

# LEGG MASON

GLOBAL ASSET MANAGEMENT

## Goldman Sachs US Financial Services Conference

December 9, 2009

**Mark R. Fetting**  
**Chairman & CEO**



# 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, 2009 and in the Company’s quarterly reports on Form 10-Q.

# Investment/Market Conditions

- As a long term investment, we believe stocks are still great wealth builders and note that stocks tend to perform well after extended periods of poor performance, such as the last 10-year period
- However, investors continued to pull money from equity mutual funds, as some investors are locking in gains amid continued uncertainty
- We are equally optimistic about the corporate bond market in the long term. Even with the rally year-to-date, spreads are wide enough that corporate bonds should outperform treasuries
- In the fund of fund market broadly, there is greater emphasis on liquidity, longer/more in-depth due diligence processes, and focus on long term performance stories, such as ten year track records

# Priorities and Progress

- Improve balance sheet
  - Exchanged over 91% of outstanding equity units
  - Debt to total capital ratio now at 25%
  - \$460M tax refund to increase cash and free cash position
- Continued focus on costs and generating cash
  - Achieved \$160 million in expense savings as of FQ1 and improving operating margins
- Engage with affiliates
  - Performance improvement continues
- Growth through distribution and product innovation
  - Net domestic long-term fund sales continue to improve
  - Net international long-term fund sales positive FYTD
- Investment opportunities
  - Actively reviewing a targeted pipeline

