
Fiscal Second Quarter 2016 Review

October 30, 2015

Joseph A. Sullivan
Chairman & Chief Executive Officer

Peter H. Nachtwey
Chief Financial Officer



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, 2015 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 \$64.3M or \$0.58 per diluted share

Assets Under Management \$672B

Long-term net inflows \$3.1B


- 6th consecutive quarter of positive long-term net inflows
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Global Distribution quarterly gross and net sales of \$18.1B and \$0.5B, respectively

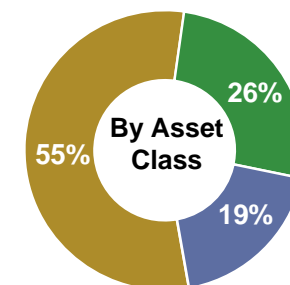
Retired 1.9M shares for approximately \$90M

In October, closed the acquisition of RARE Infrastructure Limited

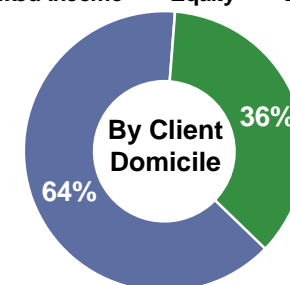
Assets Under Management (\$ billions)

Affiliate ¹	Sep 15	Jun 15	% Change	Sep 14
 WESTERN ASSET	\$438.3	\$444.4	(1%)	\$458.8
 ClearBridge Investments	96.5	108.9	(11%)	103.0
 Brandywine GLOBAL	65.6	67.2	(2%)	60.9
 Royce & Associates	21.2	26.6	(20%)	33.5
 PERMAL	18.2	19.2	(5%)	20.4
 QS Investors	17.2	15.7	10%	14.4
 martin currie ²	10.7	12.3	(13%)	2.7

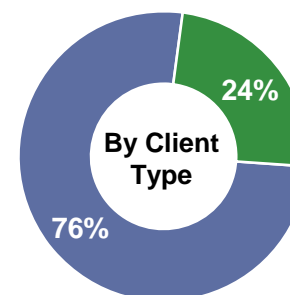
Total AUM \$672B



■ Fixed Income ■ Equity ■ Liquidity



■ US ■ Non-US



■ Institutional ■ Retail

¹ Primary affiliates ordered by contribution to fiscal year 2016 pre-tax earnings

² Sep 15 and Jun 15 include \$3.4B and \$3.8B of AUM from Legg Mason Australian Equities, respectively, which was integrated into Martin Currie. Sep 14 represents Legg Mason Australian Equities only

Fiscal Second Quarter Affiliate Overview



- \$2.8B total inflows
 - \$1.5B fixed income
 - \$1.3B equity
- \$4.5B unfunded wins



- \$1.8B outflows
- \$0.5B unfunded wins



- Breakeven net flows
- \$0.5B unfunded wins



- \$0.3B outflows
- \$0.3B unfunded wins



- \$2.8B inflows



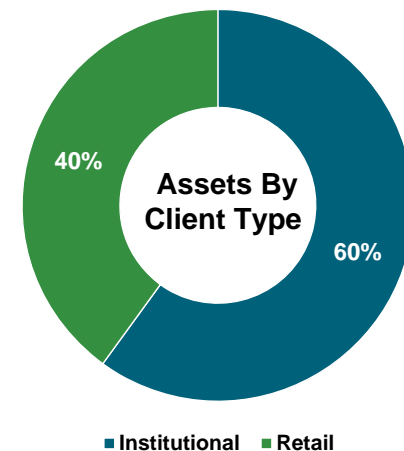
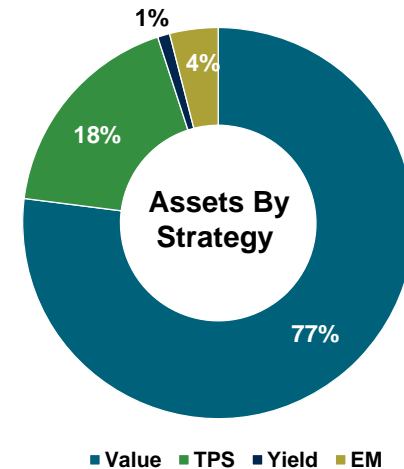
- \$2.2B outflows



- \$1.9B long-term inflows
- \$3.0B liquidity outflows
- \$3.6B unfunded wins

Acquisition: RARE

- Global listed infrastructure specialist based in Sydney, Australia with US\$6.8B¹ in AUM
- Market leader in listed infrastructure, offering a suite of both developed and emerging markets products
- Products designed to meet client demand on multiple fronts (e.g., growth, income and capital preservation)
- Experienced portfolio management team with deep industry knowledge and a strong track record
- Key professionals have signed long-term employment contracts
- Legg Mason acquired majority ownership, with management retaining meaningful equity in the business
- Transaction financed using available cash and existing revolver facility



The acquisition of RARE fills a product gap in an attractive, high growth asset class and enhances and diversifies Legg Mason across several key areas

Global Distribution

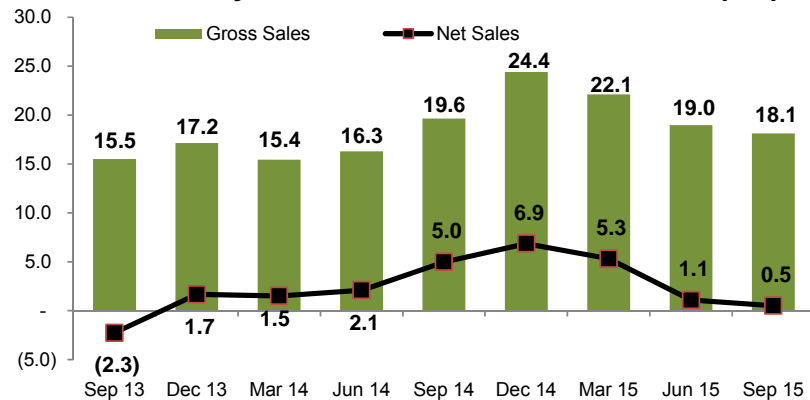
Total Long-Term Assets¹: \$259B

Distribution Highlights

- Gross sales of \$18.1B:
 - Down 8% from F2Q15
 - Down 5% from F1Q16
- Net sales of \$0.5B vs \$1.1B in F1Q16
- Eighth consecutive quarter of positive net sales
- Quarterly global redemption rate at 26%
 - US redemption rate 24%

(\$ Billions)	F2Q16	F1Q16	F2Q15
Gross Sales¹:			
US	\$13.9	\$13.3	\$12.3
Int'l	4.2	5.7	7.3
Total	\$18.1	\$19.0	\$19.6
Net Sales¹:			
US	\$ 0.6	\$ 0.0	\$ 2.5
Int'l	(0.1)	1.1	2.5
Total	\$ 0.5	\$ 1.1	\$ 5.0

Quarterly Gross and Net Sales Trends (\$B)



