



# Fiscal First Quarter 2018 Review

July 26, 2017

**Joseph A. Sullivan**  
Chairman & Chief Executive Officer

**Peter H. Nachtwey**  
Chief Financial Officer

Brandywine Global  
Clarion Partners  
ClearBridge Investments  
EnTrustPermal  
Martin Currie  
QS Investors  
RARE Infrastructure  
Royce & Associates  
Western Asset

**The Power of Choice: Diversified by Design**

# 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, 2017 and in the Company’s quarterly reports on Form 10-Q.











## **Non-GAAP Financial Measures**

This presentation includes non-GAAP financial information. This non-GAAP information is in addition to, not a substitute for or superior to, measures of financial performance or liquidity 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

<b>Financial Results</b>	<ul style="list-style-type: none"><li>• Net Income \$50.9M or \$0.52 per diluted share<ul style="list-style-type: none"><li>– Results include the unfavorable net impact of certain items totaling \$21.2M or \$0.14 per diluted share</li></ul></li></ul>
<b>Assets Under Management/ Flows</b>	<ul style="list-style-type: none"><li>• Total AUM \$741B</li><li>• Long-term net inflows \$0.5B<ul style="list-style-type: none"><li>– Equity and Fixed Income inflows \$1.0B and \$0.3B, respectively</li><li>– Alternative outflows of \$0.8B</li></ul></li><li>• Realizations of \$1.3B</li><li>• Reclass of \$16.0B of retail SMA assets previously in AUA</li></ul>
<b>Global Distribution</b>	<ul style="list-style-type: none"><li>• Global Distribution quarterly gross and net sales of \$20.0B and \$5.7B, respectively</li><li>• Positive net sales in the past 14 of 15 quarters</li><li>• Quarterly global redemption rate at 19%</li></ul>
<b>Investment Performance<sup>1</sup></b>	<ul style="list-style-type: none"><li>• 73% and 81% of strategy AUM beat benchmarks for the 3- and 5-year periods, respectively</li><li>• 63% and 69% of long-term US fund assets beat Lipper category average for the 3- and 5-year periods, respectively</li></ul>
<b>Capital Management</b>	<ul style="list-style-type: none"><li>• Retired 2.4M shares for approximately \$90M. In addition, retired 0.3M shares for approximately \$12M under net share settlement of annual deferred comp award vesting</li><li>• \$0.28 per share quarterly dividend</li></ul>
<b>Other Highlights</b>	<ul style="list-style-type: none"><li>• Launched three ClearBridge ETFs, which included two ESG funds in May</li><li>• Launched Royce ETF in July</li></ul>

## First Quarter Overview (\$ billions)

Entity	Ending AUM	Qtr/Qtr % Change	Net LT Flows / Realizations <sup>1</sup>	Unfunded Wins / Committed Uncalled Capital
 <b>LEGG MASON</b> GLOBAL ASSET MANAGEMENT	\$741.2	2%	\$0.5 / (\$1.3)	\$8.1 / \$3.1
 <b>WESTERN ASSET</b>	422.7	-1%	0.3	4.1
 <b>ClearBridge</b> Investments	127.0	15%	1.9	2.3
 Brandywine <b>GLOBAL</b>	71.5	3%	(0.4)	0.1
 <b>CLARION PARTNERS</b>	42.8	(1%)	0.9 / (1.3)	0.0 / 1.6
 <b>Royce &amp; Associates</b>	17.3	(3%)	(0.8)	0.0
 <b>EnTrust Permal</b>	19.5	0%	(0.2) / (0.0)	0.8 / 1.5
 <b>RARE</b>	4.2	(22%)	(1.4)	0.0
 <b>MARTIN CURRIE</b>	19.3	8%	1.4	0.6
 <b>QS Investors</b>	15.7	(5%)	(1.2)	0.2

<sup>1</sup> Realizations represent investment manager-driven distributions primarily related to the sale of assets. Realizations are specific to our alternative managers and do not include client-driven distributions (e.g. client requested redemptions, liquidations or asset transfers)

# Global Distribution

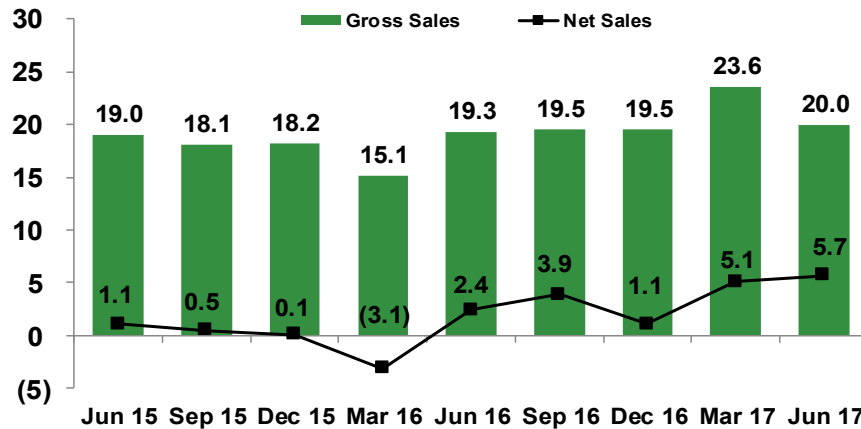
## Total Long-Term Assets<sup>1</sup>: \$312B

### Distribution Highlights

- Gross sales of \$20.0B for F1Q18
  - Down 15% from F4Q17
- Net sales of \$5.7B vs \$5.1B in F4Q17
  - Up 12% from F4Q17
- Positive net sales for last 14 of 15 quarters
- Quarterly global redemption rate at 19%
  - US redemption rate 18%

(\$ Billions)	F1Q18	F4Q17	F1Q17
<b>Gross Sales<sup>1</sup>:</b>			
US	\$14.1	\$16.3	\$15.0
Int'l	5.9	7.3	4.3
<b>Total</b>	<b>\$20.0</b>	<b>\$23.6</b>	<b>\$19.3</b>
<b>Net Sales<sup>1</sup>:</b>			
US	\$3.1	\$1.5	\$ 1.4
Int'l	2.6	3.6	1.0
<b>Total</b>	<b>\$5.7</b>	<b>\$ 5.1</b>	<b>\$ 2.4</b>

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



### Top Funds Driving Gross Sales June FYTD 18

- Martin Currie Australian High Dividend Equity Fund
- ClearBridge Large Cap Growth Fund
- Western Asset Core Plus Bond Fund
- Western Asset Macro Opportunities Bond Fund
- Western Asset Core Bond Fund
- ClearBridge Aggressive Growth Fund
- Brandywine Absolute Return Opportunities Fund
- Brandywine Global Opportunities Bond Fund
- Western Asset Managed Municipals Fund
- ClearBridge U.S. Large Cap Growth Fund

<sup>1</sup> 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 June 30, 2017 long-term assets include \$0.3B of AUA. Quarterly AUA gross and net sales for F1Q18 each are \$0.0B, and for F4Q17 are \$2.4B and \$1.3B, respectively

