Martin Currie acquisition-related legal costs and annual director fees

# Compensation and Benefits

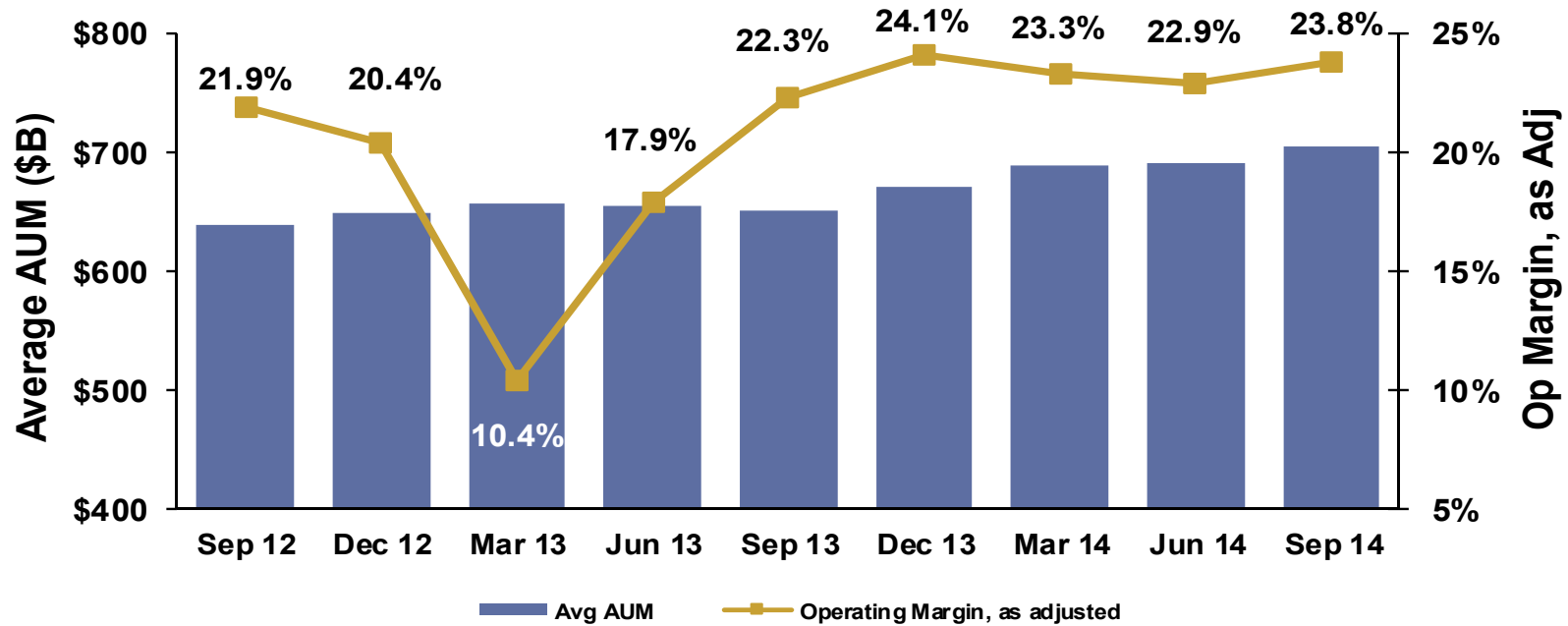
(\$ millions)	Sep Qtr	% of Net Rev. <sup>1</sup>	Jun Qtr	% of Net Rev. <sup>1</sup>	\$ Change
Salary and incentives	\$ 249.0	45%	\$ 223.8	41%	\$ 25.2
Benefits and payroll taxes	47.6	9%	63.5	12%	(15.9)
<b>Subtotal Compensation and benefits</b>	<b>296.6</b>	<b>54%</b>	<b>287.3</b>	<b>53%</b>	<b>9.3</b>
Transition costs and severance	7.7	1%	13.8	2%	(6.1)
MTM deferred comp. and seed investments	(0.4)	0%	4.4	1%	(4.8)
Total Compensation and benefits	<u>\$ 303.9</u>	55%	<u>\$ 305.5</u>	56%	<u>\$ (1.6)</u>

