

# 2018

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## NOTICE OF ANNUAL MEETING

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## AND PROXY STATEMENT

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# LEGG MASON

## GLOBAL ASSET MANAGEMENT

100 International Drive  
Baltimore, Maryland 21202

### Dear Fellow Legg Mason Stockholder:

Thank you for your continued support of Legg Mason. You are cordially invited to attend our Annual Meeting of Stockholders. We will hold the meeting at Legg Mason's headquarters located at 100 International Drive, 4<sup>th</sup> Floor Conference Center, Baltimore, Maryland at 10:00 a.m. on Tuesday, July 31, 2018. The attached Notice of Annual Meeting and Proxy Statement describe the business that we will conduct at the meeting and provide information about Legg Mason.

We are pleased to once again this year furnish proxy materials to our stockholders via the Internet. The e-proxy process expedites stockholders' receipt of proxy materials while lowering the costs and reducing the environmental impact of our Annual Meeting of Stockholders. On or about June 20, 2018, we will mail to our stockholders a Notice of Internet Availability of Proxy Materials ("Notice"). The Notice contains instructions on how to access our Proxy Statement, Annual Report and other soliciting materials and how to vote. The Notice also contains instructions on how you can request a paper copy of the Proxy Statement and Annual Report.

**Your vote is important and we encourage you to vote promptly.** Whether or not you are able to attend the meeting in person, please follow the instructions contained in the Notice on how to vote via the Internet or via the toll-free telephone number, or request a paper proxy card to complete, sign and return by mail so that your shares can be voted.

We hope that you will attend the meeting, and we look forward to seeing you there.

Sincerely,



**Joseph A. Sullivan**

*Chairman and Chief Executive Officer*

June 20, 2018



# NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

## Logistics



### Date and Time

Tuesday, July 31, 2018  
10:00 a.m. Local Time



### Location

Legg Mason Headquarters  
100 International Drive,  
4th Floor Conference Center,  
Baltimore, Maryland



### Who Can Vote

Stockholders of record at the close of business on **May 24, 2018**, will be entitled to notice of and to vote at the Annual Meeting.

On or about June 20, 2018, we will mail to our stockholders a Notice of Internet Availability of Proxy Materials ("Notice") containing instructions on how to access our Proxy Statement and our Annual Report online. [Copies of our proxy materials, the Proxy Statement and Annual Report are available to you at \*www.leggmason.com\* under the "About-Investor Relations" section.](#)

## To the Stockholders of LEGG MASON, INC.:

We will hold the Annual Meeting of Stockholders of Legg Mason, Inc., a Maryland corporation, to consider and vote upon:

		Board Recommendation
1	The election of 10 directors named in the Proxy Statement for a one year term.	✓ <b>FOR</b> each director nominee
2	An advisory vote to approve the compensation of Legg Mason's named executive officers.	✓ <b>FOR</b>
3	Ratification of the appointment of PricewaterhouseCoopers LLP as Legg Mason's independent registered public accounting firm for the fiscal year ending March 31, 2019.	✓ <b>FOR</b>

Stockholders will also consider any other matter that may properly come before the meeting or any adjournment thereof.

Your vote is important and we encourage you to vote promptly whether or not you plan to attend the Annual Meeting. If you hold shares in your name as a holder of record, you may vote your shares in one of four ways:



### Internet

[www.voteproxy.com](http://www.voteproxy.com)  
You will need your Notice or proxy card to vote your shares this way.



### Telephone

1.800.PROXIES  
(1-800-776-9437)  
You will need your Notice or proxy card to vote your shares this way.



### Mail

Request a paper proxy card in accordance with the instructions contained in the Notice and then complete, sign and date the proxy card and return it so that it is received by 11:59 p.m., Eastern Time, on July 30, 2018.



### In person

You may vote in person at the meeting. Submitting a proxy will not prevent a stockholder from attending the Annual Meeting.

If you hold your shares through a securities broker or nominee (in "street name"), you may vote your shares by proxy in the manner described in the Notice provided to you by that broker or nominee.

**June 20, 2018**

By order of the Board of Directors,

**Thomas C. Merchant**  
General Counsel and Secretary

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# EXECUTIVE SUMMARY

This proxy summary highlights information contained elsewhere in our Proxy Statement. The summary does not contain all the information that you should consider, and we encourage you to read the entire Proxy Statement carefully.

## Proposal 1

### Election of 10 Director nominees

✓ The Board recommends a vote **FOR** each Director nominee.

📄 See pages 13-31 for further information.

Director	Years of Tenure	Committees				
		AC	CC	FC	N&CGC	RC
<b>Robert E. Angelica (71)</b> <i>Independent</i> Former Chairman and Chief Executive Officer of AT&T Investment Management Corporation	11	●	○	●	○	●
<b>Carol Anthony ("John") Davidson (62)</b> <i>Independent</i> Former Controller and Chief Accounting Officer of Tyco International, Ltd.	4	●	○	●	○	●
<b>Michelle J. Goldberg (49)</b> <i>Independent</i> Partner at Ignition Partners	1	●	○	○	○	●
<b>Barry W. Huff (74)</b> <i>Independent</i> Former Vice Chairman, Office of the Chief Executive Officer at Deloitte	9	●	○	●	○	●
<b>John V. Murphy (68)</b> <i>Lead Independent Director</i> Former Chief Executive Officer of Oppenheimer Funds, Inc.	5	○	●	●	○	○
<b>Alison A. Quirk (56)</b> <i>Independent</i> Former Global Human Resources Executive at State Street Corporation	1	○	●	○	○	○
<b>W. Allen Reed (71)</b> <i>Independent</i> Former Chief Executive Officer of GM Asset Management Corporation	12	○	●	●	○	○
<b>Margaret Milner Richardson (75)</b> <i>Independent</i> Former U.S. Commissioner of Internal Revenue	15	●	●	○	○	○
<b>Kurt L. Schmoke (68)</b> <i>Independent</i> President of the University of Baltimore	16	○	●	○	●	○
<b>Joseph A. Sullivan (60)</b> Chairman, President and Chief Executive Officer of Legg Mason	5	○	○	●	○	○

● Chairman

○ Member

AC

Audit Committee

CC

Compensation Committee

FC

Finance Committee

N&CGC

Nominating & Corporate Governance Committee

RC

Risk Committee

## Director Nominees

(Left to Right)

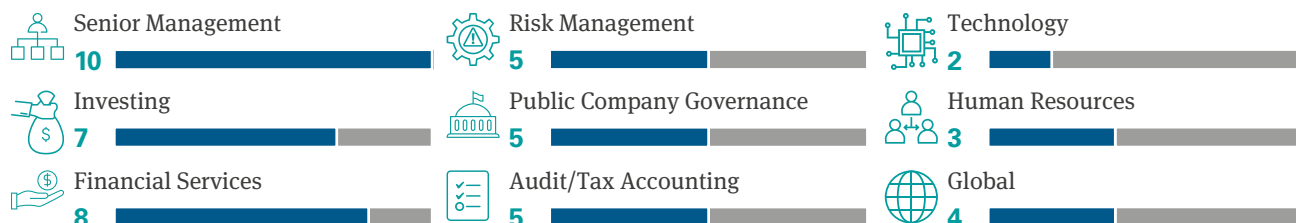
Michelle Goldberg  
John Davidson  
Robert Angelica  
John Murphy  
Joseph Sullivan  
Margaret Milner Richardson  
Barry Huff  
Allen Reed  
Alison Quirk  
Kurt Schmoke



## Board Snapshot

### Board Skills and Experiences

On a regular basis, the Board of Directors (the “Board”) reviews the desired qualifications, attributes, skills and experience that it believes are appropriate to oversee management and the company’s strategy. Current experiences brought by the Director nominees include:



### Board Independence

**90%**

#### Independent

All directors are independent except the CEO

Independent:

9 ■■■■■■■■

Not Independent:

1 ■

### Board Tenure

**7.5** years

#### Average Tenure

2 new directors have joined our Board during the past 12 months

0-5 years:

5 ■■■■■

6-10 years:

1 ■

>10 years:

4 ■■■■

### Board Diversity

**50%**

#### Diverse Director Nominees

Women

3 ■■■

Ethnic Minorities

2 ■■

## Fiscal Year 2018 Stockholder Engagement

Since 2014, Legg Mason has conducted a mid-fiscal year stockholder engagement program. The purpose of the program is to gain insights about the preferences and viewpoints of our largest stockholders on various corporate governance topics generally and our practices and outcomes specifically. In addition, we utilize this program to share certain of our compensation and corporate governance developments of interest to stockholders. We use this process to seek stockholder feedback or support for actions that management and the Board may be considering.

In addition to conversations during proxy season with seven of our largest investors, we reached out midway through the fiscal year to **ten investors** holding nearly **46% of our shares outstanding** (as measured at September 30, 2017). Seven of those investors, holding over 34% of our shares outstanding, responded to our outreach. Of the seven firms, five investors let us know that they did not feel a conversation was necessary at the time.

Our lead independent director, who also serves as Chairman of the Compensation Committee, participated in our outreach discussions with two investors who held approximately 11% of our shares outstanding.

## Corporate Governance Highlights

Our thoughtful corporate governance practices demonstrate the Board's commitment to enabling an effective structure to support the successful execution of Legg Mason's strategy:

**NEW** Proxy Access Bylaw, enabling stockholders to propose directors for election

**NEW** Bylaw amendment, enabling stockholders to amend the company's Bylaws

Annual election of directors

Majority voting standard for election of directors in uncontested elections with director resignation policy

Frequent meetings of independent directors in executive session

Annual self-evaluations of the Board and its committees

Annual stockholder engagement around key issues

Robust stock ownership guidelines for directors and officers

Sustainability Report available on our website

Company Code of Conduct to promote awareness of legal and ethical issues

## Proposal 2

# An advisory vote to approve the compensation of Legg Mason's named executive officers.

✓ The Board recommends a vote **FOR** this Proposal.

📄 See pages 72-74 for further information.



## Fiscal Year 2018 Pay is Well Aligned with Performance, Reflecting Improved Financial Performance in a Challenging Environment and Strategic Repositioning of Legg Mason for Further Growth

📄 See pages 35-55

- The Compensation Committee concluded that Legg Mason's financial performance was improved from fiscal year 2017 despite continuing trends driving disruption in the asset management business.
- The Compensation Committee also recognized strong individual performance by executive management and the progress of the strategic repositioning of Legg Mason for further growth.
- Total CEO compensation up 19% from fiscal year 2017, following 20% reduction in fiscal year 2016 and no increase in fiscal year 2017
- CEO paid below median of reported peer group pay, with variable pay constituting over 95% of his total direct compensation of \$10,500,000 for fiscal year 2018
- CEO's annual incentive award was paid 60% in equity and 40% in cash, as in prior years
- Equity awards allocated equally among performance share units, which vest based on relative TSR and relative organic growth rate of long-term assets under management over a three year period, and restricted stock units

### Metrics Link Pay to Strategic Goals and Performance

- Absolute performance metrics included: net revenues, earnings per share and global distribution unit gross sales, net new long-term advisory fee revenue, adjusted EBITDA and operating margin, as adjusted
- Relative performance metrics included: organic growth rate of long-term assets under management, net income growth and one year total stockholder return

### Sound Compensation Practices

- Pay practices aligned with stockholder interests, with significant variable component for named executive officer pay
- Metrics reviewed annually for rigor and relevance, reflecting drivers meaningful for creating value for stockholders of an asset management company
- Compensation Committee continually assesses performance relative to Legg Mason's goals and competitors' performance



## Executive Compensation Practices

Below we highlight certain executive compensation practices we employ to align executive compensation with stockholder interests. Also listed below are certain compensation practices we do not employ because we do not believe they would serve our stockholders' long-term interests.



