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CORPORATE PARTICIPANTS

Joe Sullivan *Legg Mason, Inc. - President & CEO*

PRESENTATION

Unidentified Participant

Good morning. We're going to get started with our next session. It's my pleasure to introduce our next company, Legg Mason. And with us today is Joe Sullivan, President and CEO; and Alan Magleby, Head of Investor Relations. Joe has been in his current role since 2013 and prior to that held various other roles since 2008, including Interim CEO, Head of Global Distribution and Chief Administrative Officer. Following years of focusing on cost, the balance sheet and improving performance, Joe and the team have been more focused on growth, including investing in distribution, product launches and additional affiliates, most recently Clarion, EnTrust, Precidian and RARE. In addition, on the operating side, they're focused on improving the margin, and the buyback pace has been fairly consistent. Thanks for being here today. And before we go into Q&A, we'll put up one polling question and then, we'll get into some questions. So what would get you more interested in investing in Legg Mason stock: One, strong organic growth, notably in equity and alternatives; two, operating leverage and higher margins; three, the absence of deal noise; four, stronger balance sheet; and five, more affiliate deals. We'll give you about five seconds to put in your response.

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

They should not pick five because that's not going to happen.

Unidentified Participant

All right. The results (multiple speakers). All right. So, 82% strong organic growth notably in equity and alternatives. All right. Thanks for that. So, maybe just first on organic growth and inflows, I think this year, it's been obviously challenging for the industry. For you guys, it's been more muted versus maybe like the past year. Some of it seems to be deal-related. I mean, when you do a transaction, you can see some impact on those firms' flows, who had weakness in equities and in fixed income, that's continued to be relatively strong. When you think about everything that you guys have done to transition the firm, the new affiliates, the investments in distribution. How do you see the organic growth playing out and maybe over the next one to two years relative to the industry because, obviously, there is still a lot of mix trends?