# Financial Highlights First Quarter FY 2018

- Net income \$50.9M, or \$0.52 per diluted share
  - Non-cash impairment charges of \$34.0M or \$0.24 per diluted share
  - Acquisition and transition-related costs of \$2.6M or \$0.02 per diluted share
  - Corporate severance costs of \$2.0M or \$0.01 per diluted share
  - Contingent consideration credits of \$16.6M or \$0.12 per diluted share
  - Net tax credits of \$0.8M or \$0.01 per diluted share
- Average AUM \$740.3B, up \$21.4B
  - Average long-term AUM increased \$26.0B compared to prior quarter
    - Includes impact of reclassification of Assets Under Advisement<sup>1</sup> of \$12.8B
- Operating revenues \$793.8M, increased \$70.7M or 9.8% from the prior quarter
  - Increase is largely due to higher pass-through performance fees at Clarion, higher average long-term AUM and one additional day in the quarter
- Operating expenses \$686.6M, up \$73.4M or 12.0% from the prior quarter
  - Current quarter includes higher compensation and benefits largely due to pass-through performance fees at Clarion and seasonal factors, and intangible asset impairment charges, partially offset by contingent consideration credits. The prior quarter included a Royce MEP charge
- Operating income \$107.2M, operating margin 13.5%
- Operating income, as adjusted<sup>2</sup> \$136.5M, operating margin, as adjusted<sup>2</sup> 22.5%

<sup>1</sup> Effective April 1, 2017, Assets Under Management include certain assets which were previously included in Assets Under Advisement, principally retail separately managed account programs that operate and have fee rates comparable to programs managed on a fully discretionary basis

<sup>2</sup> See Appendix for GAAP reconciliation

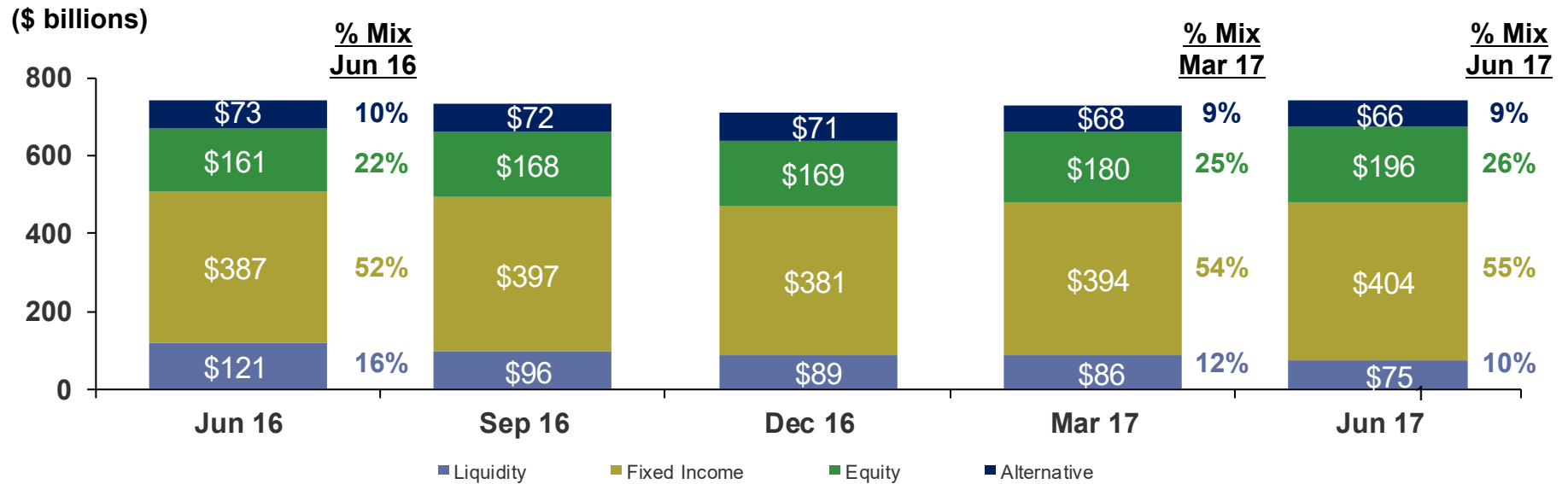
# Operating Results First Quarter FY 2018

(\$ millions, except per share amounts)	Jun 17 Qtr	Mar 17 Qtr	Jun 16 Qtr	\$ Change vs.	
				Mar 17 Qtr	Jun 16 Qtr
<b>Operating Revenues</b>	\$793.8	\$723.1	\$700.2	\$70.7	\$93.6
<b>Operating Expenses</b>	686.6	613.2	626.6	73.4	60.0
<b>Operating Income</b>	107.2	109.9	73.6	(2.7)	33.6
<b>Net Income (Loss)</b>	50.9	75.9	33.5	(25.0)	17.4
<b>Diluted EPS</b>	0.52	0.76	0.31	(0.24)	0.21
<b>Operating Margin, as adjusted<sup>1</sup></b>	22.5%	20.6%	11.3%		
<b>Effective Tax Rate GAAP<sup>2</sup></b>	30.8%	12.2%	25.2%		

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

<sup>2</sup> Includes the impact of Consolidated Investment Vehicles (CIVs) of (0.2%), (0.4%), and (1.1%) in Jun 17, Mar 17, and Jun 16, respectively

# Assets Under Management by Asset Class



## Ending AUM

Long-term	<b>\$621</b>	\$637	\$621	\$642	<b>\$666</b>
Total	\$742	\$733	\$710	\$728	\$741

