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LM - Legg Mason Inc at Barclays Global Financial Services Conference

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PRESENTATION

Ken Hill - *Barclays Capital - Analyst*

All right, good morning. We are going to go ahead and get started. I'm Ken Hill. I'm the brokers, asset managers, exchanges analyst here at Barclays.

Up next we have Legg Mason. It's a company that's one of the more interesting asset managers we have in this space. Today Legg runs a different business model than most peers.

It's an affiliate structure: nine affiliates across a variety of asset classes. A little bit over $750 billion, I think, of AUM right now.

So, today we look forward to hearing thoughts on how you are weaving those affiliates together, facing some of the broader industry headwinds right now. From Legg we've got Joe Sullivan, CEO. Also have Alan Magleby up here, who runs IR. Sandwiched between the two of them, so they can keep me in line.

So, I just want to thank you both for being here.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Our pleasure.

Ken Hill - *Barclays Capital - Analyst*

The first thing I want us to do is, you guys hosted a sell-side lunch about a week ago, last week, where you went over some interesting new operating metrics. You also talked a little bit about strategy overall for the Company and some of the non-GAAP measures.

Hoping you could just provide a quick overview as to what you thought were the high points from the meeting, as far as what you want to impart on the investor base right now with some of the new metrics you have out there.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Look, I think we are committed to increasing amount of transparency. We released our AUM today, as you know; and when we release AUM we release flows as well, not just AUM. We don't want to make investors guess.

As I said at the investor lunch, I'm surprised you let everybody else get away with it and have to try to figure. But it is what it is. We feel good about being able to release AUM and flows.

And as it related to some of the non-GAAP measures that we chose, we want to be very careful with that, right? Because the SEC is -- front and center with the SEC. So we want to be very thoughtful and very careful and very conservative with respect to that; but at the same time want to respect a lot of requests that Alan gets and we get when we are out meeting with investors for an increasing amount of disclosure.

So, really wanted to offer more transparency where we can -- to a point. We are not going to get into profitability of our affiliates and things like that; that's a competitive position, and so we are not going to do that.

But in terms of things like Parent margin, to help people realize the power, the way we are running the Company, and the fact that we are running it I think very -- from a highly productive standpoint. And then just also the power of our cash generation and the fact that we not only generate a lot of cash -- all of our businesses, or this industry, tends to be high-cash generation. But in our case because of our tax shield, we retain quite a bit of it.

So Pete had to walk through that as well. And I think the feedback we got was that really highlighting that cash generation, then the value of the tax shield and how we think about it, and the discount rate that we used -- and Pete walked through our logic behind having a 5% discount rate to that tax shield -- and we've gotten actually some nice feedback. Just read something this morning that came in from an analyst who said: Gosh, we had been applying a 10% discount rate to that tax shield.

And when you look at the tenor of it -- basically a six-year tenor -- and you look at a junior sub-debt rate, which we now have markers in, in the market, because we've actually issued some junior sub-debt, so we can infer and interpret -- or infer really a junior sub-debt rate for a shorter period of time. And I think that should bring that discount rate down. So, I think as it relates to that we got a lot of positives.

I think on the strategic side, look: This industry is undergoing massive disruption. We have been very aggressive, as people know, in trying to transform the Company and trying to position us, reposition the Company for success.

We are not abandoning what we have in the traditional space, whether it be in products or vehicles and investment capabilities and asset classes or distribution. We are not abandoning what is a very good business for us -- a business under pressure, but a good business for us. We are simply adding capabilities.

So anyway, I don't want to go on and on with it. But I think that people recognize that we've done a lot strategically, and we have.

And now really for us this year -- and I've said this over and over again. But for us this year it's all about trying to make it all work as best we can.

So our focus is not on M&A right now. It's really on working on product development, working on distribution development, and how we can make it all work better.