# The Legg Mason Business Model

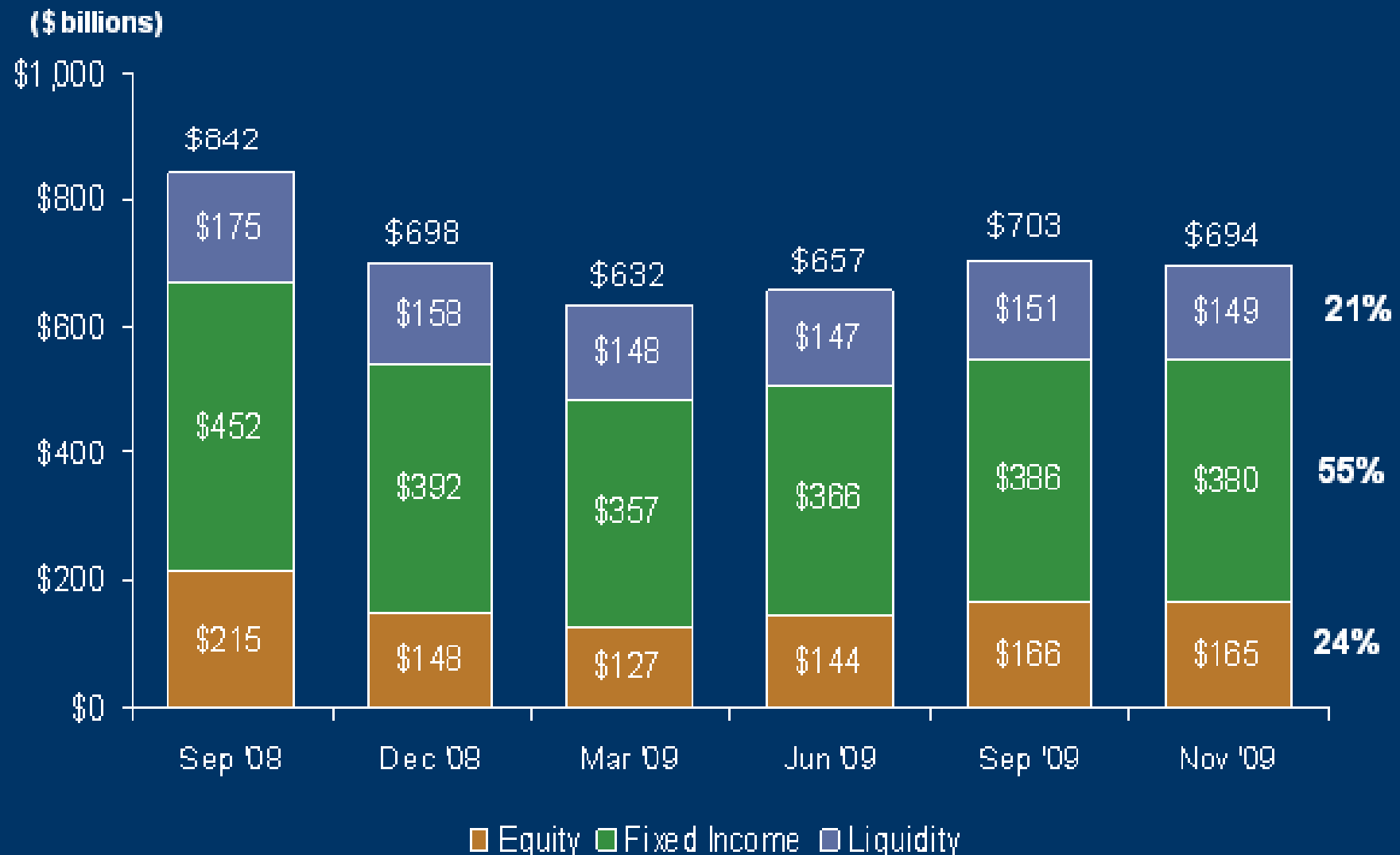


# Global Presence

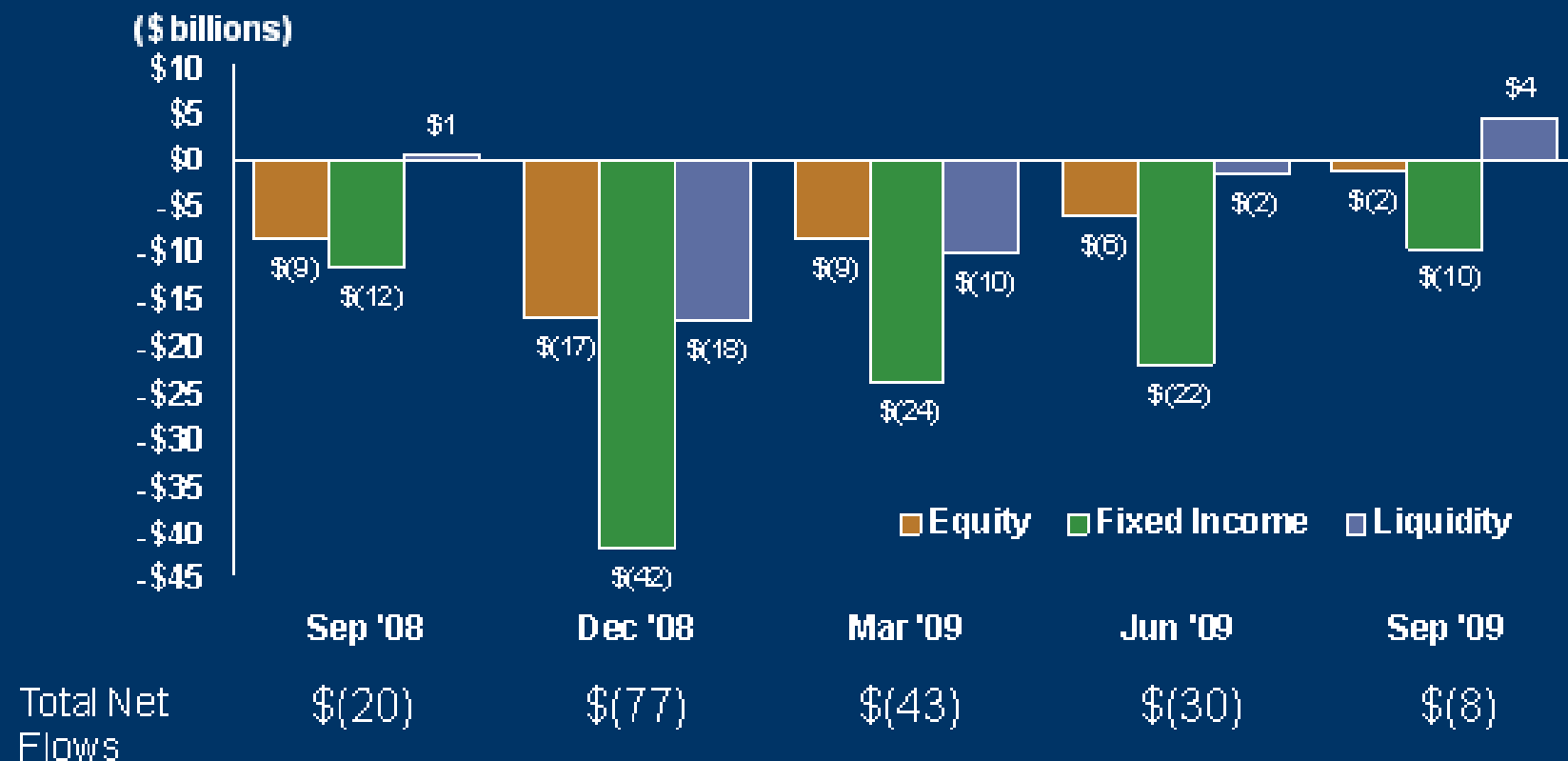


\*Global reach includes Legg Mason and its subsidiaries

# Assets Under Management by Asset Class



# Net Flows by Asset Class



## December Quarter Trend:

- Outflows significantly reduced from peak in Dec '08, but have indications of a reversal of trends versus the Sep '09 fixed income flows



