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PRESENTATION

Bill Katz *- Citigroup - Analyst*

Our next session with Legg Mason. From Legg Mason, we have Joe Sullivan, just to my left here, who is Chairman and CEO; and on his is left is Alan Magleby, who heads up the IR effort. I think everyone knows Alan as well. Legg is a global asset manager based out of Baltimore, also one of the few companies that puts out the AUM on a relative basis, so thank you for that. (multiple speakers) and flows, in particularly flows. Had about $714 billion at the end of January, has about nine key affiliates at this point in time and the management has done a very good job of continuing to migrate from some of the more mature businesses into more of a social orientation, some of it has been de novo, some of it has been through acquisitions. Clarion, EnTrust being the more recent examples of that.

I'm very pleased to have both of you with us today. So thank you very much for joining us. I know you have a lot of things going on. I guess, given its March 1, I'll take a liberty of asking a question of maybe some trends on the conference call you talked a little bit about January, February dynamics and the pipeline. Can you maybe give us an update on AUM or flows you saw in the month of February?

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

Can't give you AUM quite yet, but I can give you a little bit of color as it relates to February and March. And I want to, as always, kind of start off with the disclaimer that we do release AUM and flows, we'll release it on the eighth business day and it takes us some time. I mean, we are aggregating AUMs, we're aggregating flows across nine affiliates across the globe. So it just takes time. Even though the month ended yesterday, it's just going to take some time. So, we're going to have some puts and takes that we don't know, we don't believe that will be significant. Those puts and takes were in pretty close contact with our affiliates, but just to be clear, what I meant to say now is for what we know and looking back from yesterday and the information that we have from the affiliates.

I would say that February should come in as a good month, with inflows that will more than offset the January outflows. I'm not going to get more granular on that, again because we could have some puts and takes that we're aware of. But I would categorize February as a good month and I would submit that March is (technical difficulty) up to be even maybe a little bit better month, another good month and maybe even a little bit better with what we know currently as coming in and what we know currently is going out. And I think that will be reinforced by our unfunded pipeline at the end of February.

If you go back to our earnings call in January, I kind of highlighted our January unfunded wins at $12 billion. I would categorize our February unfunded wins at a little over $13 billion. And then I would suggest that the pipeline -- our activity pipeline across all affiliates remains, again, pretty solid and that's a trend that we've been seeing now for the last six months. I think it's now playing through in some of these unfunded wins and some of the flows that we're starting to get, and that's why I keep reiterating. We had a couple of lumpy outs in January, which took us negative. We've had some ins coming in February as we expected, and actually the underlying trend of our business.

In terms of kind of our daily blocking and tackling in the field business remains solid. As you've seen, our global distribution platform has been doing really quite well at or near all-time highs in terms of sales and that trend is continuing, and it's a global trend. So we feel quite good about that. Maybe just a little bit more color, I would tell you that in February, in terms of our business, six out of our nine affiliates were flow positive, net positive; two of the three that were out were out less than [a 100 million] for what we can see. So that's pretty good. Royce is stabilizing, which feels good and that's been a significant headwind, as many of you know.

And then, in terms of the unfunded, so again Western is really dominating and they should be. Brandywine -- on the fixed side, Brandywine has got some unfundeds in there. They are -- I would say, Brandywine is in a little bit of a tougher spot right now just because of their space. The performance is actually quite good, but their space is less attractive. Western, their performance is very good and they've got such a diversification of capabilities that they're seeing interest in unfunded wins across a multitude of products.

On the equity side, ClearBridge, Martin Currie, Royce, all with unfunded wins in the month of February, not funded but unfunded wins. So you heard me on Royce, right? And the interesting thing is they don't tend to have a lot of those, because they're not really institutional in nature. But that's a platform win, so that we feel good about that. And then EnTrustPermal starting to really see some interest really across all three of their segments. Customized products, they've got some customized portfolios that they've won. They have some continued uptake on their co-investment vehicle, which is currently SO3, strategic opportunities 3. And then their direct lending initiative, they're starting to see good uptake on that. Interesting on that direct lending product, this is going to be a long story, I think, for EnTrustPermal. A great (inaudible) told me recently they did 700 -- between 650 and 700 meetings on their direct lending product last year globally, and the interest in that product, I think, is fairly strong. So, we'll see. We still have to get the funds in, but we're excited about that.

So that's the update.