Ken Hill - *Barclays Capital - Analyst*

Okay; makes sense. Hopefully we can talk a little bit about the individual pieces there, and then talk about how you plan on tying them together for a solutions offering. The one I wanted to start with tends to be a nice core competency for you, which is fixed income.

I was hoping you could shed a little bit of light on what you are hearing from fixed-income investors, particularly in the institutional side, how they are thinking about the rate environment right now. You are sitting here ahead of potentially the Fed raising rates at this point this year.

So how does that impact flows? How is the pipeline looking coming out of August into September? And what type of products are you seeing gain favor right now?

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Look, as it relates to fixed income I remain fairly sanguine about that, and I have been for a while now. A year ago, or a year and a half ago, we began to hear the drumbeat of rates are going to rise and that's going to put pressure on you and put pressure on your fixed-income business, etc., etc. And all we have seen some that time are rates -- they have risen a little bit in terms of what the Fed has done, but actually overall rates are down from that point in time.

We do think rates are going to rise. We think they are going to rise slowly, and so that's very, very manageable for us.

We don't see a massive 1% or 2% rise in the 10-year in a short period of time. There's so much angst over the Fed increasing short-term rates by 25 basis points -- are they going to do it, and are they not -- that we don't see central banks, including the Fed, doing anything dramatic. We see it, to the extent that they do raise rates, that it's going to be a modest and gradual increase.

Our call I think collectively for the economy is continued growth, but slow growth. So it doesn't warrant necessarily a significant and dramatic rise in rates.

So a modest increase in rates we have always said and a return to normalization of rates over time is actually a good thing for us. What we expect to see and what we are seeing is, as rates rise or are anticipated to rise, that we see allocations, reallocations actually coming back in favor of fixed income. As fixed income becomes more attractive we expect institutional investors to reallocate, and reallocate more into fixed income.

There is still a dramatic appetite for income and yield. So to the extent that rates move up, that's only going to feed that appetite.

We are seeing -- look, I am very pleased with the progress that we are seeing at Western. It's not a rocket ship; I'm not suggesting that. But it's good, solid progress in terms of inquiries, in terms of RFPs and all that kind of stuff.

And you continue to see that their inflows, they are turning again. We've talked about this for a while.

They were in the penalty box for a long period of time. It takes time to get the consultants back onboard, but we are seeing it happen.

Brandywine has been a little bit more challenged this past year. Their strategies tend to be a bit more volatile, and so some of their strategies were under pressure from a performance standpoint as the global sovereign market got quite volatile.

So we saw some outflows with Brandywine for a bit. Those have stabilized. I wouldn't say -- they are positive internationally; they are not positive in the US.

But it's nothing dramatic. The good news is their outflows have subsided.

But Western is really doing well. Interestingly, where we seem to be really taking share with Western is in the Core and Core Plus strategies. And what I would expect, as rates rise I think -- look, we are still seeing good demand for the non-broad-market portfolio stuff. So Macro Opps, particularly internationally, is continuing to grow dramatically; it's one of the biggest in the unconstrained funds, fixed-income funds, in the space.

I think the fund -- Al, you can correct me -- I think it's approaching or just over $10 billion now. It's a massive fund, massive strategy. And it's performed quite well, actually.

But the interesting thing is that we are starting to see and we are starting to pick up market share in the broad market portfolios of Core and Core Plus. And when rates normalize we would expect that to continue, that more demand will come back into the Core and Core Plus space.

Ken Hill - *Barclays Capital - Analyst*

Okay. Switching over to equities that's been a segment that's been a little bit more of a drag on the results for quite some time now.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Yes.

Ken Hill - *Barclays Capital - Analyst*

I think what was reflected in the results you posted this morning was those outflows become less and less over time, and the performance seems to be moving along. Could you just give some high-level thoughts on what you are seeing right now with the current environment and the flow profile for ClearBridge, Royce, and how we get that to the right side of breakeven here?

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Look, I think in the case of Royce it really starts with investment performance; and their investment performance this calendar year has really turned in a very significant way and continues to be very positive.