# Affiliate Update



**One of the world's leading fixed income managers, as well as one of the largest**



**Fourth largest fund-of-hedge-fund manager in the world**



**Our largest equity manager and second largest manager overall**



**A value oriented, small and micro-cap equity manager**



**One of America's leading equity managers recognized for their distinct value investment process**



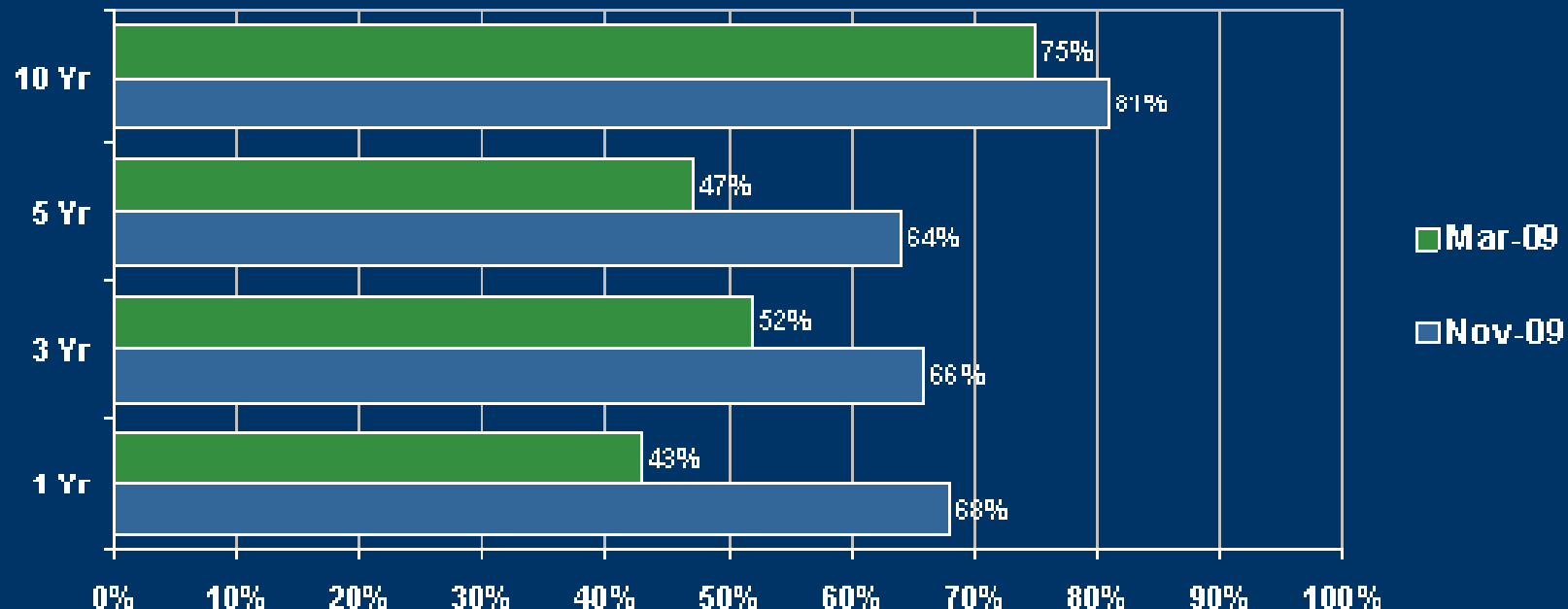
**Value investing in both equities and fixed income, in both the US and internationally**



**A US, international and global equity manager focusing on quantitative analysis**

# Long-Term Performance

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



- 52% of Legg Mason's U.S. Mutual fund assets were rated 4 and 5 stars by Morningstar including 93% of Royce's fund assets being rated 4 or 5 stars at November 30, 2009
- Although 3- and 5-year performance remains challenged, at November 30, 2009, all 9 Western Asset Institutional Funds outperformed their benchmarks for the quarter-to-date period and 8 out of 9 outperformed for the year-to-date and 1-year period
- At November 30, 2009, 19 out of 25 funds managed by Royce & Associates outperformed their benchmarks for the quarter-to-date period, 18 out of 22 outperformed for the year-to-date period, and 19 out of 22 outperformed for the 1-year period
- Although longer term performance remains challenged, at November 30, 2009, all 6 funds managed by LM Capital Management outperformed their benchmarks for the year-to-date period and 1-year period

# Operating Results

(\$ millions, except per share amounts)	Sep 09 Qtr	Jun 09 Qtr	Sep 08 Qtr	\$ Change vs.	
				Jun 09	Sep 08
<b>Operating Revenues</b>	\$ 659.9	\$ 613.1	\$ 966.1	\$ 6.8	\$ (306.2)
<b>Operating Expenses</b>	582.0	554.8	745.9	7.2	(163.9)
<b>Operating Income</b>	77.9 <sup>1</sup>	58.3	220.2	19.6	(142.3)
<b>Net Income (Loss)</b>	45.8	50.1	(108.7)	(4.3)	154.5
<b>Diluted EPS</b>	0.30	0.35	(0.77)	(0.05)	1.07
<b>Cash Income, as adjusted<sup>2</sup></b>	90.0	86.8	140.2	3.2	(50.2)
<b>Cash Income, as adjusted, per diluted share<sup>2</sup></b>	0.59	0.61	0.99	(0.02)	(0.40)

<sup>1</sup> Includes \$22M pre-tax transaction costs from exchange of 91% of equity units partially offset by \$15M in resulting interest expense reduction