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

So, I would say what we're seeing in the industry now was exactly why we've taken the steps that we've taken. So, about 3.5 years ago when I became CEO, we recognized that we were basically all-in on sort of classic active investment strategies. We had great businesses with Brandywine and Western Asset in fixed income. We had great businesses with ClearBridge, Royce in the US equity space, kind of traditional benchmark relative space. What we didn't have was enough in the alternatives or unconstrained or uncorrelated-type strategies. So we did two things, we focused on helping and working with our existing affiliates to diversify themselves, particularly, you think about Western, for example. Western over that period of time introduced macro ops, which was a terrific strategy. We've had -- they've had tremendous success and we've had tremendous success. That strategy is now approaching $9 billion between separate accounts, between cross border funds, between the 40 Act space. It's an unconstrained fund, it's performed very well, softened a little bit since Brexit, but overall, performed spectacularly. And so we've worked with Western, we've worked with ClearBridge, with others, with our existing affiliates to diversify themselves away from solely benchmark-relative capabilities. Simultaneously, then we added QS as our multi-asset class capability, Martin Currie as our non-US equity capability, RARE as our infrastructure capability. Honestly, RARE was not necessarily on our Board, infrastructure was not necessarily on our Board, that was opportunistic when they went into a process. We do see infrastructure, and we did, which is why we did the deal, see infrastructure as a multi-decade, multi-trillion dollar theme. We saw it back when we acquired them, we certainly see it even more so now. And then, we acquired additional alternatives capability with EnTrust and combined it with Permal, and we acquired a real estate capability, world-class real estate quick capability with Clarion. So, I think our ability to pivot from kind of traditional strategies and benchmark-relative strategies, and look, those strategies, while they're under pressure today, for sure, they're not going away. They probably aren't going to grow tremendously fast, but there's still an opportunity for those firms that deliver strong performance, who have strong distribution and who are prepared to price competitively. There is opportunities in those classic active equity and classic active fixed income areas for growth. I mentioned it on our earnings call, I was a bit surprised, but what we learned from ClearBridge, what we learned from Brandywine, what we learned from Martin Currie was that their pipeline of search activity and RFPs and things like that in the classic active space had spiked dramatically in the last quarter. At first, that was a little bit surprising to me, but then as I thought about it, as you've been seeing more investors sort of dissatisfied with active performance, vis-a-vis benchmarks and vis-a-vis passive, what I think investors are doing is taking a fresh look at their commitments, particularly institutional investors, at their commitments to certain active managers who have not performed, they're going to take a step back, they're going to revisit it. I think they'll probably more than likely allocate some incremental of those strategies to passive, but then they're going to put out the remainder to be rebid. And I think we're going have -- who knows, we've seen, like I say, probably the highest level of search activity in classic active equity strategies that we've had in three or four years. How much do we win, we'll see, but we think we've got a good shot at some of it. So, I think being able to continue to take share in what is a static or potentially a modestly shrinking pie in the classic active equity and fixed income space together with having opportunities in sort of these alternate categories. I just spent, as I mentioned to you just got back last night from nine days in Europe meeting with clients. I met with clients in Paris, in Milan, in Zurich, Geneva, London, and I would tell you that about 75% of the conversations -- the first 25% of the conversations were all around updating on Western or updating on ClearBridge or Royce, Brandywine. The vast majority of our conversations were around let's talk about infrastructure. Interestingly, infrastructure clearly gaining a higher profile, but a big thematic in Europe. Also, alternatives, whether it be direct lending, which is what EnTrustPermal can do, co-investment vehicles and opportunities, which EnTrustPermal does, and then real estate, private equity real estate. So that was really reaffirming to me. And the interesting thing, and then I'll shut up, but the interesting thing is that talking to the people in Europe, they have a significant amount, roughly 35% of investors' assets are held in cash in Europe, which is extraordinarily high. It ranges that we heard a low of about 20% in Zurich, as much as 50% of investors' portfolios are held in cash in Italy and the problem is they aren't looking -- there is global sovereign products are low-yielding, low to negative yielding. Their cash opportunities are low to negative yielding. Interestingly, Switzerland's 50-year bonds are trading at negative rates. Even if you look at sort of global, if you look at beta in fixed income, if you look at beta in equities, recently, the Norwegian pension fund came out with a projection that over the next 20 years, the kind of the average beta return for a balanced portfolio of equities and fixed would be around 2.5% for the next 20 years. We're not going to get what investors are not going to achieve, what they need to achieve by simply going with benchmark-relative strategies or even traditional classic active strategies, they're going to have to diversify. And, so consequently, again, the vast majority of the conversations we had about RARE, about EnTrustPermal, about Clarion or in the case, for example, of Western about kind of non-traditional, more unconstrained strategies that they can offer.

Unidentified Participant

Great. Okay. And then, just on that, when we look at the mix at Legg Mason in terms of the assets for some of the affiliates, it's relatively easy, like RARE, but if we look overall, how would you like maybe sum up the amount of assets that would be more, say, defensible in the product areas that are getting taken over, losing market share to passive versus the areas where you're really not seeing that much pressure because passive hasn't moved in or it's just not in an area that -- it's easy to --.

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

I'm sorry, help me a little bit more.

Unidentified Participant

So, if you look at the overall like asset mix at Legg and you say where it's going to be something that's a little bit easier that you would put into, it's differentiated and it's hard to (multiple speakers).

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Right.

Unidentified Participant

But overall, when you look at the full affiliate mix, like what portion of the assets would you put in that bucket versus the portion that say is still exposed, it's more traditional benchmark and --.

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Yes. Look, I think, I can't give you the exact percentage of our book that's in the more classic active. What I can tell you is that we've increasingly, the vast majority of the products that we've increased or that we've introduced over the last three years, have almost exclusively been in kind of next-generation active-type strategies, and those have largely been with our existing affiliates. And so the affiliates that we've added more recently, as those products come online, obviously, those are next-generation active as well. I think what's important -- I get your point. I think that what you have to have in kind of classic active benchmark-relative strategies, if you're going to defend them, is performance. And we've had very good, excellent performance at Western, which is the biggest part of our book, obviously, and then we've had very good performance as well at ClearBridge. And so, the two big gorillas in terms of assets have delivered very good performance. Whether we're in classic active or next generation active if we don't deliver the performance, we're not going to hold the assets very long. I think it's important though, and I've got to give my pitch for diversification. If you look at our slide from the earnings call, one of the things that's important as well we are, I think 52% of our AUM is in fixed. We're far more balanced, and you know because we've talked about it before that, that our objective over the last three years has been to diversify not just our AUM, but our revenue streams. So our revenue from fixed income is exactly identical to our revenue from equities, it's 37% fixed, 37% equities, the remainder being roughly 20% in alts and the remainder being in liquidity.