### What We Do

- ✓ Pay for Performance
- ✓ Total Stockholder Return Metric
- ✓ Executive Stock Ownership Guidelines
- ✓ Equity Award Retention Policy
- ✓ Vesting Period on Equity Awards
- ✓ Clawback Policy
- ✓ Review Tally Sheets
- ✓ Stockholder Engagement
- ✓ Prohibit Hedging or Pledging



### What We Don't Do

- ✗ No Severance Agreements
- ✗ No Repricings
- ✗ No Income Tax Gross-ups
- ✗ No Excise Tax Gross-ups
- ✗ No Established Program of Executive Perquisites

#### Proposal 3

### Ratification of the appointment of PricewaterhouseCoopers LLP as Legg Mason's independent registered public accounting firm for the fiscal year ending March 31, 2019.

- ✓ The Board recommends a vote **FOR** this Proposal.

See pages 75-76 for further information.

The Audit Committee has appointed PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending March 31, 2019. As a matter of good corporate governance, we ask that our stockholders ratify this appointment of PricewaterhouseCoopers LLP. In fiscal year 2018, we paid PricewaterhouseCoopers LLP total fees of \$9,664,000.

# INFORMATION ABOUT THE 2018 ANNUAL MEETING

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## When and where is our 2018 Annual Meeting of Stockholders?

We will hold the meeting at Legg Mason's headquarters located at 100 International Drive, 4<sup>th</sup> Floor Conference Center, Baltimore, Maryland at 10:00 a.m. on Tuesday, July 31, 2018.

## Who is soliciting proxies and who pays the expenses of this proxy solicitation?

The Board of Directors of Legg Mason, Inc. is soliciting proxies from our stockholders. We are soliciting proxies by mail and MacKenzie Partners, our proxy solicitors and our officers, directors and other employees may also solicit proxies by telephone or any other means of communication. We will bear the cost of soliciting proxies, including a fee of \$17,500 plus expenses, paid to MacKenzie Partners for its services. We may reimburse brokers, banks, custodians, nominees and other fiduciaries for their reasonable out-of-pocket expenses in forwarding the Notice of Internet Availability of Proxy Materials ("Notice") and other proxy materials to their principals.

## How are we distributing our proxy materials?

In accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"), instead of mailing a printed copy of our proxy materials to each stockholder of record or beneficial owner, we are furnishing proxy materials, which include our Proxy Statement, to our stockholders over the Internet. If you have received the Notice by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice will contain instructions on how to access and review all of the important information contained in the proxy materials. The Notice also provides instructions on how to submit your proxy over the Internet or by telephone. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions in the Notice for requesting the materials.

It is expected that the Notice will be available to stockholders on or about June 20, 2018, and that our proxy materials will be accessible beginning on that date.

## Who is entitled to vote at our 2018 Annual Meeting of Stockholders?

To be entitled to notice of and to vote at the meeting, you must have been a stockholder of record at the close of business on May 24, 2018. As of the close of business on that date, we had outstanding and entitled to vote 85,459,843 shares of our common stock, \$.10 par value, each of which is entitled to one vote.

## How do I vote?

If you hold shares in your name as a holder of record, you may vote your shares in one of four ways:

<b>By Internet</b>	Go to <a href="http://www.voteproxy.com">www.voteproxy.com</a> and follow the instructions. You will need your Notice or proxy card to vote your shares this way.
<b>By telephone</b>	Call 1.800.PROXIES (1-800-776-9437) and follow the voice prompts. You will need your Notice or proxy card to vote your shares this way.
<b>By mail</b>	Request a paper proxy card in accordance with the instructions contained in the Notice and then complete, sign and date the proxy card and return it so that it is received by 11:59 p.m., Eastern Time, on July 30, 2018.
<b>In person</b>	You may vote in person at the meeting. Submitting a proxy will not prevent a stockholder from attending the annual meeting.

If you hold your shares through a securities broker or nominee (in "street name"), you may vote your shares by proxy in the manner described in the Notice provided to you by your broker or other nominee.

### What is the difference between holding shares as a holder of record and as a beneficial owner of shares held in street name?

If your shares are registered directly in your name with our transfer agent, American Stock Transfer, you are considered a holder of record of those shares.

If your shares are held in an account at a bank, brokerage firm or other similar organization, then you are a beneficial owner of shares held in street name.

### What is a broker non-vote?

If you hold your shares in street name and do not provide voting instructions to your broker or other nominee, a “broker non-vote” will occur with respect to the proposals for which specific authorization is required under New York Stock Exchange (“NYSE”) rules. For the 2018 Annual Meeting of Stockholders, your broker or other nominee will only have discretionary voting authority for the proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm.

### What do I need to bring to attend the 2018 Annual Meeting of Stockholders?

Anyone wishing to gain admission to the 2018 Annual Meeting of Stockholders must provide a form of government-issued photo identification. For beneficial owners of shares held in street name, you or your representative must provide an account statement, voting instruction form or legal proxy as proof of your ownership of shares as of the close of business on May 24, 2018. Any stockholder representative must also present satisfactory documentation evidencing his or her authority with respect to the shares.

### Can I change my vote after I have voted?

If you grant a proxy, you may revoke it at any time before we exercise it. You may revoke a previously granted proxy through any of the following measures:

<b>By Internet</b>	Go to <a href="http://www.voteproxy.com">www.voteproxy.com</a> and vote again. Only your last proxy submitted prior to the meeting will be counted.
<b>By telephone</b>	Call 1.800.PROXIES (1-800-776-9437) and follow the voice prompts to vote again. Only your last proxy submitted prior to the meeting will be counted.
<b>By mail</b>	Sign and return a new proxy card dated as of a later date.
<b>In person</b>	Submit a written ballot in person at the meeting.

### How will my shares be voted if I do not give specific voting instructions?

Proxies that are signed and returned but do not contain voting instructions will be voted as follows:

- FOR the election of all director nominees listed in Proposal 1.
- FOR the advisory vote on the compensation paid to our named executive officers (Proposal 2).
- FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2019 (Proposal 3).

If you hold shares as a holder of record, your shares will not be voted unless you provide a proxy. If you hold shares in street name and do not provide instructions regarding how your shares are to be voted, your bank, broker or other nominee may vote on routine matters only. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2019 (Proposal 3) is considered a routine matter.

### **What is the quorum requirement for our Annual Meeting of Stockholders?**

We must have a quorum present at the annual meeting in order for any business to be conducted. For a quorum to be present, at least 50% of all shares outstanding and entitled to vote must be present at the annual meeting in person or represented by proxy. Abstentions and broker non-votes will be counted as present for purposes of determining the presence or absence of a quorum for the transaction of business.

### **What vote is required for each proposal?**

If a quorum is present at the meeting, the voting requirements set forth below will apply:

- Directors are elected if they receive a majority of the total votes cast for and affirmatively withheld by the stockholders who are present in person or represented by proxy at the meeting (i.e., if votes for a nominee exceed votes withheld from the nominee). Abstentions and broker non-votes will not affect the election of directors. If an incumbent nominee is not elected by the requisite majority vote, our Corporate Governance Principles require that he or she tender a resignation to the Board of Directors and that the Board of Directors disclose its decision whether to accept the resignation within 90 days. For additional information regarding the procedures that will apply if a director nominee is not elected by the requisite vote, please see “Corporate Governance—Majority Voting Standard for Election of Directors” on page 13.
- The advisory vote to approve the compensation of our named executive officers requires the affirmative vote of a majority of the total votes cast on this proposal. Abstentions and broker non-votes are not considered votes cast and will not affect the outcome of this proposal. The vote on this proposal is advisory only and not binding on Legg Mason.
- The vote to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2019 requires the affirmative vote of a majority of the total votes cast on this proposal. Abstentions are not considered votes cast and will not affect the outcome of this proposal. We do not expect to receive broker non-votes on this proposal because the record holders of shares held in street name will have discretionary authority to vote uninstructed shares on this proposal.

### **Who counts the votes cast?**

Representatives of American Stock Transfer will tabulate the votes cast at our 2018 Annual Meeting of Stockholders and will act as the independent inspector of election.

### **What is householding?**

Some banks, brokers and other nominees engage in the practice of “householding” our proxy statements and annual reports. This means that only one copy of our proxy statement and annual report to stockholders may be sent to multiple stockholders in your household unless you request otherwise. Please contact your bank, broker or other nominee if you wish to receive individual copies of our proxy materials in the future.

# PROPOSAL 1

## ELECTION OF DIRECTORS

Our Board of Directors currently consists of 10 directors, which number may be increased or decreased by the Board of Directors. At the 2018 Annual Meeting of Stockholders, 10 directors are to be elected for one-year terms to hold office until the 2019 Annual Meeting of Stockholders and until their successors have been elected and qualified, or until their earlier death, resignation or removal. All nominees are current Legg Mason directors who were elected by stockholders, except for Michelle J. Goldberg and Alison A. Quirk, each of whom joined the Board of Directors effective November 28, 2017.

The Board of Directors recommends stockholders vote “FOR” the election of each of the 10 nominees. If all 10 nominees are elected, our Board of Directors will consist of 10 directors, nine of whom, representing 90% of the Board, will be “independent” as defined in NYSE listing standards. The Board of Directors has no reason to believe that any nominee will be unable to serve. If any nominee is not able to serve, proxies will be voted in favor of the remainder of those nominated and may be voted for substitute nominees, unless the Board of Directors chooses to reduce the number of directors serving on the Board of Directors.



The Board of Directors recommends a vote “FOR” the election of each nominated director.

## Majority Voting Standard for Election of Directors

Directors are elected by the vote of a majority of the total votes cast for and affirmatively withheld by the stockholders present in person or represented by proxy at the meeting. Accordingly, a nominee will not be elected unless he or she receives more “FOR” votes than “WITHHELD” votes. Under Maryland law, any incumbent director not so elected would continue in office as a “holdover” director until removed or replaced. As a result, our Corporate Governance Principles also provide that any director who fails to obtain the required vote in an uncontested election must submit his or her resignation to the Board. The Board must decide whether to accept or decline the resignation, taking into consideration the recommendation of the Nominating & Corporate Governance Committee after consideration of all relevant factors, within 90 days after the vote has been certified.