- 
- Decrease in benefits and payroll taxes primarily due to affiliate seasonal benefit costs offset in salary and incentives
  - Salary and incentives also increased due to higher revenue and higher commissions on higher sales
  - Decrease in transition costs and severance related to QS Investors integration
  - Closed-end fund launch had 0.6% impact on the compensation ratio

<sup>1</sup> Net revenue is equal to operating revenues, as adjusted

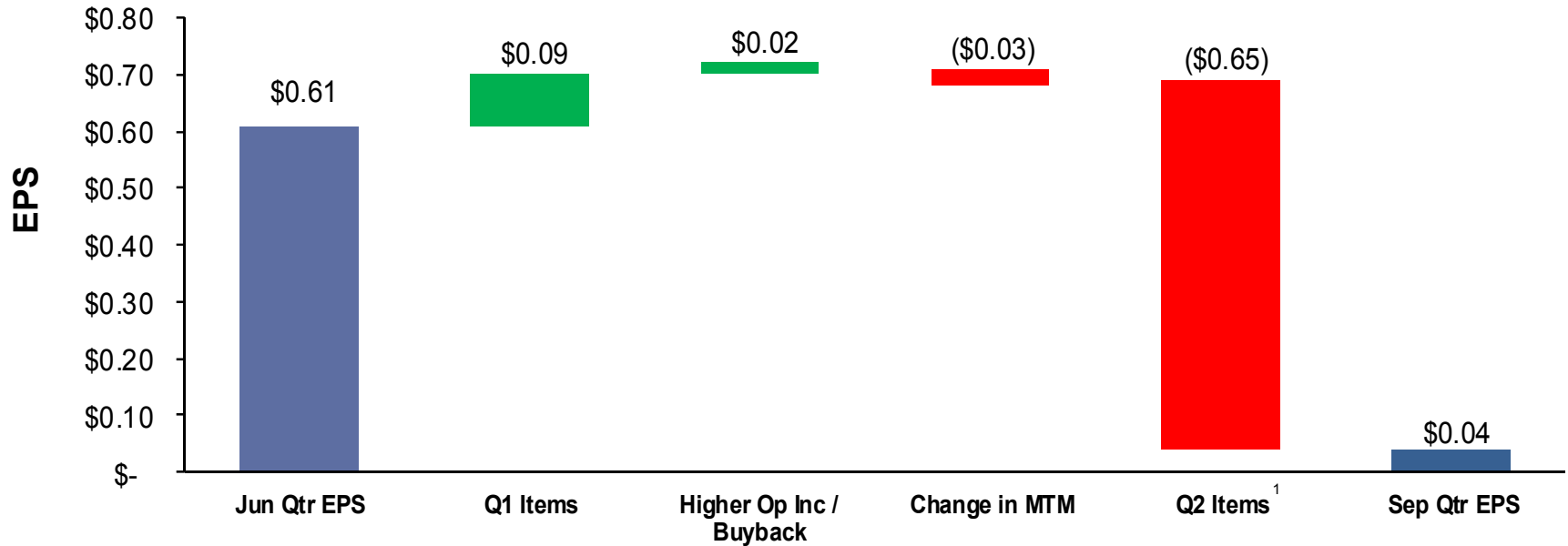


# Operating Margin, as Adjusted



- Impact of QS Investors integration and other corporate initiatives approximately 2.0% and 2.5%, respectively, on current and prior quarter
- Impact of closed-end fund launch costs offset by favorable lease reserve adjustment