Unidentified Participant

And then just maybe the more traditional actuaries, it seems like particularly the last four months or so in a short period of time, but we have seen some improvement in active performance overall in the industry. I just wanted to get a sense when you look at the RFP activity, you look at where the flows are, are you seeing any more interest come in, in areas that may be you weren't seeing it over the past few years, but as there might be more demand for active with performance?

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Well, I think where we have seen new appetite, and again, remember, we're all about diversification. I mean, that's kind of the theme, right? So, it's diversification for our clients, diversification of our business for our shareholders. And so we've got a nice, a very large institutional business and a big and growing retail business, a very large US business, a big and growing international business and now we are diversified by asset class. So the interesting thing and a great story in terms of diversification in newer products, we've seen significant inflows over the last few quarters, and we're continuing to see good appetite for Martin Currie Australia's real asset and Australian dividend income products in Japan. So as you know and we've talked about it before, we have a very strong Japanese distribution. So, it's always about matching up what clients are looking for, and we've got a multitude of affiliates that can do that, right? Historically, Western's had tremendous success with Brazilian bonds or Australian bonds at different times. The Japanese tend to be very thematic investors, so you have to manage the churn, meaning there will be times when they will have terrific performance in a product and they'll pull the product and redeem the whole thing to capture those gains. That's fine, except for then you got to figure out what's the next theme that those investors want to play in. And so, we've got a multitude of affiliates. Currently, it's Martin Currie with its Australian team managing an Australian high dividend and real asset strategy, and it's garnering great flows there. On the more traditional side, interestingly, if you looked at our earnings deck, the top of the top 10 products and sales for our global retail distribution platform, last quarter, we had three products from ClearBridge in kind of the traditional Richie Freeman's aggressive growth, large cap value, as well as fixed income products on that as well. So we have continued to see good demand for our traditional classic active strategies where we have good performance.

Unidentified Participant

Okay. And maybe just shifting over to the regulatory side. So, the Department of Labor fiduciary rule, so we're going to nearing the implementation period, but given the election, there is a lot of uncertainty on kind of what the fate is of it, whether it gets delayed, it gets modified, it gets repealed. So, just as an asset manager, how are you looking at kind of the broader industry trends and then also how to manage that with a ton of uncertainty now?