Bill Katz - *Citigroup - Analyst*

That's very helpful. Maybe just to sort of stay on that theme for a second, (inaudible) happy to take and try to keep the meeting relatively intimate, so we do get broader Q&A (inaudible) at least 45 minutes. Just in terms of those flows, so it ticked off a little bit things. Underneath that, could you talk a little bit about maybe their dynamic like what kinds of products, what kind of asset class you're seeing? Is this a recovery of act or that you're seeing more broadly here today?

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

I think -- look, I think there's a couple of things happening. And we were chatting with some people about this yesterday a little bit. I think on the institutional side, particularly on the equity side, but institutionally, I think there's a fair amount of money in motion and I think that's what's driving this increase in activity. I think a lot of institutional investors are taking a step back that will kind of turn investment results as it relates to their active equity strategies. And as we know, many managers are not delivering performance against those mandates, and so I think there is a -- there are fair -- I know a part of this, because I sit on a couple of investment committees, on boards that I sit, right.

And so I listen to the dialog, and the first thing is, looking at a manager and they're not really performing and they haven't been performing for a couple years, and so other directors or committee members around the table will say something like, well, why are we paying them these fees if they're not delivering, why don't we just go passive. I hear the passive, you can have -- you can go passive and it will only cost you 3 basis points or 4 basis points or 5 basis points, why don't we do that. And then there is a dialog around the table, and I find myself accusing myself a lot, because it's self-serving I guess. But nonetheless, there is this dialog. And ultimately what seems to be happening a lot is, they say, okay, yes, we have [$200 million] with this manager, but let's take a -- let's take half of it and let's move that to passive, that's probably a good idea. But then let's pick this other [$100 million] and let's put it out for (technical difficulty) and that leads really billing to the -- into the fee issue, I think, because that's where I think we're seeing -- we do expect to feel pressure to continue within the industry. We're not necessarily seeing it so much with our existing mandates, but the new mandates that come in, as we get to -- as we move along in terms of the process and get into the quarter finals or the finals or whatever, then the discussion around price starts to come into play, and then new mandates are going to come in at lower fees (technical difficulty). But I think there is a churn in the industry right now, or at least that's what we're feeling, that we're seeing more opportunities to bid on existing mandates.

We know we have to be competitive. You have to be competitive on performance (technical difficulty) stakes. You have to, in many cases, be able to support that, particularly if it's something like with a sub-advised relationship what else can you bring besides the investment management, can you bring support to that sub-advisor client in terms of marketing support, can you bring training support, can you bring in the field distribution support, that's important.

And then you got to be competitive on fees. It doesn't mean you have to be (technical difficulty) lowest and we won't be the lowest, I don't think, ever, because we do bring other things. But I think there's this churn going on and that's what we're seeing and I would tell you that's across affiliates. We're seeing it with every one of our equity affiliates, we're seeing it -- probably what we're seeing at least at the moment is that Brandywine and, again, that's not a shot at Brandywine. Their space is just relatively less attractive. The good news for Brandywine is their performance is very good, their AUMs are near their all-time highs, but their activities are little bit muted relative to the rest of the (technical difficulty). But it's really across products, and it's very broad based right now.

Bill Katz - *Citigroup - Analyst*

Is the pricing pressure -- is it mix like SMA versus mutual fund or fixed income versus equity and social versus retail, or is it the volume that's coming and saying, look, we're happy to give you the funds but, with this transparency, we just have to do this at X minus basis to get there?

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

Yes. I think, the newest -- a couple thoughts, you raised one good point that I want to follow up on. Again, I think it's broad based, I think it's going to be ongoing, I think -- look, we're not trying to be downbeat about this. And sometimes when I'm candid about it, some analysts like to call me downbeat, but I'm just trying to be realistic. The reality is fee pressure is going to continue (technical difficulty). And we recognize that, that sort of the spread, right, between -- if you look at it -- active, if you look at it, passive fees have come down at a faster rate and a greater percentage than active fees. So the spread between active and passive is probably (technical difficulty) than it should be or will be, and so there's going to continue to be pressure there.

We see that pressure, as I said, predominantly in the new mandates we get, whether it's takeover wins, whether it's new placements on platforms. The interesting thing about the retail side and the placement on platforms is that our business over the last few years has really grown more in the SMA product than in the kind of traditional 12b-1 mutual fund product and that product is already more competitively priced. So, it's not like we're one of the largest SMA providers in the industry, we're Number 2 after BlackRock. Last year, we were the fastest SMA provider in terms of growth. But that -- but those are already at significantly lower fees than our mutual funds are. So we've already kind of been going through this. But I think it's just a reality that we are dealing with, but I think it's really mostly on the new business at this point. Not seeing it on existing business to speak of.