# Second Quarter Earnings Per Share Rollforward

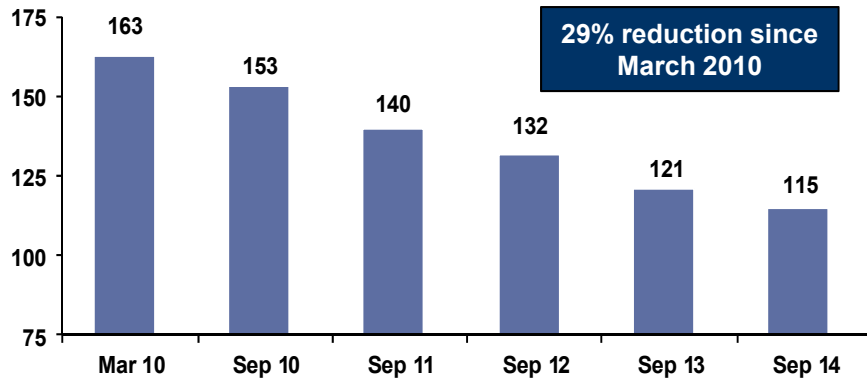


- Q1 items include QS Investors integration and corporate initiatives of \$16.4M
- Q2 items include debt refinancing, QS Investors integration and corporate initiatives of \$118.7M

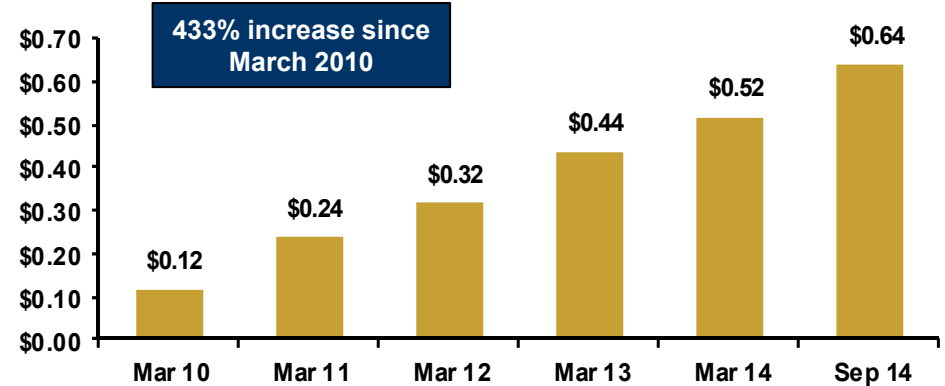
<sup>1</sup> Includes debt refinancing charge, QS integration costs, closed-end fund launch costs, sales costs of Luxembourg funds administrative office and expenses related to the Martin Currie acquisition partially offset by lease reserve adjustment

# Consistent and Balanced Approach to Capital Allocation

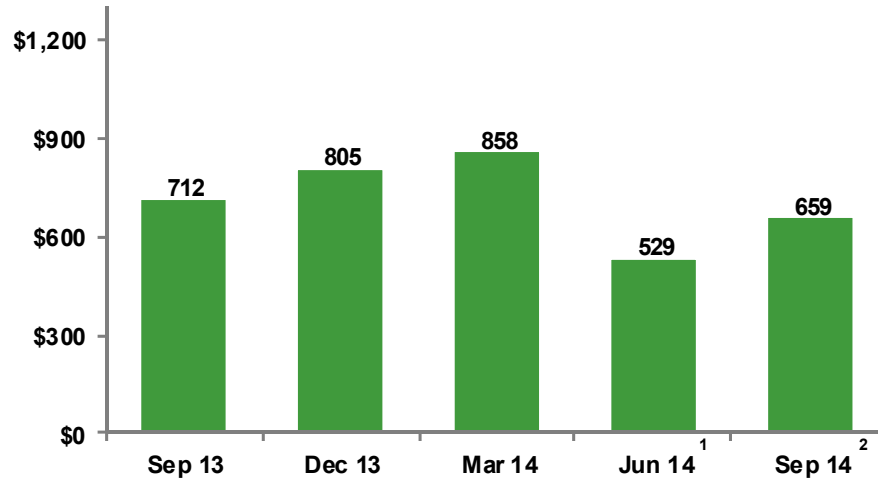
Shares Outstanding (M)



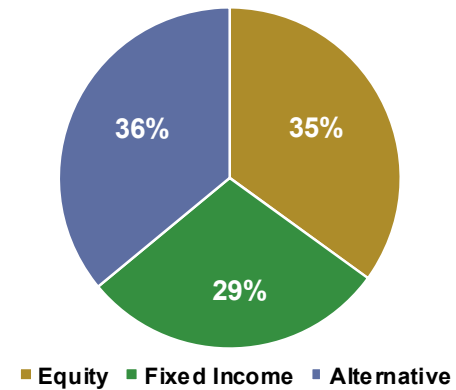
Annualized Quarterly Dividend Declared (Per Share)