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Look, we would be in the camp of it probably gets delayed, it probably gets reviewed, and it probably gets modified selectively. I don't think we believe that it completely gets eliminated, but it could. I think the more important point is that the DoL actually served as an accelerant or a catalyst for trends that were underway anyway, right? So from the standpoint of our distribution partners, I think the thing that most concerned them about the DoL was the potential enhanced liability. That just was front and center, and this is purely a guess. My guess is that will be kind of thing that will be really reviewed by the new administration. But there were other elements to it that were simply catalyzed by the rule. So, for example, our distribution partners, for quite a while, have been working to evolve their business and encourage, sometimes very strongly, their brokers to move more to advisory and away from brokerage. The DoL served to catalyze that or in some respects give them cover for forcing that. But that's a trend -- I think that train has left the station, and I don't think that goes backwards. I think some of the firms have already indicated they're going to keep going down that path irrespective of where the DoL ends up. Consolidation of platforms, I think most of our distribution partners would acknowledge and recognize that they've just got way too many funds on their platforms. When they put a fund on their platform, they've obviously got a fair amount of expense attendant to that and whether it be just kind of the people who have to do the initial gatekeeper relationships, meet with the various managers, whether it be the due diligence teams, whether it be the ongoing research teams that have to review those products on a quarterly basis, they have significant responsibilities when they put a product on the platform. If those products are not performing, if those products are not gathering assets, they've not gained traction for one reason or another, that's a loser for them. So we've heard for a number of years that our distribution partners have been thinking about how would they consolidate their platforms. I think that train has left the station, I think they're going to keep doing that. And so the question then is how are you positioned in that world. There have been -- now, they may not consolidate their platforms as extensively as they had indicated, but I'm not sure why they wouldn't. The industry fundamentals, which are changing, were catalyzed by the rule, but I don't think they're changed by the rule. So we feel really good about how we're positioned in that respect. We've got core products, whether it be in fixed income with Western, Core and Core Plus, whether it be in some of the classic active strategies with ClearBridge or Royce that are performing well, they are well placed on the platforms, either in the models or on the recommended lists. We have the vehicles, that's another important piece. We certainly have share classes that are more sort of DoL or price competitive, but one of the things that people forget is we are the second largest provider of retail SMEs in the business. This year, we actually happen to be the fastest growing, not just on a relative basis, but on an absolute basis. So a lot of times, when people are looking at our fund flows and publishing about our fund flows, I kind of chuckle because what they don't realize is there is a significant amount of retail SME business going on underneath that they can't see. So that's why, sometimes, people get surprised by our flows. But I think we are well positioned with products, with the performance, with the vehicles and variable pricing that goes along with that and then with the field sales force that can both call attention to those products in terms of emphasizing or highlighting them and defend them when they get into trouble. So I think a lot of the trends in the industry are going to continue -- in our view are going to continue. They might slow down a little bit, they might be tweaked a little bit from what they would have been under the rule, but we don't think that the train is going back to the station.

Unidentified Participant

Great. Okay. And then, just on the cost of distribution, is that in this environment -- because there is different strategies, meaning I think if there is more to fee-based model, then they typically don't accept revenue shares, meaning that's just not the strategy that they have. Obviously, if it's more on the commission side, there can still be like fees related to that. So just wanted to get your take on, you see that changing too significantly?

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Well, I think what you asked about was cost of distribution related to kind of the evolving industry. I think part of that discussion has to be technology, and we acquired an early-stage FinTech company, as you know, in early August. That's in some respects an increase in expense related or cost related to distribution. I think over time -- and Financial Guard is the company that we acquired, that was acquired to help create solutions to support advisors, particularly with smaller accounts. I do think that over time, technology and sort of evolving models, business models of our distribution partner will change the landscape, will continue to change the landscape of our distribution teams. I don't think it's in the immediate term or even the very short term, but we've been working with our teams, I think, increasingly models, and this goes back to kind of the trends in the industry. Increasingly, I think our distribution partners want to encourage their advisors to be more asset gatherers and more financial planners and less stock pickers and fund selectors. They want to encourage them to gather the assets to help put together a financial plan and then push those income models. And so, that will have ultimately an impact on our field sales force. It will be the old days of kind of calling on the corner office and highlighting two or three funds and selling individual funds, those days are going to start to wean, I think, and it's going to be more about models, more about sort of emphasizing how various models kind of achieve the objective of the client, but it's not going to be, I think, in the years forward as much the individual fund selection kind of business or individual fund sales business that we've grown used to.

Unidentified Participant

Okay. One thing you mentioned on the traditional side is that in the areas that you are pretty competitive, meaning maybe the industry is not growing, it's more of a market share gain, you mentioned that. Can you either outperform in terms of gaining market share on the performance side and then maybe also (inaudible) just on the price side? On the price, is there anything from a strategic standpoint that you would look at or anything that you're seeing in the industry that makes it more attractive?