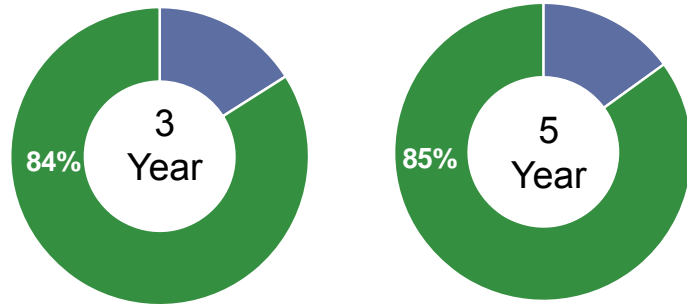
Top Funds Driving Gross Sales FYTD16

- Western Asset Core Plus Bond Fund
- ClearBridge Aggressive Growth Fund
- Brandywine Global Sovereign Credit Fund
- Western Asset Macro Opportunities Bond Fund
- ClearBridge US Aggressive Growth Fund (Dublin)
- Western Asset Core Bond Fund
- Brandywine Global Opportunities Bond Fund
- Western Asset Managed Municipals Fund
- ClearBridge Appreciation Fund
- ClearBridge Small Cap Growth Fund

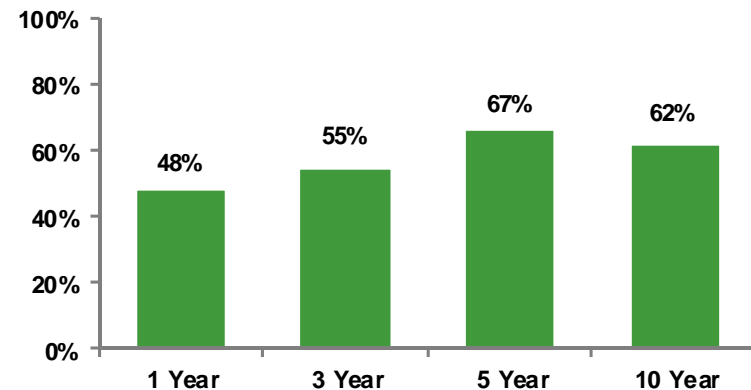
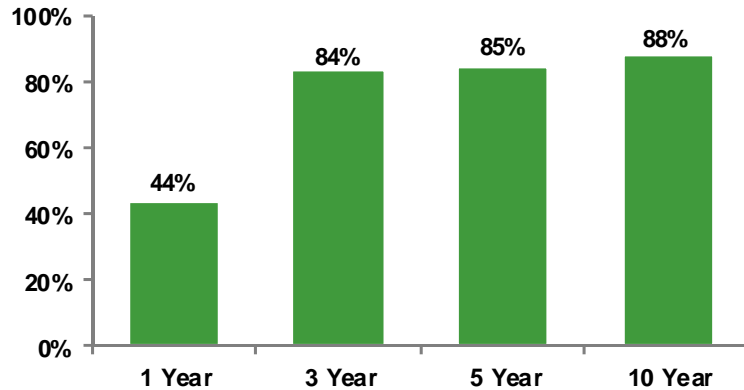
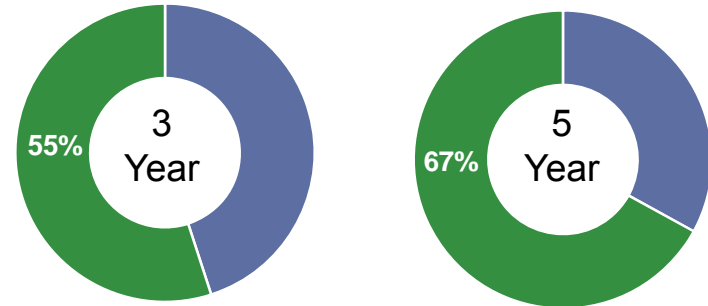
¹ For LMGD, Assets Under Advisement are included in long-term assets, gross sales and net sales. Net sales equals gross sales less redemptions. As of September 30, 2015 long-term assets include \$8.7B of AUA. Quarterly AUA gross and net sales for F2Q16 are \$1.0B and \$0.4B, respectively, for F1Q16 are \$1.1B and \$0.7B, respectively, and for F2Q15 are \$0.8B and \$0.5B, respectively

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.

Financial Highlights Second Quarter FY 2016

- Net Income of \$64.3M, or \$0.58 per diluted share
- Adjusted income¹ of \$99.1M, or \$0.89 per diluted share
- Average AUM of \$687.2B, down \$16.7B
 - Long-term average AUM decreased \$15.2B or 3% compared to prior quarter
- Operating revenues \$673.1M, down \$35.6M or 5% from the prior quarter
 - Largely driven by lower average equity AUM and lower performance fees partially offset by one additional day
- Operating expenses \$540.1M, down \$44.0M or 8% from the prior quarter
 - Reflects lower revenue share compensation on lower revenue
 - Lower seasonal costs (prior quarter included higher deferred compensation expense for retirement-eligible employees)
- Operating income \$133.0M, operating margin 19.8%
- Operating income, as adjusted¹ \$128.3M, operating margin, as adjusted¹ 24.0%
- Other non-operating expenses \$42.5M, up \$38.0M from the prior quarter
 - Losses on corporate investments not offset in compensation
 - Loss on Australian dollar hedge
- Retired 1.9M shares for approximately \$90M

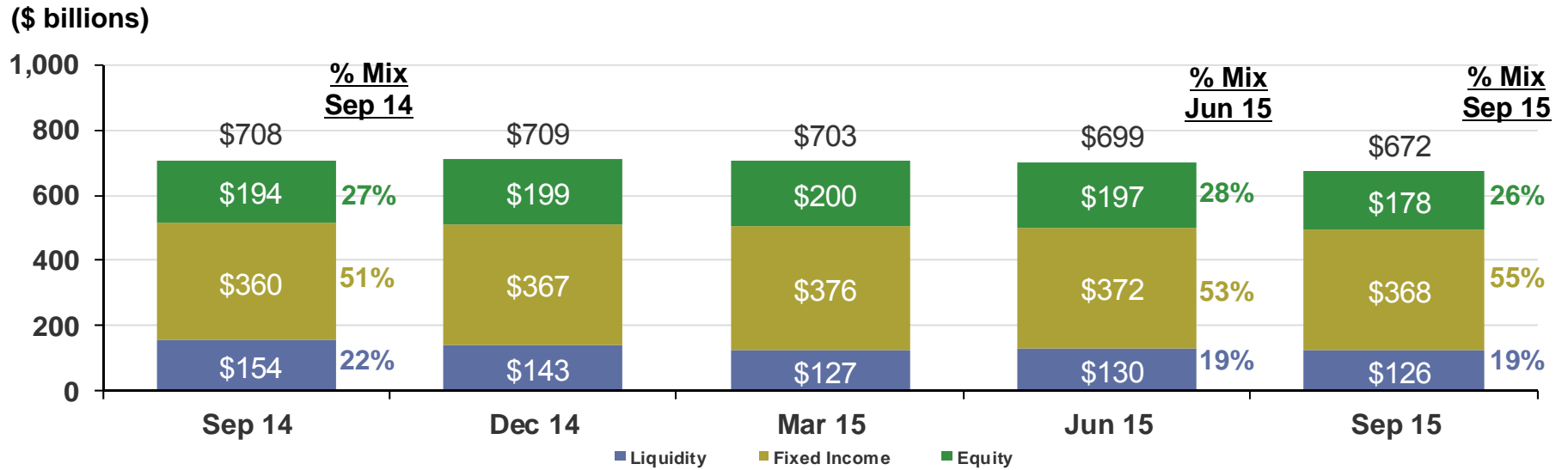
Operating Results Second Quarter FY 2016

