



# Fiscal Second Quarter 2018 Review

October 25, 2017

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

**Peter H. Nachtwey**  
Chief Financial Officer

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

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

# Important Disclosures

## **Forward-Looking Statements**

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not statements of facts or guarantees of future performance, and are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those discussed in the statements.

For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2017 and in the Company’s quarterly reports on Form 10-Q.

## **Non-GAAP Financial Measures**

This presentation includes non-GAAP financial information. This non-GAAP information is in addition to, not a substitute for or superior to, measures of financial performance or liquidity determined in accordance with GAAP. The Company undertakes no obligation to update the information contained in this presentation to reflect subsequently occurring events or circumstances.

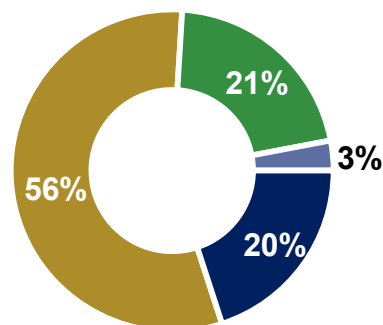
# Company Highlights

<b>Financial Results</b>	<ul style="list-style-type: none"><li>• Net Income of \$75.7M or \$0.78 per diluted share</li></ul>
<b>Assets Under Management/ Flows</b>	<ul style="list-style-type: none"><li>• Total AUM of \$754B</li><li>• Long-term net outflows of \$1.2B<ul style="list-style-type: none"><li>– Equity and Alternative outflows of \$2.0B and \$0.7B, respectively</li><li>– Fixed Income inflows of \$1.5B</li></ul></li><li>• Realizations of \$0.5B</li></ul>
<b>Global Distribution</b>	<ul style="list-style-type: none"><li>• Global Distribution quarterly gross and net sales of \$18.8B and \$4.0B, respectively</li><li>• Positive net sales in 15 of the last 16 quarters</li><li>• Quarterly global redemption rate of 19%; US redemption rate of 17%</li></ul>
<b>Investment Performance<sup>1</sup></b>	<ul style="list-style-type: none"><li>• 74% and 79% of AUM beat benchmarks for the 3- and 5-year periods, respectively</li><li>• 62% and 64% of long-term US fund assets beat Lipper category average for the 3- and 5-year periods, respectively</li></ul>
<b>Capital Management</b>	<ul style="list-style-type: none"><li>• Retired 2.3M shares for approximately \$90M</li></ul>
<b>Other Highlights</b>	<ul style="list-style-type: none"><li>• Moody's affirmed Legg Mason's Baa1 rating and moved outlook from negative to stable</li><li>• ClearBridge's Large Cap Growth portfolio co-managers Margaret Vitrano and Peter Bourbeau won the <i>Investment Advisor</i> 2017 SMA Manager of the Year Award in the large cap equity category</li></ul>

# Asset & Revenue Diversification by Asset Class

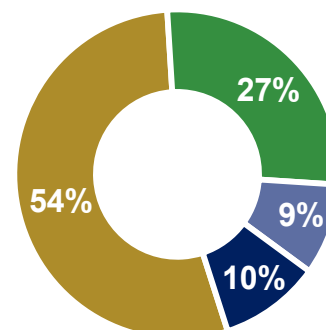
## Assets Under Management

September 2012



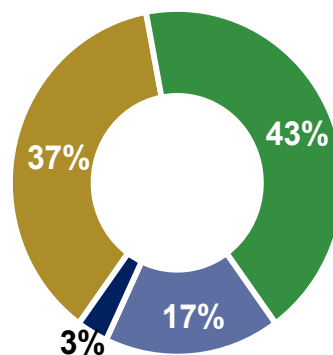
- Fixed Income
- Equity
- Alternative
- Liquidity

September 2017













- Fixed Income
- Equity
- Alternative
- Liquidity

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



- Fixed Income
- Equity
- Alternative
- Liquidity

## Second Quarter Overview (\$ billions)

Entity	Ending AUM	Qtr/Qtr % Change	Net LT Flows / Realizations <sup>1</sup>	Unfunded Wins / Committed Uncalled Capital
 <b>LEGG MASON</b> GLOBAL ASSET MANAGEMENT	\$754.4	2%	(\$1.2) / (\$0.5)	\$7.2 / \$3.0
 <b>WESTERN ASSET</b>	429.5	2%	0.9	3.6
 <b>ClearBridge</b> Investments	130.7	3%	(0.3)	2.6
 Brandywine <b>GLOBAL</b>	73.9	3%	(0.1)	0.1
 <b>CLARION PARTNERS</b>	43.3	1%	0.6 / (0.5)	0.0 / 1.7
 <b>Royce &amp; Associates</b>	17.4	1%	(0.9)	-
 <b>EnTrustPermal</b> <sup>2</sup>	18.1	-7%	(1.5) / -	0.7 / 1.3
 <b>MARTIN CURRIE</b>	19.7	2%	-	0.2
 <b>RARE</b>	4.4	4%	0.1	-
 <b>QS Investors</b>	16.2	3%	(0.1)	-

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

<sup>2</sup> EnTrustPermal reports total assets of \$22.1B, which includes ending AUM, ending AUA, committed uncalled capital, and unfunded wins

Affiliates ordered by contribution to annual pre-tax earnings less noncontrolling interest

Legg Mason ending AUM and net LT flows include other entities not shown with ending AUM of \$1.2B and net LT inflows of \$0.1B

# Global Distribution

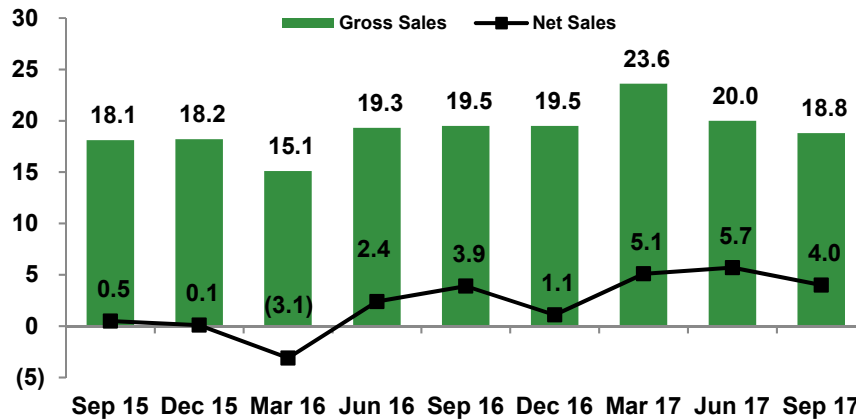
## Total Long-Term Assets<sup>1</sup>: \$323B

### Distribution Highlights

- Gross sales of \$18.8B for F2Q18
  - Down 6% from F1Q18
- Net sales of \$4.0B vs \$5.7B in F1Q18
- Net sales up compared to F2Q17
- Positive net sales in 15 of the last 16 quarters
- Quarterly global redemption rate at 19%
  - US redemption rate 17%

(\$ Billions)	F2Q18	F1Q18	F2Q17
<b>Gross Sales<sup>1</sup>:</b>			
US	\$13.1	\$14.1	\$13.7
Int'l	5.7	5.9	5.8
<b>Total</b>	<b>\$18.8</b>	<b>\$20.0</b>	<b>\$19.5</b>
<b>Net Sales<sup>1</sup>:</b>			
US	\$2.3	\$3.1	\$ 1.3
Int'l	1.7	2.6	2.6
<b>Total</b>	<b>\$4.0</b>	<b>\$ 5.7</b>	<b>\$ 3.9</b>