## Independent Directors

The Board of Directors has made determinations as to the independence of each of our non-employee directors and concluded that all of our non-employee directors qualify as independent directors under the NYSE listing standards. No director is considered independent unless the Board of Directors has determined that he or she has no material relationship with Legg Mason. As part of its determination, the Board considered the transactions and relationships described below under “Compensation Committee Interlocks and Insider Participation” and “Certain Relationships and Related Transactions” and applied our Policy Regarding Director Independence Determinations as adopted by the Board, which includes categorical standards to assist the Board of Directors in making independence determinations and specifies the types of relationships that are deemed not material and, therefore, not considered each year. A copy of the Policy Regarding Director Independence Determinations is available on our corporate website at [www.leggmason.com](http://www.leggmason.com) under the “About—Investor Relations—Governance—Corporate Governance” section.

## Director Nominees

### Robert E. Angelica Independent

Director Since 2007

Age 71

#### Background

Robert E. Angelica, has been a director of Legg Mason since February 2007 and is currently engaged in private investment activities. From 1999 through December 2006, Mr. Angelica served as the Chairman and Chief Executive Officer of AT&T Investment Management Corporation (“ATTIMCO”), an asset management subsidiary of AT&T Inc.

#### Qualifications

Mr. Angelica’s qualifications to continue to serve on our Board include his extensive financial industry knowledge and substantial leadership experience gained while serving as the Chairman and Chief Executive Officer of ATTIMCO, which was responsible for the investment and administration of more than \$80 billion of employee benefit plan assets for AT&T Inc. and certain third parties. Mr. Angelica’s diverse experience includes the development of asset allocation policies and strategies, risk management, selection of external investment managers and trustees, in-house asset management, regulatory compliance and accounting and financial reporting. He was awarded the Chartered Financial Analyst designation. Our Board has determined that Mr. Angelica qualifies as an “audit committee financial expert” under the rules and regulations of the SEC.



#### Committees

- Audit
- Finance
- Risk (Chair)

### Carol Anthony (“John”) Davidson Independent

Director Since 2014

Age 62

#### Background

Carol Anthony (“John”) Davidson, has been a director of Legg Mason since May 2014, and is currently engaged in private investment activities. From January 2004 to September 2012, Mr. Davidson served as the Senior Vice President, Controller and Chief Accounting Officer of Tyco International Ltd. (“Tyco”). Mr. Davidson has served as a director of TE Connectivity Ltd. since March 2016 and a director of Allergan Plc since May 2018. Mr. Davidson previously served as a director of DaVita HealthCare Partners, Inc. from December 2010 to March 2018 and as a director of Pentair Plc from October 2012 to April 2018. Mr. Davidson also serves on the Board of Governors of the Financial Industry Regulatory Authority (“FINRA”). From 2011 to 2015, Mr. Davidson served as a member of the Board of Trustees of the Financial Accounting Foundation, which oversees financial accounting and reporting standard setting processes for the United States.

#### Qualifications

Mr. Davidson’s qualifications to continue to serve on our Board include his more than 30 years of leadership experience across multiple industries, including his leadership roles at Tyco, six years at Dell Inc., where he held various leadership roles, including vice president, audit, risk and compliance, and vice president, corporate controller and 16 years at Eastman Kodak Company in a variety of accounting and financial leadership roles. In addition, Mr. Davidson, a certified public accountant, has a strong track record of implementing governance and controls processes. Our Board has determined that Mr. Davidson qualifies as an “audit committee financial expert” under the rules and regulations of the SEC.



#### Committees

- Audit
- Finance
- Risk

**Michelle J. Goldberg** IndependentDirector Since **2017**Age **49****Background**

*Michelle J. Goldberg*, has been a director of Legg Mason since November 2017 and has been a Partner at Ignition Partners, an early stage, technology venture capital firm, and a Venture Partner at SoGal Ventures, investing in the next generation's lifestyle and health, since May 2000. Before joining Ignition, Ms. Goldberg was a consultant in financial institutions and technology and an investment banker in middle market mergers and acquisitions. Ms. Goldberg has a B.A. in Asian Studies from Columbia College and an M.A. in East Asian Studies from Harvard University.

**Qualifications**

Ms. Goldberg's qualifications to continue to serve on our Board include her advisory and investment experience across multiple industries, including eCommerce and digital media, internet analytics and mobile and enterprise software and her experience as a consultant in financial institutions and technology and an investment banker in middle market mergers and acquisitions. In addition, Ms. Goldberg has served on a number of company boards, including the board of Plum Creek Timber until its merger with Weyerhaeuser, and multiple portfolio company boards over the past two decades.

**Committees**

- **Audit**
- **Risk**

**Barry W. Huff** IndependentDirector Since **2009**Age **74****Background**

*Barry W. Huff*, has been a director of Legg Mason since June 2009 and is currently engaged in private consulting. After his retirement in May 2008 from Deloitte & Touche USA LLP ("Deloitte"), an accounting firm, until March 2009, Mr. Huff provided consulting services to Deloitte. From 1995 to May 2008, Mr. Huff served as Vice Chairman, Office of the Chief Executive Officer at Deloitte.

**Qualifications**

Mr. Huff's qualifications to continue to serve on our Board include his substantial accounting and auditing experience and expertise. Mr. Huff served as Deloitte's National Managing Director for their Accounting & Auditing Practice in the United States and Chairman of its Global Accounting & Auditing Committee. Mr. Huff's experience includes oversight and advisory services provided to numerous Deloitte clients in the United States and globally in various industries, including financial services, manufacturing and regulatory, and supervision of risk management activities related to Deloitte's Accounting & Auditing Practice. Our Board has determined that Mr. Huff, a certified public accountant, qualifies as an "audit committee financial expert" under the rules and regulations of the SEC.

**Committees**

- **Audit (Chair)**
- **Finance**
- **Risk**



## John V. Murphy Lead Independent Director

Director Since **2013**Age **68**

### Background

*John V. Murphy*, has been a director of Legg Mason since June 2013 and has served as our Lead Independent Director since October 2014. Mr. Murphy is currently engaged in private investment activities. Mr. Murphy was employed by Korn/Ferry International, an executive search firm as a Managing Director for the Asset Management and Wealth Management section of the Global Financial Market, from 2010 to 2012. From 2000 to 2009, Mr. Murphy was employed in various senior positions with OppenheimerFunds Inc., an asset management firm, including Chairman, President and Chief Executive Officer. He also served as a director of over 60 mutual funds in the OppenheimerFunds complex. Prior to joining OppenheimerFunds, he spent eight years with MassMutual Financial Group, OppenheimerFunds' parent company, in a variety of senior roles. Before that, he was a founding principal of Liberty Financial Companies Inc., an investment management firm. He began his career at Arthur Andersen & Co. in 1972 as an accountant.

### Qualifications

Mr. Murphy's qualifications to continue to serve on our Board include the knowledge, leadership and experience gained in over 30 years of experience working in the investment management business and as a Chairman, President and Chief Executive Officer of a large, complex asset management organization. In addition, he gained extensive industry and leadership experience by serving as Chairman and as a member of the Executive Committee and the Board of Governors of the Investment Company Institute.



### Committees

- **Compensation (Chair)**
- **Finance**
- **Nominating & Corporate Governance**

## Alison A. Quirk Independent

Director Since **2017**Age **56**

### Background

*Alison A. Quirk*, has been a director of Legg Mason since November 2017 and is currently engaged in private consulting. From September 2002 until March 2017, Ms. Quirk was a member of the Management Committee and executive vice president of Global Human Resources at State Street Corporation. Ms. Quirk joined State Street Corporation in September 2002 as senior vice president, Deutsche Global Services Integration Team, and subsequently held various senior human resources roles. Ms. Quirk has a B.A. from the University of New Hampshire.

### Qualifications

Ms. Quirk's qualifications to continue to serve on our Board include her experience in human relations, marketing and communications focused roles at various financial services firms. In addition, her prior board experience includes serving on the board of Boston Financial Data Services, a joint venture between State Street Corporation and DST Systems.



### Committees

- **Compensation**
- **Nominating & Corporate Governance**



**W. Allen Reed** IndependentDirector Since **2006**Age **71****Background**

*W. Allen Reed*, has been a director of Legg Mason since April 2006 and served as our independent Chairman from September 2012 through July 2013. From January 2006 to March 2006, Mr. Reed served as Chairman of the Board of General Motors Asset Management Corporation (“GMAMC”), the investment management subsidiary of General Motors Corporation, where he served as Vice President until March 2006. He also served as Chairman of the Board and Chief Executive Officer of General Motors Trust Bank, N.A. until March 2006; as Chief Executive Officer and President of GMAMC and General Motors Investment Management Corporation until December 2005; and as Chairman of the Board and Chief Executive Officer of General Motors Trust Company until March 2006. Mr. Reed served as Senior Advisor to Aetos Capital from 2006 to 2011, as a director of Temple-Inland Industries from 2000 to February 2012 and as a director of General Motors Acceptance Corp from September 1994 to March 2006. Mr. Reed has also served as a director of numerous mutual funds in the Morgan Stanley mutual funds complex since 2006, and as Chairman of the Investment Committee of the Auburn University Foundation Fund from 2012 to 2014.

**Qualifications**

Mr. Reed’s qualifications to continue to serve on our Board include his extensive financial and leadership experience serving as a financial officer at Delta Airlines, Hughes Electronics and General Motors, including serving as the Chairman, President and Chief Executive Officer of GMAMC, Chairman and Chief Executive Officer of the General Motors Trust Bank, and Vice President of General Motors Corporation. Mr. Reed’s experience includes running the largest corporate defined benefit fund in the United States at General Motors Corporation. He currently holds the Chartered Financial Analyst designation.

**Committees**

- **Compensation**
- **Finance (Chair)**
- **Nominating & Corporate Governance**

**Margaret Milner Richardson** IndependentDirector Since **2003**Age **75****Background**

*Margaret Milner Richardson*, has been a director of Legg Mason since November 2003. She is currently engaged in private consulting and investment activities. Ms. Richardson served as a director of Jackson Hewitt Tax Service Inc. from June 2004 through August 2011.

**Qualifications**

Ms. Richardson’s qualifications to continue to serve on our Board include her financial, risk management and leadership experience gained through her service as a partner of Ernst & Young LLP, where she served as the National Director of IRS Practice and Procedure and as an advisor to the Foreign Investment Advisory Council in Russia and her tenure as U.S. Commissioner of Internal Revenue. She has been an attorney for more than 40 years and practiced tax law with Sutherland, Asbill and Brennan in Washington, D.C., where she represented a number of financial services organizations. Ms. Richardson was a member of the Internal Revenue Service Commissioner’s Advisory Group and chaired the group for a year.

**Committees**

- **Audit**
- **Compensation**

**Kurt L. Schmoke** IndependentDirector Since **2002**Age **68****Background**

*Kurt L. Schmoke*, has been a director of Legg Mason since January 2002. Since July 2014, Mr. Schmoke has served as President of the University of Baltimore. Mr. Schmoke served as Vice President and General Counsel of Howard University from July 2012 until July 2014. Mr. Schmoke was Dean of the School of Law at Howard University from January 2003 to July 2012. He has been a director of The McGraw-Hill Companies, Inc. (now S&P Global Inc.) since 2003.