Their rate of outflow is down dramatically. Now, admittedly from a smaller number, so I acknowledge that; but their rate of outflow is much, much slower.

And we are actually seeing some sales activity. I don't want to oversell that, but for a long period of time it has been a tough name to sell, just because their performance had been -- they had underperformed so dramatically.

We are starting to see a little bit of a pickup and more interest in Royce, and so we are encouraged by that. But it's still going to be a long journey, because we've got to get those three-year numbers back to where they are more attractive and more compelling.

I think on the -- the interesting thing, what we've talked about with respect to Royce is that the move from growth to value is really helping Royce in the small-cap space. The interesting thing with ClearBridge is their strategies, the strategies that are actually performing best and where the flows are greatest for ClearBridge right now are in growth. So, it speaks to the diversification that we have across the enterprise in terms of investment strategy.

So, ClearBridge has seen some nice activity in large-cap growth and in mid-cap growth. Interestingly, internationally Aggressive Growth is both the number-one seller, also the number-one outflow-er.

So it tends to be a strategy -- and I would say that's actually -- I don't know that they're the number-one seller in the US right now, because I think it's large-cap growth that's the number-one seller for them. But we still get quite a few -- we see a lot of sales activity in Aggressive Growth; but we also see a fair amount of redemption. So, it seems to be a fund that a lot of people go move in and out of quite a bit.

What I would say is this. Our sales activity -- and this is moving a little bit, pivoting into the distribution equation -- but the interesting thing is, while our sales activity is up, our net flow activity is up dramatically year-over-year.

And that's really a function of redemptions. Redemptions have dropped dramatically. I think quarter to date we are in the low 20%s in terms of the redemption rate, and that's about as low as we seen it in the last couple years.

Ken Hill - *Barclays Capital - Analyst*

You hinted on this a little bit with performance or what you are seeing from Royce and ClearBridge. But from a client perspective, when they are looking at the equity asset class, how do you think some of the allocation to it, a shift, or some of the preferences -- what do you think is going to be really a favorable product set for you guys going forward over the next few years here?

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Look, I think the traditional stuff is going to be more competitive and more challenged. You are going to have to have a really good performance because clients are voting; they are moving into the passive space. If you are not delivering a compelling alpha, then they are voting with their feet and they are moving to passive.

But I do think that there are strategies that we have and that we can market, particularly like with Martin Currie or RARE, where we can bring things that aren't quite so easily indexable. Martin Currie has a large emerging-market book; but away from that they also have strategies that are unique: Asia long-term unconstrained, or European long-short. More non-benchmark relative-type strategies.

I think there's going to be increasing amount of interest on the retail side in the US for non-US-type strategies. And we've got a number of those with Martin Currie and with RARE.

RARE really is -- it's infrastructure, but it's also really equity in that sense. So I think we can bring unique strategies to the market on an individual basis, and I think there's going to be more interest in that, in those kind of strategies, as opposed to -- there will continue to be interest in the traditional benchmark relative, large-cap growth, mid-cap growth, small-cap. But you are going to need to perform there; it's very clear.

Ken Hill - *Barclays Capital - Analyst*

Okay. Switching over to alts now, you guys closed two very large transactions to start the year. I think flows for those were initially positive and then they kind of turned over; and I think you can chalk that up to a little bit of deal-related outflows.

I was hoping you can comment a little bit on where you are with, quote, deal-related outflows and how long it takes to get them up and running on a distribution platform where you start to drive actually efficiencies and inflows into those type of products.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Yes. I guess the way I think about the three transactions that we did, I would not attribute much of anything -- I wouldn't attribute any outflow right now to deal-related. I think that's over, for all intents and purposes.

The affiliate that is most challenged on the alt side is EnTrustPermal, and that's just a function of the space and the sector. Now, the truth of the -- what we see there, the opportunity we see there, is not in the classic fund-of-funds space. That, we are holding our own there; but we don't see that as a huge growth area.