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



### Top Funds Driving Gross Sales FYTD 18

- Western Asset Core Plus Bond Fund
- Martin Currie Australian High Dividend Equity Fund
- Western Asset Macro Opportunities Bond Fund (Int'l)
- ClearBridge Large Cap Growth Fund
- Western Asset Core Bond Fund
- Brandywine Global Sovereign Credit Fund
- ClearBridge Aggressive Growth Fund
- Brandywine Global Opportunities Bond Fund
- Western Asset Managed Municipals Fund
- Western Asset Macro Opportunities Fund

<sup>1</sup> For LMGD, Assets Under Advisement are included in long-term assets, gross sales and net sales. Net sales equals gross sales less redemptions. As of September 30, 2017 long-term assets include \$0.0B of AUA. Quarterly AUA gross and net sales for F2Q18 each are \$0.0B and (\$0.1B), respectively, and for F1Q18 each are \$0.0B

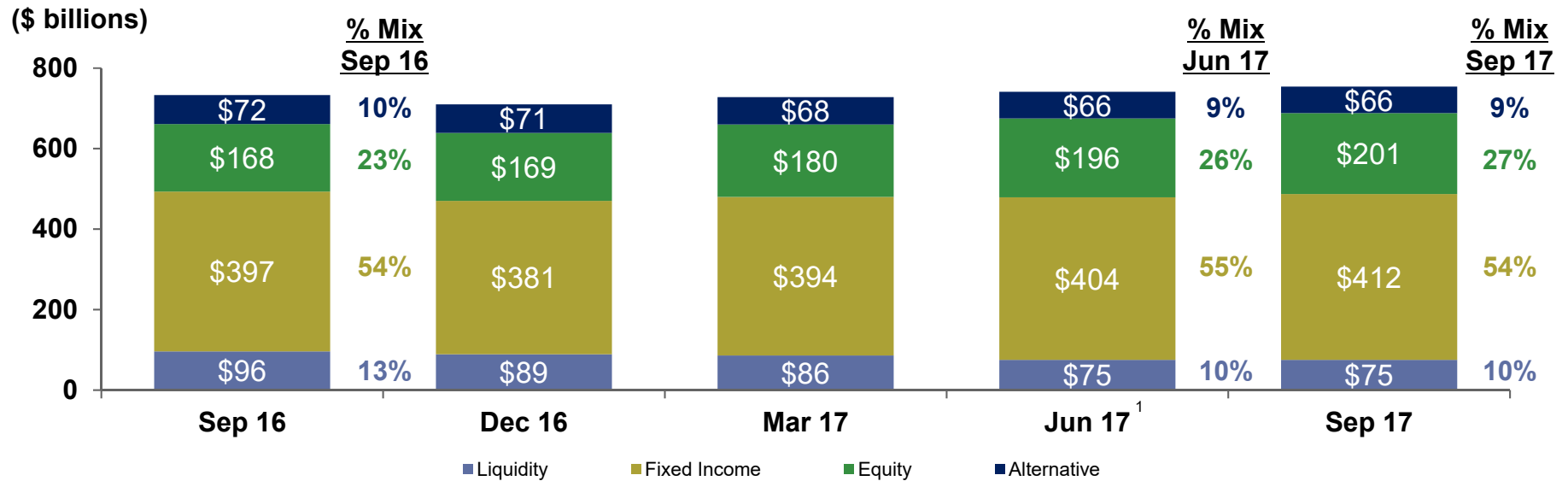
# Financial Highlights Second Quarter FY 2018

- Net income of \$75.7M, or \$0.78 per diluted share
  - Corporate severance costs of \$1.7M or \$0.01 per diluted share
  - Acquisition and transition-related costs of \$1.4M or \$0.01 per diluted share
  - Year-to-date annualized tax credit adjustment of \$1.2M or \$0.01 per diluted share
- Average AUM of \$750.3B, up \$10.0B
  - Average long-term AUM increased \$16.4B compared to prior quarter
- Operating revenues of \$768.3M, decreased \$25.5M or 3.2% from the prior quarter
  - Decrease is largely due to lower pass through performance fees at Clarion, partially offset by higher average long-term AUM, one additional day in the quarter and higher non-pass through performance fees
- Operating expenses of \$623.9M, down \$62.7M or 9.1% from the prior quarter
  - Current quarter includes lower compensation and benefits largely due to lower pass through performance fees at Clarion. The prior quarter included intangible asset impairment charges, partially offset by contingent consideration fair value credits
- Operating income of \$144.4M, operating margin of 18.8%
- Operating income, as adjusted<sup>1</sup> of \$155.5M, operating margin, as adjusted<sup>1</sup> of 24.9%
- Effective GAAP<sup>2</sup> tax rate of 30.6%

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

<sup>2</sup> Includes the impact of Consolidated Investment Vehicles of (0.4%)

# Assets Under Management by Asset Class



## Ending AUM

Long-term	<b>\$637</b>	\$621	\$642	\$666	<b>\$679</b>
Total	\$733	\$710	\$728	\$741	\$754

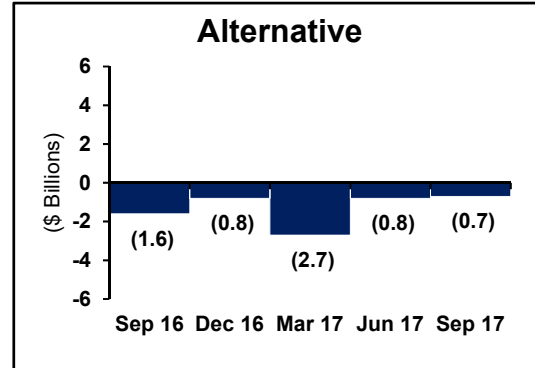
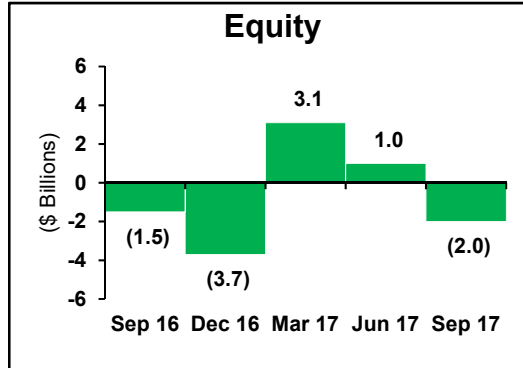
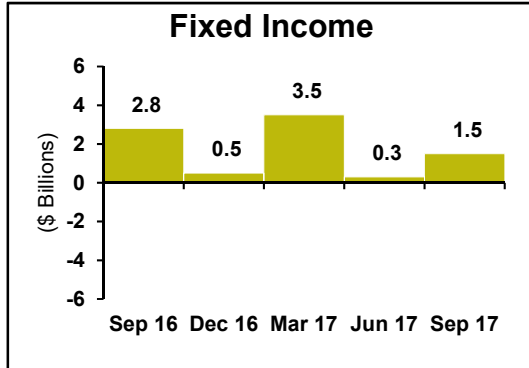
- AUM increased \$13.2B or 2% from prior quarter
  - Market appreciation/other of \$12.5B and positive FX impact of \$2.2B
  - Liquidity inflows of \$0.2B
  - Long-term outflows of \$1.2B
  - Realizations<sup>2</sup> of \$0.5B