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Yes. Look, I think I got banged a little bit for being downbeat on our earnings call because I was talking about fee rate pressure, and I want to be very clear about this, we're not at the moment feeling any particular fee rate pressure. But I think if you're not looking out forward and thinking about the industry being under pressure from a fee perspective, you're not paying attention or you're deluding yourself. I think it's going to get more competitive. I think as more mandates come up, let's face it, certain providers pushing the cost of passive down that has a natural dampening effect on fee rates. I think the relatively lower returns that we're experiencing, certainly on the fixed income side, the absolute level of returns are much lower given where rates are, the fees have to kind of reflect that. So I think clients and investors are increasingly going to push managers, and it's going to be increasingly competitive. When you compete for market share, part of that competition is based on price. Now, do I think that, that means we're going to see our average fee rate slashed into half? No, I don't think so. And look, as long as you deliver performance, you've got a compelling reason. You have to be differentiated in some way, shape or form. It's either in the product itself, and by the way, that's part of, again, why we've diversified over the years into things you referenced, that are less indexable, whether it's infrastructure, tough to index; alternatives, almost impossible to index; commercial real estate, impossible to index. And so, in those areas, and that's where we feel pretty good about where we are, we don't really expect a lot of fee pressure in commercial real estate or alternatives or infrastructure where it's hard to replicate. Where it isn't hard to replicate, you better be delivering performance, and you better be able to deliver differentiated service, and you better be able to compete on price and because it is a market share game. I mean, if you're not, someone else will.

Unidentified Participant

Okay. That's helpful. Maybe just shifting to, from an asset class, so just in fixed income, just given the environment and potentially seeing higher rates. Just wanted to get your outlook, and I know, especially with Western, it's much more institutional, so it's not kind of a kneejerk reaction, and there's a ton of products in there in the mix, but just wanted to get your sense, I think a lot of the strength and industry flows have been in fixed income. And so, if we are in an environment where rates are up or for some areas, the performance come under some pressure, just how is the overall franchise position?

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

So I would say a couple of things. One, I have not felt better since the crisis about our fixed income position. I've always felt good about our positioning in fixed income, but never felt better than I do today. If you look at how Western is doing, if you look at sort of the -- we recently had our Board meeting on Pasadena, we rotate them. And so we spent a morning, as we do with each of our affiliates at various times during the year, but we spent the morning with our team at Western Asset going through their business strategy, going through their succession planning, going through the risk management. But during the strategy session, they presented a number of slides, obviously, one of which was the evolution of consulting perceptions as reported by Greenwich Associates over the last three years, and it's remarkable to see particularly the improvement across a multitude of categories in the perception of Western by consultants and institutional investors. Then you stack it up next to the rankings or the ratings by the top 15 consultants. Three years ago, top 15 consultants, I think Western had two, that had recommended strategies for Western asset, only two. Even though their performance was quite strong, they only had two, so they were coming -- there were still a little bit in the penalty box post-crisis, but they only had two. The other 13, I think they had one or two that had to sell and the balance had a hold. Today, only one of those 15 doesn't have a buy recommended strategy rating for Western. So you can see the tide shifting. Then, if you look at their performance, their broad overall performance over one, three, five and 10 on a risk-adjusted basis, it's spectacular, Western as well as Brandywine. Brandywine has done a really nice job. They have a different approach to investing on the fixed income side, but they've done a really nice job in terms of -- now, I will tell you where -- try to be balanced here. The challenge Brandywine has right now is that their sector is relatively less attractive. They're a global sovereign manager. You've got an index that is in the eight-year duration range with a yield that's less than 1%. It's just not a very attractive sector. Their relative performance has been quite strong, but relative performance in a relatively unattractive sector, that's a challenge for them. Their AUM has been near its all-time high, so we feel good about that. But they're in a less attractive sector in fixed income at the moment. I think Western is well positioned. As you said, and this is really important, our fixed income book, which is substantial, 88% of that fixed income book is institutional. The institutional investor, as we see consistently over and over again, reacts and responds very differently. In fact, if we see rates continue to move up materially, you would typically expect to see a rebalancing take place. They have allocations that are set by their investment. Clients typically have allocations that are set within ranges by their clients by investment policy. And if fixed income becomes relatively cheap, vis-a-vis the equity side or whatever the other asset classes are, they need to rebalance. I'm not calling for massive inflows because of that, but typically, you'll see a top-up. On the retail side, they can be a little bit more volatile in terms of the reaction, but what have we seen over the last few years, what did we see during the taper tantrum, what did we see over the various times when people were calling for rates to spike and they moved up a bit, initially, you saw kind of an outflow by retail, a panic-driven sell by retail, and then they started to come back again. And why did they start to come back again? The theme, the demographics and the desire and the appetite by the average retail investor for incoming yield is huge. And so, that continues, we don't see that going away. If rates go higher, and we hope they do to a certain extent, I've said for a long time, we look forward to a normalization of rates because it makes fixed income that much more attractive on a relative basis. So we think that that's going to ultimately be good for our business. Could there be some choppy water, is there going to be choppy water as the market resets in terms of a mark-to-market on the existing portfolio? Sure. You got to remember, the average duration of our fixed income portfolios is six years or less. So the actual financial impact of that will be less than if we were just all LDI strategies or something like that. And then, the last piece, as it relates to that, is, for example, right now, you've had rates go up, so that's negatively impacting the portfolios. Credit's done a little bit better, probably hasn't -- there has been an offset there, probably hasn't been a one-to-one offset, it hasn't been, the rates have moved a bit more on a yield basis than the tightening of credit, but you typically have a little bit of an offset there.