Bill Katz - *Citigroup - Analyst*

Can talk about Shanda's investment and perhaps their sensitivity to valuation on the stock as to when they might go from 10% and 15% ownership?

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

Well, I'd love to be able to tell you that, but I don't know. I mean, the reality is, I don't know and they don't share with me what their intentions are relative to when they're going to buy (technical difficulty). But I wouldn't pretend to speak for them.

What I will tell you, and I think it's a little bit of perspective on Shanda, first of all, we're thrilled to have both Chairman, Tianqiao Chen, and Robert Chiu, it's board members, and the key part of this is that we really see them as partners with us. If you think about it, they took their position, I want to say, back in March of last year, maybe it was early April, and they did not have a board seat at that time. We had talked about it, but we didn't quite come to an agreement in terms of what was expected of them, and what was expected of us, and what the terms of a standstill agreement were in terms of cap and duration and things like that. So we -- there were a lot of open items related to whether or not we would give them a board seat, and we just haven't come to an agreement on that. And so it wasn't adversarial. They still wanted to take the position on at the price they did, and they were willing to do so even without a board seat, but we continue to talk and have continued to talk from whatever April through January when we finally agreed on what were the terms around which we would extend them (technical difficulty) board seats.

We do think they can help us and they have committed to help us in China. Chairman, Tianqiao Chen is actually in Beijing right now. Shanda is actually now based in Singapore. But the Chairman and Robert spent a fair amount of time in China. The Chairman is very well known and very highly regarded in China, and so he's in appropriate ways helping to kind of spread the Legg Mason message and gospel, if you will. In China, he's -- as recently as this past weekend, he and I were emailing, because he was in Beijing meeting with a variety of government officials and investment officials, and he asked me to send our updated corporate profile and our updated annual report to him digitally so that he could share it. So he is out. And if you read our announcement of their election to the board, it really highlighted the fact that Chairman Tianqiao Chen would be a meaningful figure for us in Asia and in China in particular.

If you look at Shanda's DNA and their history, their company really began in the technology space and they continue to have significant interest in technology, particularly in the digital world. They currently own, as part of their portfolio, the second largest payment [path] in China. That's something that we can learn from and think about how we can potentially access the individual retail investor in China digitally. Now we're always away from this and I don't want to over-sell it, and I don't want people to build that into our earnings in the next quarter or whatever. I mean, it's going to take some for this to happen.

We would not have extended a board seat to them without a real sense of partnership and commitment on their part to help us get better and help us improve. In addition to that, they did two other things, which is, one, they committed to invest at least $0.5 billion into various of our affiliates, that's already underway and has begun; and the second thing they did was just more symbolic than anything, but I think it was a powerful symbol, which is they made a meaningful contribution to the Legg Mason foundation and that was done intentionally to say we're with Legg Mason and we want the employees and communities, in which -- employees of Legg Mason and communities in which they operate to understand we're a long-term partner.

So, we're just at the beginning of what I think is a very long-term relationship. I like the fact that they've got clearly another 5% of dry powder that they can add to the position. That's a nice kind of underlying bid to the stock to go along with ours for our own share repurchase. So that's a good thing. And we're looking forward to how this relationship can bear fruit going forward. By the way, when I was talking about unfunded wins (technical difficulty) $13 billion, I forgot that I should update you on the dry powder with Clarion and EnTurst that's also just over $3 billion, right around $3 billion of dry powder (technical difficulty).

Bill Katz - *Citigroup - Analyst*

Is that embedded in the $13 billion?

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

No, in addition to that.

Bill Katz - *Citigroup - Analyst*

Okay. Just one more on that one for me is just sort of the thing about the math. So, if February was better than the outflows in January and your pipeline is up sequentially, does that mean that you have really good retail flow on a global basis and/or does that also mean that your nets within institutional is still positive?

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

We funded positively, we had a number of fundings come in, but not all. Obviously, (technical difficulty) replenished. We had a good replenishment in February of the institutional pipeline that was funded and we had a very good retail month as well. So, I mean, look, I don't want to get over -- I don't want to be overboard about this, but we have felt for a while and you have seen in our retail numbers that we have disclosed that we are -- again, the last two quarters were near record quarters in sales globally for us.