**Qualifications**

Mr. Schmoke's qualifications to continue to serve on our Board include his substantial education, legal, government regulation and public policy experience. Mr. Schmoke gained his experience serving as the Dean of the Law School at Howard University, partner at the law firm of Wilmer Cutler & Pickering, Mayor of Baltimore, the State's Attorney for Baltimore, a member of the Council on Foreign Relations and a member of President Jimmy Carter's domestic policy staff.

**Committees**

- **Compensation**
- **Nominating & Corporate Governance (Chair)**

**Joseph A. Sullivan**Director Since **2013**Age **60****Background**

*Joseph A. Sullivan*, has been a director of Legg Mason since February 2013 and has served as our Chairman since October 2014. Mr. Sullivan was elected President, Chief Executive Officer and a member of the Board in February 2013. Before being appointed as President and Chief Executive Officer, Mr. Sullivan served as Interim Chief Executive Officer of Legg Mason from October 1, 2012 to February 11, 2013. Prior to that, Mr. Sullivan oversaw the global distribution operations of Legg Mason. He was elected Senior Executive Vice President of Legg Mason in September 2008 and until January 2011 was responsible for overseeing administrative functions as Chief Administrative Officer. From December 2005 to September 2008, he was responsible for overseeing the fixed income capital markets operations of Stifel Nicolaus, a broker-dealer. From 1993 to December 2005, he oversaw the fixed income capital markets operations of Legg Mason Wood Walker, the company's broker-dealer subsidiary that was sold in December 2005.

**Qualifications**

Mr. Sullivan's qualifications to continue to serve on our Board include a combination of his management skills and professional experience. Mr. Sullivan has more than 30 years of industry experience, including serving as Chief Executive Officer, Head of Global Distribution and Chief Administrative Officer of Legg Mason and senior roles at a number of other firms. Mr. Sullivan served on the board of directors of Stifel Financial Corp. from December 2005 to September 2008.

**Committees**

- **Finance**

## Corporate Governance Overview

### Board Meetings and Attendance

During the fiscal year ended March 31, 2018, our Board of Directors met 11 times and each of our current directors attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors held during the period he or she served as a director and (ii) the total number of meetings of each committee on which he or she served during the period.

While we have no formal policy on the matter, directors are generally expected to attend our annual meeting of stockholders. All of our directors who were directors at the time of our 2017 Annual Meeting of Stockholders attended the meeting, other than Mr. Tianqiao Chen, who served on our Board of Directors until October 12, 2017.

### Corporate Governance Principles

Upon the recommendation of the Nominating & Corporate Governance Committee, our Board of Directors has adopted Corporate Governance Principles. These Corporate Governance Principles address, among other things, the following key corporate governance topics: director qualification standards; director responsibilities; director access to management and, as necessary and appropriate, independent advisors; director compensation; director orientation and continuing education; management succession; and our policy regarding annual performance evaluations of our Board of Directors. A copy of these Corporate Governance Principles is available on our corporate website at [www.leggmason.com](http://www.leggmason.com) under the “About—Investor Relations—Governance—Corporate Governance” section. We will provide a copy of the Corporate Governance Principles, without charge, to any stockholder who provides a written request for a copy. Requests for copies should be addressed to the Corporate Secretary, Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202.

### Board Leadership Structure

Our Board of Directors is responsible for determining its leadership structure, which it assesses from time to time. Our Chairman, Joseph A. Sullivan, is also our President and Chief Executive Officer. Our Board of Directors believes that Legg Mason and its stockholders are best served by maintaining the flexibility to have any person serve as Chairman of the Board based on what is in the best interests of Legg Mason and its stockholders at a given point in time. As a result, our Board of Directors does not support placing restrictions on who may serve as Chairman and future facts and circumstances may warrant a different leadership structure to best serve Legg Mason and its stockholders. Our Board of Directors has determined that the current leadership structure is appropriate to provide a consistent and unified focal point of leadership for Legg Mason and facilitate frequent and effective communication between our Board of Directors and management.

To facilitate coordination with the independent directors and to ensure the exercise of independent judgment by our Board of Directors, our Board of Directors appointed John V. Murphy to serve as the Lead Independent Director. Mr. Murphy is also the Chair of the Compensation Committee.

The Lead Independent Director's duties include:

- presiding at meetings of our Board of Directors in the absence of or at the request of the Chairman of the Board, or in any situation in which the Chairman of the Board may be perceived to have a conflict;
- coordinating the flow of information to and among independent directors;
- reviewing and approving all Board meeting agendas;
- soliciting from other independent directors comments or suggestions related to Board operations, including the flow of information to directors, the setting of meeting agendas and the establishment of the schedule of Board meetings and communicating those suggestions to the Chairman;
- serving as the liaison between the independent directors and the Chairman and as the representative of the independent directors in communications with the Chairman of the Board and management outside of regular Board meetings;
- leading, with the assistance of the Nominating & Corporate Governance Committee, our Board's annual evaluation process;
- serving as liaison and providing direction to advisers and consultants retained by the independent directors; and
- assisting the Chairman of the Board in integrating into the Board newly elected independent directors.

The Lead Independent Director also has the authority to call additional meetings of the independent directors and is available for consultation or direct communication with major stockholders. Each of these responsibilities is set out in Legg Mason's Corporate Governance Principles.

Our Corporate Governance Principles provide that at least three-quarters of the Board members should qualify as independent directors at any time. Other than Mr. Sullivan, all of our current directors are independent, as determined in accordance with NYSE listing standards.

## Executive Sessions

Executive sessions of our non-employee directors are held in conjunction with each regular Board of Directors meeting and may be held at other times as circumstances warrant. Our Lead Independent Director chairs these executive sessions. John V. Murphy currently serves as our Lead Independent Director.

## Annual Board of Directors Evaluations

<b>1</b>	<b>Annual Self-Evaluations</b>	To ensure that the Board of Directors and each committee functions effectively, annual self-evaluations are conducted to identify and assess areas for improvements.
<b>2</b>	<b>Areas of Focus</b>	The assessments focus on the performance, effectiveness, process and composition of the Board of Directors and each committee.
<b>3</b>	<b>Independent Oversight</b>	The Lead Independent Director leads the Board of Directors' evaluation process and shares the results of the evaluations and feedback received with the Board.
<b>4</b>	<b>Presentation of Findings</b>	The chair of each committee leads the evaluation process for that committee and shares the results with the other committee members and the Board.

## Fiscal Year 2018 Stockholder Engagement

Since 2014, Legg Mason has conducted a mid-fiscal year stockholder engagement program. The purpose of the program is to gain insights about the preferences and viewpoints of our largest stockholders on various corporate governance topics generally and our practices and outcomes specifically. In addition, we utilize this program to share certain of our compensation and corporate governance developments of interest to stockholders. We use this process to seek stockholder feedback or support for actions that management and the Board may be considering. For example, we have discussed proxy access, board skills and diversity and capital allocation topics.

In addition to conversations during proxy season with seven of our largest investors, we reached out midway through the fiscal year to **ten investors** holding nearly **46% of our shares outstanding** (as measured at September 30, 2017). Seven of those investors, holding over 34% of our shares outstanding, responded to our outreach. Of the seven firms, five investors let us know that they did not feel a conversation was necessary at the time.

Our lead independent director, who also serves as Chairman of the Compensation Committee, participated in our outreach discussions with two investors who held approximately 11% of our shares outstanding.

This year, we talked with stockholders about Legg Mason's strategic developments, board composition and gender diversity, and we solicited investors' views on proxy access and stockholders' rights to amend bylaws. We also sought feedback from stockholders as the Compensation Committee reviewed the components of Legg Mason's executive equity incentive awards and the performance metrics for the performance share units that we award to executives.

What We Heard from Investors in Fiscal Year 2018	What We Did
Our stockholders support proxy access, and generally favor standards that now have become customary: ownership requirement of at least 3% of a company's shares for at least 3 years; ability to nominate candidates for up to 20% of board seats, with a minimum of 2 nominees; and a 20 stockholder limit on the ability of stockholders to aggregate to meet the 3% ownership requirement.	We adopted proxy access in February 2018, with the "3/3/20" structure (3% of shares held for at least 3 years have the ability to nominate 20% of the Board), including a 20 stockholder aggregation limit (with related funds counting as one stockholder for aggregation limit purposes) and loaned shares counting toward the ownership requirement so long as the shares are recallable upon reasonable notice.
Our stockholders advocate for gender diversity on boards.	During fiscal year 2018, two women joined our Board, increasing the percentage of female board members to 30%.
Our stockholders suggested that the company consider permitting stockholders to amend the company's bylaws.	We amended and restated our bylaws in June 2018 to provide that the Board and the company's stockholders have the concurrent power to amend the Bylaws.
Many of our stockholders indicate they are not prescriptive about executive compensation design or metrics, and they encourage boards to continually evaluate compensation programs and metrics.	Legg Mason's Compensation Committee updated the metrics for vesting of performance share units adding relative organic growth rate of long-term AUM to relative total stockholder return. In adding relative growth rate of long-term AUM, the Committee noted that Legg Mason's senior management views that measure as an important driver for the company's long-term strategy and success. The Committee believes that the two measures balance financial performance with shareholder returns. The Committee also determined not to award stock options for fiscal year 2018, and to increase the percentage of restricted stock units and performance share units awarded to executive officers to 25% for each type of award to balance retention and performance incentives. See "Compensation Discussion and Analysis".

## Communications

All interested parties who wish to communicate with our Board of Directors, the Chairman of the Board, the Lead Independent Director or our non-employee directors as a group may do so by addressing their written correspondence to the director or directors, c/o Corporate Secretary, Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202. Our Corporate Secretary will forward all correspondence received from stockholders or other interested parties to the director or directors to whom it is addressed.

The Audit Committee has developed procedures for the receipt, retention and treatment of complaints received by Legg Mason regarding accounting, internal accounting controls, or auditing matters. Any such complaints or concerns should be sent by mail to the Chairman of the Audit Committee, c/o Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202.

## Code of Conduct

Upon the recommendation of the Nominating & Corporate Governance Committee, our Board of Directors has adopted a corporate Code of Conduct that applies to all directors, officers and employees of Legg Mason and its subsidiaries. The Code of Conduct addresses the following important topics, among others:

- conflicts of interest;
- corporate opportunities;
- confidentiality of information;
- fair dealing;
- protection and proper use of Legg Mason's assets;
- compliance with laws, rules and regulations (including insider trading laws);
- and encouraging the reporting of any illegal or unethical behavior.

A copy of the Code of Conduct is available on our corporate website at [www.leggmason.com](http://www.leggmason.com) under the “*About—Investor Relations—Governance—Corporate Governance*” section. We intend to satisfy any disclosure requirement regarding any amendment to, or waiver of, our Code of Conduct by posting the information on our corporate website.

Legg Mason maintains an employee reporting hotline where employees can anonymously submit a complaint or concern regarding compliance with applicable laws, rules, regulations or the Code of Conduct as well as accounting, auditing, ethical or other concerns.