Quarterly Cash Position (\$M)



Seed Investments of \$382M<sup>3</sup>



<sup>1</sup> Excludes \$750M of cash held on June 30, 2014 but used to repay debt on July 23, 2014

<sup>2</sup> Includes cash used for purchase of Martin Curie on October 1, 2014

<sup>3</sup> Market value as of September 30, 2014

# Building Momentum

## Fiscal Second Quarter

---

Achieved record Global Distribution gross and net sales

---

Expanded investment capabilities through Martin Currie acquisition

---

Well positioned to increase Fixed Income market share

---

Over 80% of strategy assets continue to outperform benchmark

---

Continue to return capital to shareholders

---

# Appendix

---



Brandywine  GLOBAL

**ClearBridge**  
Investments

**martin**  
**currie**

 PERMAL

 QS Investors

Royce & Associates

 WESTERN ASSET

**LEGG MASON**  
GLOBAL ASSET MANAGEMENT

# Appendix – GAAP Reconciliation

## Adjusted Income<sup>1</sup>

### RECONCILIATION OF NET INCOME ATTRIBUTABLE TO LEGG MASON, INC. TO ADJUSTED INCOME<sup>1</sup>

	Quarters Ended		
	Sep 14	Jun 14	Sep 13
(\$ millions, except per share amounts)			
<b>Net Income Attributable to Legg Mason, Inc.</b>	\$ 4.9	\$ 72.2	\$ 86.3
Plus (less):			
Amortization of intangible assets	0.5	0.9	3.6
Deferred income taxes on intangible assets:			
Tax amortization benefit	35.2	34.1	33.8
U.K. tax rate adjustment	-	-	(19.2)
<b>Adjusted Income</b>	<u>\$ 40.6</u>	<u>\$ 107.2</u>	<u>\$ 104.5</u>
<b>Net Income per Diluted Share Attributable to Legg Mason, Inc. Common Shareholders</b>	\$ 0.04	\$ 0.61	\$ 0.70
Plus (less):			
Amortization of intangible assets	-	-	0.03
Deferred income taxes on intangible assets:			
Tax amortization benefit	0.31	0.30	0.28
U.K. tax rate adjustment	-	-	(0.16)
<b>Adjusted Income per Diluted Share</b>	<u>\$ 0.35</u>	<u>\$ 0.91</u>	<u>\$ 0.85</u>