So the retail business, the kind of blocking and tackling day-to-day business has been very robust. We (technical difficulty) it in Japan right now. Caution flag there, we know that in Japan things go in in a big way and they can come out in a big way. The currency starts changing or things start changing and that can come out. But for right now, they're doing a great job with our Martin Currie affiliate, particularly Martin Currie Australia and some real asset and Australian income, dividend income strategies. And that's I think -- I believe our Japan office had its best net month ever in February.

The US, we're doing well in the US. So, I would say -- and the good news is the continent is picking up. The continent was a little bit slower for us last year, but the continent on the retail side is picking up. So, it's broad based and I guess that's what's encouraging to me. There's not one single thing that we would point to. As I said, six out of our nine affiliates will be positive in February, and two of the three that are out are less than [$100 million].

Bill Katz - *Citigroup - Analyst*

That's very helpful. Thank you for that color. Just staying on the theme of flows, I guess maybe with Shanda, what you have from some of the other folks that have come as we file that have strategic relationships with some of these Asian-based investors. There's a bit of an exclusivity issue there. So does that preclude you from having any other incremental distribution partnerships in the area? And then maybe you mentioned [years back] as well it seems to be a (inaudible) seeing at the industry level, can you talk a little bit about maybe what has been so successful on that continent? (multiple speakers)

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

Yes. I think, look, we've had some success with RARE on the continent, in particular. We introduced -- as we mentioned I guess about nine months ago, just after the vote on Brexit, a week after the vote on Brexit, we introduced a UK infrastructure fund for RARE and that fund has been doing very well. I think it's circa [$400 million] at this point. We are seeing, it was interesting. I was on the continent actually right around the election time. And what I find interesting just by a way of color is that the vast majority of interest that -- by the way, Royce has actually been positive (technical difficulty) that's where they've been positive (technical difficulty) which is interesting.

But when I was there, meeting with a lot of clients, a lot of our global client, and look they all know Western and they know Brandywine and they know Royce and they know ClearBridge, and good discussions there, but that was about 15% of our conversation, and they all wanted to spend time learning more about RARE and spend more time learning about Clarion and spend more time learning about EnTrust. And I think that's indicative, what they were telling me and what they were telling us is that, look, we see a return environment going forward that's relatively low. Even though rates are going to move higher, it's still relatively low rates. We don't see the global equity markets being -- now this was -- yes, I'm trying to remember, because I was there prior to the election. And so they were not expecting, and I think still their expectations for returns in the equity space are muted, at least our clients. And so they believe that in order to get the kind of returns that their clients are going to need, they're going to have to move in to more alternative products like real estate, commercial real estate, like alternatives.

And so the vast majority of time that we had with our clients over there, again, at least three quarters of it was spent around more alternative managers and the kinds of structures and products that they offer. So, I think, that's (technical difficulty) specifically right now in terms of flows and things picking up there, we're still seeing some good activity in some of the unconstrained fixed income space on the continent and then again with Royce and RARE.

Bill Katz - *Citigroup - Analyst*

You mentioned the dry powder for both Entrust and Permal has picked up a little bit. I think it's been (inaudible) in terms of growing than maybe some of us would have thought. Do you think we're now at the passive point of a deeper situation maybe at Permal and then maybe even some of the legacy EnTrust fund-to-fund exposure and could we actually now start to see that grow? I guess you did take an impairment charge last quarter associated with that transaction. So, how are you thinking about the go-forward opportunity for that business?

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

The impairment charge thing is, it's an accounting (technical difficulty) and not to be -- I don't mean to be completely dismissive about it, but we could be growing that business dramatically and taking impairment charges, right, because the impairment charges we're taking are related to the business that we (technical difficulty). So, and that business that we bought in 2005 was a retail high net worth fund-to-fund business. As that business has changed and evolved to become a more institutional business, we can be highly successful in growing that business. It's still taking impairment charges related to the original business that we acquired.

So I think you got to be careful not to necessarily infer that taking an impairment charge on something means that the business is in dire shape, it maybe that the business has changed. And that's a good thing, that's a good thing if they've actually changed and evolved with the market rather than just let something kind of shrink.