## Board Committees

Our Board of Directors has an Audit Committee, a Compensation Committee, a Finance Committee, a Nominating & Corporate Governance Committee and a Risk Committee. Below is a summary of our committee structure and membership information:

The current charters for these committees, as approved by our Board of Directors, are on, and may be printed from, our corporate website at [www.leggmason.com](http://www.leggmason.com) under the “About—Investor Relations—Governance—Corporate Governance” section.

Director <sup>(1)</sup>	Audit Committee	Compensation Committee	Finance Committee	Nominating & Corporate Governance Committee	Risk Committee
Robert E. Angelica	●	○	●	○	●
Carol Anthony (“John”) Davidson	●	○	●	○	●
Michelle J. Goldberg <sup>(2)</sup>	●	○	○	○	●
Barry W. Huff	●	○	●	○	●
John V. Murphy	○	●	●	○	○
Alison A. Quirk <sup>(2)</sup>	○	●	○	○	○
W. Allen Reed	○	●	●	○	○
Margaret Milner Richardson	●	●	○	○	○
Kurt L. Schmoke	○	●	○	●	○
Joseph A. Sullivan	○	○	●	○	○

● Chairman    ○ Member

<sup>(1)</sup> Tianqiao Chen, who served on our Board until October 12, 2017, served on our Nominating & Corporate Governance Committee and Risk Committee. Robert Chiu, who served on our Board until October 12, 2017, served on our Audit Committee and Compensation Committee.

<sup>(2)</sup> Ms. Goldberg and Ms. Quirk were appointed to the Board of Directors effective November 28, 2017. Effective January 30, 2018, Ms. Goldberg was appointed to the Audit Committee and Risk Committee and Ms. Quirk was appointed to the Compensation Committee and the Nominating & Corporate Governance Committee.



## Audit Committee

### Members

**Barry W. Huff (Chair)**  
 Robert E. Angelica  
 Carol Anthony (“John”) Davidson  
 Michelle J. Goldberg  
 Margaret Milner Richardson

Meetings in FY 2018  
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The Audit Committee’s responsibilities include assisting the Board with the oversight of our financial accounting and reporting to stockholders. Its duties include:

- selecting and compensating the independent registered public accounting firm (“Independent Auditors”);
- providing oversight of the work of the Independent Auditors and reviewing the scope and results of the audits conducted by them;
- ensuring the regular rotation of the lead audit partner and selecting, reviewing and evaluating the lead audit partner;
- reviewing the activities and performance of our internal auditors;
- discussing with Independent Auditors, internal auditors and management the organization and scope of our internal system of accounting and financial controls; and
- reviewing and discussing certain matters that may have a material impact on our financial statements, including litigation and legal matters and critical accounting policies and estimates.

Our Board of Directors has determined that each of Messrs. Angelica, Davidson and Huff qualifies as an “audit committee financial expert” as defined by the SEC. Our Board of Directors has also determined that all members of our Audit Committee are “independent” as defined in the NYSE listing standards and applicable SEC rules. The Audit Committee satisfies the requirements of SEC Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Rule 10A-3 establishes standards relating to audit committees in the following areas: the independence of audit committee members; the audit committee’s responsibility to select and oversee the company’s independent auditor; procedures for handling complaints regarding the company’s accounting practices; the authority of the audit committee to engage advisors; and funding for the independent auditor and any outside advisors engaged by the audit committee.

## Compensation Committee

### Members

**John V. Murphy (Chair)**  
 Alison A. Quirk  
 W. Allen Reed  
 Margaret Milner Richardson  
 Kurt L. Schmoke

Meetings in FY 2018  
**11**

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The Compensation Committee’s responsibilities include determining the compensation of our Chief Executive Officer (subject to the approval of our non-employee directors), approving the compensation of our other executive officers and recommending to our Board of Directors the compensation to be paid to our non-employee directors. The Compensation Committee also serves as the administrative committee of several of our employee benefit plans. Each of our Compensation Committee members is a “non-employee director” as defined in the SEC rules under Section 16 of the Exchange Act, and is an “outside director,” as defined by Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”).

Our Board of Directors has determined that all of the members of our Compensation Committee are “independent” as defined in the NYSE Listing Standards and the applicable SEC rules.



## Finance Committee

### Members

**W. Allen Reed (Chair)**  
 Robert E. Angelica  
 Carol Anthony ("John")  
 Davidson  
 Barry W. Huff  
 John V. Murphy  
 Joseph A. Sullivan

Meetings in FY 2018

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The Finance Committee's responsibilities include reviewing and making recommendations to our Board of Directors regarding the principal terms and conditions of debt or equity securities to be issued by Legg Mason; financial considerations relating to the acquisition of businesses or operations, the entry into joint ventures or the divestiture of company operations that require approval of our Board of Directors; and significant financial transactions involving the economic arrangements with the senior executives of a Legg Mason subsidiary.

Our Board of Directors has determined that a majority of the members of our Finance Committee are "independent" as defined in the NYSE listing standards.

## Nominating & Corporate Governance Committee

### Members

**Kurt L. Schmoke (Chair)**  
 John V. Murphy  
 Alison A. Quirk  
 W. Allen Reed

Meetings in FY 2018

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The Nominating & Corporate Governance Committee's responsibilities include identifying qualified director nominees, nominating director candidates, recommending director committee assignments, developing and recommending to our Board of Directors corporate governance principles and a corporate code of conduct and reviewing, assessing and making reports and recommendations to the Board of Directors, as appropriate, on Legg Mason's talent development and executive succession planning. In addition, the Nominating & Corporate Governance Committee, together with the Lead Independent Director, conducts the annual self-evaluation process by our Board of Directors.

Our Board of Directors has determined that all of the members of our Nominating & Corporate Governance Committee are "independent" as defined in the NYSE listing standards.

## Risk Committee

### Members

**Robert E. Angelica (Chair)**  
 Carol Anthony ("John")  
 Davidson  
 Michelle J. Goldberg  
 Barry W. Huff

Meetings in FY 2018

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The Risk Committee's responsibilities include assisting our Board of Directors in its oversight of Legg Mason's enterprise risk management activities. Its duties include reviewing management's activities to establish and maintain an appropriate environment and culture for sound business risk practices, reviewing Legg Mason's enterprise risk management program and reviewing and discussing with members of management Legg Mason's risk tolerance, its major risk exposures and the steps management has taken to monitor and manage those exposures.

Our Board of Directors has determined that all of the members of our Risk Committee are "independent" as defined in the NYSE listing standards.

## Director Nomination Process

### Director Nominations for Inclusion in Legg Mason's Proxy Materials (Proxy Access)

A shareholder or group of up to 20 shareholders who has owned at least 3% or more of our outstanding common stock continuously for at least three years and has complied with the other requirements in our Bylaws may nominate and include in Legg Mason's proxy materials director nominees not to exceed the greater of two directors or 20% of the number of directors then in office.

### Other Director Nominations

In addition to our proxy access Bylaw that addresses the inclusion of stockholder nominees in our proxy statement, the Nominating & Corporate Governance Committee will consider all qualified candidates for seats on our Board of Directors identified by members of the committee, by other members of the Board of Directors, by our management and by our stockholders. From time to time, the Nominating & Corporate Governance Committee may direct management to engage third-party firms that specialize in identifying director candidates to assist with its search. During fiscal year 2018, the Nominating & Corporate Governance Committee retained one firm to identify potential candidates for our Board of Directors.

Our Board of Directors has set minimum qualification requirements for director nominees in our Corporate Governance Principles. Director nominees are required to possess a broad range of skills, expertise, industry or other knowledge and business or other experience that will be useful to the company. The Nominating & Corporate Governance Committee will review each candidate's biographical information and determine whether the candidate meets these minimum qualification requirements. In addition, according to our Corporate Governance Principles, our Board of Directors generally will not nominate for election to our Board of Directors any Director who has reached the age of 75 before the regular meeting of the Board at which nominations for election as directors are made for the next annual meeting of stockholders. However, the Board has the discretion to take into account specific facts and circumstances and to nominate such a Director for election to the Board.

Our Board of Directors seeks diversity of perspectives, backgrounds and experiences among its members. When considering prospects for possible recommendation to our Board of Directors, increasing diversity of backgrounds and experiences is a factor considered by the Nominating & Corporate Governance Committee. The Nominating & Corporate Governance Committee reviews available information regarding each potential candidate, including character, experience, qualifications, attributes, skills, gender, race and ethnicity.

After the Nominating & Corporate Governance Committee has determined that a candidate meets the minimum qualification requirements, the committee will determine whether to nominate the candidate to our Board of Directors. In making this determination, the Nominating & Corporate Governance Committee will consider a number of factors, including:

- the current size of our Board of Directors, and whether vacancies on our Board of Directors are anticipated;
- the candidate's judgment, character, expertise, skill, knowledge, experience and collegiality;
- the overall diversity of perspectives, backgrounds and experiences of the current directors;
- whether the candidate has special skills, expertise or a background that add to and complement the range of skills, expertise and background of the existing directors; and
- whether the candidate will be able to devote sufficient time and energy to the performance of his or her duties as a director.

Our Amended and Restated Bylaws provide written procedures by which stockholders may recommend nominees to our Board of Directors. The Nominating & Corporate Governance Committee will consider nominees recommended by our stockholders under the same procedure used for considering nominees recommended by other directors or management.

Stockholders who would like to propose a director candidate for election to our Board of Directors at the 2019 Annual Meeting of Stockholders must deliver written notice to our Corporate Secretary between January 14, 2019 and February 13, 2019, assuming our 2019 Annual Meeting is held within 30 days of the anniversary of the 2018 Annual Meeting. Notice from a stockholder nominating a director must include the following:

- the name, age, business address and residence address of the recommending stockholder;
- the class, series and number of all shares of stock of Legg Mason that the recommending stockholder beneficially owns;
- the date the shares were acquired and the investment intent behind the acquisition; and
- all other information about the candidate that is required to be disclosed in solicitations of proxies for election of directors in an election contest or is otherwise required pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (including the nominee's written consent to being named in the proxy as a nominee and to serve as a director if elected).

We may require that a proposed director nominee furnish other information to enable the Nominating & Corporate Governance Committee to determine the nominee's eligibility to serve. The Nominating & Corporate Governance Committee will consider a nomination as it deems appropriate in its discretion. However, a nomination that does not comply with the requirements discussed above may not be considered. During fiscal year 2018, the Nominating & Corporate Governance Committee retained one firm to conduct background checks of candidates under consideration.

## Address to Submit Nominations

Any proxy access proposals or other director nominations should be addressed to the Corporate Secretary, Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202.

## Board Role in Risk Oversight

**The Board** is primarily responsible for the oversight of Legg Mason's risk management activities. The Risk, Compensation, Finance, Audit and Nominating & Corporate Governance Committees assist the Board in fulfilling this important role.

**The committees of the Board of Directors** work together to help ensure that all committees have received all information necessary to permit them to fulfill their duties and responsibilities with respect to the activities of those committees that relate to the oversight of the management of risks.

**The Audit Committee** monitors our system of disclosure controls and procedures and internal controls over financial reporting, reviews contingent financial liabilities and oversees our employee reporting hotline.