(\$ millions, except per share amounts)	Sep 15 Qtr	Jun 15 Qtr	Sep 14 Qtr	\$ Change vs.	
				Jun 15 Qtr	Sep 14 Qtr
Operating Revenues	\$673.1	\$708.6	\$ 703.9	\$ (35.5)	\$ (30.8)
Operating Expenses	540.1	584.1	573.5	(44.0)	(33.4)
Operating Income	133.0	124.5	130.4	8.5	2.6
Net Income	64.3	94.5	4.9	(30.2)	59.4
Diluted EPS	0.58	0.84	0.04	(0.26)	0.54
Adjusted Income¹	99.1	129.3	40.6	(30.2)	58.5
Adjusted Income per diluted share¹	0.89	1.14	0.35	(0.25)	0.54
Operating Margin, as adjusted¹	24.0%	22.6%	23.8%		
Effective Tax Rate GAAP²	30.5%	20.9%	43.1%		

¹ See Appendix for GAAP reconciliation

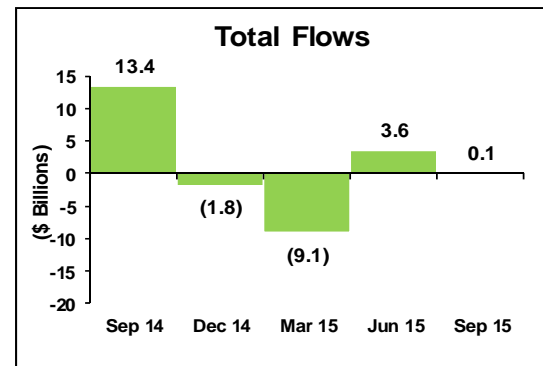
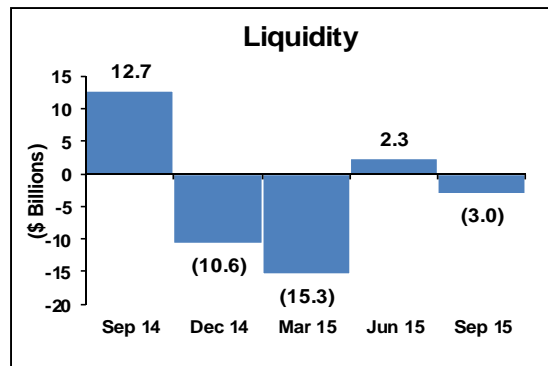
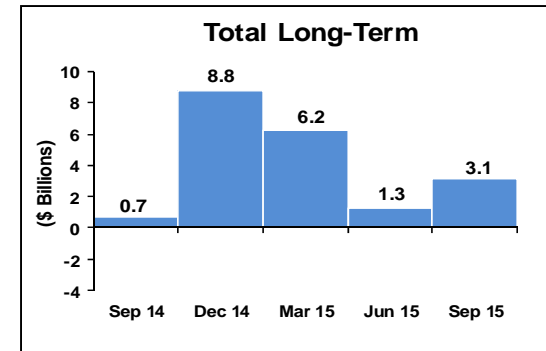
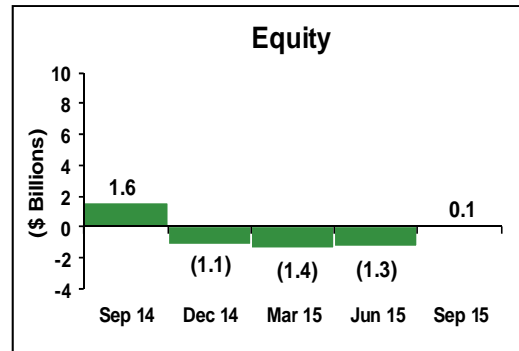
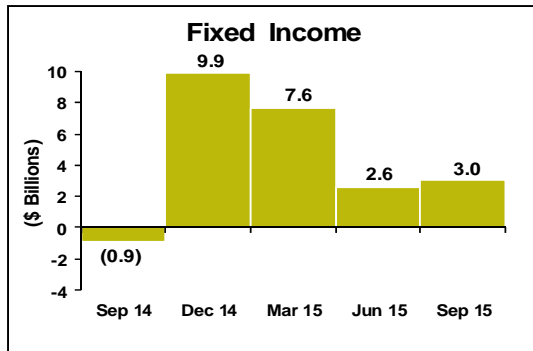
² Includes the impact of Consolidated Investment Vehicles (CIVs) of 0.5%, 0.0%, and 0.2% in Sep 15, Jun 15, and Sep 14, respectively

Assets Under Management by Asset Class



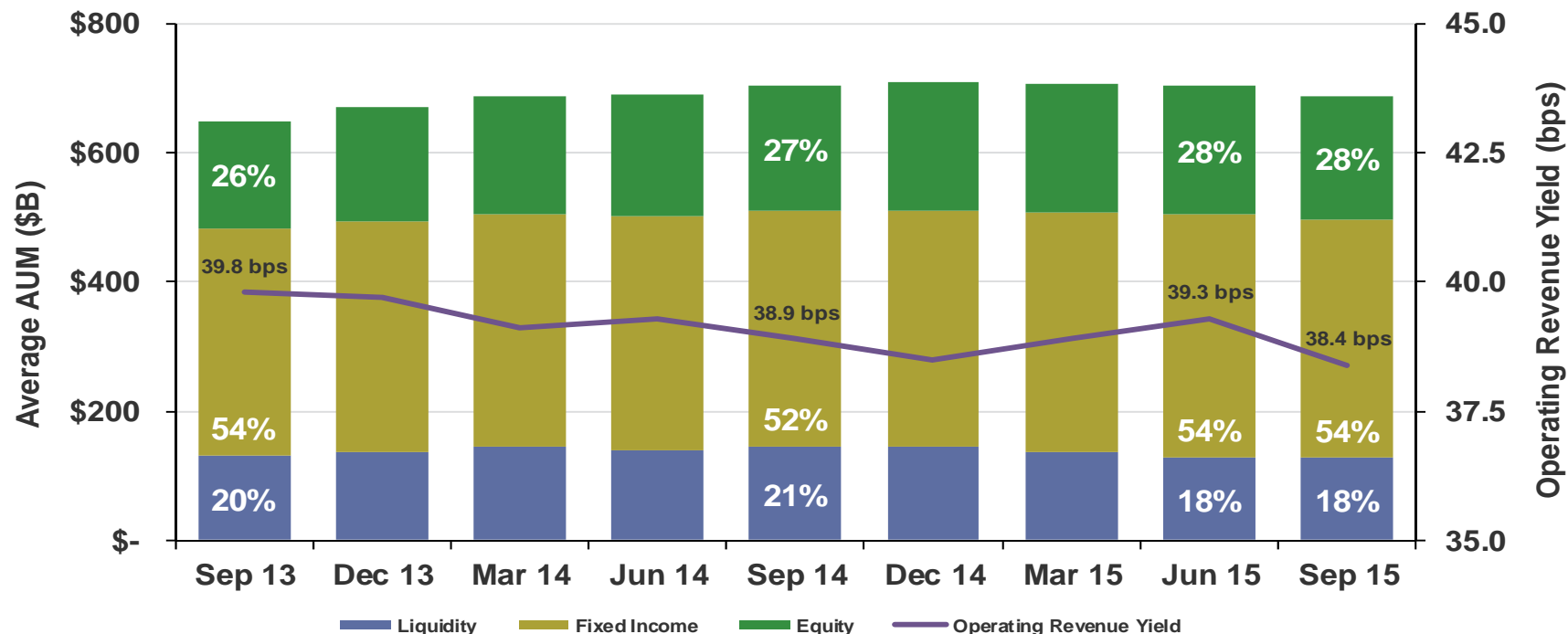
- AUM decreased \$27.1B from prior quarter
 - Market depreciation of \$22.6B and negative FX impact of \$4.6B
 - Long-term inflows of \$3.1B
 - Liquidity outflows of \$3.0B