Unidentified Participant

Okay. And then, just on the institutional side, from your last update that you gave just in terms of pipeline, I think it was $8 billion unfunded and then maybe $3 billion on the uncalled commitments.

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Right.

Unidentified Participant

But I think then, there was some expectation, some outflows in October. So just any update on that? And I guess when you look at that pipeline, any color in terms of -- from a mix standpoint, where the demand is and if any change? I mean, I know it's been very short in terms of changes in the environment.

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Right. I've been saying this a lot, just because I really encourage people. I think we are the only manager that reports our flows on a monthly basis. We do that because we watch how all of you guess what various managers' flows are and you're wildly different and we just don't think that that's really a good thing for the investor. But sometimes, I think we get tagged for that a little bit because, oh, people read into it a little too much. I think I said on -- I did say on the call last time, if you had looked at our July flows and extrapolated that to the end of the quarter, if you had looked at our August flows, extrapolated that to the end of the quarter or September, you would have come up with very different results, because 75% or thereabouts of our AUM is institutional. We're going to have lumpy ins and outs, and you cannot draw too much in terms of conclusions from any one month. Same thing I would say with pipeline or with unfunded wins. There are unfunded wins, and we categorize those as wins where we have a contract that's not only been agreed, but signed, okay? So we have a very high bar for that. Behind that, we have a pipeline of business that's anywhere from verbally awarded, but no contract signed. And so, we don't count it as an unfunded win. I can tell you that we have business we know is going to come in, we know the client. For whatever reason, we don't sign a contract. It could be that we already have a signed contract, but this is a top-up, but because it -- just by kind of our high bar in terms of what we call an unfunded win. So our pipeline is significantly higher than our unfunded wins. Now, some of that pipeline may or may not fund. Sometimes, even when we get an unfunded win with a signed contract, the client will slowdown. I wouldn't be surprised if, in here, some of our clients slowdown their funding of something just to see the market settled a little bit. So, no, I don't see anything that's been materially different. As far as sort of balance, what we have an unfunded wins right now has been significantly fixed income and significantly Western and then the remainder kind of spread across between equities and alternatives. I think we did see a bit of an uptick in some committed, but uncalled capital, not huge, but at both EnTrust and Clarion, so we feel good about that. So, I think we feel pretty good about that book of unfunded wins and pipeline, which continues to be pretty steady in a good range.

Unidentified Participant

Okay. The firm has been pretty active over time in terms of product innovation with different affiliates. Most recently, you made some hires in the ETF space, you made investment in Precidian, too. If I look at kind of the outlook there and like the potential because on one hand, it makes sense in terms of there is a lot of growth in the industry in that area. On the other hand, it's seems like there's a lot of product out there. So from your [guys] perspective, how do you go out at it, how do you differentiate in a market that's pretty competitive?