**The Compensation Committee** oversees the relationship between risk and executive compensation.

**The Finance Committee** reviews potential risks related to significant transactions under consideration by Legg Mason.

**The Risk Committee** oversees Legg Mason's enterprise risk management activities.

**The Nominating & Corporate Governance Committee** is focused on overseeing risks related to succession and other corporate governance matters.

**The responsibility for day-to-day management of risk lies with our management.**

Management has an enterprise risk management program that is overseen by our Chief Risk Officer. The Risk Committee, among other things, reviews and discusses with management reports from our Chief Risk Officer and other members of management regarding the company's risk management activities, including management's assessment of our major risk exposures and the steps taken to monitor and manage those exposures and the risk management activities of each of our significant asset management subsidiaries.

Board

Management

## Relationship of Compensation and Risk

We conduct the majority of our business through our asset managers which are individual businesses. Each asset manager generally focuses on a portion of the asset management industry in terms of the types of assets managed (primarily alternatives, equity or fixed income), the types of products and services offered, the investment styles utilized, the distribution channels used, and the types and geographic locations of its clients. Each of our primary asset managers is generally operated as a separate entity that typically markets its products and services under its own brand name. Certain distribution functions are often provided by the parent company and other affiliates. Consistent with this approach, we have revenue sharing arrangements in place with five of our asset managers and/or certain of their key officers. Pursuant to these revenue sharing arrangements, a specified percentage of the asset manager's revenues, net of certain third party distribution expenses, is required to be distributed to the parent company and the balance of the revenues (or net revenues) is retained to pay operating expenses, including salaries and bonuses, but excluding certain expenses such as amortization of acquired intangible assets and income taxes. Specific compensation allocations are determined by the asset manager's management, subject to corporate management approval in certain cases. Our asset managers and other business units that do not operate under revenue sharing arrangements utilize a variety of discretionary or formulaic incentive compensation determinations. In addition, the management teams of five of our affiliates hold significant equity interests in the applicable company, which helps to align the interests of the management of those five affiliates with the interests of our shareholders. In addition, the asset management industry in which we operate tends to be a long-term business, as investment performance over

multi-year periods is a critical competitive element of the business. Also, as is typical in the asset management business, and unlike other financial services companies, we are not exposed to the short-term risks arising from proprietary trading because we do not engage in proprietary trading.

The executive officer compensation program is structured in a manner intended to mitigate against providing incentives for inappropriate risk taking. The executive officers' salaries are fixed in amount. Incentive compensation is linked to overall corporate performance and a substantial portion of compensation is in the form of long-term equity awards that further align executives' interests with those of Legg Mason's stockholders. The value of equity awards is tied to Legg Mason's stock price. These awards do not encourage excessive or inappropriate risk taking given that the awards are subject to long-term vesting schedules to help ensure that executives have significant value tied to long-term stock price performance. As part of fiscal year 2018 incentive compensation, we awarded performance share units that will result in payout only based on relative performance over a three year period ending March 31, 2021. We believe our incentive award program, coupled with our stock ownership guidelines and anti-hedging and pledging policies for executives, create important linkages between the financial interests of our executives and the long-term performance of Legg Mason and help to protect against any incentive to disregard risks in return for potential short-term gains. Moreover, the Compensation Committee considers several performance metrics in establishing the executive compensation pool each year, so no one metric creates an undue reward that might encourage excessive risk taking. The executive compensation incentive pool amount is also subject to adjustment in the discretion of the Compensation Committee based on the performance metrics and qualitative factors established by the Committee for use as a basis for revising the pool amount.

To further ensure the alignment of compensation with long-term performance, we have adopted a policy for the clawback of incentive compensation from named executive officers in the event a named executive officer's acts or omissions contribute to a need for a restatement of our financial results or if a named executive officer is terminated for cause. Additional information on our executive officer compensation practices is discussed below under "Executive Compensation—Compensation Discussion and Analysis."

We have considered the risks created by our compensation policies and practices, including mitigating factors, and, based on this review, do not believe that our compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the company. This conclusion is supported by the work of a committee consisting of representatives from our finance, human resources, legal and enterprise risk management departments, which evaluates whether our compensation policies and practices are reasonably likely to have a material adverse effect on Legg Mason.

## **Compensation Consultant to the Compensation Committee**

For fiscal year 2018, the Compensation Committee retained Semler Brossy Consulting Group, LLC, an independent executive compensation consulting firm, to provide compensation consulting services. As directed by the Compensation Committee, Semler Brossy provides counsel on compensation-related issues and executive officer compensation and non-employee director compensation, and guidance on best practices and market and regulatory developments. Semler Brossy did not provide additional consulting or other services to management or Legg Mason subsidiaries during fiscal year 2018.

## Compensation of Directors

Directors who are Legg Mason employees do not receive compensation for their services as directors. The Compensation Committee annually reviews and recommends to our Board of Directors the compensation of our non-employee directors. As part of this review, the Compensation Committee consults with its compensation consultant to determine the reasonableness and adequacy of our non-employee director compensation. The following table outlines the regular compensation that is paid to our non-employee directors:

Compensation Element	Amount of Compensation
<b>Cash Retainers</b>	
Annual Board Retainer	\$50,000
Lead Independent Director	\$25,000
Audit Committee Chairman Retainer	\$17,500
Nominating & Corporate Governance, Compensation, Finance and Risk Committee Chairmen Retainers	\$10,000
<b>Meeting Fees</b>	
Board Meeting Fees	\$2,000 per in-person meeting attended and \$1,000 per telephonic meeting attended beginning with the sixth meeting in the year
Committee Meeting Fees	\$2,000 per in-person meeting attended and \$1,000 per telephonic meeting attended
<b>Equity Awards</b>	
Annual Board Award <sup>(1)</sup>	\$125,000
Initial Board Election Award <sup>(1)</sup>	\$125,000

- <sup>(1)</sup> Under the terms of the Legg Mason, Inc. Non-Employee Director Equity Plan, as amended, each of our non-employee directors receives, on the 31<sup>st</sup> day after he or she is first elected as a director, and on the date of each subsequent Annual Meeting of Stockholders, his or her choice of: (i) a grant of shares of common stock that have a market value, on the grant date, of \$125,000; (ii) a grant of shares of common stock that have a market value, on the grant date, of \$75,000, plus \$50,000 in cash; or (iii) a grant of restricted stock units equal to the number of shares of common stock that have a market value, on the grant date, of \$125,000.

We also reimburse each of our non-executive directors for their travel expenses incurred in connection with attendance at Board and Committee meetings. Following a review of the compensation of our non-employee directors, the Board, based on a recommendation of the Compensation Committee, has determined that fees for non-employee directors will remain unchanged for fiscal year 2019.

Restricted stock units granted under the Legg Mason, Inc. Non-Employee Director Equity Plan are payable on a one-for-one basis in shares of common stock within 60 days of the date on which the recipient stops serving as a director of Legg Mason. The number of restricted stock units credited to a director will be increased to reflect all dividends paid on common stock based on the market price of a share of common stock on the dividend payment date. The restricted stock units and shares of common stock are not subject to vesting. The plan covers an aggregate of 625,000 shares of common stock.

## Director Compensation Table

The following table provides information about the compensation earned by our non-employee directors during fiscal year 2018.

Name	Fees Earned or Paid in Cash (\$) <sup>(1)</sup>	Stock Awards (\$)	All Other Compensation (\$) <sup>(2)</sup>	Total (\$)
Robert E. Angelica	140,000 <sup>(3)</sup>	74,985 <sup>(4)</sup>	–	214,985
Tianqiao Chen <sup>(5)</sup>	27,000	125,016 <sup>(6)</sup>	–	152,016
Robert Chiu <sup>(5)</sup>	25,000	125,016 <sup>(6)</sup>	–	150,016
Carol Anthony “John” Davidson	76,000	125,016 <sup>(6)</sup>	14,386	215,402
Michelle J. Goldberg <sup>(7)</sup>	20,666	125,009 <sup>(8)</sup>	–	145,675
Barry W. Huff	99,500	125,016 <sup>(6)</sup>	–	224,516
Dennis M. Kass <sup>(9)</sup>	31,666	–	–	31,666
Cheryl Gordon Krongard <sup>(9)</sup>	39,999	–	–	39,999
John V. Murphy	128,000 <sup>(10)</sup>	125,016 <sup>(6)</sup>	–	253,016
John H. Myers <sup>(9)</sup>	23,666	–	–	23,666
Alison A. Quirk <sup>(7)</sup>	74,666 <sup>(3)</sup>	75,014 <sup>(11)</sup>	–	149,680
W. Allen Reed	96,000	125,016 <sup>(6)</sup>	–	221,016
Margaret Milner Richardson	83,000	125,016 <sup>(6)</sup>	26,639	234,654
Kurt L. Schmoke	94,667	125,016 <sup>(6)</sup>	35,224	254,906

<sup>(1)</sup> In addition, non-employee directors receive reimbursement of actual expenses incurred for attendance at meetings or participating in company business.

<sup>(2)</sup> Represents dividend equivalents paid on restricted stock units and reinvested in additional restricted stock units.

<sup>(3)</sup> Includes \$50,000 paid as a portion of the annual award under the Legg Mason, Inc. Non-Employee Director Equity Plan.

<sup>(4)</sup> Represents value of 1,824 shares of common stock granted on July 25, 2017, as a portion of the annual award under the Legg Mason, Inc. Non-Employee Director Equity Plan.

<sup>(5)</sup> Messrs. Chen and Chiu served on our Board until October 12, 2017. Messrs. Chen and Chiu’s reported compensation reflects amounts received during fiscal year 2018 through the end of their Board service.

<sup>(6)</sup> Represents value of 3,041 restricted stock units or shares of common stock granted on July 25, 2017 for the annual award under the Legg Mason, Inc. Non-Employee Director Equity Plan.

<sup>(7)</sup> Mmes. Goldberg and Quirk were appointed to the Board of Directors effective November 28, 2017.

<sup>(8)</sup> Represents value of 2,963 restricted stock units granted on December 29, 2017 under the Legg Mason, Inc. Non-Employee Director Equity Plan after Ms. Goldberg joined the Board.

<sup>(9)</sup> Messrs. Kass and Myers and Ms. Krongard’s terms as directors expired on July 25, 2017. Messrs. Kass and Myers and Ms. Krongard’s reported compensation reflects amounts received during fiscal year 2018 through the end of their terms.

<sup>(10)</sup> Includes \$25,000 paid for the Lead Independent Director Retainer.

<sup>(11)</sup> Represents value of 1,778 shares of common stock granted on December 29, 2017 under Legg Mason, Inc. Non-Employee Director Equity Plan after Ms. Quirk joined the Board.

As of March 31, 2018, four of our non-employee directors held the following restricted stock units:

Name	Number of Restricted Stock Units
Carol Anthony “John” Davidson	15,238
Michelle J. Goldberg	2,963
Margaret Milner Richardson	26,987
Kurt L. Schmoke	35,219

# SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the ownership of Legg Mason common stock as of May 24, 2018 by each of our directors, each individual named in the Summary Compensation Table, all of our executive officers and directors as a group, and each person who, to the best of our knowledge, beneficially owned more than five percent of the outstanding common stock.