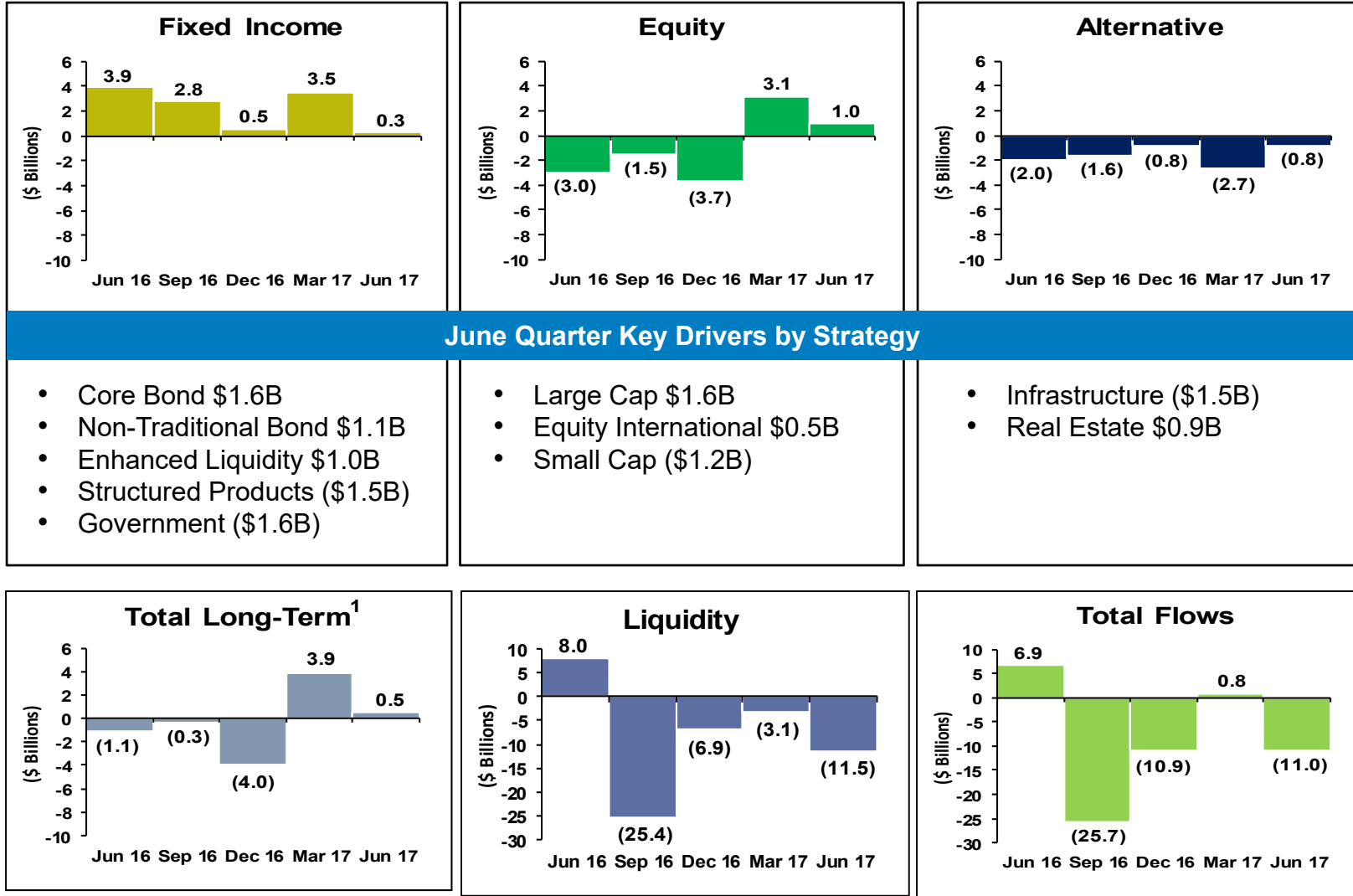
- AUM increased \$12.8B or 2% from prior quarter
  - Reclass of \$16.0B previously in Assets Under Advisement<sup>1</sup>
  - Long-term inflows of \$0.5B
  - Realizations<sup>2</sup> of \$1.3B
  - Liquidity outflows of \$11.5B
  - Market appreciation/other of \$8.4B and positive FX impact of \$0.7B

<sup>1</sup> Effective April 1, 2017, Assets Under Management include certain assets which were previously included in Assets Under Advisement, principally retail separately managed account programs that operate and have fee rates comparable to programs managed on a fully discretionary basis. The AUA as of the quarters ended June 2016 through March 2017 were \$11.3B, \$12.8B, \$13.7B and \$16.0B, respectively

<sup>2</sup> Realizations represent investment manager-driven distributions primarily related to the sale of assets. Realizations are specific to our alternative managers and do not include client-driven distributions (e.g. client requested redemptions, liquidations or asset transfers)

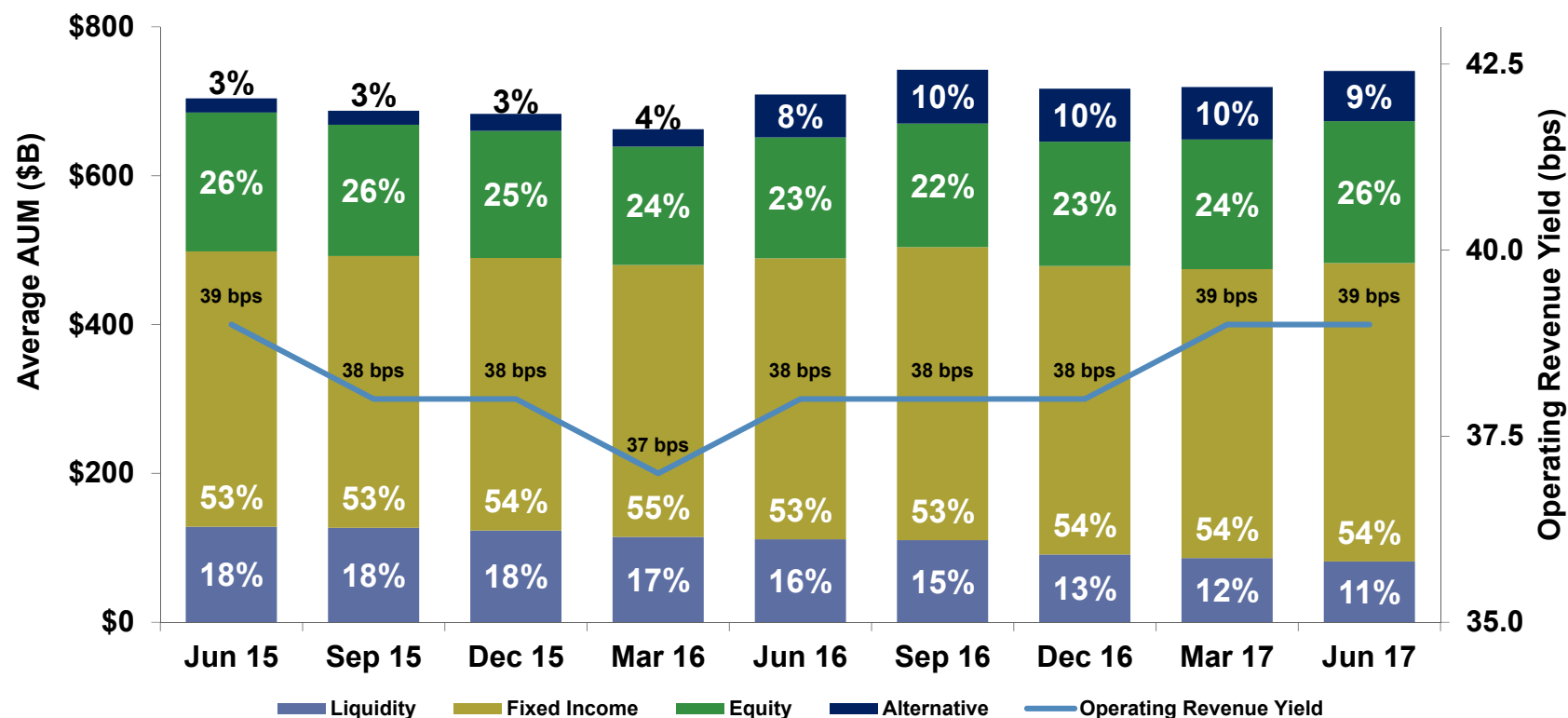


# Net Flows by Asset Class – Quarterly



<sup>1</sup> Includes \$1.3B of retail separately managed account net inflows for the current period that related to the reclassified AUM. Excluded from prior period flows were net inflows of \$0.7B, \$0.7B, \$0.8B, and \$1.3B in Jun 16, Sep 16, Dec 16 and Mar 17, respectively, related to these accounts