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

So look, our strategy is very simple, and we've stuck to it for the last 3.5 years. Our strategy has been about expanding choice for clients to remain relevant and to do it across -- and you expand choice through diversification, right? So we've done that as we've talked about with all of this. It's really in three buckets. You expand choice for clients in three buckets. Investment capabilities and so we now spend again the waterfront in terms of classic active fixed income and equity strategies, next generation fixed income and equity strategies, infrastructure, multi-asset class capabilities, alternatives, real estate, et cetera, et cetera. The second bucket, you have to provide choice and expand choice to stay relevant is in products and vehicles. We're terrific in the cross-border space, we can do that all day long, we do that in the 40 Act space, CITs, as I mentioned, SMAs, we're one of the biggest player in SMAs. But what we saw was a meaningful gap in a newer vehicle that in some cases can be a superior vehicle, that being the ETF. And so within the category of ETFs, we look at it and say, okay, we're going to provide opportunities for smart beta, and that will be our attempt at providing better beta rather than just the passive space. We've launched five of those. I wouldn't say they're hugely successful yet, it takes time to ramp those, you got a build a critical mass in the strategy, but the performance has been strong and the receptivity has been strong. So we feel good about that. Then, you look at your active strategies and you say which among those -- and we are, just to be clear, very intent on rolling out our active strategies, particularly our highest profile, highest AUM active strategies in an ETF vehicle. We want to ultimately become vehicle agnostic. If a client, if an investor wants to access Richie Freeman's aggressive growth strategy in the 40 Act, we've got that open. If they want to do it in an SMA, we've got plenty of SMA capability there, and we do that already. If they want to access it in ETF, we need to be able to do that. Then, the question is with respect to active ETFs, do you want to do that in a fully transparent way or do you want to do that in a non-transparent way, meaning do we want to do that, not the investor. Do we want to do that in a transparent or non-transparent? There are many of our strategies where our investors are comfortable fully disclosing their activity and doing it in a completely transparent way, and we are currently working on upwards of 20 of our strategies that we intend to roll out into the market in a fully transparent active ETF. Our investment in Precidian was because we view Precidian to have the very best methodology as it relates to non-transparent active ETFs. That's a mouthful. Somebody said to me, boy, that's a mouthful. And someday, we're hopeful and we believe Precidian should get cleared by the SEC, that's the hold-up, they have not been cleared. But we believe strongly, the industry believes strongly that there are certain strategies that for which the investor is not advantaged, in fact is disadvantaged by being fully transparent in terms of your activity, whether it be a small cap strategy, whether it be any number of different strategies, where it's really -- people can front-run you and can move markets in front of you and that disadvantages the investor. So we need to be able to provide non-transparent active ETFs for certain strategies. We believe that Precidian, we've been working with the SEC, we withdrew our application in conjunction with the NYSE and BATS, we withdrew our application about a couple of months ago in advance of the election. Not because we thought there would be a change in -- not because of the change we thought we got, but because we just thought the SEC was trying to rush things a little bit. And with any changed administration, whether Democratic or Republican, we expect that there would be a change in staffing at the SEC. Now, I think the change in staffing we got or the change in administration we got is certainly not harmful to us in terms of the chances we have for approval of Precidian's methodology. The last category, so again, our strategy, expanding choice for investors through diversification, investment capabilities, got that nailed, products and vehicles expanded to where we can now address and offer or will be able to offer our strategies in different vehicles and the last piece is in distribution and access. And again, we've got a very robust retail distribution capability, over 500 people globally that are touching people in 16 different offices, 30-some different countries around the world, very diversified, want to be more diversified, but we also see the technology and digitally and -- technology-enabled advice, digital distribution will grow increasingly. It's not huge today, but it will have a greater impact on distribution as we go forward. We've made our -- put our chips behind Financial Guard on that. Early stage for us, we did an early stage FinTech intentionally that was thoughtful and intentional. Why, because rather than buy a fully built out FinTech capability, we wanted to buy one where we could help shape and mold it and customize it more to our clients. So we feel like your question was how do you differentiate yourself? Well, you differentiate yourself by continuing to be relevant. Client preferences swing back and forth between passive, between alternatives, between traditional, more classic active strategies, between ETFs, between -- we don't think everything goes to ETFs, we've seen a significant move in recent years to SMAs. Thank goodness, we had a strong SMA capability, we could capture those flows. So you've got to be client-relevant all the time, you've got to be able to respond, clients are increasingly demanding with what they want, how they want it and in what form they want it. And you've got differentiate yourself, and you compete by being able to provide choice in that respect.