Net Flows - Quarterly



- Fixed Income inflows driven by Limited Duration \$1.4B, Corporate Bond \$1.4B, Tax Efficient \$1.1B, and Intermediate Municipals \$0.8B, partially offset by outflows of Core Plus \$1.6B
- Equity inflows driven by Custom Multi-Asset and Dynamic Allocations of \$3.3B, largely offset by outflows of Small Cap \$2.5B, and Equity Income \$0.7B

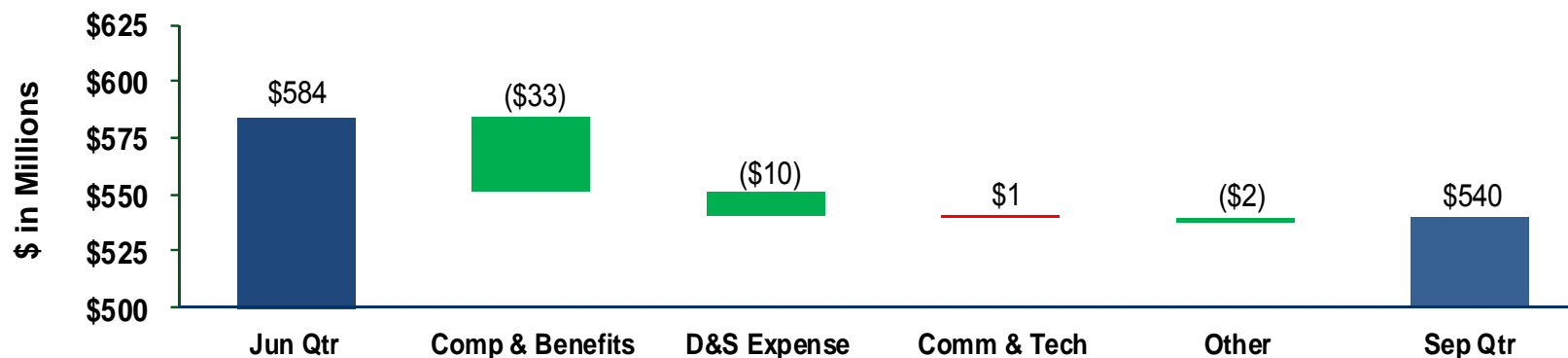
Operating Revenue Yield¹ / Average AUM



- Total average AUM down \$16.7B
 - Fixed Income and Equity AUM are down \$5.1B and \$10.1B, respectively
 - Liquidity AUM down \$1.5B
- Operating revenue yield down 0.9 bps primarily due to lower average equity AUM

¹ Operating revenues = total operating revenues less performance fees
 Performance fees for Sep14, Jun 15, and Sep 15 are \$14.0M, \$18.7M, and \$7.9M, respectively

Operating Expenses



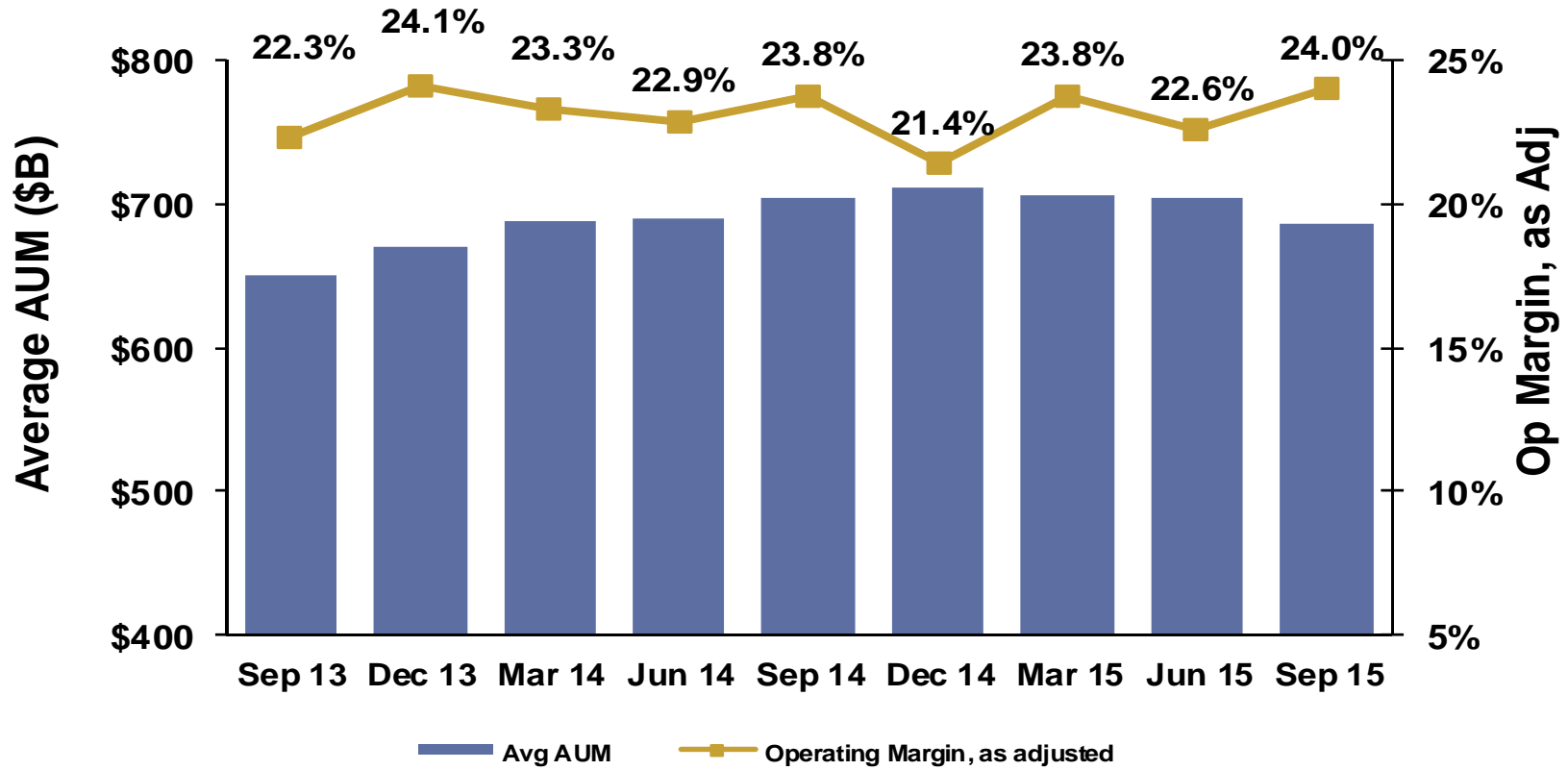
- D&S expense decreased primarily due to lower average AUM and costs related to merging fund ranges in the prior quarter, partially offset by one additional day in the quarter
- Decrease in other expenses primarily due to lower conference and advertising costs