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

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



# Net Flows by Asset Class – Quarterly

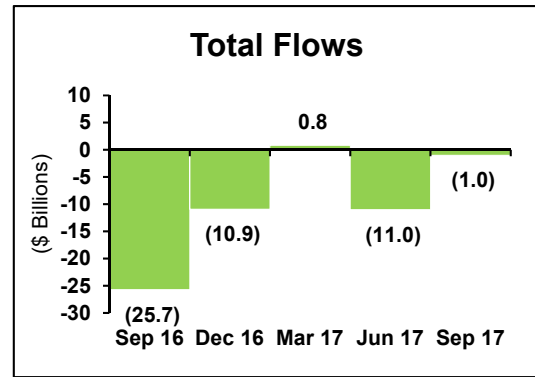
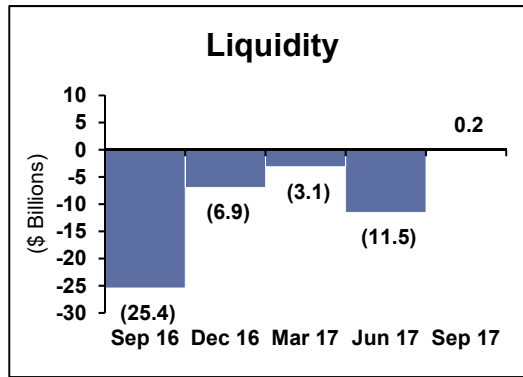
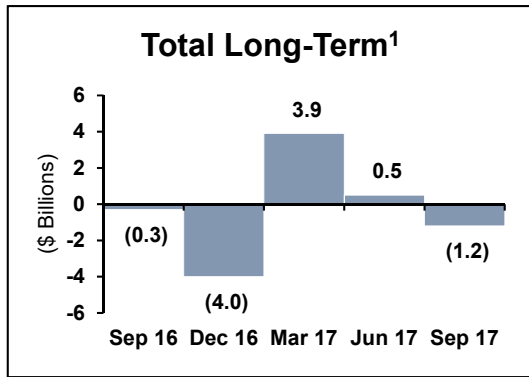


## September Quarter Key Drivers by Strategy

- Core Plus \$2.1B
- Non-Traditional Bond \$1.8B
- Enhanced Liquidity \$1.5B
- Core Bond \$1.3B
- Corporate (\$2.7B)
- Global Sovereign (\$2.9B)

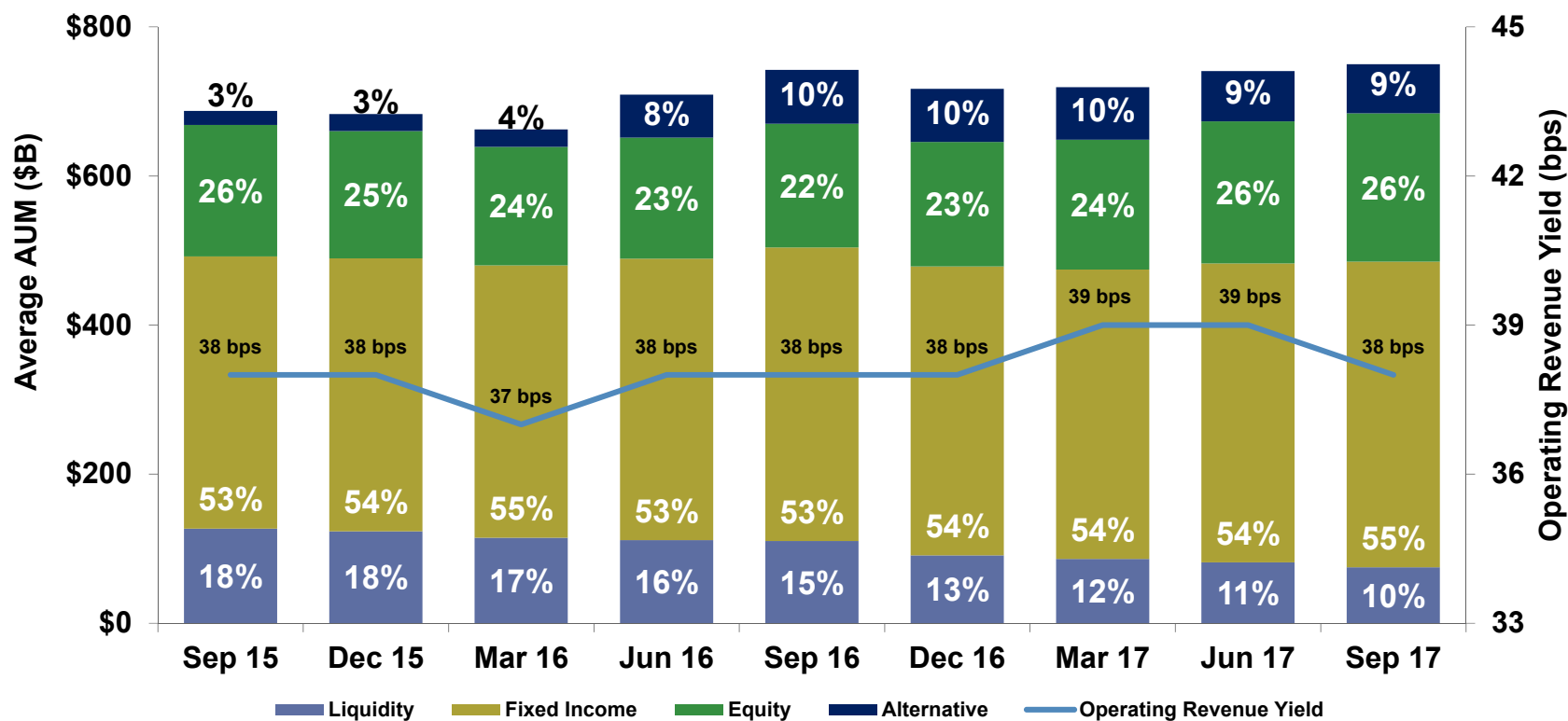
- Small Cap (\$1.3B)
- Large Cap (\$0.6B)
- Mid Cap (\$0.2B)
- Global (\$0.1B)
- Equity International \$0.3B

- Hedge Fund (\$1.4B)
- Real Estate \$0.6B



<sup>1</sup> Retail separately managed account net inflows excluded from prior period flows were \$0.7B, \$0.8B, and \$1.3B in Sep 16, Dec 16 and Mar 17, respectively

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



## Operating Revenue Yield by Asset Class (bps)

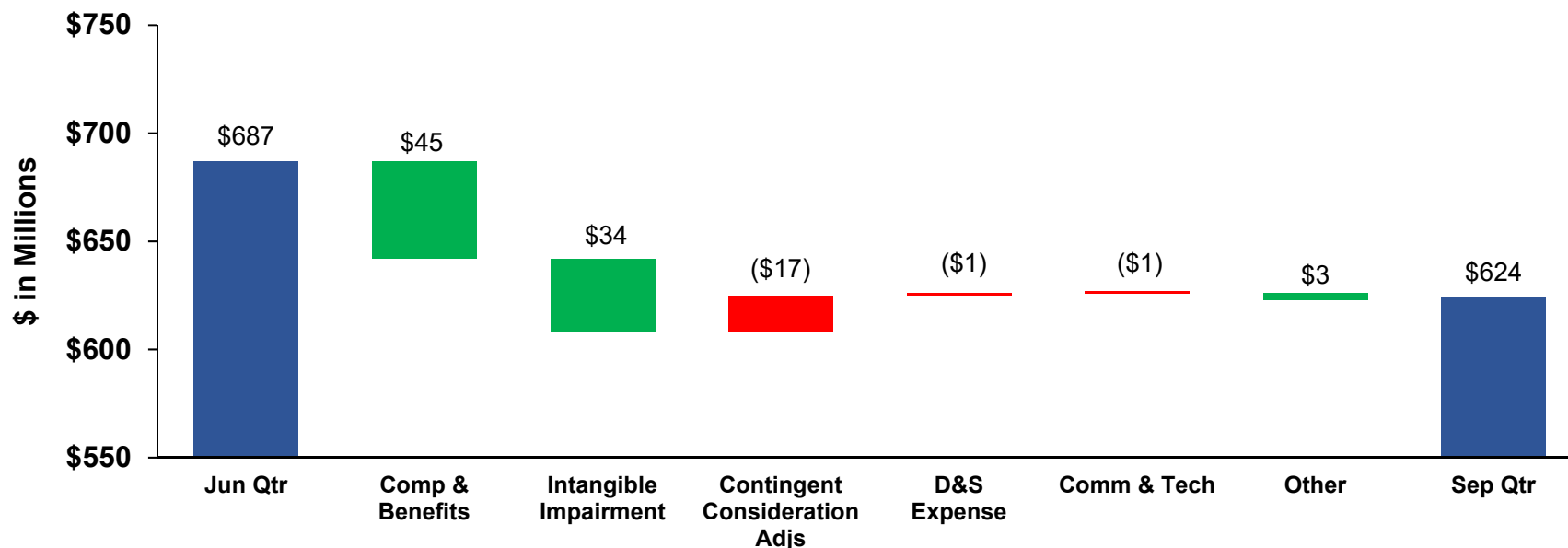
Alternatives <sup>2</sup>	132	112	110	75	70	68	69	67	64
Equity	71	69	66	67	66	67	68	64 <sup>3</sup>	63
Fixed Income	29	28	28	28	27	27	27	27	27
Liquidity	8	9	11	12	11	12	13	13	13