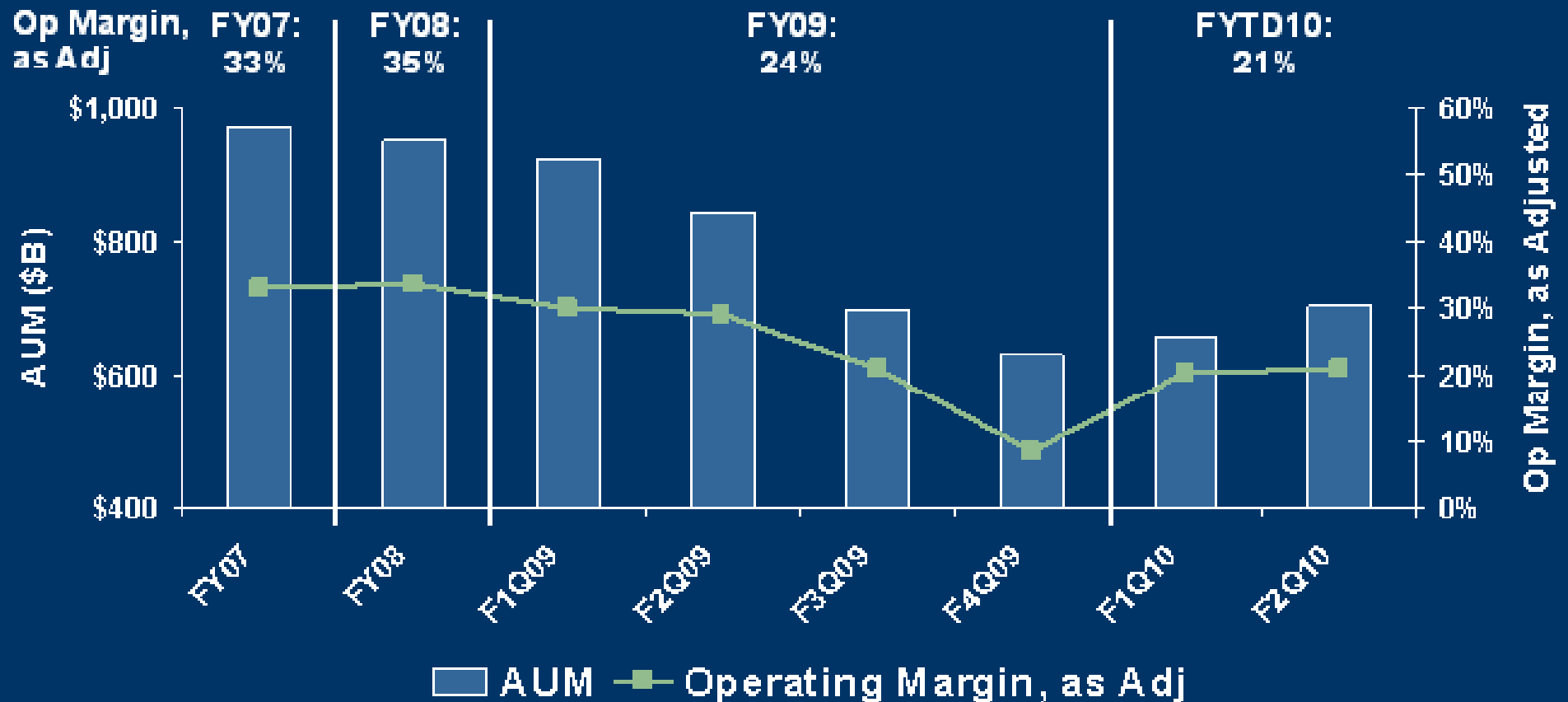
<sup>2</sup> See Appendix A for GAAP reconciliation

# Mid-Year Highlights

- First half of year characterized by strong cash income, improved investment performance and profitability
- In first half of fiscal year 2010:
  - Operating revenues \$1,273.0M
  - Operating income \$136.2M; operating income, as adjusted<sup>1</sup>, \$191.7M
    - Operating margin 10.7%; operating margin, as adjusted<sup>1</sup>, 20.7%
  - Net income \$95.8M or \$0.64 per diluted share
  - Cash income, as adjusted<sup>1</sup>, \$176.8M or \$1.19 per diluted share
- In the second half of fiscal 2010, continued focus on improving investment performance, cash income, client flows, debt management and costs & efficiencies

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

# Operating Margin, as Adjusted



Note: See Appendix A for GAAP reconciliation

# The Road to Expanding Margins

- **Vigilance on costs and efficiencies**
- **Continued performance improvement**
  - **Market gains will aid in the recovery process**
- **Asset mix will significantly influence the pace of margin expansion**
- **Growth initiatives**
  - **Bolt-on / Lift-outs**
  - **Develop innovative products**
- **Goal is to have steady incremental margin improvement**