# Operating Revenue Yield<sup>1</sup>



## Operating Revenue Yield by Asset Class (bps)

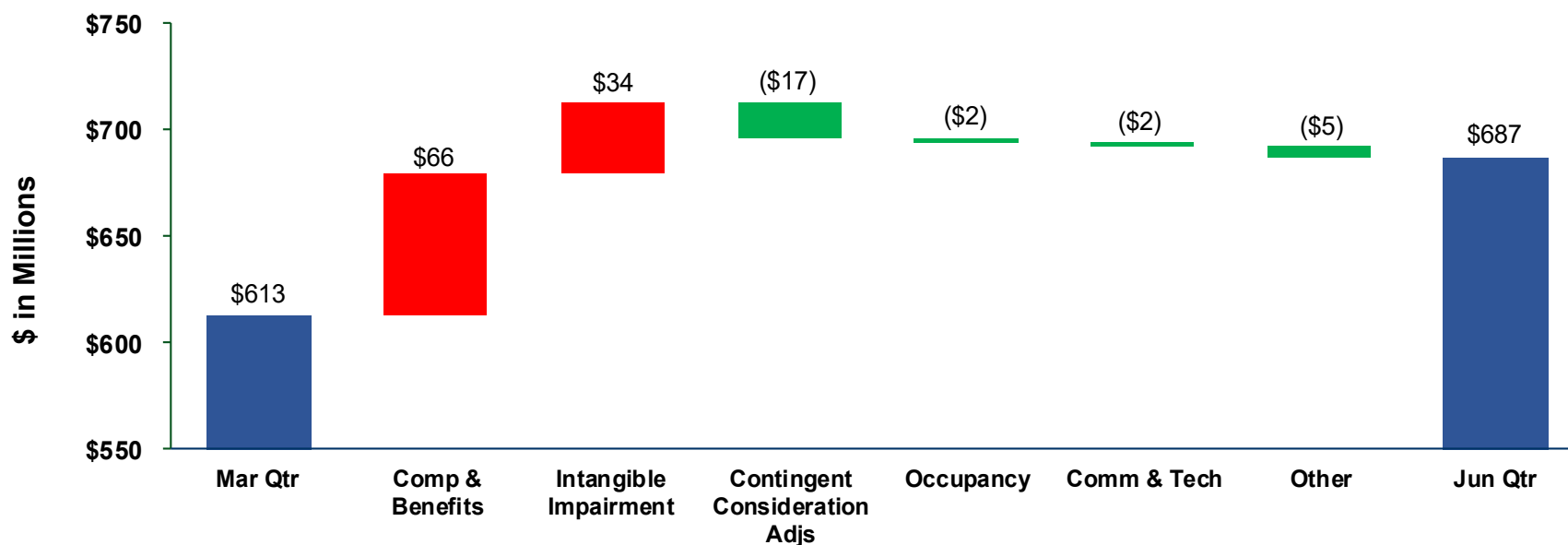
Alternatives <sup>2</sup>	133	132	112	110	75	70	68	69	67
Equity	73	71	69	66	67	66	67	68	64 <sup>3</sup>
Fixed Income	29	29	28	28	28	27	27	27	27
Liquidity	7	8	9	11	12	11	12	13	13

<sup>1</sup> Operating revenue yield equals total operating revenues less performance fees divided by average AUM

<sup>2</sup> Alternative fee rates declined due to the acquisitions of RARE, Clarion Partners, and EnTrust Capital in Oct 15, Apr 16, and May 16, respectively, whose products typically earn lower fees than our legacy alternative assets

<sup>3</sup> Jun 17 reflects reclass of certain assets which were previously included in Assets Under Advisement, lowering the Equity yield by 4 bps

# Operating Expenses



- Total Operating expenses increased \$74M from the prior quarter
  - Comp & Benefits increased primarily due to higher compensation from pass-through performance fees at Clarion and seasonal factors, partially offset by a Royce MEP charge last quarter
  - Non-cash impairments of intangible assets, partially offset by contingent consideration credit adjustments
  - Occupancy expense decreased largely due to a real estate charge in the prior quarter
  - Communications and technology decreased largely due to lower technology consulting fees and lower data center costs
  - Other expenses decreased primarily due to lower advertising and T&E