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

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

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

# Operating Expenses



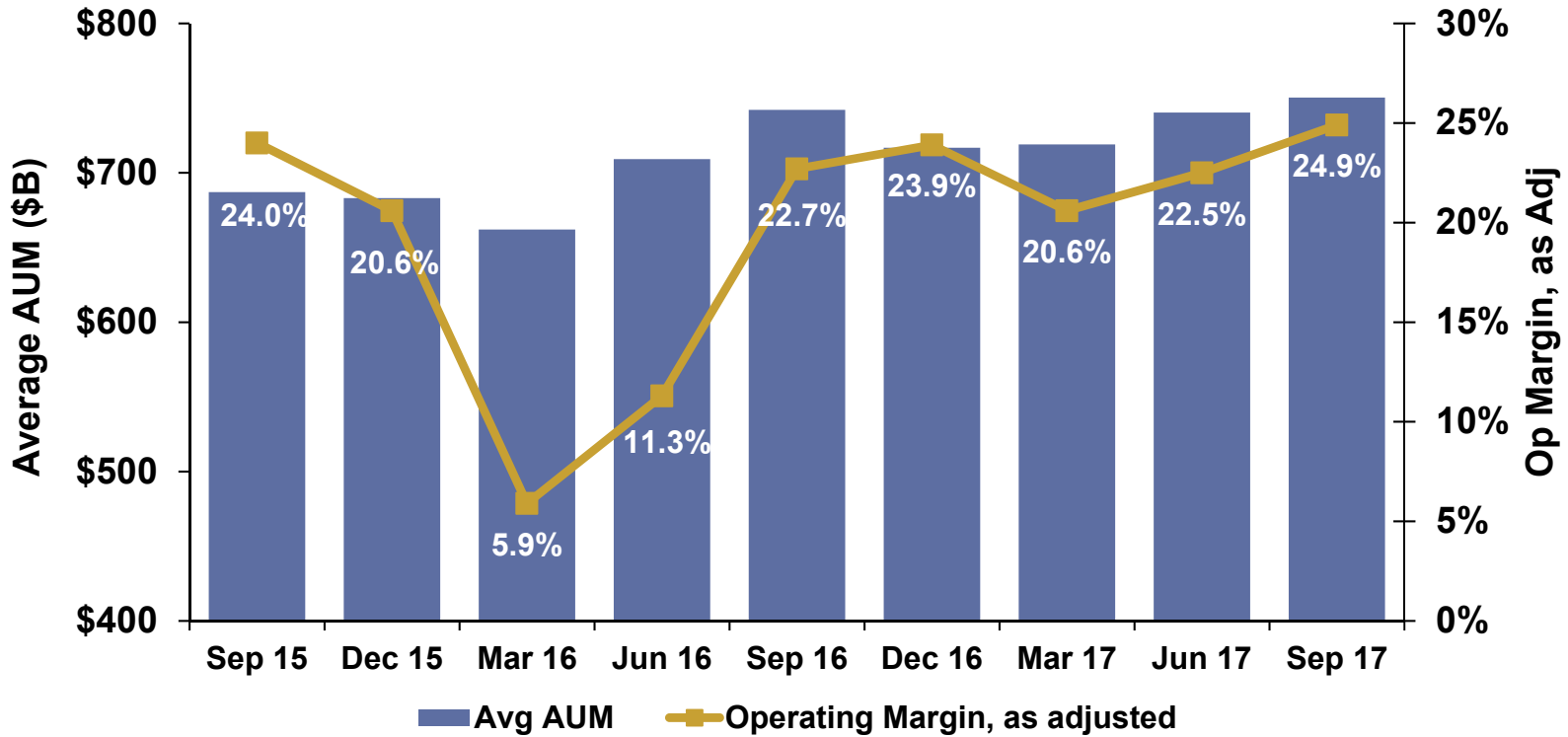
- Total Operating expenses decreased \$63M from the prior quarter
  - Comp & Benefits decreased primarily due to lower compensation from pass through performance fees at Clarion and seasonal factors in the prior quarter, partially offset by compensation on higher non-pass through revenues
  - Non-cash impairments of intangible assets, partially offset by contingent consideration credit adjustments in the prior quarter
  - Communications and technology increased largely due to higher technology consulting fees
  - Other expenses decreased primarily due to lower professional fees

# Compensation and Benefits

(\$ millions)	Sep Qtr	% of Net Rev. <sup>1</sup>	Jun Qtr	% of Net Rev. <sup>1</sup>	\$ Change
<b>Salary, incentives and benefits</b>	<b>\$ 340.3</b>	<b>54%</b>	<b>\$ 338.0</b>	<b>56%</b>	<b>\$ 2.3</b>
Transition-related and severance costs	3.0	1%	4.5	NM	(1.5)
MTM deferred comp. and seed investments	4.8	1%	5.4	1%	(0.6)
Comp and benefits (ex pass through perf. fees)	348.1	<u>56%</u>	347.9	<u>57%</u>	0.2
Clarion pass through performance fees	19.9		65.4		(45.5)
Total Compensation and benefits	<u>\$ 368.0</u>		<u>\$ 413.3</u>		<u>\$ (45.3)</u>

- Salary, incentives, and benefits increased \$2.3M largely due to compensation on higher revenues, partially offset by seasonal compensation factors including accelerated deferred compensation related to retirement eligible employees in the prior quarter.
- Transition-related and severance costs includes corporate severance of \$1.7M