Compensation and Benefits

(\$ millions)	Sep Qtr	% of Net Rev. ¹	Jun Qtr	% of Net Rev. ¹	\$ Change
Salary and incentives	\$ 235.0	44%	\$ 239.6	43%	\$ (4.6)
Benefits and payroll taxes	52.7	10%	72.7	13%	(20.0)
Subtotal Compensation and benefits	287.7	54%	312.3	56%	(24.6)
Transition costs and severance	0.2	0%	1.6	0%	(1.4)
MTM deferred comp. and seed investments	(5.5)	(1%)	1.2	0%	(6.7)
Total Compensation and benefits	<u>\$ 282.4</u>	53%	<u>\$ 315.1</u>	56%	<u>\$ (32.7)</u>

-
- Salary and incentives declined primarily due to lower net revenue
 - Decrease in Benefits and payroll taxes largely driven by incremental seasonal costs in the prior quarter:
 - Approximately \$9M Affiliate-related and offset in Salary and incentives
 - Additional \$11M related to seasonal payroll taxes and accelerated deferred compensation for retirement eligible employees

Operating Margin, as Adjusted

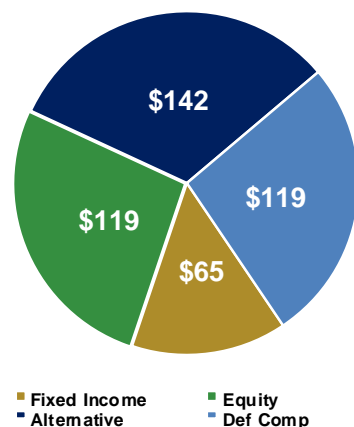


- Impact of incremental seasonal costs on prior quarter operating margin, as adjusted was 1.7%

Impact of Markets on Non-Operating Income - Other

(\$ millions)	Sep Qtr	Jun Qtr	Change
Other Income (Expense)	\$ (28.1)	\$ 5.7	\$ (33.8)
Less:			
RARE Australian dollar hedge loss	<u>(11.1)</u>	<u>-</u>	<u>(11.1)</u>
Other Inc (Exp) Ex RARE hedge loss	(17.0)	5.7	(22.8)
Other LM Investment activity ¹	<u>1.6</u>	<u>4.0</u>	<u>(2.4)</u>
MTM on deferred comp. & seed investments	(18.6)	1.7	(20.4)
MTM offset in comp. & benefits	<u>(5.5)</u>	<u>1.2</u>	<u>(6.7)</u>
MTM on deferred comp. & seed Investments, not offset²	<u>\$ (13.1)</u>	<u>\$ 0.5</u>	<u>\$ (13.6)</u>
EPS Impact	\$ (0.08)	\$ 0.00	\$ (0.08)

MV of Def. Comp & Seed Inv. (\$M)

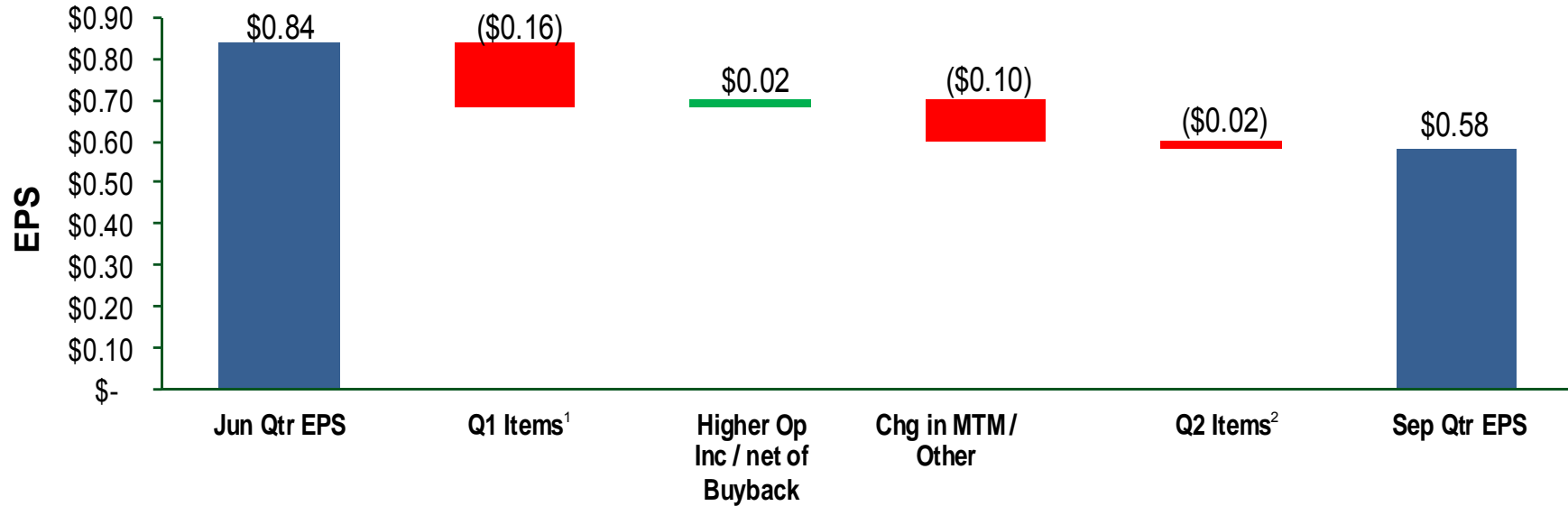


	MTM Change ²
Alternative	(5.6)
Equity	(5.0)
Fixed Income	(1.1)
Deferred Comp	(1.9)
	<u>(13.6)</u>

¹ Other LM Investment activity includes dividend and partnership income

² Net of market hedges and compensation and benefit offsets

Second Quarter Earnings Per Share Rollforward



- Current quarter largely impacted by mark to market losses on corporate investments not offset in compensation
- Q2 items include costs related to RARE Infrastructure acquisition and discrete tax benefit adjustments