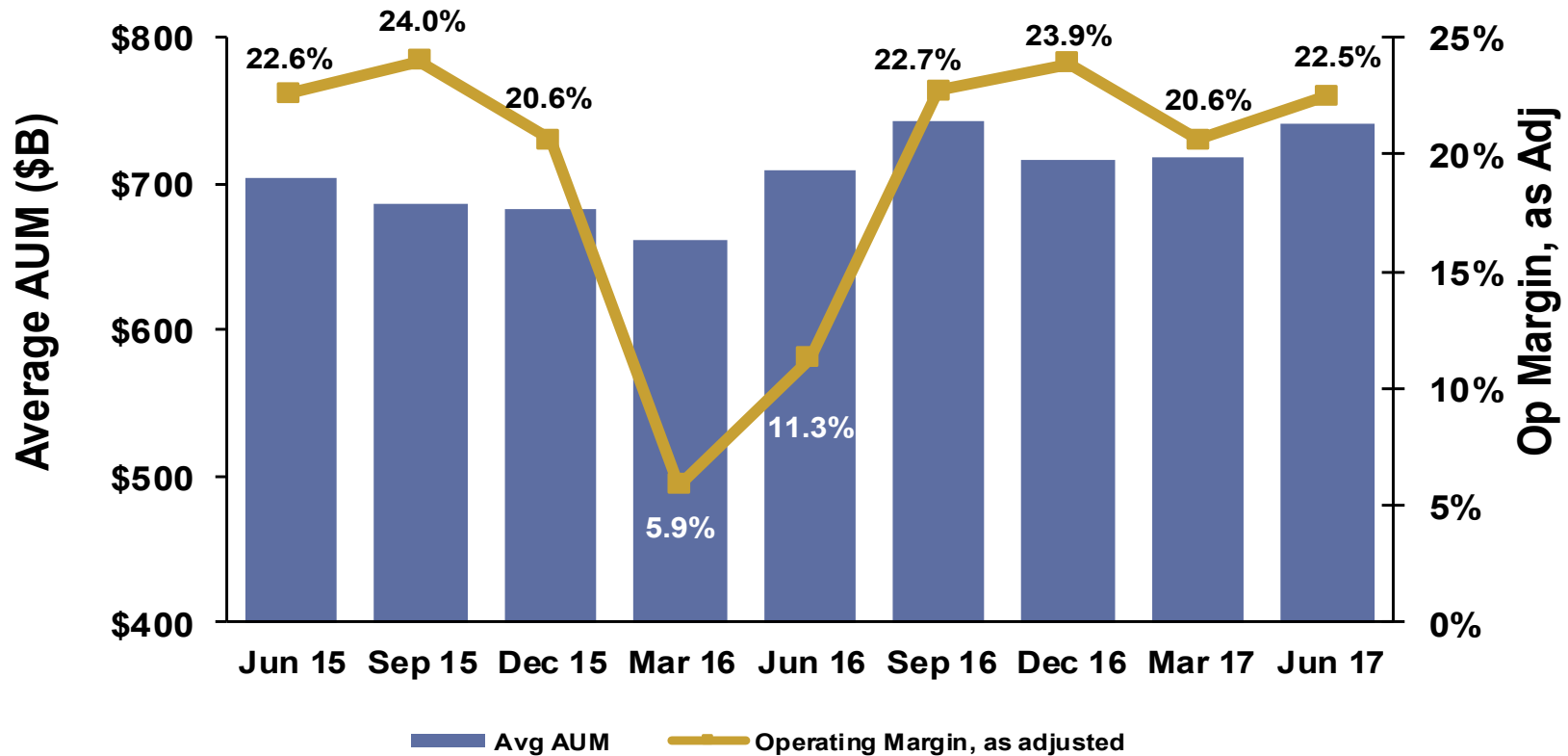
# Compensation and Benefits

(\$ millions)	% of		% of		\$ Change
	Jun Qtr	Net Rev. <sup>1</sup>	Mar Qtr	Net Rev. <sup>1</sup>	
<b>Salary, incentives and benefits</b>	<b>\$ 338.0</b>	<b>56%</b>	<b>\$ 323.6</b>	<b>55%</b>	<b>\$ 14.4</b>
Transition-related and severance costs	4.5	NM	5.1	1%	(0.6)
Royce MEP	-	-	4.6	NM	(4.6)
MTM deferred comp. and seed investments	<u>5.4</u>	<u>1%</u>	<u>5.4</u>	<u>1%</u>	<u>-</u>
Comp and benefits (ex pass-through perf. fees)	347.9	<u>57%</u>	338.7	<u>57%</u>	9.2
Clarion pass-through performance fees	<u>65.4</u>		<u>8.1</u>		<u>57.3</u>
Total Compensation and benefits	<u>\$ 413.3</u>		<u>\$ 346.8</u>		<u>\$ 66.5</u>

- Salary, incentives, and benefits increased \$14.4M largely due to seasonal compensation factors including accelerated deferred compensation related to retirement eligible employees, higher compensation on higher revenues and lower non-compensation expenses at revenue share affiliates
- Transition-related and severance costs includes corporate severance of \$2.0M

<sup>1</sup> Net Revenue is equal to Operating Revenues, as Adjusted. See appendix for GAAP reconciliation

# Operating Margin, as Adjusted



- June quarter impact of acquisition and transition-related costs and corporate severance costs totals 0.8%
- March quarter impact of a Royce MEP charge, corporate severance costs, and acquisition and transition-related costs totals 1.6%

Note: See Appendix for GAAP reconciliation

# First Quarter Earnings Per Share Roll Forward



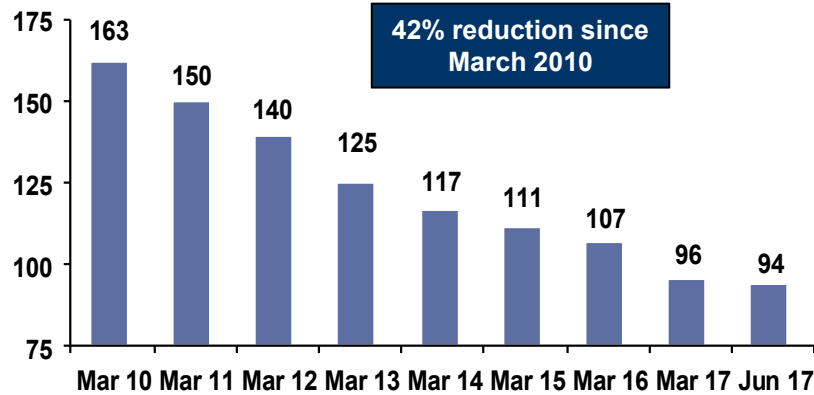
- Operating earnings increased due to higher average long-term AUM, one additional day of revenue and lower non-compensation expenses, partially offset by higher seasonal compensation
- Q1 items include intangible asset impairment charges \$0.24, acquisition and transition-related costs \$0.02 and corporate severance costs \$0.01, partially offset by contingent consideration credits \$0.12 and net tax credits \$0.01

<sup>1</sup> Q4 items include discrete tax credits \$0.15 and gains on sales of non-strategic managers \$0.03, partially offset by a Royce MEP charge \$0.03, corporate severance costs \$0.02, acquisition and transition-related costs \$0.01 and charge for revolving credit facility amendment \$0.01

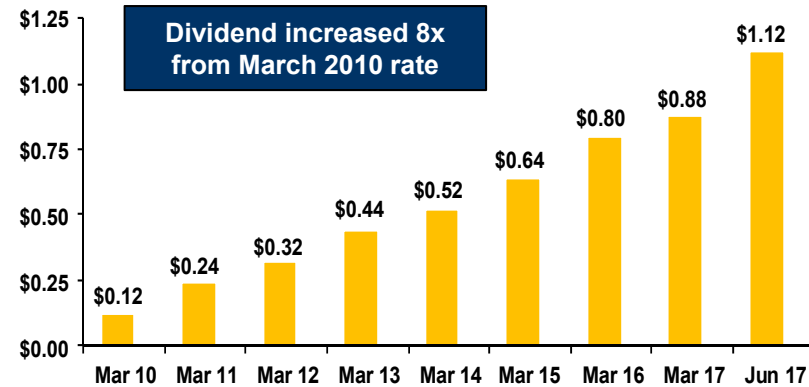
# An Industry Leader in the Rate of Returning Capital

Returned \$3.2 Billion since March 2010

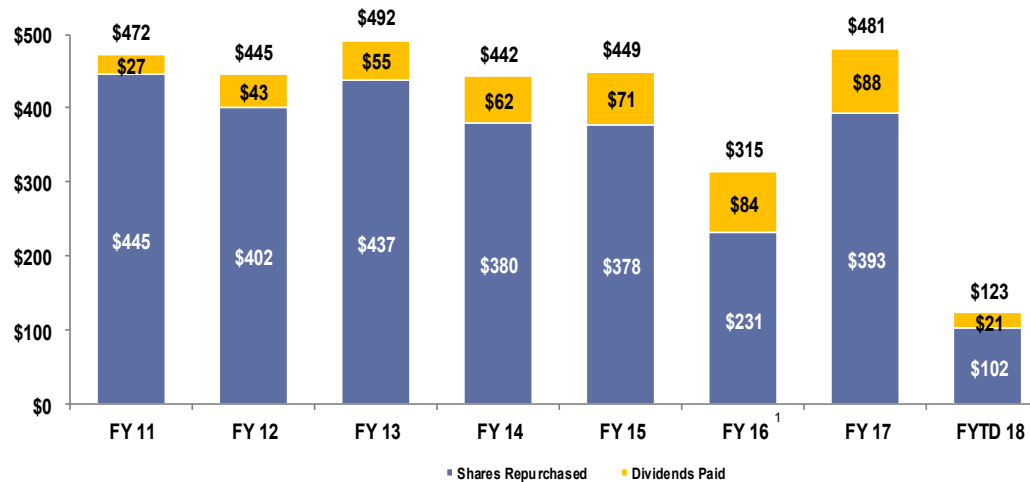
### Shares Outstanding (M)



### Annualized Quarterly Dividend Declared (Per Share)



### Total Capital Return (\$M)



<sup>1</sup> Share repurchases were suspended in October 2015 while work was progressing on acquisitions. The program resumed in late March 2016 and additional shares were repurchased in F1Q17