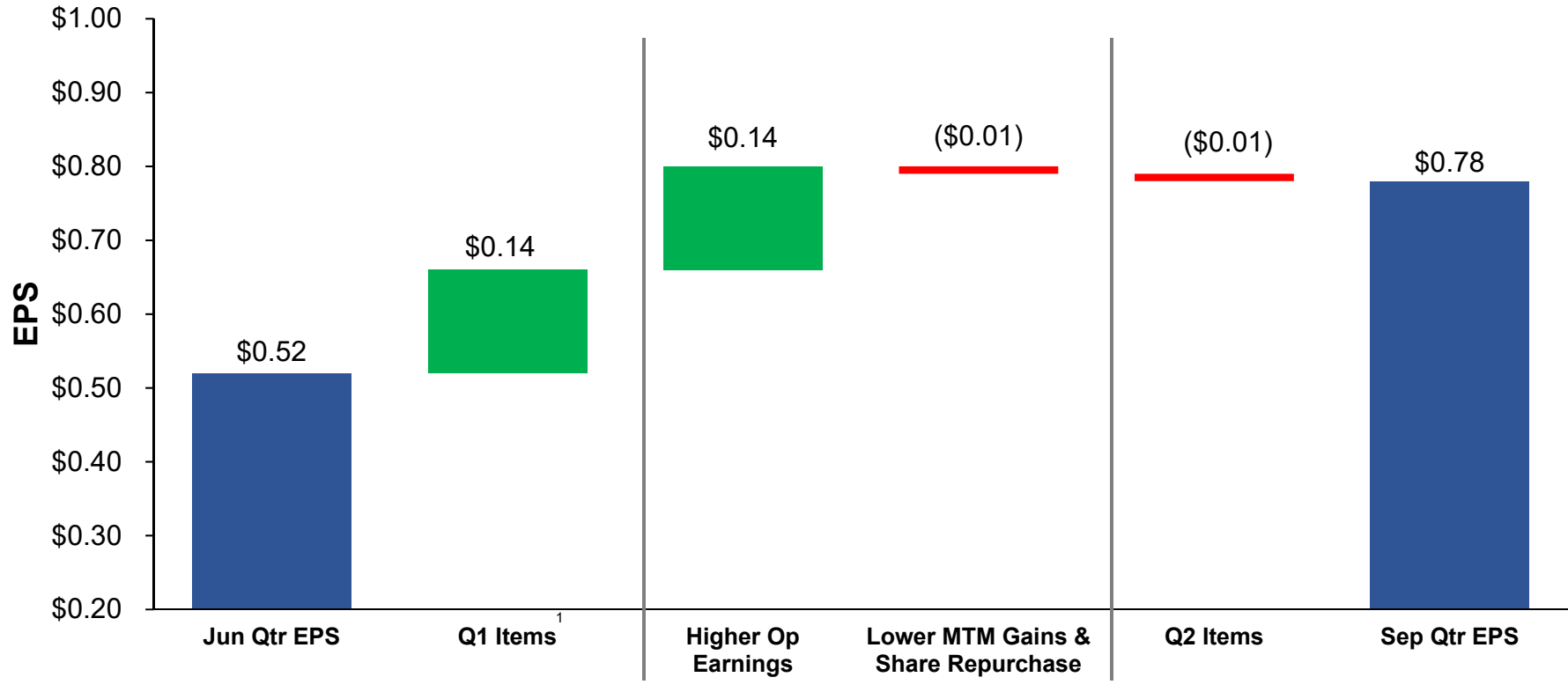
# Operating Margin, as Adjusted



- June and September quarters' impact of acquisition and transition-related and corporate severance costs totaled 0.8% and 0.5%, respectively

Note: See Appendix for GAAP reconciliation

# Second Quarter Earnings Per Share Roll Forward

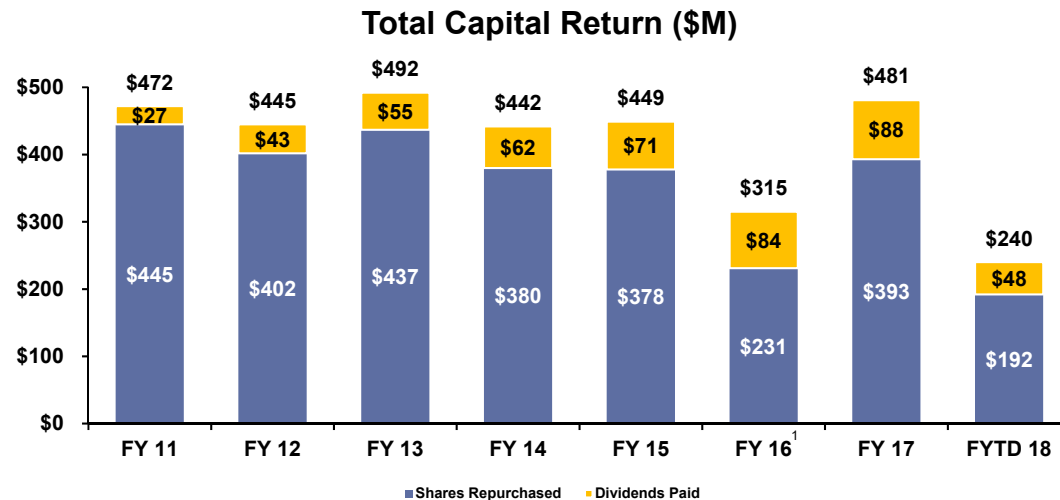
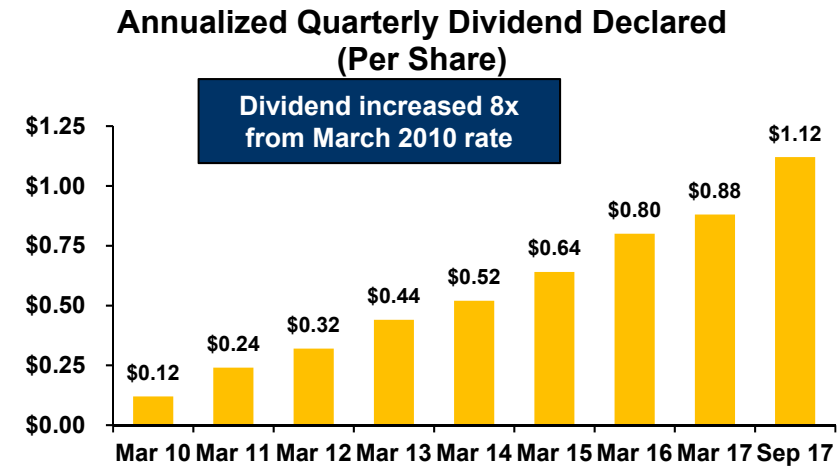
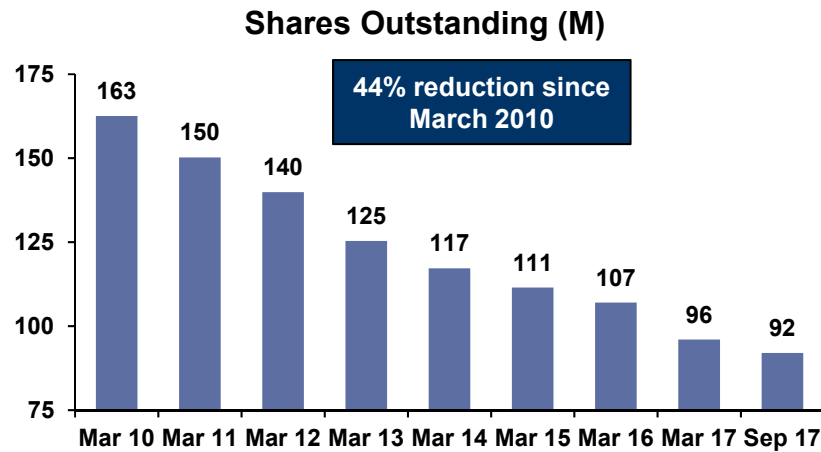


- Operating earnings increased due to seasonal compensation in the prior quarter, higher average long-term AUM, one additional day of revenue and higher non-pass through performance fees
- Q2 items include corporate severance costs \$0.01 and acquisition and transition-related costs \$0.01, partially offset by a year-to-date annualized tax credit adjustment \$0.01

<sup>1</sup> Q1 items include intangible asset impairment charges \$0.24, acquisition and transition-related costs \$0.02 and corporate severance costs \$0.01, partially offset by contingent consideration credits \$0.12 and net tax credits \$0.01

# An Industry Leader in the Rate of Returning Capital

Returned \$3.3 Billion since March 2010



<sup>1</sup> Share repurchases were suspended in October 2015 while work was progressing on acquisitions. The program resumed in late March 16 and additional shares were repurchased in F1Q17