I think, in terms of -- look, there's still pressure on the commingled fund-to-fund space. I think it's a mistake to assume that clients are not looking for hedge funds. We are still seeing interest in and, in many cases, converting some of our clients out of the commingled vehicles and into more customized strategies for them. They may still be a hedge fund strategy or multiple manager strategy but not in a commingled vehicle. But I would tell you the kind of the traditional fund of hedge fund commingled strategies, there are trading and they're going to continue to kind of, I think, -- there's not going to be a great demand or great growth. I think, if you can hold flat with those kinds of strategies, they're doing well. But again, what we're doing with some of the larger clients that are in those kind of strategy is, we're converting them to separate accounts to customize separate accounts, with different fee structures, et cetera, et cetera.

I think with EnTrustPermal, (technical difficulty) what I think people didn't fully appreciate with the transaction that we did a year ago was that we weren't doubling down on fund-to-funds. We were doing exactly the opposite. We were adding a capability as it related to direct investment, direct lending that we really didn't have at Permal. We're adding the capability as it related to co-investment strategies, which we really didn't have meaningfully at Permal. And then also just kind of separate accounts and we were adding a different client type. I think what you're going to -- I think you're going to begin to see them and we got to deliver it here, but I think you will start to see flows coming in in some of these other non-fund-to-fund type products over the course of the next few quarters.

The other thing which is exciting -- so, I'm not disappointed at all in terms of what they're doing. I'm disappointed in the space. Having been the hedge fund space was just under a massive pressure last year and so we were going to face that with Permal or with EntrustPermal. We were going to face it one way or another, because the hedge fund space was under so much pressure. Now we've got offsets, right, in terms of other products, co-investment vehicles, direct lending, specialized client portfolios that we can offer in addition. But what's also happening, and this is very early days, but I'm very pleased with it, is we now have EnTrustPermal with one of their strategic opportunities, products on one of the largest platforms in retail platforms. And we are starting to see some flows. That's early days and they're not huge numbers. But it does, to us, validate this notion that increasingly the individual -- the individual investor is going to be adding elements of alternatives (technical difficulty) has been talked about for a long time, we are seeing it both at EntrustPermal or again, as I said, we've gotten -- I think the first time -- to our knowledge, it's the first time ever that there has been sort of a co-investment vehicle put on a platform at a major retail distributor. It doesn't mean it's going to mom-and-pop (technical difficulty) regulators listening. We're not selling this to mom-and-pop in Dubuque, Iowa. It's for the ultra-high net worth or high net worth clientele at that firm that are pre-qualified to be able to sell it and trained and being able to sell it. But, again, [re-alts] going into the retail sector.

And now we're also seeing it at Clarion, where we're starting to see some flow out of a couple of platforms where Clarion's open-ended funds are on those platforms. And I think you're going to see a nice uptake there as well. We feel really good about what's going on at Clarion. They're delivering as expected.

And going back to our discussion on fee rates, one of the reasons that we interestingly went after and added both Entrust (technical difficulty) expanded in alts with EuTrust and did the Clarion (technical difficulty) was to mitigate some of this fee pressure, because we're not really seeing fee pressure at EntrustPremal or at Clarion. Where we do see it in those spaces is in the fund-to-fund commingled space. That's why we're converting some of those larger accounts from their comingled strategies into separate accounts with different fee structures. But basically, our fee rates at those two firms are holding up fine and we don't (technical difficulty). So that helps us overall within the portfolio.

Bill Katz - *Citigroup - Analyst*

(inaudible) questions?

QUESTIONS AND ANSWERS

Unidentified Audience Member

I guess a two-part question on M&A. First one is, obviously, you've done a number of deals lately but do you have any more, I don't know whether it's private equity or energy, any [sleeves] that don't have that you'd be interested in adding, and how do you think about that?

Then secondly, for the industry at large, there's been a lot of discussions of late. How do you think that plays out? Obviously we saw one merger [of equals] but how do you see that playing out for the industry as well?

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

So let's go in reverse order, maybe the industry (technical difficulty) chatter out there, and I think the new [parlor] game for the industry is going to be around who's going to hook up with who, who is going to get together with you. Obviously, we don't ever comment on rumors that are specific to us, we don't comment on rumors at all, but -- and we're not going to start now.

But I think one of the things I shared with our board is that they better get used to our name being thrown around and we're not going to be alone. I mean, there's a lot of kind of suggestions or ideas that people are just throwing out there. And so I just said to the board don't be emailing me or calling me every time you read a rumor about us because A, they would know about it, if it was going to happen, or if something where happening, but there's going to be a lot more of this, and it's going to happen for a while.