What we see and what really EnTrust has brought -- the reason we did the transaction was to add scale and to diversify into more -- into other alternative-type products, away from just fund-of-funds. Permal has a nice book of fund-of-fund business, but it's a slow-growing business. It's kind of a flattish business.

EnTrust begin as a fund-of-fund business but really has grown over the last years. And actually has grown over the last five years at a 15% to 20% compounded rate, but not in the fund-of-funds space; really in the alternative space, whether it be coinvestment vehicles or other trade-specific credit-type ideas, or specific products, or funds that are different than fund-of-funds.

So that's what we see as an opportunity. Look, the space is under pressure right now, but alternatives are not going away. And we do see EnTrustPermal as being an innovator, particularly the EnTrust side joining with Permal, as being in innovator in this space.

So we are constructive long-term. They are under some pressure right now. It's not massive, but the industry is under pretty significant pressure.

But I wouldn't attribute anything any longer to any deal-related flows there. We had a few deal-related flows with respect to RARE; I think those are done.

We've actually had some nice wins with RARE more recently that we're excited about. One, we launched a UK fund; I mentioned this in the investor launch. It's just staggering to me: We launched a UK fund for RARE the week after Brexit, and we launched it with about $25 million of investor capital, investor seed.

The fund since then is up to $250 million. That's a staggering rate of growth.

But really it was great timing, because I think there was a number of investors who were coming out of property funds in the UK and this provided a great alternative and a great place to go, to attract and get yield and income. So we just feel very constructive about that raise.

RARE is getting some other good looks institutionally as well, so we feel good about that.

And then Clarion, Clarion has continued to grow for us. Look, I think there were some -- there are some who think: Okay, we may be reaching a peak in real estate and all that kind of stuff. We don't see that.

We wouldn't say we are in the first inning of that game; we also wouldn't say we are in the ninth inning of that game. I would say we are probably in maybe the sixth inning or something like that.

You know, you just don't know. If we continue to be in a lower-for-longer-rate environment, if we continue to be in a slow-growth environment, that is really going to mitigate the overbuilding that you usually see when you get bubbles in commercial real estate. We are not seeing that.

The absorption rate of commercial real estate is very positive right now. There is more demand for commercial real estate than there is supply. That's a very good fundamental for the market.

It's not going to last forever, and we will go through some sort of a correction. But the typical overbuilding that you see with real estate bubbles we have not seen on the commercial side.

There's also been changes in some tax regulations that are favorable to non-US pension funds investing in US real estate. It had been that there was relatively onerous tax consequences associated with foreign pension funds investing.

It was really a reaction, I think, to the 1980s when the Japanese were investing significantly in the US and people got a little spooked. So some onerous tax policies were put in place.

Those have been modified now and actually encourage an increased demand. So, we see the demand side of the equation increasing.

The MSCI recently is now breaking out real estate from financials, so it's identifying real estate as an important asset class in and of itself. It's those kinds of things that continue to validate the demand side of the equation.

And you've got -- the kind of returns that you can achieve in a reasonable market in real estate, relative to where rates are today, are still pretty attractive. Clarion has been delivering in the 11% to 13% annual returns. Now, if they were here they would say: Don't promise that; it's been extraordinary; we shoot for the 8% to 10%.

Well, 8% to 10% is pretty darn good in today's world, and so we feel pretty good about that.

Ken Hill - *Barclays Capital - Analyst*

Okay. From bringing those deals in, I think initially you guys rolled out some $0.10 to $0.20 accretion as a result of those deals. When you look at the variables there, what do you think could really make that -- I know within that $0.10 to $0.20 you had some initial outflows, deal-related flows and things of that nature. So what do you think actually pushes that number higher or lower from a variable standpoint? Like, where could you overachieve there?

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Well, I think we feel pretty comfortable in that range and I don't think we are going to modify that right now. Now, there are some accounting things that we have to do when we do the evaluation of the intangibles and things like that, they could modify it a little bit.