# Expanding Client Choice

## Asset Class & Investment Strategies

Brandywine  GLOBAL

 CLARION PARTNERS

**ClearBridge**  
Investments

EnTrustPermal

  
MARTIN CURRIE

 QS Investors

Royce & Associates

 RARE

 WESTERN ASSET

## Investment Products & Vehicles

Mutual Funds

SMA

ETFs

 **Precidian**<sup>1</sup>  
Investments

CITs

Private Funds

UCITs

## Distribution & Client Access

**LEGG MASON**  
Global Distribution

 Financial Guard

**IVEZT**<sup>2</sup>

<sup>1</sup> Minority investment (with an option to purchase a majority position)

<sup>2</sup> Minority investment



# Appendix

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Brandywine  GLOBAL

 CLARION PARTNERS

**ClearBridge**  
Investments

EnTrustPermal

  
MARTIN CURRIE

 QS Investors

 RARE

Royce&Associates

 WESTERN ASSET

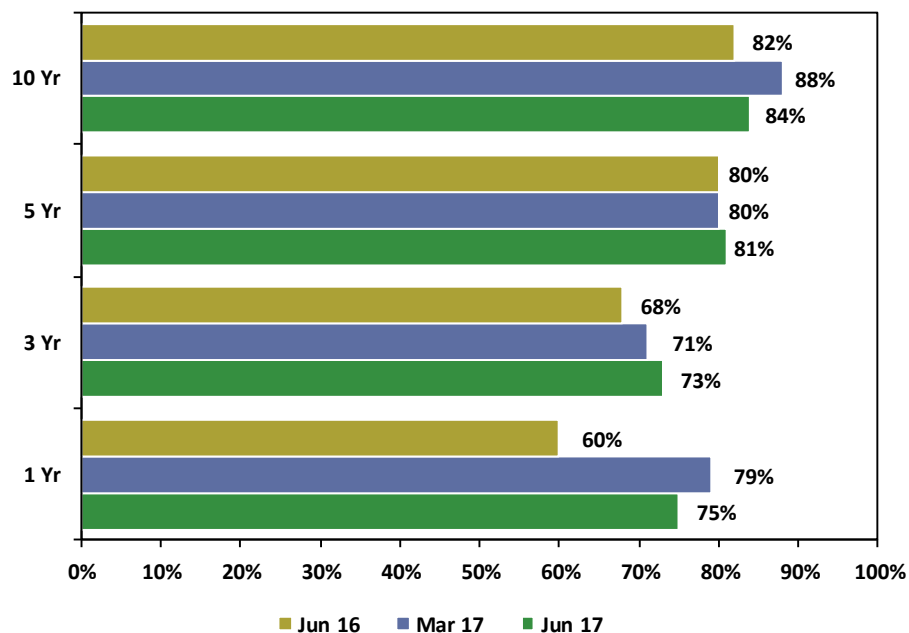
**LEGG MASON**  
GLOBAL ASSET MANAGEMENT

## Appendix - Asset & Revenue Diversification

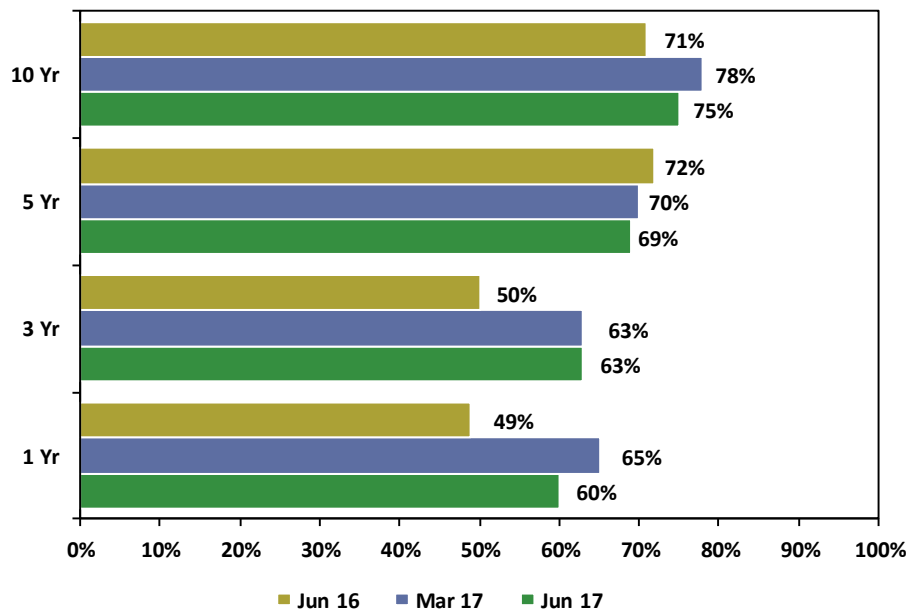
	Fixed Income	Equity	Alternatives	Liquidity	Total AUM	Operating Revenues
<b>AUM by Domicile:</b>						
US	63%	85%	81%	41%	68%	74%
Non US	37%	15%	19%	59%	32%	26%
<b>AUM by Client Type:</b>						
Institutional	86%	43%	94%	73%	74%	61%
Retail	14%	57%	6%	27%	26%	39%
<b>Total AUM</b>	55%	26%	9%	10%	100%	
<b>Operating Revenues</b>	34%	40%	22%	4%		100%

# Appendix – 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.

# Appendix – Additional Investment Performance Detail

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

	June 30, 2017			March 31, 2017			June 30, 2016		
	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year
<b>Total (includes liquidity)</b>	<b>75%</b>	<b>73%</b>	<b>81%</b>	<b>79%</b>	<b>71%</b>	<b>80%</b>	<b>60%</b>	<b>68%</b>	<b>80%</b>
<b>Equity:</b>									
<b>Large cap</b>	<b>41%</b>	<b>32%</b>	<b>64%</b>	<b>70%</b>	<b>27%</b>	<b>62%</b>	<b>35%</b>	<b>12%</b>	<b>50%</b>
<b>Small cap</b>	<b>45%</b>	<b>18%</b>	<b>25%</b>	<b>35%</b>	<b>19%</b>	<b>19%</b>	<b>66%</b>	<b>17%</b>	<b>31%</b>
<b>Total Equity (includes other equity)</b>	<b>45%</b>	<b>37%</b>	<b>63%</b>	<b>58%</b>	<b>33%</b>	<b>61%</b>	<b>42%</b>	<b>20%</b>	<b>50%</b>
<b>Fixed Income:</b>									
<b>US taxable</b>	<b>93%</b>	<b>88%</b>	<b>88%</b>	<b>94%</b>	<b>86%</b>	<b>87%</b>	<b>71%</b>	<b>86%</b>	<b>87%</b>
<b>US tax-exempt</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Global taxable</b>	<b>81%</b>	<b>75%</b>	<b>75%</b>	<b>75%</b>	<b>69%</b>	<b>75%</b>	<b>15%</b>	<b>57%</b>	<b>83%</b>
<b>Total Fixed Income</b>	<b>84%</b>	<b>85%</b>	<b>85%</b>	<b>89%</b>	<b>82%</b>	<b>84%</b>	<b>55%</b>	<b>78%</b>	<b>86%</b>
<b>Total Alternative<sup>2</sup></b>	<b>75%</b>	<b>85%</b>	<b>89%</b>	<b>45%</b>	<b>84%</b>	<b>88%</b>	<b>53%</b>	<b>76%</b>	<b>72%</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