# Financial Position – QE September 2009

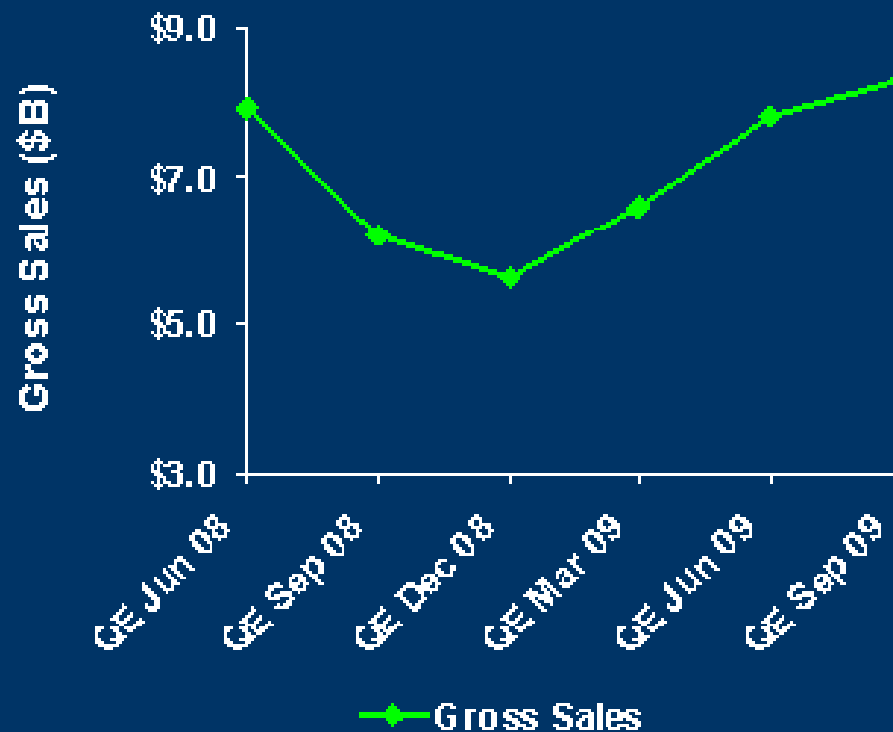
- Improved balance sheet
  - Cash of \$1.6B excludes
    - \$460M tax refund
    - \$170M 3Q Permal payment
  - Total debt of \$2.0B
    - Decrease of \$1B due to equity unit exchange in August 2009
  - Next scheduled debt repayment of \$800M QE Dec 2010
- Total debt to total capital ratio of 25%
- TTM EBITDA<sup>1</sup> of \$618M
- Cash Income, as adjusted of \$90M for the quarter ending September 30

<sup>1</sup> EBITDA definition per our bank credit agreements

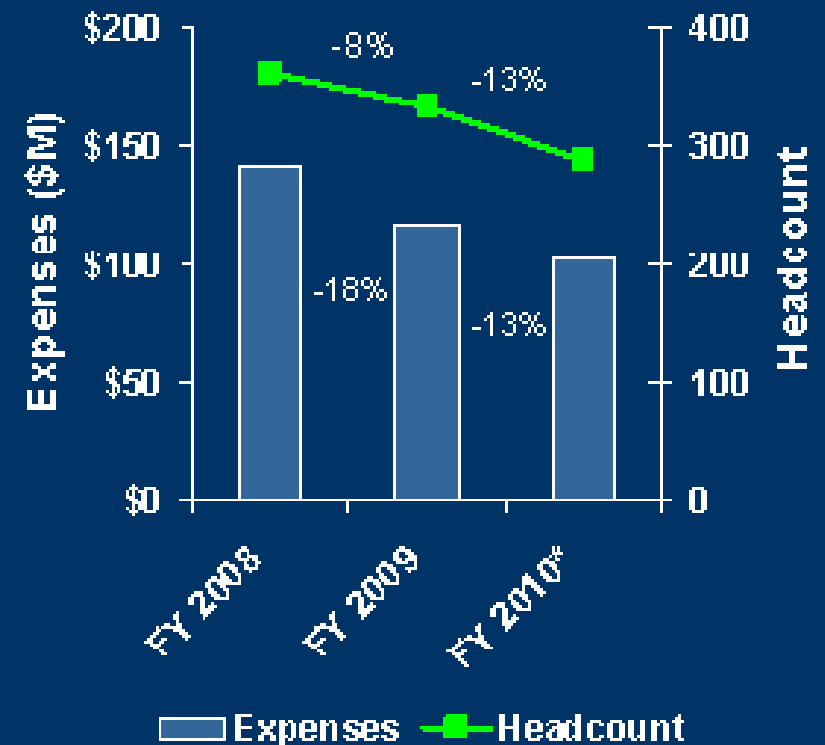
# Americas Distribution Sales & Expense Trends

The new strategy in Americas Distribution has improved sales while reducing costs