Unidentified Participant

That makes sense. We'll pull one more polling question up and then we'll open it for the audience for Q&A. So just in 2017, asset management M&A will be what versus 2016? To increase modestly, increased significantly, be stagnant, decrease modestly, or decrease significantly. And again, we'll give you about five seconds here. Okay. And the results, all right. So 56% is increase modestly and then coming a close second is 32% increase significantly.

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

The investment bankers in the room are now ordering the upper scale model of their BMW pretty sure.

Unidentified Participant

So we can open it up to the audience for any --.

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

I agree with that, though, by the way. I think you will see continued again, because of the changes that we've talked about that are underway, whether it be technology, whether it be regulatory, let's not forget while we may see a moderating of regulatory pressure in the US, we still got regulatory pressure going on all over the rest of the world, right? So whether it be technology, whether it be regulation, whether it be passive, I don't want to be downbeat, I'm very encouraged and optimistic about the industry, but there are challenges and competition is increasing, and I think you will see increased M&A activity.

QUESTIONS AND ANSWERS

Unidentified Audience Member

So with the pending administrative change, sort of an assumption that we're going to be seeing some kind of corporate tax reform, doing a lot of guesswork around what that could mean for the DTA, maybe if you could help walk us through to remove some of that uncertainty?

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Sure. So what I would say is first of all, what will not change in the near term is our cash tax rate, which is what I think most investors are very much focused on, right? Our cash tax rate is expected to continue to be 6% to 7%. Any change in corporate tax rate at the federal level will not impact our cash tax rate. I usually expect that to be 6% to 7% through, I would say, 2021, that's our best estimate right now. Once that -- after 2021, it's expected to move up into the mid-teens, and that will be at least through 2025. Certainly, the value of that -- well, obviously, our EPS, our GAAP EPS, like everybody's, will increase, and the value of the DTA will certainly be adjusted downward, probably in proportion to whatever the decrease is in the tax rate. So that's I think how we would think about it. We've actually been, as it relate -- well, I'll stop there.

Unidentified Participant

Any others in the audience. Okay. And maybe one more, just because of the number of new affiliates over the past maybe two years that they were brought on, when you think about, and maybe just in context in history, when you think about bringing on new affiliates and as they're going through that process and then getting into the distribution, what's the typical time frame for some of that, just normal?

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

There is no typical time frame. So when we acquired QS, it was kind of an opportune time because we had some of our clients that were looking for someone to kind of manage multi-asset class solutions, and we brought QS in and it was a match and we hit the ground running pretty quickly with them. In some other cases, it's always a combination of where they are in terms of their vehicles. So for example, with Martin Currie, it took us a full year to really get their fund range merged into our cross border fund range. It just takes time for that. You have client interest in the space or in the sector, you have performance that comes into play, so performance can bump up and down. So you just have a lot of factors. What I will tell you is that the moment somebody becomes, even before we close, the moment we announce a transaction, our product and distribution, these new affiliates, in ways that we start the process right away. I think I mentioned on one of our calls, we are very pleased that the week after the vote in the UK on Brexit, we have been working on a UK RARE income fund that we launched the week after Brexit, and we had a huge uptake on that quickly. I think that fund is circa $300 million today, which is pretty good growth in a fund like that. We also launched a fund in the US, the 40 Act fund. In retrospect, we launched a RARE value fund. Uptake in the US on infrastructure is slower. It's just not a market where the retail investors historically thought about infrastructure. We think that changes now a little bit with the focus in the profile of infrastructure broadly being raised.

Unidentified Participant

Okay.

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Don't you want to ask about M&A? Can I just say one more time? We're not doing any big deals. We're not out looking and acquiring, because I get this interpreted on that sometime. We will do small kind of tuck-in things that either add incrementally to the capability of an affiliate or improve the capability of an affiliate. We are talking to a lot of different smaller firms that would have to rebrand under a ClearBridge or Western or something like that. But in terms of us being, some of the bankers are disappointed, but we're not out participating in any of the larger acquisition deals, that's just not -- we feel really well positioned. We're now about organic growth and making it work.

Unidentified Participant

Okay. We'll wrap it up there. Joe, Allen, thanks a lot.

Joe Sullivan - *Legg Mason, Inc. - President & CEO*

Great, thank you.