But I think it's really going to be -- we feel pretty good about that range. We are very confident in the saves that we are going to get with EnTrustPermal. We don't think the costs relate to those saves are going to change materially, if at all.

I think the opportunity to outperform there is just going to be -- and you asked about it a few minutes ago. The opportunity to outperform, I think, is going to be: How quickly can we get EnTrustPermal and Clarion onto the global distribution platform and start marketing them?

In the case of EnTrustPermal actually we are pretty encouraged. We just launched a new fund for them with a significant takeover win as part of that fund in Europe. So EnTrustPermal is actually net flow positive in our retail system for the fiscal year, so we feel good about that.

And Clarion, we can market some of the existing Clarion funds which are less liquid funds. We can actually begin to market that, and we are talking with a number of the higher net worth or ultra-net worth investors, the qualified investors.

We can market some of the less-liquid products into those channels, and we are. And we are starting to introduce Clarion, whether it be in the wealth management channel or through some of the broker-dealers and their ultra-high net worth channels.

But then it's about also product development. Look, I think these things just take time.

In some cases we've experienced immediate hits, in a positive way, with QS. QS was right in the sweet spot; had products that we could bring to market immediately; there was good demand for it.

Bang. We hit very quickly, and that's terrific and we are happy with that.

In other cases it's a bit slower. It depends on -- it can depend on regulatory things, regulatory considerations.

When we were moving, for example, Martin Currie's fund range and merging it with our fund range in the cross-border space, just takes a lot of time and takes a lot of resources. So that can be a bit of a distraction as you do these things. So regulation can come into play.

Investment performance can come into play a little bit, and also just the market in general. When we acquired Martin Currie, Martin Currie did and continues to have a large emerging-market book. We were hopeful that we could begin to get out and market that, but obviously the emerging-market space has been under significant pressure.

Now, it's gotten a little better in the last few months, but right out of the gate was just under a lot of pressure. So, the market, how the market -- the receptivity of the market and investment performance and all of that can come into play.

And then just the time it takes us to get our salespeople trained and all that kind of stuff.

Ken Hill - *Barclays Capital - Analyst*

Okay. One thing you just touch on there and you've touched on throughout the presentation has really been the global distribution capability you guys have. It seems to be one of the reasons the affiliates really like the model.

I was hoping you could go through maybe what trends you are seeing right now in the US and in Asia, and what your expectations are for the future of distribution in light of things like the Department of Labor Rule, robo advisors out there right now. So how you are thinking about that longer-term.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Just to talk about global distribution for a moment, we are very proud of that. And our distribution platform is a strategic asset of the Firm and a very strong positive strategic asset. The platform has been in positive flows in 10 of the last 11 quarters, and is on track for 11 of the past 12 quarters.

Where we've been in outflow along the way it's not been so much in retail, it's been more on the institutional side. We are very pleased with the continued growth and development of the platform.

And our ability to be able to market the new affiliates, we are very confident in that. It takes time. It takes time for our salespeople to learn about infrastructure, to learn about real estate, to learn about alternatives. But we are seeing progress.

As I mentioned, EnTrustPermal has been positive both in the US and internationally with the distribution platform. Where they've had redemptions has been institutionally. So, our retail distribution platform has been in positive flows in alternatives.

We haven't really had any success yet with Clarion. It's just too early.

And RARE, as I mentioned we had a really nice raise in the UK. We've got funds launched here in the US and are building some track records; but those -- hopefully we can get moving on those faster.

I think there is -- and this really goes to how the industry is changing, I think. The way we think about it, Ken, is that the industry is moving from a product, an individual product, marketing a fund-at-a-time business to really a business of outcomes. Increasingly investors are looking, we believe, are looking more for a holistic outcome. Our advisors that we cover are predominantly -- are increasingly looking for outcomes.

So we have to retrain -- and it may sound simple, but it's really not. We have to work with our sales teams and help them understand and retrain them to approach advisors in a different way: not to just talk about here's -- Aggressive Growth is hot right now and it's performing well and you've got to put people.