### Quarterly Gross Sales Trends



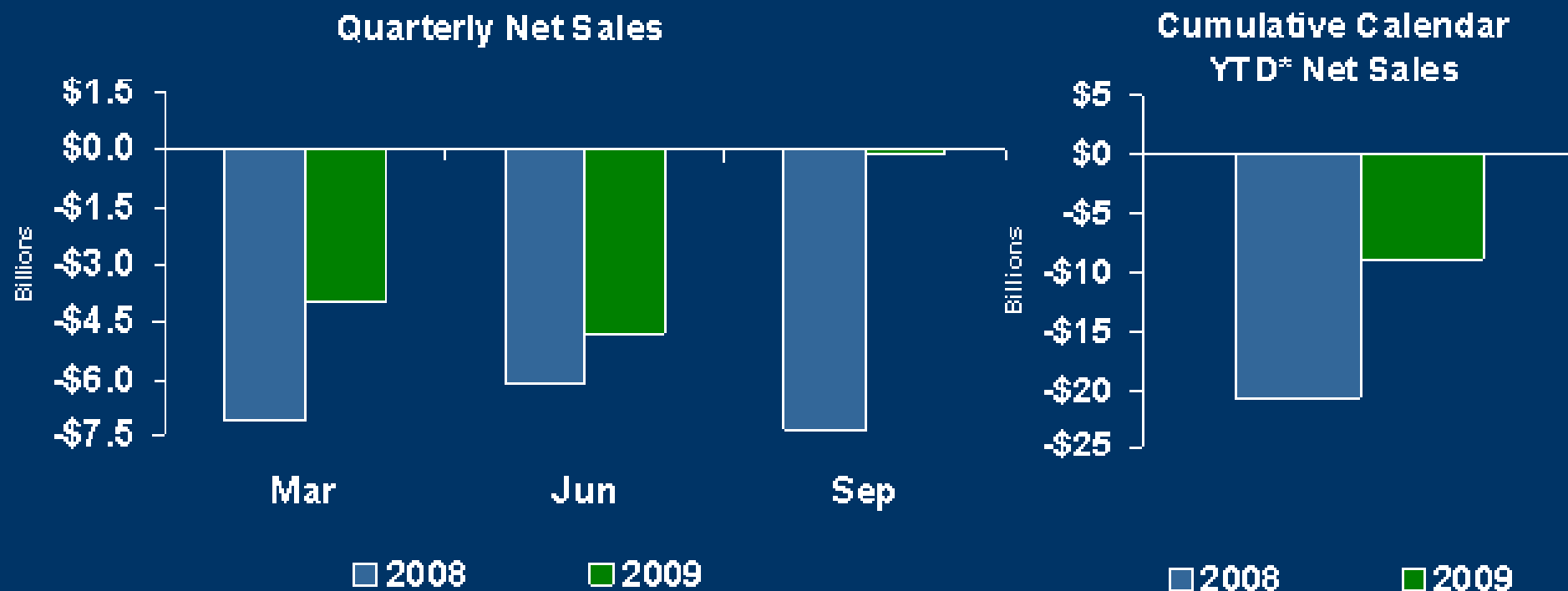
### Expense Trend



\* FY2010 expenses are FYTD expenses annualized and headcount as of September 30, 2009