# Expanding Client Choice

## Asset Class & Investment Strategies

Brandywine  GLOBAL

 CLARION PARTNERS

**ClearBridge**  
Investments

EnTrustPermal

  
MARTIN CURRIE

 QS Investors

 RARE

Royce & Associates

 WESTERN ASSET

## Investment Products & Vehicles

Mutual Funds

SMA

ETFs

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

CITs

Private Funds

UCITs

## Distribution & Client Access

**LEGG MASON**  
Global Distribution

 Financial Guard

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

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

<sup>2</sup> Minority investment



# Appendix

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Brandywine  GLOBAL

 CLARION PARTNERS

**ClearBridge**  
Investments

EnTrustPermal

  
MARTIN CURRIE

 QS Investors

 RARE

Royce & Associates

 WESTERN ASSET

**LEGG MASON**  
GLOBAL ASSET MANAGEMENT

## Appendix - Operating Results

### Second Quarter FY 2018

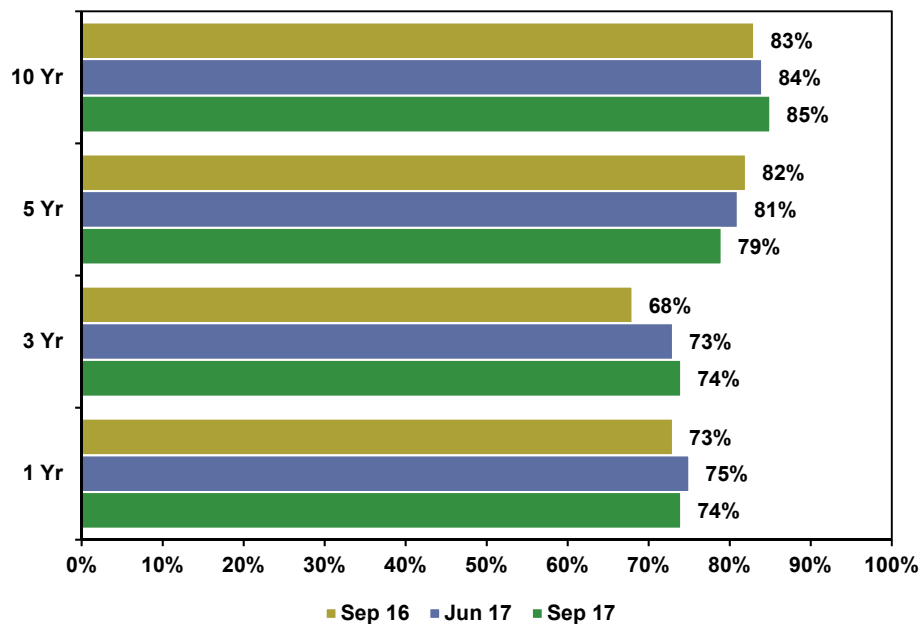
(\$ millions, except per share amounts)	Sep 17 Qtr	Jun 17 Qtr	Sep 16 Qtr	\$ Change vs.	
				Jun 17 Qtr	Sep 16 Qtr
<b>Operating Revenues</b>	\$768.3	\$793.8	\$748.4	(\$25.5)	\$19.9
<b>Operating Expenses</b>	623.9	686.6	620.7	(62.7)	3.2
<b>Operating Income</b>	144.4	107.2	127.6	37.2	16.8
<b>Net Income (Loss)</b>	75.7	50.9	66.4	24.8	9.3
<b>Diluted EPS</b>	0.78	0.52	0.63	0.26	0.15
<b>Operating Margin, as adjusted<sup>1</sup></b>	24.9%	22.5%	22.7%		
<b>Effective GAAP<sup>2</sup> Tax Rate</b>	30.6%	30.8%	25.7%		

## Appendix - Asset & Revenue Diversification

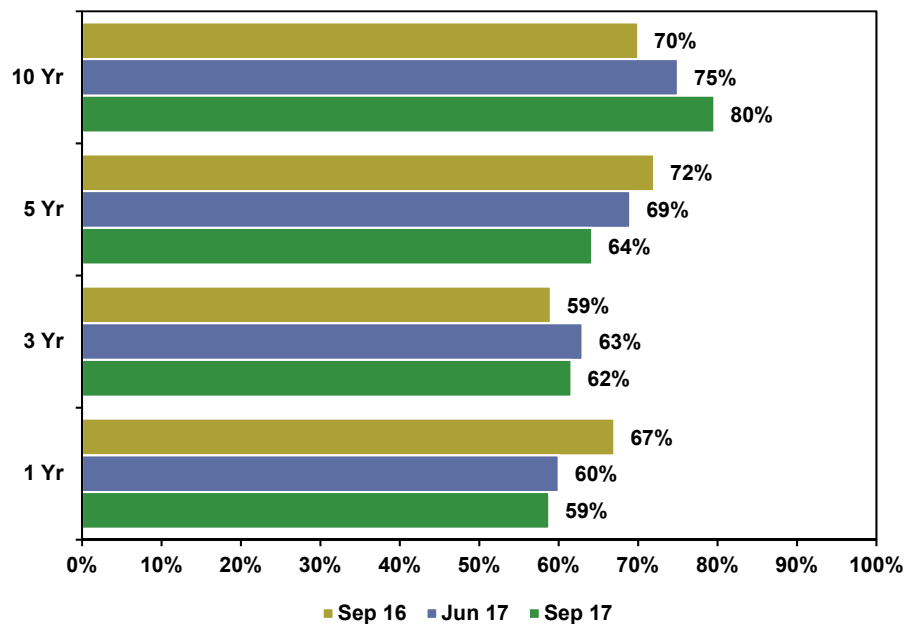
	Fixed Income	Equity	Alternatives	Liquidity	Total AUM	Operating Revenues
<b>AUM by Domicile:</b>						
US	63%	85%	81%	37%	68%	71%
Non US	37%	15%	19%	63%	32%	29%
<b>AUM by Client Type:</b>						
Institutional	85%	43%	94%	69%	73%	60%
Retail	15%	57%	6%	31%	27%	40%
<b>Total AUM</b>	<b>54%</b>	<b>27%</b>	<b>9%</b>	<b>10%</b>	<b>100%</b>	
<b>Operating Revenues</b>	<b>37%</b>	<b>43%</b>	<b>17%</b>	<b>3%</b>		<b>100%</b>

# Appendix – Investment Performance

% of Strategy AUM beating Benchmark<sup>1</sup>



% of Long-Term U.S. Fund Assets beating Lipper Category Average<sup>2</sup>



<sup>1</sup> See appendix for details regarding strategy performance

<sup>2</sup> Includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.

Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ.