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

# Appendix – GAAP Reconciliation

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

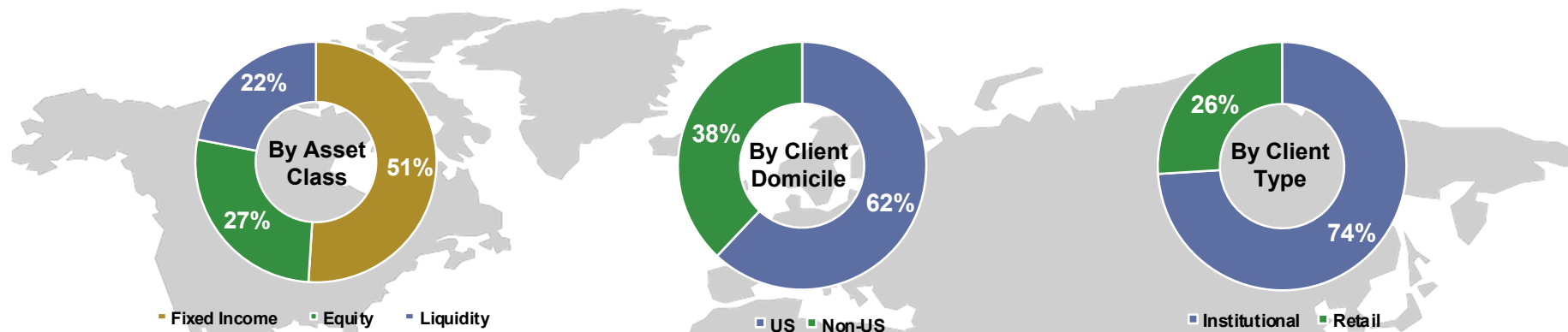
(\$ millions)	Quarters Ended								
	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14
<b>Operating Revenues, GAAP basis</b>	\$ 640.3	\$ 673.9	\$ 667.8	\$ 670.4	\$ 669.9	\$ 720.1	\$ 681.4	\$ 693.9	\$ 703.9
Plus (less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.6	0.6	0.6	0.6	0.5	0.5	0.3	0.2	0.2
Distribution and servicing expense excluding consolidated investment vehicles	(145.1)	(143.4)	(142.3)	(170.1)	(155.1)	(148.8)	(144.9)	(148.7)	(155.1)
<b>Operating Revenues, as Adjusted</b>	<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>	<u>\$ 549.0</u>
<b>Operating Income (Loss), GAAP basis</b>	\$ 79.7	\$ (633.3)	\$ 43.0	\$ 83.5	\$ 106.4	\$ 121.7	\$ 119.3	\$ 119.5	\$ 130.4
Plus (less):									
Gains (Loss) on deferred compensation and seed investments	24.4	3.7	7.2	1.9	4.2	6.5	4.4	4.5	(0.4)
Amortization of intangible assets	3.5	3.5	3.5	3.6	3.6	4.2	0.9	0.9	0.5
Impairment of intangible assets	-	734.0	-	-	-	-	-	-	-
Contingent consideration fair value adjustment	-	-	-	-	-	5.0	-	-	-
Operating income and expenses of consolidated investment vehicles	0.9	0.7	0.8	0.7	0.6	0.6	0.5	0.2	0.2
<b>Operating Income, as Adjusted</b>	<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>	<u>\$ 130.7</u>
Operating Margin, GAAP basis	12.5%	-94.0%	6.4%	12.5%	15.9%	16.9%	17.5%	17.2%	18.5%
Operating Margin, as Adjusted	21.9%	20.4%	10.4%	17.9%	22.3%	24.1%	23.3%	22.9%	23.8%

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

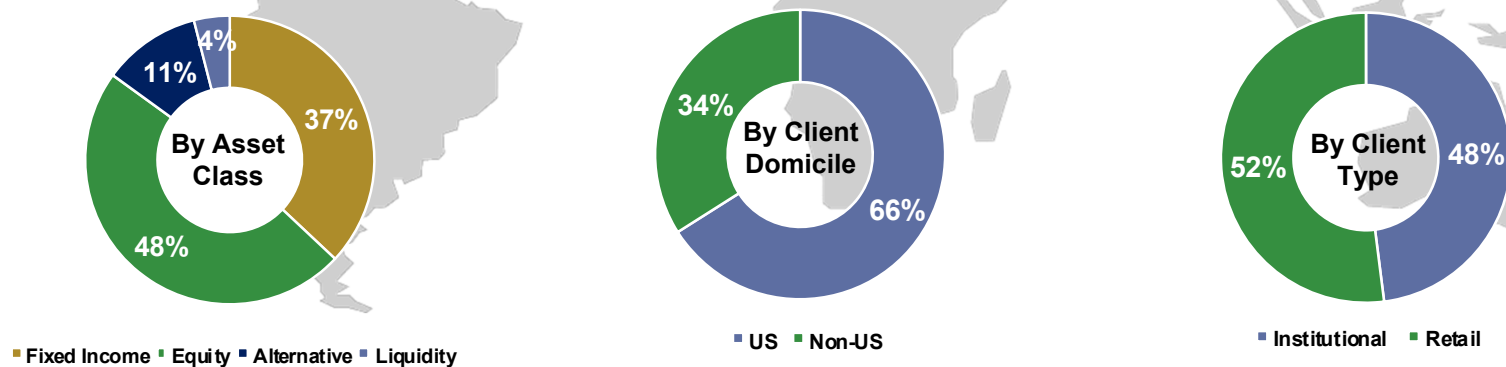
Note: Adjusted results have been changed to remove the impact of Amortization of intangible assets. Prior periods have been restated.