# Americas Distribution Long-Term Sales Trends

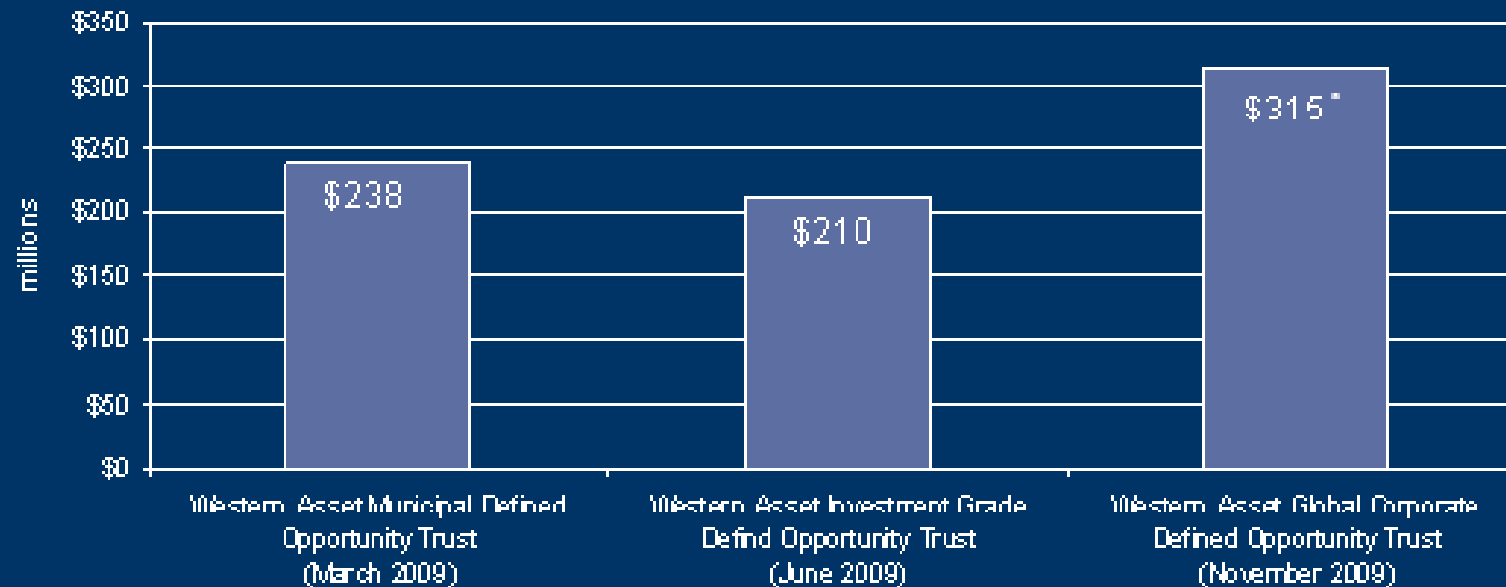


- New sales strategy has improved sales, while at same time redemption rates have declined leading to significantly reduced net outflows
- Domestic long-term net flows have improved versus the same period the previous year in 7 out of 9 months

Represents net sales by Legg Mason's centralized U.S. distribution operations

\* Through September 30

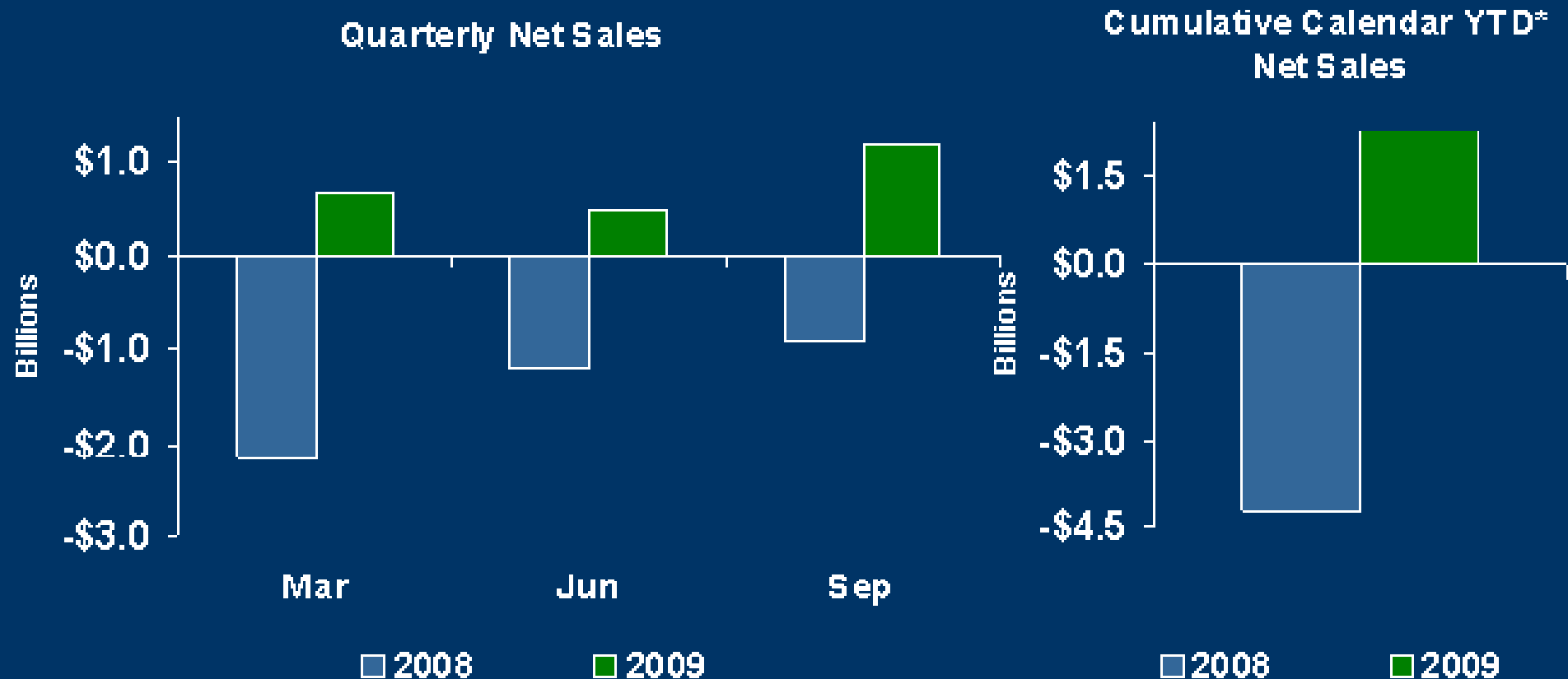
# Americas Distribution Profile – Western Closed End Funds



- Raised approximately \$765 million year to date on three offerings
- Ranked 2<sup>nd</sup> in the industry year to date on total dollars raised in new Closed End offerings
- With \$8.8 billion in assets under management in 27 Closed End Funds, Legg Mason ranked 6<sup>th</sup> among Closed End Mutual Fund Managers (by AUM) as of September 30, 2009