And we do believe that there will be industry consolidation. We see, given the pressures of the industry, there's over-capacity, there's clearly over-capacity. And there's obviously, we think, significant margin pressure continuing in the industry whether it would be fee pressure or cost pressure. Given those margin pressures and given excess capacity and given the significant uptake of the passive space and all that kind of stuff, we do see the industry consolidating over the next few years and not insignificantly.

I think there's going to continue to be some of those synergy type deals like we've seen -- we saw last fall. I'm not sure those are going to be particularly well received, because I think if the only strategic logic for a transaction like that are cost synergies, then I think the perception becomes it's just about buying yourself more time, right. In other words, the way we think about some large transactions is that, there really needs to be strategic merit of a transaction like that for the client, for the investor first. And after a strategic merit or logic behind a transaction for the client, then there will ultimately be strategic logic or merit behind the transaction for shareholders. And that logic is got to extend beyond just cost synergies.

So we do -- but we do think there will continue to be some synergy deals, because people have just kind of rushed together. Somebody hears the expression (technical difficulty) other day he said it's like two drunks holding each other up. If you don't have a strategic plan to grow your business and you're under pressure from a margin standpoint, then maybe you better go find somebody. In a mature business where you don't have a growth strategy, there's going to probably be people coming together just to kind of again to buy more time. And you've heard some people talk about those kind of deals being potentially just a larger melting ice (technical difficulty). So you got to have a strategic plan for growth. And I think the good deals that could happen have to really answer the question how is this good for clients and how is this going to help us grow.

I think also some of the maybe smaller firms are just going to run off and don't actually sell. There is not a great bid for properties out there, particularly in the classic active space. We're not a bid. We don't have any interest in adding particularly a large cap equity or a core fixed income. I mean, we've got that. And if we could do something, if we could add something and bolt it into much like (inaudible). They added a capability and added it into their fixed income capability. If there is something that would either add incremental investment capability for one of our managers or improve what we have, would we look at doing that? Absolutely. But we're not going to add another brand (technical difficulty) large cap equity or small cap equity or traditional fixed income. We've got that. And we were actually to kind of move into a little bit of -- well, so anyhow my point about that is simply that I don't think there is a great bid for kind of these middle-sized firms. It used to be that these firms would have a lot of interest in them, but I don't know that there is a lot of (technical difficulty) particularly in a business that's mature and where there is a significant amount outflow going to passive. We're not a big bid in the market for them, but we see a lot of those. We see a lot of smaller $15 billion or $20 billion companies that say, hey, we do these large cap equity -- US large cap equity products and we'd love to become part of Legg Mason, tap into your global distribution or like (technical difficulty) got that. we don't need more of the same.

I think the vast majority of what we do going forward will be continued in the next generation active space, whether it be in multi-asset class or whether be in what we're doing now with EnTrustPremal and platforms or Clarion, things like that. Not saying we're abandoning the traditional space but the growth -- faster growth is going to come (technical difficulties) to some of these newer places.

So, for us, we do feel like our portfolio is, I wouldn't say it's done, but we feel really good about how we have diversified our investment capabilities across asset classes we can offer more today and offer clients. Again, all of our M&A activity over the last four years -- and I think last year, when I sat with Bill, I went through the (inaudible) of 18 or 20 different actions we've taken between divesting some of our smaller or non-strategic (technical difficulty) businesses and then adding pieces and all those kind of stuff. I don't think anybody has been more active than us in terms of repositioning a portfolio. But everything we've done in terms of our M&A activity has been to provide more choice for clients through diversification, and that diversification is in asset class, in investment capability, it's in vehicles and it's in access. And so if you think about it, we've covered, I don't want to say the entire landscape, but we've got a pretty good portfolio of investment capabilities across the landscape right now. So we're not feeling like -- there is nothing that we feel like we have to have, we got to go get it now.

I would tell you, where I feel like we need to work harder and probably the area in which we need to focus and invest and strengthen is in our multi-asset class capability. We've got a good foundation of that with QS but we need to invest in it, we need to do more there and we need to grow that in a meaningful way. So that's an opportunity for us. But across the acquisition front in terms of investment capability and asset class, we think we're in good shape. We've ended -- as you saw in terms of vehicles, we hired a couple of high-profile guys to help get us into the ETF space, and then we took the minority stake last year at this time in Precidian. And so if you think about it, we have -- we are very good in the classic 40 Act and cross-border space, we're very good in CITs. As I mentioned earlier, we're the second largest provider of retail SMA. So we kind have all the traditional vehicles nailed, but as recently as three years ago, we didn't have anything in ETFs, while we now have six or seven smart-beta ETFs in the market through QS. We're pleased with how they're performing. It takes a while to ramp those quite honestly, but we've been making good progress in a couple of them, a couple of them are slower. So, smart beta ETFs, so that's kind of how we go at the passive space, the index space because it's, in our view, better beta. And if we can have a discussion with a client about why this is better than a market cap weighted strategy, we think we've got a good argument to make, we think we've got a good audience, and we think we have an opportunity to kind of combat these flows into the indexed market cap weighted space with our smart beta strategies.