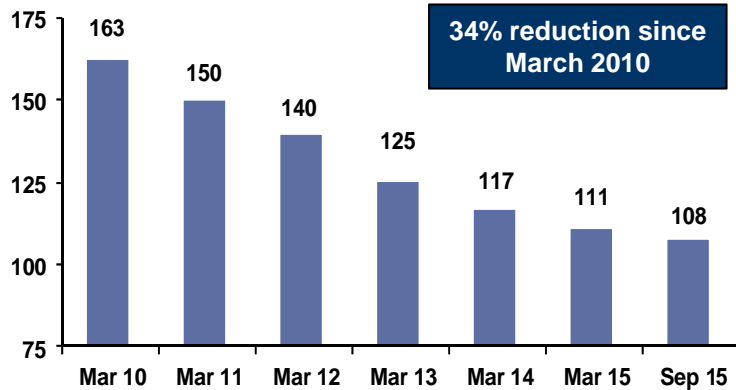
¹ Primarily represents increase in the value of deferred tax assets due to New York City Tax Code changes

² Australian dollar hedge loss \$11.1M, other RARE acquisition costs \$0.7M and discrete tax benefit \$5.0M

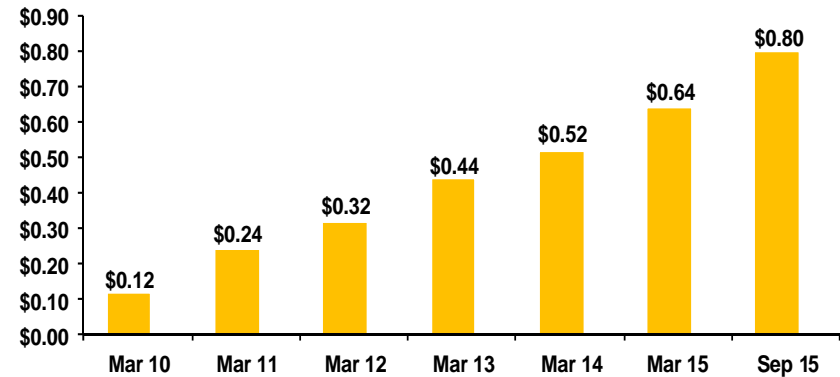
Industry Leader in the Rate of Returning Capital

Since March 2010 returned \$2.5 Billion

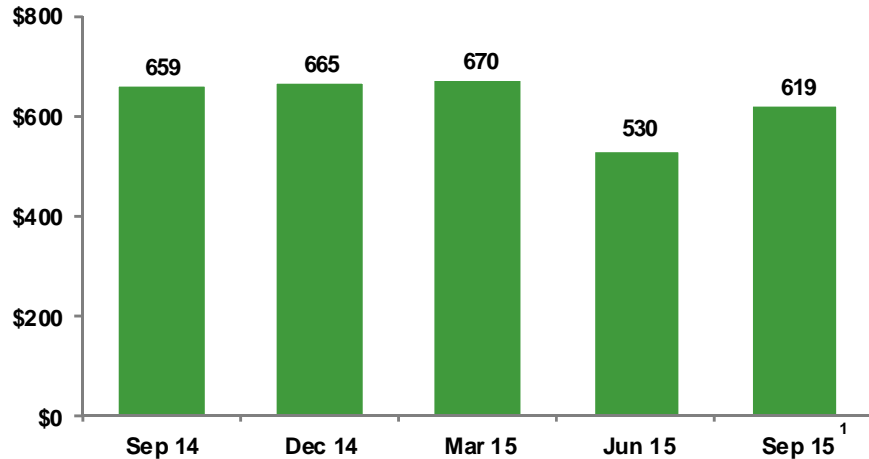
Shares Outstanding (M)



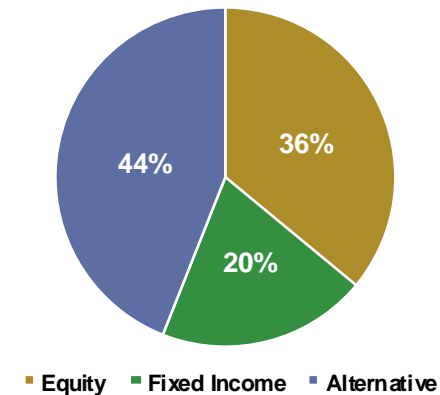
Annualized Quarterly Dividend Declared (Per Share)



Quarterly Cash Position (\$M)



Seed Investments of \$326M²



¹ Includes \$178M used for purchase of RARE Infrastructure on October 21, 2015

² Market value as of September 30, 2015

Key Takeaways

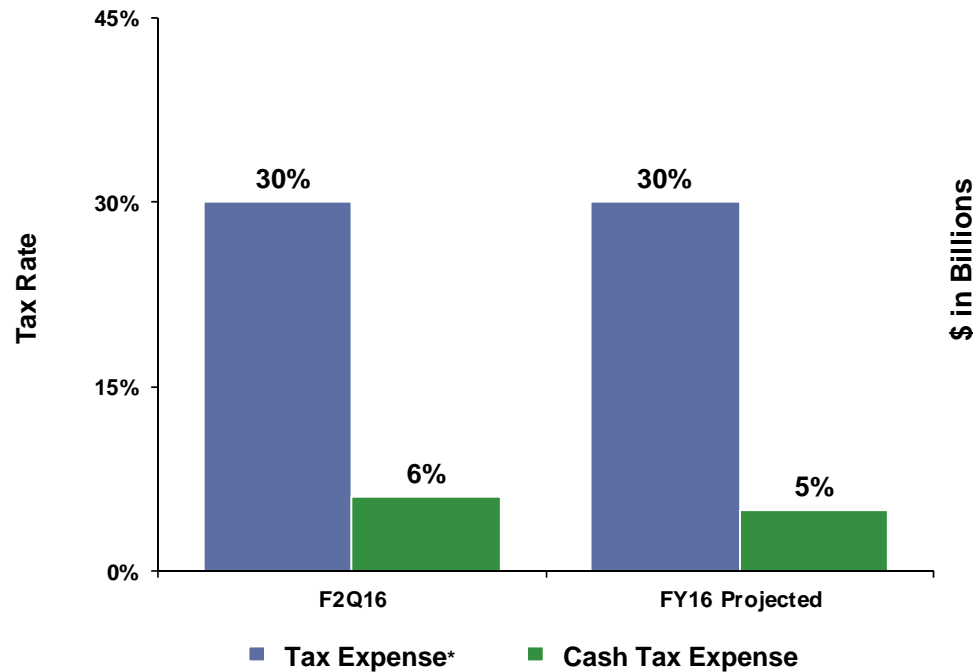
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- Solid operating performance in a challenging global environment
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- Continued organic growth and strong new business pipeline
-
- Strong Fixed Income franchises, well positioned for normalized rates
-
- Continued focus on diversification
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- Prudent capital deployment
-