\* Includes 100% of underwriter over-allotment  
Manager Ranking Source: Strategic Insight

# International Distribution Long-Term Sales Trends



- Net flows from Legg Mason International Distribution have improved versus the same period the previous year in each of the past 9 months
- Six new product launches have delivered \$1.6 billion in AUM flows CYTD

Represents net sales by Legg Mason's centralized international distribution operations

\* Through September 30

# International Distribution Profile - Legg Mason Japan

- **An established business**

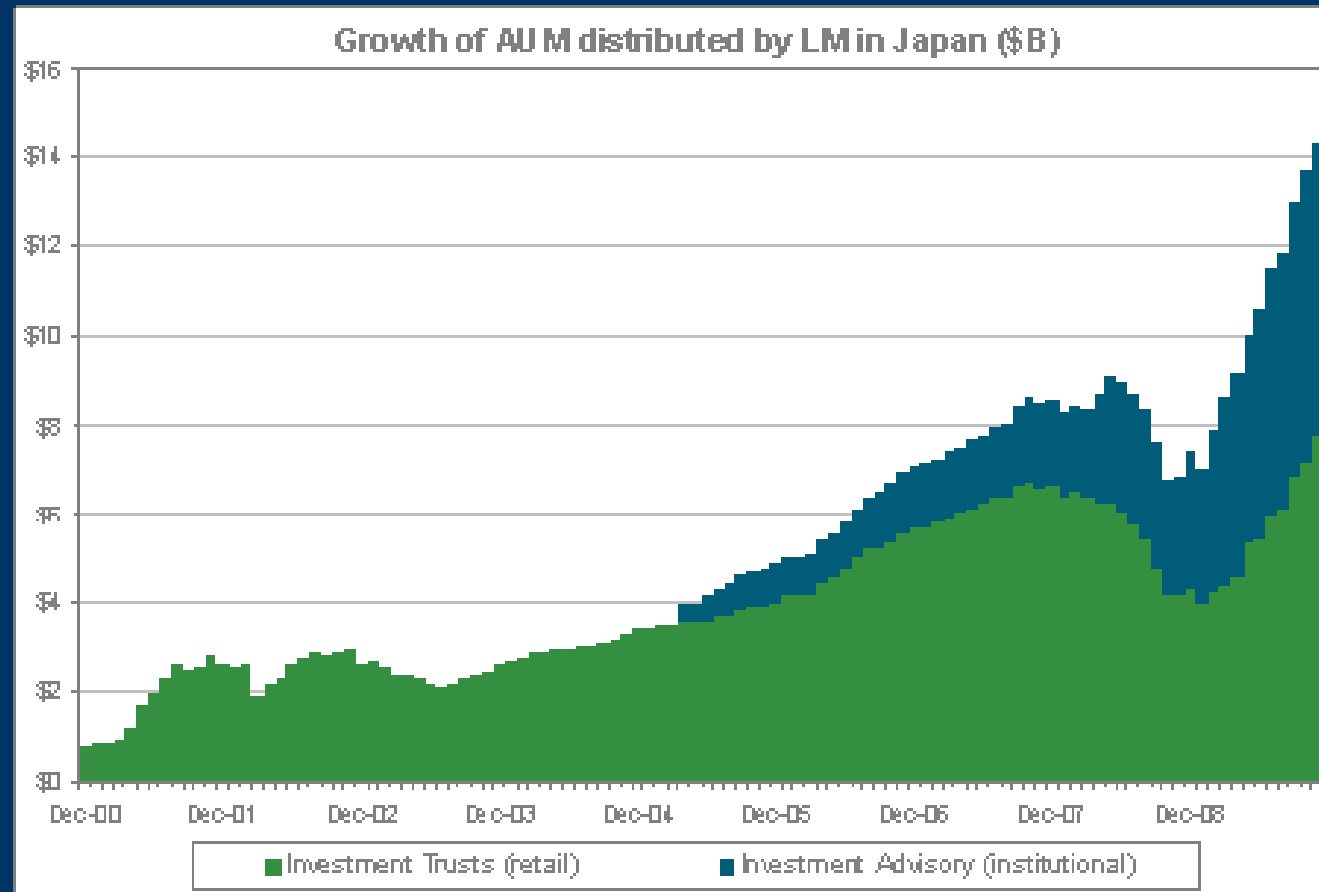
Current leadership team in place for 10 plus years

- **Diversified mix of products**

Both equity and fixed income products managed by LM Affiliates

- **Diversified mix of distribution channels**

Began in the retail channel, moved into institutional channel in 2005



LMJ is an established business that has proven it can effectively distribute across multiple channels

# Key Takeaways

1. Through the first half of the year made progress on 5 strategic priorities
2. Medium and longer term performance compared to Lipper Category average continues to improve
3. Going forward will have approximately \$1.5 billion in excess cash
4. Progress in distribution leverage in both the America's and International
5. Outflows have significantly reduced from December '08 peak, but have indications of a reversal of trends in fixed income in the December '09 quarter. At the same time, equity and alternative flows are approaching break-even with good sales momentum

# Q & A

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