# Appendix - Asset & Revenue Diversity

**Total AUM \$708B**

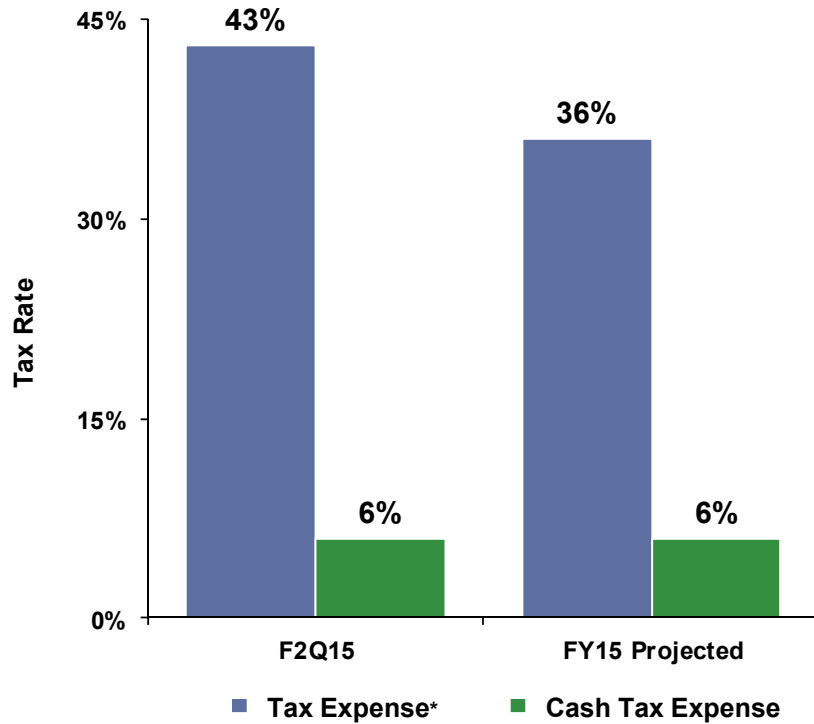


**YTD Sep 14 Operating Revenues \$1.4B**

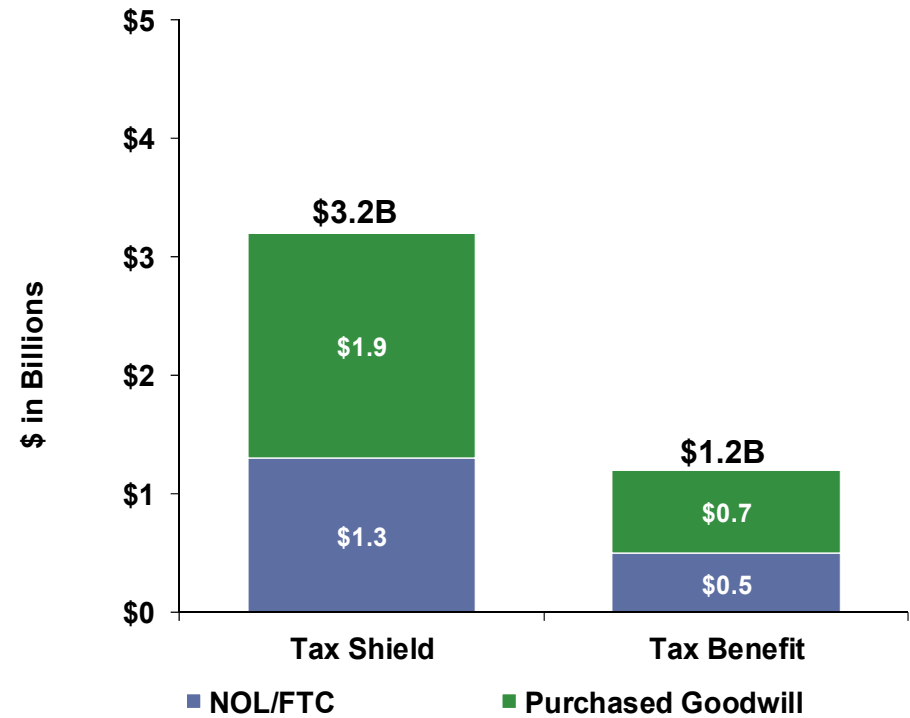




# Significant Tax Benefit - \$3.2B of Future Income Sheltered



- F2Q15 higher tax rate due to change in earnings mix
- FY15 debt refinance charge not expected to have a material impact on full year effective tax rate