This year, we will be introducing fully transparent active ETFs into the marketplace for some of our large kind of cornerstone strategies that we have at the firm, where our managers are comfortable with fully transparent -- delivery of fully transparent -- their strategies in a fully transparent way. And we've said for a long time, not everything has to be non-transparent in the ETF space, that there are strategies, and some of our largest strategies are -- the managers are comfortable delivering them through the ETF vehicle in a fully transparent way. And again, this goes to our strategy of, again, choice for our clients. We want -- if they want to buy Western's Core Plus capability, if they want to buy Richie Freeman's aggressive growth strategy, they want to buy the 40 Act, done; they want to buy it in a SMA, done; if they want to buy it in a ETF, done. We're not done yet, but that's the kind of thing. So we want to be vehicle agnostic. We do want to have to -- we do want to lose a piece of business because they want to buy Richie Freeman, but they want to buy it in ETF, and we can't provide it. So that's -- and that's why we then bought Precidian, right, or took a minority stake in Precidian.

Now, remember that we, at our option, can scale that up to a majority ownership of 75% to 80%. We've been banging heads a little bit. Precidian has been banging heads a little bit with the SEC in the past. We think, with the change in the administration, that we will have a much better hearing from the SEC on their methodology, which by the way -- look, there's other methodologies in the marketplace, but I would put our list of clients or Precidian's list of clients who have signed licensing agreements as validation that the industry stands behind Precidian's methodology for non-transparent active ETFs, I'd put that up against anybody. You've got BlackRock who signed on, you've got Capital who signed on, you've got Invesco who signed on, obviously, we've signed on. And in the last month or so, JPMorgan didn't just sign a licensing agreement, they did a press release on it. They got up and gave a talk at one of the ETF symposiums, saying this is the best methodology for non-transparent active ETFs. This will be, in our view -- we believe this will be an industry utility, okay. We will get some nice potential fees off this down the road, if and when it gets approved. It should get approved, it's something that's in the best interest of investors and we think we'll get a better hearing with the SEC. That's why we pulled our application back in the summer, because we knew there was going to be a change in administration. We didn't exactly projected this move, change in administration. We thought there will be a change in administration and there might be -- and it felt to us like the SEC was a little too aggressive in trying to wrap this up. And we thought, okay, this isn't going the way we wanted to. Let's reset the shot clock. And so, working with the exchange. With that, we pulled the applications into the SEC so that we had -- we were able to go to the SEC with whoever was going to be at the SEC with the change in administration. We thought we'd get at least a fresh hearing. We think we'll get not only a fresh hearing, but a much more -- we're hopeful to get a much more favorable hearing from the SEC. That goes to vehicles.

And then if you go to the last part of our M&A strategy, it's been around access. And we've been investing in distribution, we're very good at it. We've been -- as I've talked about, our retail distribution globally has been growing and taking share at or near record sales, but we also know that that's going to evolve over the course of the next few years and that digital distribution is going to be real, it's going to drive costs down on the distribution side increasingly the next generation, and even not just the millennials but everybody wants to do more from a technology standpoint. It doesn't necessarily mean there won't be advisors, but you have to have both.

And so we made an investment and we acquired back in -- last August, we acquired a small, really an early stage fintech called Financial Guard, and we intentionally acquired them as an early stage company, because we thought we wanted to be able to help shape them and that would be an advantage in the marketplace, that we could help shape them with clients and be able to offer more customized solutions for potential clients. I have to tell you, I had no vision whatsoever that we would have a client within a year, because I just thought it was too early stage. In fact, after acquiring them in August, we got our -- we had our first client sign with Financial Guard in November and they've gone online in January. I'm stunned by it. Now, that's not driving a ton of flows at this point in time but it puts us in the space with a solution, with a global solution. Now we can begin to kind of -- I think we can scale it with other potential clients. It's not going to be with the Morgan Stanleys and the Wirehouses, the Merrill Lynchs, but it's going to be the downstream broker-dealers, RIAs that potentially can join us with this.