But: What are your clients really trying to achieve? What is the outcome they are looking for? What are the risks they are willing to take? What's the time frame that they have?

And then we need to develop a solution for that. Okay? So, it starts with the outcomes and then a solution.

And that solution can be, in some cases, individual products. It can also be us filling sleeves in models that are created and managed at the distribution partners' level. It can be in models that we create.

So, there's all kinds of different potential. I think for us, an important growth area for us -- and particularly with our acquisition of Financial Guard -- will be now in creating and developing our own models that we can offer -- we can offer to our distribution partners or we can offer through Financial Guard.

That in and of itself is an investment capability, right? And we have that investment capability with QS. QS has a history; they actually do manage multi-asset class solutions right now for us. They manage a few billion dollars of that, bringing together various of our affiliates and then in some cases supplementing that with ETFs.

So, they are already doing it. But I think we expect for QS to do much more of that.

We are working with them right now on creating a larger universe of models that we can offer either to our distribution partners or offer to our -- through Financial Guard.

In tandem with that, we are looking to continue to build out our ETF suite. Again, those are products that QS manages.

So we have an ETF suite that has started really with three strategies in what's called diversified DBI, or diversified based investing. Those are core equity strategies.

They are US -- we have an ETF in US DBI, diversified-based investing, in developed market, and in emerging market. So, three core -- what we would say are core strategies that are -- really should and can go head-to=head against the passive space.

Now, they are small. We don't have a lot of assets in them yet. We are just really in the early stages of rolling them out.

But these are strategies that we can offer as alternatives to the market cap-weighted ETF space. And we think -- the reception we've actually gotten has been pretty positive that these are differentiated, that our -- it is better diversification and in our view better beta then you get from a market cap-weighted strategy.

Now, it takes time to get people over this. It's been in easy default thing -- a default reaction on the part of investors to just go to these market cap-weighted, because they are big and their ads are on TV and all this kind of stuff.

May or may not be the actual best investment strategy. We think this DBI strategy is better.

Underneath that now we've added dividend strategies tagged to those same markets. So, we've got the core equity exposures in the US developed markets and emerging markets. We are now developing -- we have a low-vol, high-dividend strategy in the US; we've got one in emerging markets; and we are going to be introducing one in the developed markets.

So we are building out our suite of ETFs and core strategies, both core equity exposures and core income exposures. And we will use those in conjunction with -- within the context of our models. So, we will be able to offer through Financial Guard active strategies as well as ETF more -- what's the word I'm looking for? But more ETF strategies, formulaic-type strategies.

Ken Hill - *Barclays Capital - Analyst*

Got it. From a timeline perspective, how do you think that necessarily involves? You've got the Department of Labor, which seems to be putting increasing pressure on people moving passive, moving out of the active solution, being a nice solution for that longer term. How quickly do you think that moves as far as a major shift in product there where you need to have some sort viable solution under that?

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Look, I think the impact of DOL is going to be much greater than probably we all imagined. I think it's hard to envision that it's going to be limited to simply the retirement space, the 401(k) and the IRA and retirement space. It's hard to imagine that there will be different sets of rules between the SEC and the DOL.

So I think we are operating and thinking in terms of ultimately these rules being harmonized. So I think that if -- and frankly I think a lot of our distribution partners are thinking that way as well: just to deal with it and to move into this new paradigm of the industry.

Now, I don't think that means the death of active management. But I do think what it means is you've got to be -- again, you've got to have performance and/or your products need to be differentiated.

I think if all you are out trying to do is sell large-cap growth, or large-cap value, or core and core plus, you've got to have great performance, and you will get some flows, and you'll get some sales there and things like that.

More and more what we're seeing -- the way we are seeing our affiliates deal with it -- and this is a very constructive thing for us -- is we are seeing our affiliates come together to create new products that are combinations. We just won a placement on a model that is managed -- a strategy that's managed with QS, Western, and ClearBridge. That, and being able to combine asset classes and create new products that are not just your standard large-cap or traditional benchmark relative strategies is what I'm trying to get to, I think is going to be very powerful.