# Appendix – Additional Investment Performance Detail

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

	September 30, 2017			June 30, 2017			September 30, 2016		
	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year
<b>Total (includes liquidity)</b>	<b>74%</b>	<b>74%</b>	<b>79%</b>	<b>75%</b>	<b>73%</b>	<b>81%</b>	<b>73%</b>	<b>68%</b>	<b>82%</b>
<b>Equity:</b>									
<b>Large cap</b>	<b>23%</b>	<b>33%</b>	<b>54%</b>	<b>41%</b>	<b>32%</b>	<b>64%</b>	<b>48%</b>	<b>13%</b>	<b>56%</b>
<b>Small cap</b>	<b>49%</b>	<b>13%</b>	<b>26%</b>	<b>45%</b>	<b>18%</b>	<b>25%</b>	<b>52%</b>	<b>17%</b>	<b>34%</b>
<b>Total Equity (includes other equity)</b>	<b>31%</b>	<b>40%</b>	<b>56%</b>	<b>45%</b>	<b>37%</b>	<b>63%</b>	<b>48%</b>	<b>24%</b>	<b>59%</b>
<b>Fixed Income:</b>									
<b>US taxable</b>	<b>95%</b>	<b>88%</b>	<b>89%</b>	<b>93%</b>	<b>88%</b>	<b>88%</b>	<b>87%</b>	<b>79%</b>	<b>86%</b>
<b>US tax-exempt</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Global taxable</b>	<b>78%</b>	<b>74%</b>	<b>74%</b>	<b>81%</b>	<b>75%</b>	<b>75%</b>	<b>62%</b>	<b>76%</b>	<b>83%</b>
<b>Total Fixed Income</b>	<b>90%</b>	<b>84%</b>	<b>85%</b>	<b>84%</b>	<b>85%</b>	<b>85%</b>	<b>80%</b>	<b>79%</b>	<b>86%</b>
<b>Total Alternative<sup>2</sup></b>	<b>77%</b>	<b>82%</b>	<b>91%</b>	<b>75%</b>	<b>85%</b>	<b>89%</b>	<b>56%</b>	<b>84%</b>	<b>87%</b>

<sup>1</sup> See appendix for details regarding strategy performance. Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ

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

## Appendix – Additional Investment Performance Detail

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

	September 30, 2017			June 30, 2017			September 30, 2016		
	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year
<b>Total (excludes liquidity)</b>	<b>59%</b>	<b>62%</b>	<b>64%</b>	<b>60%</b>	<b>63%</b>	<b>69%</b>	<b>67%</b>	<b>59%</b>	<b>72%</b>
<b>Equity:</b>									
<b>Large cap</b>	<b>26%</b>	<b>50%</b>	<b>59%</b>	<b>31%</b>	<b>62%</b>	<b>74%</b>	<b>86%</b>	<b>68%</b>	<b>81%</b>
<b>Small cap</b>	<b>67%</b>	<b>43%</b>	<b>29%</b>	<b>73%</b>	<b>26%</b>	<b>32%</b>	<b>73%</b>	<b>10%</b>	<b>37%</b>
<b>Total Equity (includes other equity)</b>	<b>39%</b>	<b>50%</b>	<b>52%</b>	<b>44%</b>	<b>53%</b>	<b>62%</b>	<b>71%</b>	<b>46%</b>	<b>69%</b>
<b>Fixed Income:</b>									
<b>US taxable</b>	<b>91%</b>	<b>87%</b>	<b>86%</b>	<b>91%</b>	<b>87%</b>	<b>85%</b>	<b>84%</b>	<b>84%</b>	<b>84%</b>
<b>US tax-exempt</b>	<b>59%</b>	<b>31%</b>	<b>57%</b>	<b>49%</b>	<b>37%</b>	<b>59%</b>	<b>7%</b>	<b>54%</b>	<b>58%</b>
<b>Global taxable</b>	<b>71%</b>	<b>80%</b>	<b>80%</b>	<b>70%</b>	<b>78%</b>	<b>80%</b>	<b>74%</b>	<b>69%</b>	<b>72%</b>
<b>Total Fixed Income</b>	<b>81%</b>	<b>74%</b>	<b>79%</b>	<b>78%</b>	<b>74%</b>	<b>78%</b>	<b>63%</b>	<b>74%</b>	<b>75%</b>
<b>Total Alternative<sup>2</sup></b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>91%</b>	<b>100%</b>	<b>100%</b>

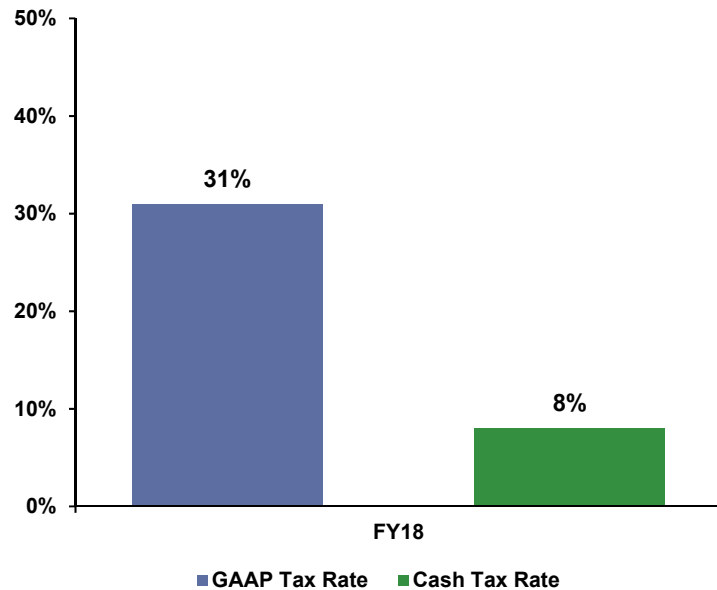
<sup>1</sup> Includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc. Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ

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

# Appendix - Significant Tax Benefit

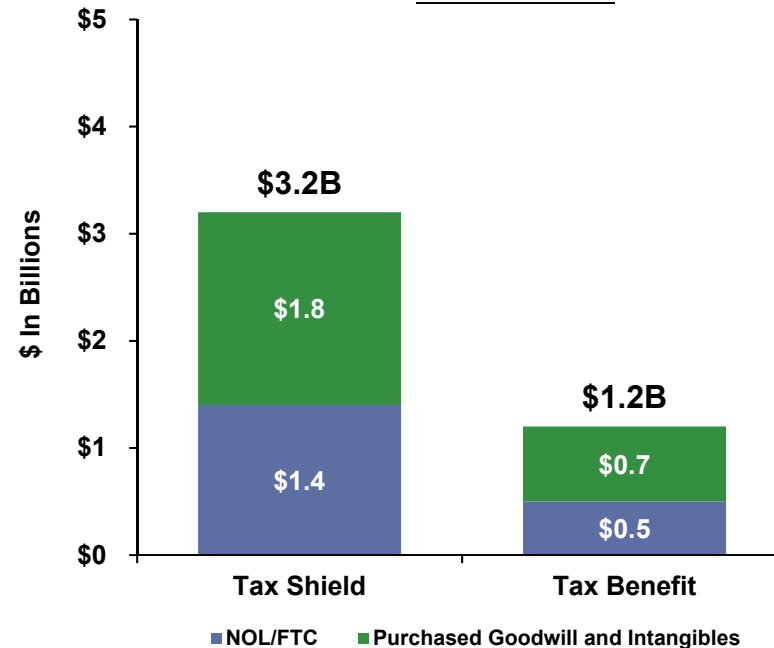
## \$3.2B of Future Income Sheltered

**FY18  
Projected  
Tax Rates**



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

**Projected  
Tax Benefit**



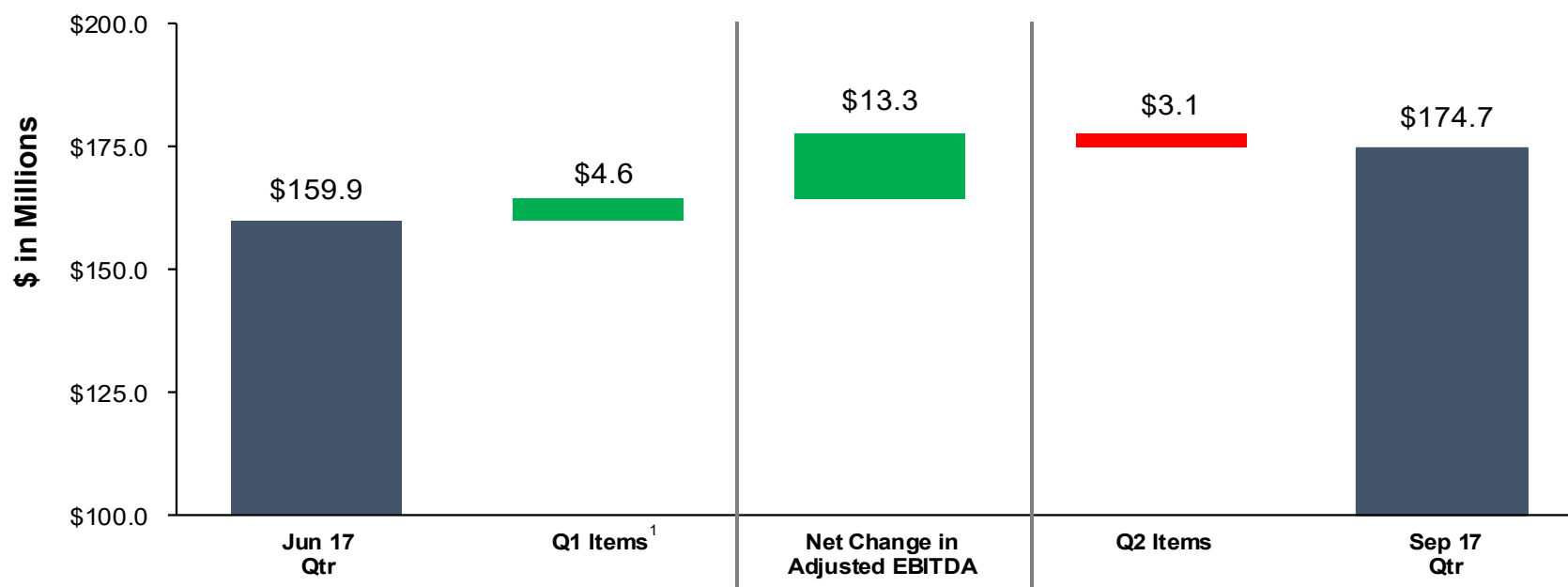
- Tax benefit from amortizable intangible assets from acquisitions

# Second Quarter Adjusted EBITDA Roll Forward

Cash Provided  
By (Used In)  
Operating  
Activities,  
GAAP

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

**Sep 17 Qtr**  
\$287.8M



- Net Change in Adjusted EBITDA increased largely due to higher average long-term AUM, one additional day of revenue and higher non-pass through performance fees
- Q2 items include acquisition and transition-related costs and corporate severance costs



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

	Quarters Ended		
	September 2016	June 2017	September 2017
(\$ millions)			
<b>Cash provided by (used in) operating activities, GAAP basis</b>	\$ 303.8	\$ (113.6)	\$ 287.8
Plus (less):			
Interest expense, net of accretion and amortization of debt discounts and premiums	26.5	28.3	28.3
Current tax expense	15.7	6.1	9.7
Net change in assets and liabilities	(92.8)	213.3	(144.4)
Net change in assets and liabilities of consolidated investment vehicles	(97.3)	31.8	1.2
Net income attributable to noncontrolling interests	(20.1)	(12.6)	(12.0)
Net gains (losses) and earnings on investments	1.1	5.6	1.5
Net gains on consolidated investment vehicles	5.2	1.0	2.1
Other	0.9	-	0.5
<b>Adjusted EBITDA</b>	<b>\$ 143.0</b>	<b>\$ 159.9</b>	<b>\$ 174.7</b>

# Appendix – GAAP Reconciliation

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

(\$ millions)	Quarters Ended								
	Sep 15	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17	Jun 17	Sep 17
<b>Operating Revenues, GAAP basis</b>	\$ 673.1	\$ 659.6	\$ 619.5	\$ 700.2	\$ 748.4	\$ 715.2	\$ 723.1	\$ 793.8	\$ 768.3
Plus (less):									
Pass-through performance fees	-	-	-	(14.6)	(35.8)	(2.3)	(8.1)	(65.4)	(19.9)
Operating revenues eliminated upon consolidation of investment vehicles	0.1	0.1	0.1	-	-	0.4	0.2	-	0.1
Distribution and servicing expense excluding consolidated investment vehicles	<u>(138.9)</u>	<u>(132.9)</u>	<u>(124.6)</u>	<u>(124.6)</u>	<u>(128.9)</u>	<u>(123.3)</u>	<u>(122.4)</u>	<u>(122.3)</u>	<u>(123.6)</u>
<b>Operating Revenues, as Adjusted</b>	<u>\$ 534.3</u>	<u>\$ 526.8</u>	<u>\$ 495.0</u>	<u>\$ 561.0</u>	<u>\$ 583.7</u>	<u>\$ 590.0</u>	<u>\$ 592.8</u>	<u>\$ 606.1</u>	<u>\$ 624.9</u>
<b>Operating Income (Loss), GAAP basis</b>	\$ 133.0	\$ (240.6)	\$ 33.9	\$ 73.6	\$ 127.6	\$ 111.2	\$ 109.9	\$ 107.2	\$ 144.4
Plus (less):									
Gains (losses) on deferred compensation and seed investments, net	(5.5)	2.7	0.3	2.1	5.4	1.5	5.4	5.4	4.8
Amortization of intangible assets	0.7	1.6	2.1	5.7	6.3	7.3	6.9	6.3	6.1
Impairment of intangible assets	-	371.0	-	-	-	35.0	-	34.0	-
Contingent consideration fair value adjustments	-	(26.4)	(7.0)	(18.0)	(7.0)	(14.5)	-	(16.6)	-
Operating loss of consolidated investment vehicles, net	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
<b>Operating Income, as Adjusted</b>	<u>\$ 128.3</u>	<u>\$ 108.4</u>	<u>\$ 29.4</u>	<u>\$ 63.5</u>	<u>\$ 132.5</u>	<u>\$ 140.8</u>	<u>\$ 122.4</u>	<u>\$ 136.5</u>	<u>\$ 155.5</u>
Operating Margin, GAAP basis	19.8%	(36.5%)	5.5%	10.5%	17.1%	15.5%	15.2%	13.5%	18.8%
Operating Margin, as Adjusted	24.0%	20.6%	5.9%	11.3%	22.7%	23.9%	20.6%	22.5%	24.9%

## Appendix – Strategy Performance

For purposes of investment performance comparisons, strategies are an aggregation of discretionary portfolios (separate accounts, investment funds, and other products) into a single group that represents a particular investment objective. In the case of separate accounts, the investment performance of the account is based upon the performance of the strategy to which the account has been assigned. Each of our asset managers has its own specific guidelines for including portfolios in their strategies. For those managers which manage both separate accounts and investment funds in the same strategy, the performance comparison for all of the assets is based upon the performance of the separate account.

Approximately eighty-eight percent of total AUM is included in strategy AUM as of September 30, 2017, although not all strategies have three, five, and ten year histories. Total strategy AUM includes liquidity assets. Certain assets are not included in reported performance comparisons. These include: accounts that are not managed in accordance with the guidelines outlined above; accounts in strategies not marketed to potential clients; accounts that have not yet been assigned to a strategy; and certain smaller products at some of our affiliates.

Past performance is not indicative of future results. For AUM included in institutional and retail separate accounts and investment funds managed in the same strategy as separate accounts, performance comparisons are based on gross-of-fee performance. For investment funds which are not managed in a separate account format, performance comparisons are based on net-of-fee performance. Funds-of-hedge funds generally do not have specified benchmarks. For purposes of this comparison, performance of those products is net-of-fees, and is compared to the relevant HFRX index. These performance comparisons do not reflect the actual performance of any specific separate account or investment fund; individual separate account and investment fund performance may differ. The information in this presentation is provided solely for use in connection with this presentation, and is not directed toward existing or potential clients of Legg Mason.