<sup>2</sup> Alternative assets includes AUM managed by Clarion Partners, EnTrustPermal and RARE Infrastructure

## Appendix – Additional Investment Performance Detail

### % of Long-Term U.S. Fund Assets beating Lipper Category Average<sup>1</sup>

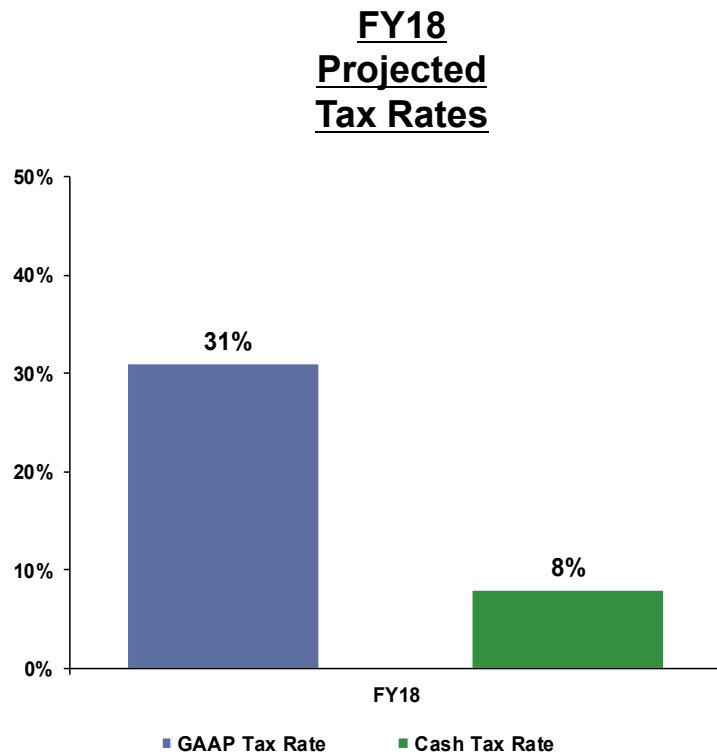
	June 30, 2017			March 31, 2017			June 30, 2016		
	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year
<b>Total (excludes liquidity)</b>	<b>60%</b>	<b>63%</b>	<b>69%</b>	<b>65%</b>	<b>63%</b>	<b>70%</b>	<b>49%</b>	<b>50%</b>	<b>72%</b>
<b>Equity:</b>									
<b>Large cap</b>	<b>31%</b>	<b>62%</b>	<b>74%</b>	<b>60%</b>	<b>62%</b>	<b>81%</b>	<b>48%</b>	<b>50%</b>	<b>90%</b>
<b>Small cap</b>	<b>73%</b>	<b>26%</b>	<b>32%</b>	<b>67%</b>	<b>21%</b>	<b>26%</b>	<b>31%</b>	<b>10%</b>	<b>21%</b>
<b>Total Equity (includes other equity)</b>	<b>44%</b>	<b>53%</b>	<b>62%</b>	<b>57%</b>	<b>49%</b>	<b>64%</b>	<b>40%</b>	<b>38%</b>	<b>67%</b>
<b>Fixed Income:</b>									
<b>US taxable</b>	<b>91%</b>	<b>87%</b>	<b>85%</b>	<b>92%</b>	<b>86%</b>	<b>85%</b>	<b>78%</b>	<b>83%</b>	<b>85%</b>
<b>US tax-exempt</b>	<b>49%</b>	<b>37%</b>	<b>59%</b>	<b>43%</b>	<b>60%</b>	<b>59%</b>	<b>7%</b>	<b>43%</b>	<b>58%</b>
<b>Global taxable</b>	<b>70%</b>	<b>78%</b>	<b>80%</b>	<b>50%</b>	<b>78%</b>	<b>82%</b>	<b>80%</b>	<b>37%</b>	<b>86%</b>
<b>Total Fixed Income</b>	<b>78%</b>	<b>74%</b>	<b>78%</b>	<b>75%</b>	<b>79%</b>	<b>78%</b>	<b>60%</b>	<b>66%</b>	<b>78%</b>
<b>Total Alternative<sup>2</sup></b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>98%</b>	<b>100%</b>	<b>100%</b>	<b>90%</b>	<b>100%</b>	<b>100%</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

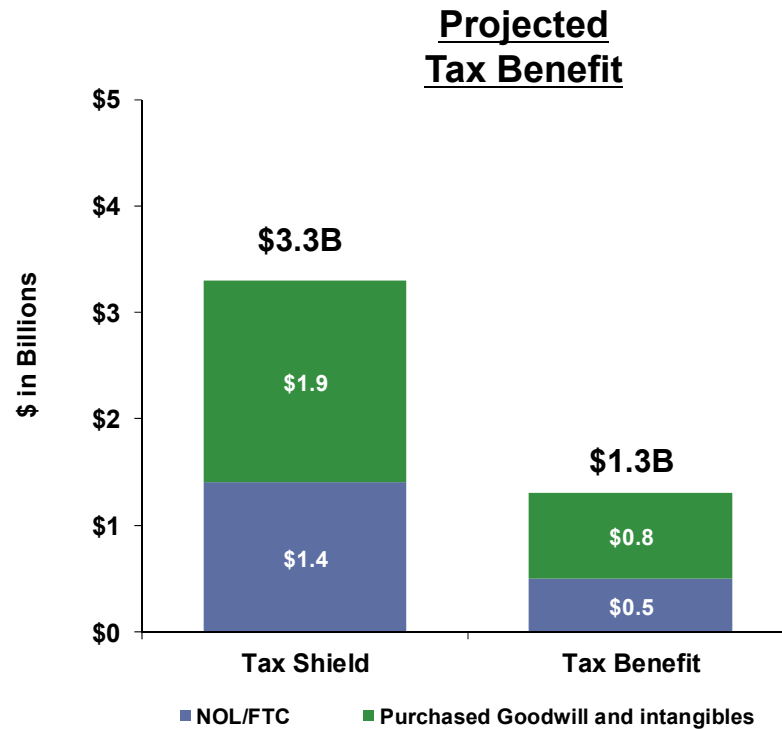
<sup>2</sup> Alternative assets includes AUM managed by EnTrustPermal and RARE Infrastructure totaling three funds

# Appendix - Significant Tax Benefit

## \$3.3B of Future Income Sheltered



- Increase in GAAP tax rate compared to FY17 driven by increased earnings in higher tax jurisdictions and absence of net discrete tax credits