Appendix

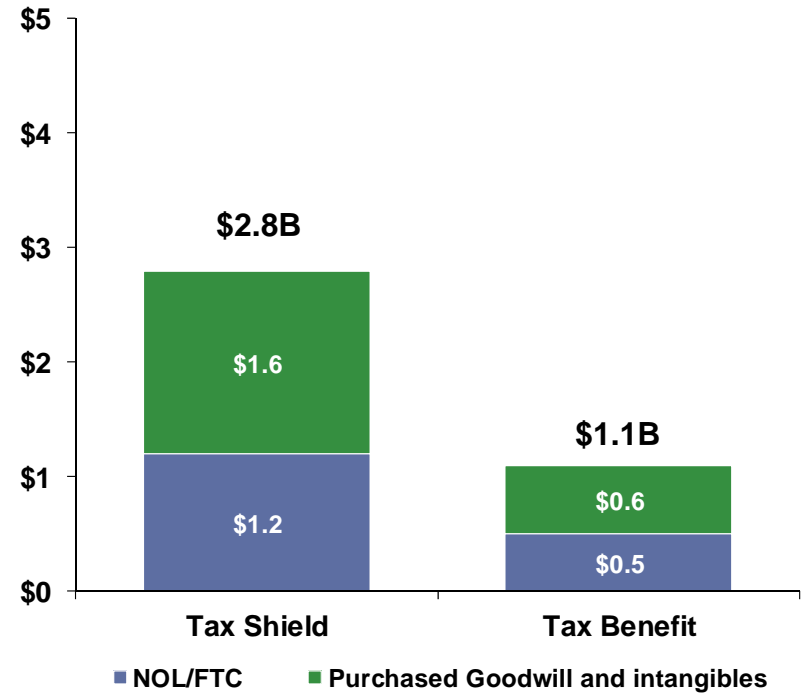


Appendix – Significant Tax Benefit

\$2.8B of Future Income Sheltered



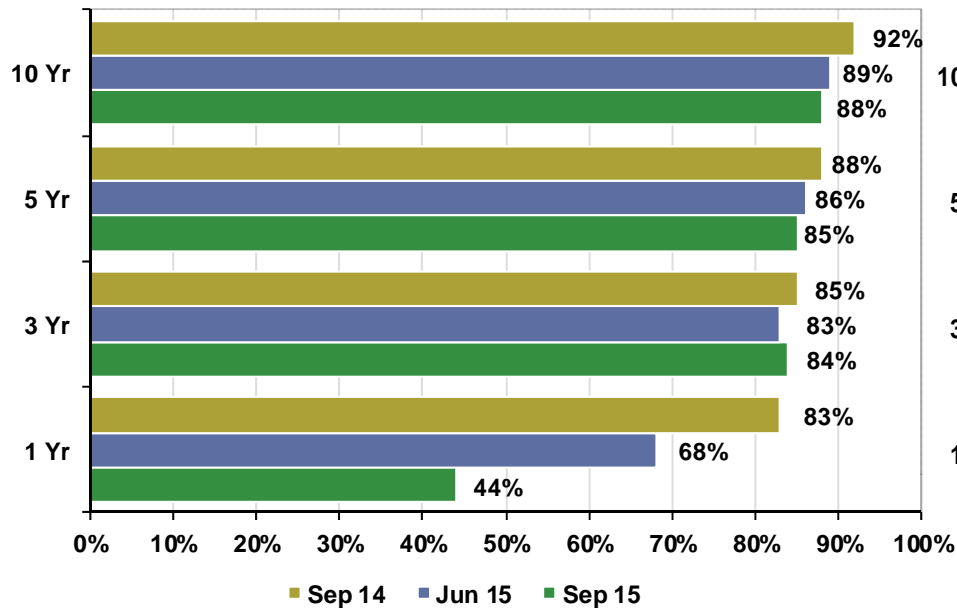
- F2Q16 tax rate reflects conclusion of certain tax examinations
- Lower cash tax rate due to higher anticipated use of tax shield in FY16



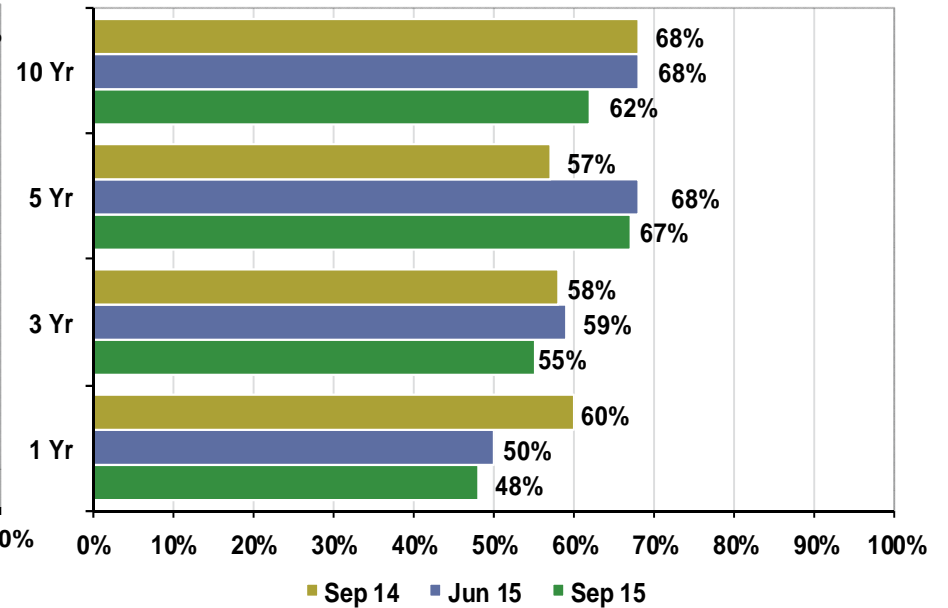
- Future income of \$2.8B is sheltered from state and federal income tax, based on usage of NOL, FTC carryforwards and amortization of tax deductible goodwill and intangibles

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.

Appendix – GAAP Reconciliation Adjusted Income¹

RECONCILIATION OF NET INCOME ATTRIBUTABLE TO LEGG MASON, INC. TO ADJUSTED INCOME¹

(\$ millions, except per share amounts)	Quarters Ended		
	Sep 15	Jun 15	Sep 14
Net Income Attributable to Legg Mason, Inc.	\$ 64.3	\$ 94.5	\$ 4.9
Plus:			
Amortization of intangible assets	0.7	0.7	0.5
Deferred tax amortization benefit on intangible assets	34.1	34.1	35.2
Adjusted Income	<u>\$ 99.1</u>	<u>\$ 129.3</u>	<u>\$ 40.6</u>
Net Income per Diluted Share Attributable to Legg Mason, Inc.	\$ 0.58	\$ 0.84	\$ 0.04
Plus:			
Amortization of intangible assets	-	-	-
Deferred tax amortization benefit on intangible assets	0.31	0.30	0.31
Adjusted Income per Diluted Share	<u>\$ 0.89</u>	<u>\$ 1.14</u>	<u>\$ 0.35</u>