So, everything we've done over the last few years has been to reposition the portfolio, investment capabilities and asset classes, vehicles and access. And so now it's about making it work and bringing it all together, and that's what we feel like is starting to happen.

Now, we're not going to be immune to the headwinds in the industry, whether its fee pressures or whether it's continued pressure on movement towards passive, but we've got more pieces. And so this diversification strategy for clients, which keeps us increasingly relevant for clients, we think that diversification strategy for clients is also a benefit to shareholders, because we're not locked into any one geography, we're not locked into any one vehicle, we're not locked into any one asset class, we're not [any one] client institutional retail. Everything we think about for our clients and for our shareholders is, how do we continue to diversify so we can stay relevant all the time, if possible.

Unidentified Audience Member

Can you just talk about your long-term thinking on aggregate margins, given some of the pressures that you alluded to and you're ability to sort of outgrow those pressures?

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

Yes. So, look, we have some limitations based on our model in terms of margins (technical difficulty) margins are typically not -- it's high on a GAAP basis (technical difficulty). One of the things that we are thinking about -- for those of you who attended our Investor Day back last September, we introduced a non-GAAP measure at that time (technical difficulty) show you how efficiently Legg Mason operates with the revenue we get and the profit that we return, as a result of that. I think that surprised people. Now we haven't continued to release that. And the reason we haven't continued to release that is because, if you recall back then, the SEC was very (technical difficulty) about non-GAAP measures. And they were really pushing a lot of firms about using non-GAAP measures. So we said, look, we're going to release this now and we'll maybe do it again in a year.

Maybe that's a measure that, in a new administration, we feel better or more comfortable in releasing in a more regular basis to help you understand how many of our shareholders look at our margin, right. Because again, in some respects, we have a pass-through model. And so there's only a certain amount of revenues that actually shareholders are entitled to. So what -- when we look at what is shareholder revenue and then what is shareholder profit, what's the margin on that? And then when you look at it that way, it's significantly more competitive or even attractive vis-a-vis our competitors. But how are we going to grow the margin whether it would be our GAAP margin or that margin. I think, there's always been just through growth and through the mix of the business. And some of that we can control and some of that we can't control. But I think growing our business and continuing to diversify that mix, and particularly into alternatives, it can help, okay. So that's one.

But the new area, and I don't want to over-sell this again, because this is going to be a long tail, okay. But I was asked a question on our last earnings call and I answered it and I probably answered pretty much the same way, all of our affiliates, CEOs are smart people, good business people, they understand what's going on, they feel the fee pressure and they feel the cost pressure. And for the first time that I know [of and like] Legg Mason's history, we're beginning to talk more seriously and more consistently around how do we leverage our combined scale from across (technical difficulty) back office or middle office. Are there opportunities for us to come together and reduce costs overall for both us and for the affiliates in order to free up capital to invest in the business to deal with fee pressure or to return to our stakeholders? When our affiliates feel margin pressure, that margin pressure doesn't come out of shareholders because that's their revshare. It comes out of their bonus pool. So they are highly motivated to do whatever they have to do to retain that bonus pool, okay.

In our case, it goes back to shareholders. So there is -- we are having more discussions than we ever have. This is going to take time. So that's why I'm not putting a number out there or whatever. But we are having discussions about how can we reduce costs appropriately between affiliates and corporate center together to potentially reduce costs to the benefit of both the affiliates and Legg Mason. In our case, we would use that to return to -- we would either use that to invest in the business or we'd use it to return it to shareholders.

Bill Katz - *Citigroup - Analyst*

We're actually out of time. I have one last question, if we may do a minute or less. Capital management, sounds like you don't have the right deals in the pipe, you've been committed to $90 million of buyback per quarter, stocks had a big bounce, any reason to think that you won't continue to stay at that $90 million [pace]?

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

Not with what we see right now. We still feel that we're pretty materially undervalued. We're pleased with the bounce, but we still feel we're really undervalued in here. So we'll (technical difficulty) Look, if something changes and there is some opportunity there that's just something we feel we have to do but (technical difficulty) in the near term for what I can see right now that we'll continue to buyback (technical difficulty).

Bill Katz - *Citigroup - Analyst*

Thank you very much. We appreciate the (inaudible).

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

My pleasure.

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