Name of Owner	Common Stock Beneficially Owned <sup>(1)(2)</sup>	Percent of Outstanding Common Stock <sup>(2)</sup>
BlackRock, Inc.	7,968,793 <sup>(3)</sup>	9.32%
Vanguard	7,458,060 <sup>(4)</sup>	8.73%
FMR	4,120,760 <sup>(5)</sup>	4.82%
Joseph A. Sullivan	1,819,645 <sup>(6)(7)</sup>	2.10%
Terence Johnson	455,631 <sup>(6)</sup>	*
Peter H. Nachtwey	428,809 <sup>(6)</sup>	*
Thomas K. Hoops	234,678 <sup>(6)</sup>	*
Thomas C. Merchant	182,358 <sup>(6)</sup>	*
W. Allen Reed	50,642	*
Kurt L. Schmoke	41,552 <sup>(8)</sup>	*
Margaret Milner Richardson	35,267 <sup>(8)</sup>	*
Barry W. Huff	25,896	*
John V. Murphy	24,536	*
Robert Angelica	23,624	*
Carol Anthony ("John") Davidson	15,350 <sup>(8)</sup>	*
Michelle J. Goldberg	2,985 <sup>(8)</sup>	*
Alison A. Quirk	1,778	*
<b>All current executive officers and directors as a group (18 persons)</b>	<b>3,812,018</b>	<b>4.33%</b>

\* Less than 1%.

<sup>(1)</sup> Except as otherwise indicated and except for shares held by members of an individual's family or in trust, all shares are held with sole dispositive and voting power.

<sup>(2)</sup> Includes, for the individuals listed below, the following number of shares subject to options exercisable within 60 days from May 24, 2018:

Name	Number of Shares
Joseph A. Sullivan	1,354,423
Terence Johnson	346,967
Peter H. Nachtwey	281,520
Thomas K. Hoops	140,663
Thomas C. Merchant	116,154
<b>All current executive officers and directors as a group (18 persons)</b>	<b>2,439,009</b>

Also includes for the individuals listed below, the following number of deferred but vested restricted stock units:

Name	Number of Shares
Joseph A. Sullivan	100,785
Peter H. Nachtwey	14,591
Thomas C. Merchant	7,785
<b>All current executive officers and directors as a group (18 persons)</b>	<b>123,161</b>



- (3) Represents shares held by BlackRock, Inc., 40 East 52nd Street, New York, NY 10022, in its capacity as investment advisor. All of the shares are held with sole dispositive power and none of the shares are held with shared dispositive power. All of the shares are held with sole voting power and none are held with shared voting power. The number of shares in the preceding information is based upon a Schedule 13G report filed by BlackRock, Inc. reporting ownership as of December 31, 2017. The percentages are based on Legg Mason's outstanding shares as of May 24, 2018.
- (4) Represents shares held by The Vanguard Group, 100 Vanguard Boulevard, Malvern, PA 19355, in its capacity as investment advisor. 7,408,828 of the shares are held with sole dispositive power and 49,232 of the shares are held with shared dispositive power. 45,553 of the shares are held with sole voting power and 10,322 are held with shared voting power. The number of shares in the preceding information is based upon a Schedule 13G report filed by The Vanguard Group reporting ownership as of December 31, 2017. The percentages are based on Legg Mason's outstanding shares as of May 24, 2018.
- (5) Represents shares held by FMR LLC, 245 Summer Street, Boston, MA 02210, in its capacity as investment advisor. All of the shares are held with sole dispositive power and none of the shares are held with shared dispositive power. All of the shares are held with sole voting power and none are held with shared voting power. The number of shares in the preceding information is based upon a Schedule 13G report filed by FMR LLC reporting ownership as of February 13, 2018. The percentages are based on Legg Mason's outstanding shares as of May 24, 2018.
- (6) Includes, for the individuals listed below, the following number of restricted stock units. Restricted stock units are not held with voting rights and cannot be transferred.

<b>Name</b>	<b>Number of Restricted Stock Units</b>
Joseph A. Sullivan	145,887
Terence Johnson	24,416
Peter H. Nachtwey	40,315
Thomas K. Hoops	32,922
Thomas C. Merchant	21,392

- (7) Does not include 6,028.06 units of the Legg Mason Common Stock Fund held in the Legg Mason Profit Sharing and 401(k) Plan and Trust which translate into 3,724.64 shares of common stock.
- (8) Includes, for the individuals listed below, the following number of restricted stock units. Restricted stock units are payable on a one-for-one basis in shares of common stock within 60 days of the date on which the individual stops serving as a director of Legg Mason.

<b>Name</b>	<b>Number of Restricted Stock Units</b>
Kurt L. Schmoke	35,476
Margaret Milner Richardson	27,184
Carol A. Davidson	15,350
Michelle J. Goldberg	2,985

# EXECUTIVE COMPENSATION

## Compensation Discussion and Analysis

### Executive Summary

#### Fiscal Year 2018 Pay Well Aligned with Performance, Reflecting Improved Financial Performance in a Challenging Environment and Strategic Repositioning of Legg Mason for Further Growth

 See pages 35-55

- The Compensation Committee concluded that Legg Mason's financial performance was improved from fiscal year 2017 despite continuing trends driving disruption in the asset management business.
- The Compensation Committee also recognized strong individual performance by executive management and the progress of the strategic repositioning of Legg Mason for further growth.
- Total CEO compensation up 19% from fiscal year 2017, following 20% reduction in fiscal year 2016 and no increase in fiscal year 2017
- CEO paid below median of reported peer group pay, with variable pay constituting over 95% of his total direct compensation of \$10,500,000 for fiscal year 2018
- CEO's annual incentive award was paid 60% in equity and 40% in cash, as in prior years
- Equity awards allocated equally among performance share units, which vest based on relative TSR and relative organic growth rate of long-term assets under management over a three year period, and restricted stock units

#### Metrics Link Pay to Strategic Goals and Performance

- Absolute performance metrics included: net revenues, earnings per share and global distribution unit gross sales, net new long-term advisory fee revenue, adjusted EBITDA and operating margin, as adjusted
- Relative performance metrics included: organic growth rate of long-term assets under management, net income growth and one year total stockholder return

#### Sound Compensation Practices

- Pay practices aligned with stockholder interests, with significant variable component for named executive officer pay
- Metrics reviewed annually for rigor and relevance, reflecting drivers meaningful for creating value for stockholders of an asset management company
- Compensation Committee continually assesses performance relative to Legg Mason's goals and competitors' performance

#### Legg Mason Strategically Positioned for Further Growth

- Focus on expanding client choice continued to drive strong sales, despite ongoing trend of investor moves to passive strategies
- Expanded investment offerings in response to investor demand for choice with new next generation products, new vehicles, including ETFs, and commercialized alternative products for our most recently acquired investment affiliates
- Alternative Distribution Strategies and Alternative Product teams expanded with strategic hires; technology investments enhanced capabilities of our global workforce and choice for global investors; progress on opening an office in China

#### Stockholders Demonstrate Support for Legg Mason Pay Practices and Outcomes

- Ongoing stockholder outreach, initiated in 2014, provided insights on stockholders' views and affirmed support for Legg Mason's pay practices among stockholders with whom we engaged.
- At the 2017 annual meeting of stockholders, holders of over 93% of shares voted gave approval to Legg Mason's executive compensation in the annual advisory vote. In fiscal year 2018, we were in contact with nine stockholders holding over 40% of shares outstanding.

## Legg Mason's Approach to Asset Management

Legg Mason is a global asset management firm that operates through nine independent investment management subsidiaries, which we refer to as our investment affiliates. Acting through our investment affiliates, we provide investment management and related products and services to institutional and individual clients, company-sponsored mutual funds and other investment vehicles. We offer these products and services directly and through various financial intermediaries.

Our corporate structure combines our nine investment affiliates, each with diverse perspectives and specialized expertise across asset classes and strategies, with a centralized global distribution and shared services platform. We deliver our investment capabilities through varied products and vehicles and via multiple points of access.

Legg Mason's structure is both thoughtful and intentional. In an integrated client experience, we help investors globally achieve better financial outcomes by expanding choice across investment strategies, vehicles and investor access through independent investment managers with diverse expertise in equity, fixed income, alternative and liquidity investments. This has led to our strong long-term performance across our products, with 85% of strategy assets under management (AUM) outperforming their target benchmarks over the last ten years. And our global distribution platform sells U.S. and international mutual funds and other commingled vehicles, retail separately managed account programs, and sub-advisory accounts for insurance companies and similar clients, effectively delivering our affiliates' investment capabilities to our customers.











## Legg Mason's Response to Industry Trends

Powerful forces continue to drive significant change in the investment management industry. In addition to the globalization of markets, massive shifts in demographics, shifting regulation within and across jurisdictions and the relentless push from innovation and technology, we continue to see in some sectors of the industry a trend of investors moving more of their assets to indexed or passive investment strategies.

We have reacted decisively to these trends, by outlining a clear strategy to succeed in a changing environment. We have articulated and executed on a strategy to provide global investors with a more diversified set of choices of investment strategies, products, vehicles beyond traditional mutual funds and choices for access to those strategies, products and vehicles. In fiscal year 2018, across five investment affiliates, we launched 41 new products in the U.S., none of which is a traditional mutual fund, diversifying the product set by vehicle and investment type. U.S. launches included 20 Collective Investment Trusts, 17 Separately Managed Accounts (SMAs) and 4 Exchange-Traded Funds (ETFs) - many positioned in high growth-potential categories including smart beta and multi-asset class investment segments. Key milestones included launching Legg Mason's first active ETFs and expanding the number of investment affiliate entering the SMA business. We also expanded our Alternative Distribution Strategies division and invested in technology to provide clients with access to investment choices when and where they want them.

We have positioned ourselves well by taking actions that will both allow us to compete for assets with passive strategies, as well as offer products where there is generally no passive alternative. Legg Mason continues to launch products which we expect will compete with passive strategies, and products other than traditional mutual funds. We offer a diverse set of alternative investment strategies, which generally do not have passive substitutes. And, while we look to grow our AUM organically across all of our investment affiliates and investment strategies, a little more than half of our existing assets under management are in our fixed income products, where assets have not been migrating from active to passive strategies at nearly the rate of equity allocations.

While we are focused on continuing to execute against our strategy, we are pleased with our performance in fiscal year 2018 in a challenging environment and with the strategic repositioning of Legg Mason for further growth.

## Our Strategic Progress

### Focused Strategy

*Our strategy is straightforward and focused: to provide global investors with a more diversified set of choices of investment strategies, products, vehicles and distribution channels.*

To advance this strategy in fiscal year 2018, we expanded the Alternative Distribution Strategies division, enhancing our ability to meet investor needs through technology and new channels, and also made progress toward establishing an office in China. We hired a Global Head of Alternative Product and we continued to expand our global distribution capabilities and innovate new vehicles and product launches including ETFs. We hired a Chief Data Officer to advance our mission to improve data management and harness data to improve analytics and support growth.