But the challenges that the investor today faces are different and greater, and you need more creative and innovative solutions to them. Not just gimmicky but more creative, innovative solutions.

Maybe bringing together -- and I can envision us creating products that incorporate Western's capability, or Brandywine's fixed-income capability, with Clarion's capability in real estate, with RARE's capability in infrastructure, with ClearBridge or Royce in income equity, combining all of those capabilities together in products.

So, I think -- look, the visual or the imagery that I tried to share at this investor lunch was one of increasingly -- and that's -- our annual report this year is a tapestry, right? And increasingly we expect to work with clients to understand the outcomes, and then weave the tapestry of investment solutions to achieve that outcome for them.

Now, we will be willing to sell threads, and in some cases threads may be all that investor needs. Maybe they just need a certain thread of what we can produce.

But in many cases we see better outcomes being delivered through combining a multitude of our strategies and our affiliates, and weaving a tapestry that is customized increasingly. And that's how we see the business moving.

Ken Hill - *Barclays Capital - Analyst*

Okay. For the last few minutes I wanted to open up for some of the audience response questions. We've got the clickers on the desk. We've got four questions here to go through.

The first one is, if you are not a holder or underweight -- this is one we ask across the entire space -- what would cause you to change your mind?

The macro environment; valuation; headline risk; capital return; or simplicity of the business model.

Okay, so a better macro environment being cited by 50%, with another quarter on valuation. Don't know if there's much to add there.

You might take issue with the valuation, especially on a cash basis.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Wow. Yes. I think would encourage anybody who's in that 28% of an improved valuation to pick up our deck from the investor lunch we did last week and look at how we think about our share repurchase, and what we show to our Board. Because we think we are pretty undervalued right now, and I think it was a pretty compelling presentation on that.

Ken Hill - *Barclays Capital - Analyst*

Okay. The second question: so, what do you feel is the biggest impact of DOL? There is clearly a lot of impacts which might come about.

But from -- as far as ranking what you think is going to be most significant: the first one is going to be, it's not going to be an impact at all, it's going to cause --; the second being broader industry consolidation; third, material move to passive; four, lower fees; five, more solutions; and six, more technology for portfolio assembly and advisory services.

Okay, 52% felt lower fees for all products.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

You know what? We are experiencing that, right? I think every asset manager -- any asset manager that tells you they are not is lying. We are all experiencing pressure on fees.

But, again, to the extent that you create new and different products and they are not just all benchmark-relative products, you have an opportunity, I think, to hold a little bit the line on fees. But to be fair, pressure for everybody.

Ken Hill - *Barclays Capital - Analyst*

Pressure; right. Okay, the next question.

What will drive Legg Mason's future share price?

Multiple expansion; positive flows; outsized buyback; outsized dividends; accretive large-scale acquisition; or new product development.

It's all about the flows there, 85%.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

We got the message.

Ken Hill - *Barclays Capital - Analyst*

Well, flows look good, so.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Getting better, yes.

Ken Hill - *Barclays Capital - Analyst*

Getting better. All right.

The last question that we have: What do you see as the organic flow rate in 2017?

So, anywhere from negative 5 to positive 5 there.

Okay, so most around the 0 to 0.2% range, so that bodes well. People want you to put up good flows.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Looks like 50% of the audience thinks we will be positive and 50% thinks we will be negative.

Ken Hill - *Barclays Capital - Analyst*

All right. I think that wraps up our time for today. So, when to thank you for coming and presenting on behalf of Legg Mason. I thought the information was great, and thanks for making another appearance at the Barclays Conference.

Joe Sullivan - *Legg Mason, Inc. - Chairman, CEO*

Sure. Thank you. Thanks for having us.

Ken Hill - *Barclays Capital - Analyst*

Thanks.