- Future income of \$3.2B is sheltered from federal or state income tax, based on usage of NOL, FTC carryforwards and amortization of tax deductible goodwill

# Appendix – Additional Investment Performance Detail

## % of Strategy AUM Beating Benchmark<sup>1</sup>

	September 30, 2014				September 30, 2013			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
<b>Total (includes liquidity)</b>	<b>83%</b>	<b>85%</b>	<b>88%</b>	<b>92%</b>	<b>80%</b>	<b>82%</b>	<b>89%</b>	<b>91%</b>
<b>Equity:</b>								
<b>Large cap</b>	<b>62%</b>	<b>65%</b>	<b>77%</b>	<b>87%</b>	<b>62%</b>	<b>67%</b>	<b>91%</b>	<b>74%</b>
<b>Small cap</b>	<b>49%</b>	<b>30%</b>	<b>28%</b>	<b>63%</b>	<b>27%</b>	<b>16%</b>	<b>51%</b>	<b>69%</b>
<b>Total Equity (includes other equity)</b>	<b>57%</b>	<b>58%</b>	<b>63%</b>	<b>81%</b>	<b>53%</b>	<b>49%</b>	<b>73%</b>	<b>72%</b>
<b>Fixed Income:</b>								
<b>US taxable</b>	<b>90%</b>	<b>93%</b>	<b>94%</b>	<b>93%</b>	<b>95%</b>	<b>93%</b>	<b>89%</b>	<b>97%</b>
<b>US tax-exempt</b>	<b>97%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>3%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Global taxable</b>	<b>89%</b>	<b>88%</b>	<b>97%</b>	<b>93%</b>	<b>86%</b>	<b>84%</b>	<b>96%</b>	<b>93%</b>
<b>Total Fixed Income</b>	<b>90%</b>	<b>92%</b>	<b>95%</b>	<b>94%</b>	<b>85%</b>	<b>90%</b>	<b>93%</b>	<b>96%</b>

<sup>1</sup> 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 Average<sup>1</sup>

	September 30, 2014				September 30, 2013			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
<b>Total (excludes liquidity)</b>	<b>60%</b>	<b>58%</b>	<b>57%</b>	<b>68%</b>	<b>48%</b>	<b>62%</b>	<b>69%</b>	<b>68%</b>
<b>Equity:</b>								
<b>Large cap</b>	<b>75%</b>	<b>74%</b>	<b>66%</b>	<b>60%</b>	<b>48%</b>	<b>79%</b>	<b>76%</b>	<b>53%</b>
<b>Small cap</b>	<b>32%</b>	<b>20%</b>	<b>20%</b>	<b>70%</b>	<b>36%</b>	<b>22%</b>	<b>50%</b>	<b>73%</b>
<b>Total Equity (includes other equity)</b>	<b>51%</b>	<b>51%</b>	<b>47%</b>	<b>62%</b>	<b>48%</b>	<b>49%</b>	<b>61%</b>	<b>60%</b>
<b>Fixed Income:</b>								
<b>US taxable</b>	<b>80%</b>	<b>87%</b>	<b>91%</b>	<b>82%</b>	<b>61%</b>	<b>91%</b>	<b>91%</b>	<b>90%</b>
<b>US tax-exempt</b>	<b>68%</b>	<b>54%</b>	<b>58%</b>	<b>86%</b>	<b>24%</b>	<b>86%</b>	<b>77%</b>	<b>83%</b>
<b>Global taxable</b>	<b>83%</b>	<b>69%</b>	<b>84%</b>	<b>71%</b>	<b>65%</b>	<b>67%</b>	<b>83%</b>	<b>60%</b>
<b>Total Fixed Income</b>	<b>77%</b>	<b>72%</b>	<b>78%</b>	<b>83%</b>	<b>49%</b>	<b>86%</b>	<b>85%</b>	<b>85%</b>

<sup>1</sup> 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 September 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.