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

Appendix – GAAP Reconciliation

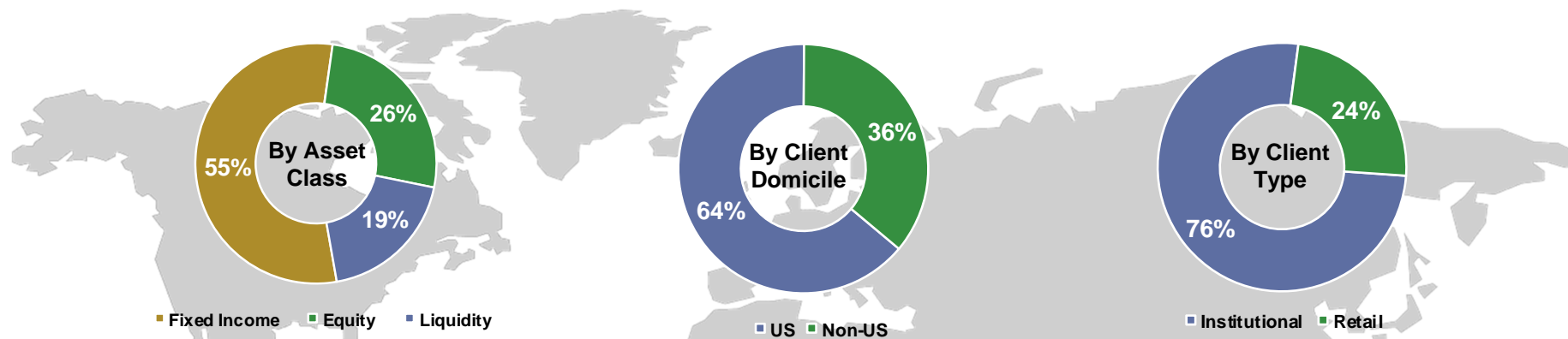
Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended								
	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15
Operating Revenues, GAAP basis	\$ 669.9	\$ 720.1	\$ 681.4	\$ 693.9	\$ 703.9	\$ 719.0	\$ 702.3	\$ 708.6	\$ 673.1
Plus (less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.5	0.5	0.3	0.2	0.2	0.2	0.2	0.1	0.1
Distribution and servicing expense excluding consolidated investment vehicles	(155.1)	(148.8)	(144.9)	(148.7)	(155.1)	(147.5)	(143.5)	(149.3)	(138.9)
Operating Revenues, as Adjusted	<u>\$ 515.3</u>	<u>\$ 571.8</u>	<u>\$ 536.8</u>	<u>\$ 545.4</u>	<u>\$ 549.0</u>	<u>\$ 571.7</u>	<u>\$ 559.0</u>	<u>\$ 559.4</u>	<u>\$ 534.3</u>
Operating Income, GAAP basis	\$ 106.4	\$ 121.7	\$ 119.3	\$ 119.6	\$ 130.4	\$ 119.4	\$ 128.9	\$ 124.5	\$ 133.0
Plus (less):									
Gains on deferred compensation and seed investments	4.2	6.5	4.4	4.5	(0.4)	2.1	3.1	1.2	(5.5)
Amortization of intangible assets	3.6	4.2	0.9	0.9	0.5	0.7	0.6	0.7	0.7
Contingent consideration fair value adjustment	-	5.0	-	-	-	-	-	-	-
Operating income of consolidated investment vehicles, net	0.6	0.6	0.5	0.2	0.2	0.2	0.3	0.1	0.1
Operating Income, as Adjusted	<u>\$ 114.8</u>	<u>\$ 138.0</u>	<u>\$ 125.1</u>	<u>\$ 125.2</u>	<u>\$ 130.7</u>	<u>\$ 122.4</u>	<u>\$ 132.9</u>	<u>\$ 126.5</u>	<u>\$ 128.3</u>
Operating Margin, GAAP basis	15.9%	16.9%	17.5%	17.2%	18.5%	16.6%	18.4%	17.6%	19.8%
Operating Margin, as Adjusted	22.3%	24.1%	23.3%	23.0%	23.8%	21.4%	23.8%	22.6%	24.0%

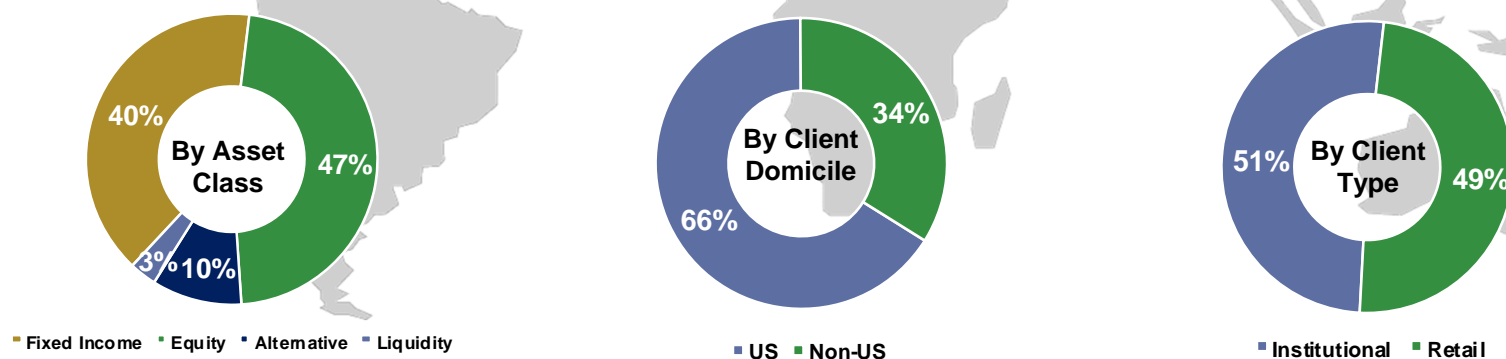
¹ See explanations for Use of Supplemental Data as Non-GAAP Financial Information in earnings release.

Appendix - Asset & Revenue Diversity

Total AUM \$672B



FYTD 16 Operating Revenues \$1.4B



Appendix – Additional Investment Performance Detail % of Strategy AUM Beating Benchmark¹

	September 30, 2015				September 30, 2014			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (includes liquidity)	44%	84%	85%	88%	83%	85%	88%	92%
Equity:								
Large cap	33%	72%	64%	90%	62%	65%	77%	87%
Small cap	16%	14%	28%	52%	49%	30%	28%	63%
Total Equity (includes other equity)	40%	66%	61%	81%	57%	58%	63%	81%
Fixed Income:								
US taxable	22%	91%	93%	85%	90%	93%	94%	93%
US tax-exempt	100%	100%	100%	100%	97%	100%	100%	100%
Global taxable	14%	78%	85%	83%	89%	88%	97%	93%
Total Fixed Income	24%	88%	91%	85%	90%	92%	95%	94%

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

	September 30, 2015				September 30, 2014			
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Total (excludes liquidity)	48%	55%	67%	62%	60%	58%	57%	68%
Equity:								
Large cap	35%	60%	73%	47%	75%	74%	66%	60%
Small cap	9%	9%	16%	58%	32%	20%	20%	70%
Total Equity (includes other equity)	33%	45%	56%	50%	51%	51%	47%	62%
Fixed Income:								
US taxable	78%	82%	87%	82%	80%	87%	91%	82%
US tax-exempt	66%	59%	72%	90%	68%	54%	58%	86%
Global taxable	36%	38%	84%	21%	83%	69%	84%	71%
Total Fixed Income	67%	69%	82%	80%	77%	72%	78%	83%

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 September 30, 2015, 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.