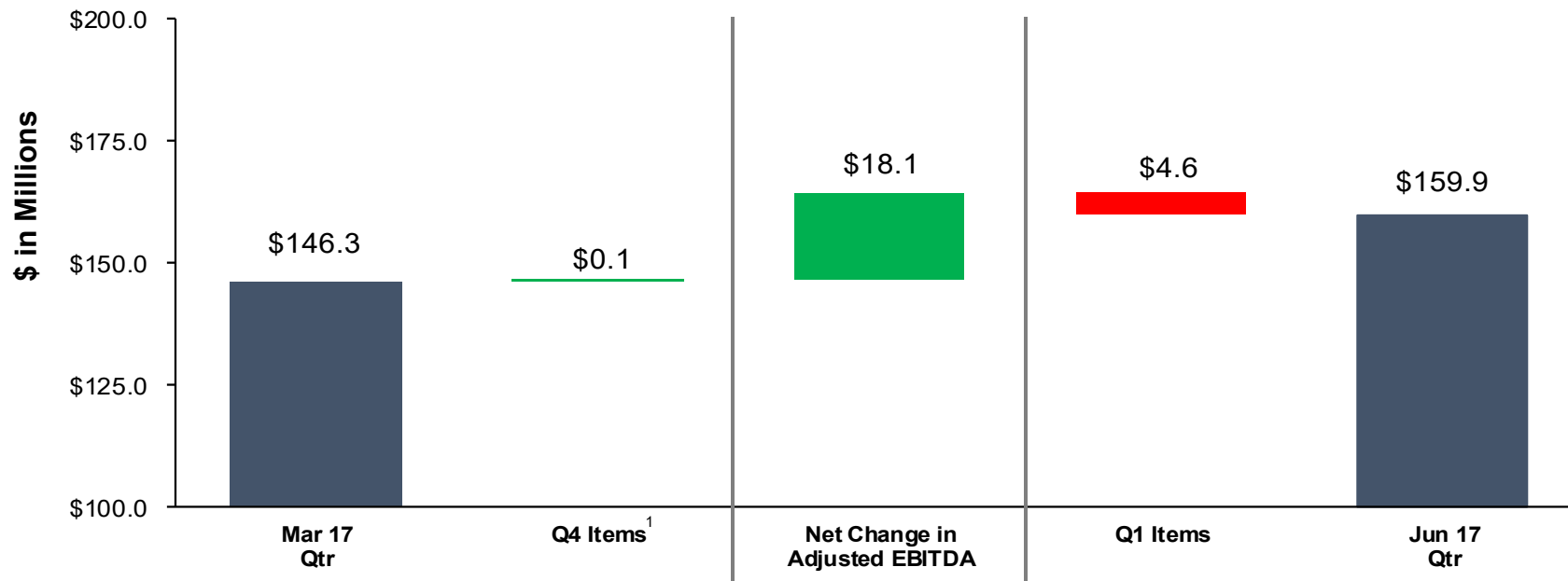
- Tax benefit from amortizable intangible assets from acquisitions

# First Quarter Adjusted EBITDA Roll Forward

Cash Provided  
By (Used In)  
Operating  
Activities,  
GAAP

**Mar 17 Qtr**  
\$192.8M

**Jun 17 Qtr**  
(\$113.6M)



- Net Change in Adjusted EBITDA increased due higher average long-term AUM, one additional day of revenue and lower non-compensation expenses
- Q1 items include acquisition and transition-related costs and corporate severance costs

<sup>1</sup> Q4 items include acquisition and transition-related costs and corporate severance costs, offset by gains on sales of non-strategic managers  
Note: See Appendix for GAAP reconciliation

## Appendix - GAAP Reconciliation, Adjusted EBITDA<sup>1</sup>

	Quarters Ended		
	June 2016	March 2017	June 2017
(\$ millions)			
<b>Cash provided by (used in) operating activities, GAAP basis</b>	\$ (166.0)	\$ 192.8	\$ (113.6)
Plus (less):			
Interest expense, net of accretion and amortization of debt discounts and premiums	23.9	28.6	28.3
Current tax expense (benefit)	(0.8)	14.4	6.1
Net change in assets and liabilities	222.4	(55.2)	213.3
Net change in assets and liabilities of consolidated investment vehicles	38.6	(26.3)	31.8
Net income attributable to noncontrolling interests	(11.9)	(14.4)	(12.6)
Net gains and earnings on investments	2.6	3.6	5.6
Net gains on consolidated investment vehicles	3.2	3.4	1.0
Other	(1.4)	(0.6)	-
<b>Adjusted EBITDA</b>	<b>\$ 110.6</b>	<b>\$ 146.3</b>	<b>\$ 159.9</b>

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



# Appendix – GAAP Reconciliation

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

(\$ millions)	Quarters Ended								
	Jun 15	Sep 15	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17	Jun 17
<b>Operating Revenues, GAAP basis</b>	\$ 708.6	\$ 673.1	\$ 659.6	\$ 619.5	\$ 700.2	\$ 748.4	\$ 715.2	\$ 723.1	\$ 793.8
Plus (less):									
Pass-through performance fees	-	-	-	-	(14.6)	(35.8)	(2.3)	(8.1)	(65.4)
Operating revenues eliminated upon consolidation of investment vehicles	0.1	0.1	0.1	0.1	-	-	0.4	0.2	-
Distribution and servicing expense excluding consolidated investment vehicles	(149.3)	(138.9)	(132.9)	(124.6)	(124.6)	(128.9)	(123.3)	(122.4)	(122.3)
<b>Operating Revenues, as Adjusted</b>	<u>\$ 559.4</u>	<u>\$ 534.3</u>	<u>\$ 526.8</u>	<u>\$ 495.0</u>	<u>\$ 561.0</u>	<u>\$ 583.7</u>	<u>\$ 590.0</u>	<u>\$ 592.8</u>	<u>\$ 606.1</u>
<b>Operating Income (Loss), GAAP basis</b>	\$ 124.5	\$ 133.0	\$ (240.6)	\$ 33.9	\$ 73.6	\$ 127.6	\$ 111.2	\$ 109.9	\$ 107.2
Plus (less):									
Gains (losses) on deferred compensation and seed investments, net	1.2	(5.5)	2.7	0.3	2.1	5.4	1.5	5.4	5.4
Amortization of intangible assets	0.7	0.7	1.6	2.1	5.7	6.3	7.3	6.9	6.3
Impairment of intangible assets	-	-	371.0	-	-	-	35.0	-	34.0
Contingent consideration fair value adjustments	-	-	(26.4)	(7.0)	(18.0)	(7.0)	(14.5)	-	(16.6)
Operating income of consolidated investment vehicles, net	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.2
<b>Operating Income, as Adjusted</b>	<u>\$ 126.5</u>	<u>\$ 128.3</u>	<u>\$ 108.4</u>	<u>\$ 29.4</u>	<u>\$ 63.5</u>	<u>\$ 132.5</u>	<u>\$ 140.8</u>	<u>\$ 122.4</u>	<u>\$ 136.5</u>
Operating Margin, GAAP basis	17.6%	19.8%	(36.5%)	5.5%	10.5%	17.1%	15.5%	15.2%	13.5%
Operating Margin, as Adjusted	22.6%	24.0%	20.6%	5.9%	11.3%	22.7%	23.9%	20.6%	22.5%

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

## 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 eighty-seven percent of total AUM is included in strategy AUM as of June 30, 2017, 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 which are not managed in a separate account format, performance comparisons are based on net-of-fee performance. Funds-of-hedge funds generally do not have specified benchmarks. For purposes of this comparison, performance of those products is net-of-fees, and is compared to the relevant HFRX index. 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.