### Key Strategic Operating Priorities

Investment  
products

Investment  
performance

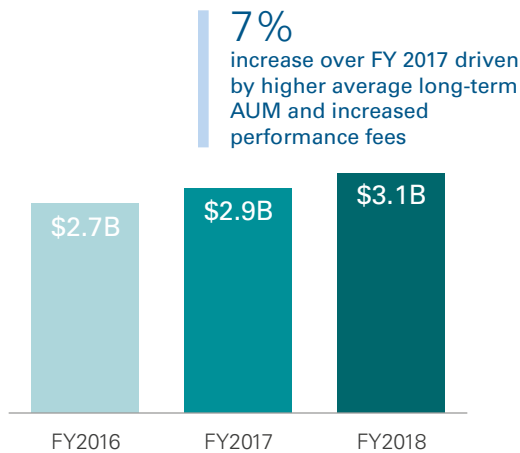
Distribution

Productivity

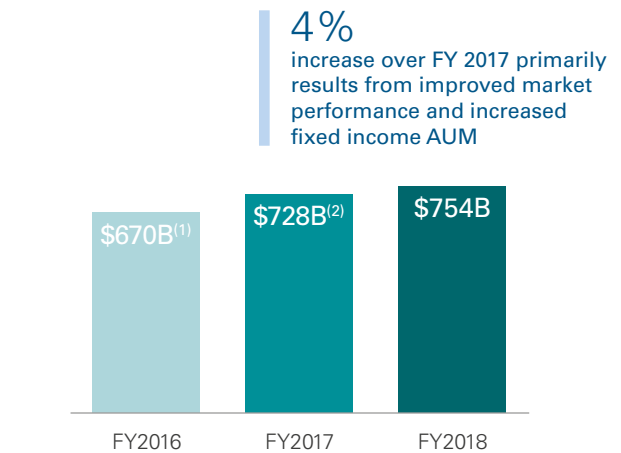
## Fiscal Year 2018 Performance Results

Performance for the year included (dollars in billions)<sup>1</sup>:

### Operating Revenues



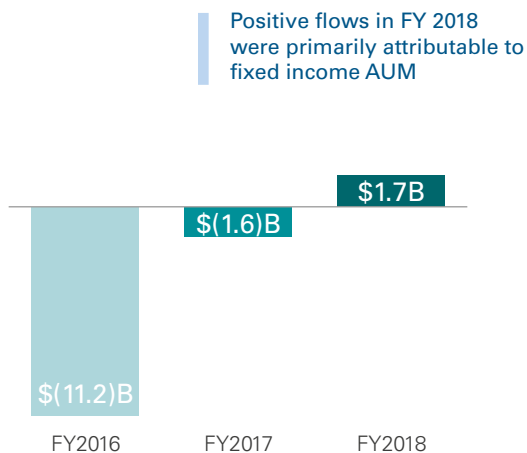
### Assets Under Management



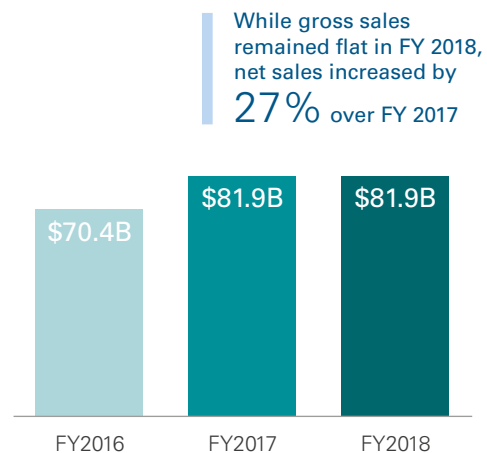
<sup>(1)</sup> Excludes \$10.5 B of assets reclassified as AUM effective April 1, 2017

<sup>(2)</sup> Excludes \$16.0 B of assets reclassified as AUM effective April 1, 2017

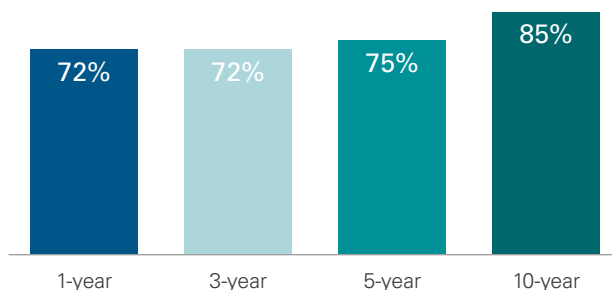
### Net Long-Term Asset Flows



### Legg Mason Global Distribution Gross Sales



### % of AUM Beating Benchmark



Values reflect the percentage of Legg Mason strategy AUM which have outperformed their target benchmarks over the relevant time period, as of March 31, 2018

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>1</sup> Please also see management's discussion and analysis of financial condition and results of operations in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

## Relationship between Company Performance and Executive Compensation

Our performance assessment framework and executive compensation program are designed to link pay and performance.

### Executive Compensation Program Design

The only fixed component of compensation is base salary, which ranges from 5-16% of total direct compensation for our named executive officers (not including one executive who was on an extended personal leave in fiscal year 2018 and whose compensation was 100% salary).

Annual performance drives the payment of annual incentive compensation, which is divided into a current cash payment, an award of restricted stock units that vest over a four year period, and an award of performance share units that vest at the end of a three year period. Long-term performance as reflected in relative total stockholder return plus relative organic growth rate of long-term AUM drives the ultimate payout of the performance share units.

### Performance Assessment

The Compensation Committee of our Board of Directors (the “Committee”) uses a comprehensive process to continually assess performance, which includes frequent dialogue with management about financial performance relative to our goals and relative to the performance of competitors, and assessments of corporate and individual executive accomplishments.

The Committee, in consultation with its independent compensation consultant, considers our pay-for-performance alignment when making executive compensation decisions. This consideration includes reviewing the relationship of Legg Mason performance and executive pay levels as compared to that of competitors.

## Engagement and Responsiveness to Stockholders

As described earlier in this proxy statement, Legg Mason regularly engages with key stockholders on governance and executive compensation issues. These conversations are in addition to investor conferences and outreach managed by our Investor Relations team and our engagement with stockholders after we file our proxy statements. During the last fiscal year, in addition to conversations during proxy season with seven of our largest investors, we reached out midway through the fiscal year to ten investors holding nearly 46% of our shares outstanding as measured at September 30, 2017. Seven of those investors, holding over 34% of our shares outstanding, responded to our outreach. Our lead independent director, who also serves as Chairman of the Compensation Committee, participated in discussions with two investors who held approximately 11% of our shares outstanding. The other five investors let us know that they did not feel a conversation was necessary at the time.

This year, among other topics, we sought feedback from stockholders as the Compensation Committee reviewed the components of Legg Mason’s executive equity incentive awards and the performance metrics for the performance share units that we award to executives. Over the years, our discussions with investors affirmed the support we have historically received on our stockholders’ advisory vote on named executive officer compensation, and none of our investors have advocated that we make significant changes to our compensation program. Nevertheless, based on feedback from stockholders, we continue to identify additional opportunities to strengthen our disclosure and further highlight our pay-for-performance framework.

In response to our stockholders’ suggestions, we have:

provided 3 years of financial performance results

emphasized the linkage between our compensation program and the corporate strategy adopted by the Board

provided more disclosure about the way the Compensation Committee makes decisions and thinks about metrics

offered greater insight into the way the Compensation Committee appropriately exercises discretion

## Executive Compensation Practices

Below we highlight certain executive compensation practices we employ to align executive compensation with stockholder interests. Also listed below are certain compensation practices we do not employ because we do not believe they would serve our stockholders' long-term interests.



### What We Do

- ✔ **Pay for Performance.** We tie annual pay to objective absolute and relative performance metrics with a focus on top line growth, bottom line growth and long term value, including our fiscal year 2018 global distribution unit gross sales, net long-term AUM flows, net revenues (total gross revenues less distribution expenses), earnings per share, adjusted EBITDA, global distribution unit earnings contribution, relative organic growth rate of long-term AUM, relative net income growth and relative one year total stockholder return. We tie performance share unit vesting and payout to relative total stockholder return and relative organic growth rate of long-term AUM over a three year period. A significant portion of our executives' potential compensation, ranging from approximately 84-95% depending on the named executive officer (but not including one executive who was on an extended personal leave in fiscal year 2018), is not guaranteed but is tied to financial and stockholder performance. The Committee and its independent compensation consultant evaluate the alignment of pay and performance relative to our peer group, prior to the Committee making executive compensation determinations.
- ✔ **Total Stockholder Return Metric.** Linking executive compensation to stockholder performance is important, so relative total stockholder return is considered in determining annual incentive awards and performance share unit vesting and payouts. Further, restricted stock units are annually awarded based on performance prior to the award, and the realized value of those awards to the executives is ultimately based on share price performance during the vesting period after the award is made.
- ✔ **Executive Stock Ownership Guidelines.** Executives are expected to own shares in Legg Mason common stock with a value equal to at least two to eight times base salary, depending on position.
- ✔ **Equity Award Retention Policy.** Executives are required to retain 50% of the net after-tax shares received from all equity awards until they have reached the ownership levels set out in the stock ownership guidelines.
- ✔ **Vesting Period on Equity Awards.** Restricted stock units granted under the annual incentive plan (and stock option awards granted in prior years) have four year ratable vesting periods.
- ✔ **Clawback Policy.** We can recover incentive compensation awarded to a named executive officer where the officer's fraud or willful misconduct led to a material restatement of financial results or if the executive is terminated for cause.
- ✔ **Review Tally Sheets.** We review tally sheets which provide a comprehensive view of an executive's historical compensation and equity holdings for each of our executive officers prior to making annual executive compensation decisions.
- ✔ **Stockholder Engagement.** We engage with our top stockholders outside of proxy season to gain insights about their views on helpful disclosures and executive compensation generally, and our practices and outcomes specifically, and to share information that we think might be of interest to stockholders about our compensation and governance practices and policies.
- ✔ **Prohibit Hedging or Pledging.** We prohibit our executive officers or directors and their related accounts from engaging in pledging or transactions that have the effect of hedging the market value of Legg Mason securities.



### What We Don't Do

- ✘ **No Severance Agreements.** We do not provide our named executive officers with employment agreements that provide severance payments, medical or insurance benefits or any other perquisites in the event the executive is terminated or resigns. Severance decisions are made when an executive's employment ends.
- ✘ **No Repricings.** Our stock incentive plans and NYSE Listing Standards prohibit us from repricing options without stockholder approval.
- ✘ **No Income Tax Gross-ups.** We do not provide income tax gross-ups for personal benefits other than relocation and other broad-based benefits.
- ✘ **No Excise Tax Gross-ups.** We do not provide excise tax gross-ups for change in control benefits.
- ✘ **No Established Program of Executive Perquisites.** We have no established program of perquisites to provide personal benefits to our executive officers.



## Executive Compensation Program Objectives

### Overall

Our named executive officer compensation programs are designed to attract, incent, retain and reward the management talent that we need to maintain and strengthen our position in the asset management business and to achieve our business objectives.

### Variable Pay

A significant portion - approximately 84-95% depending on the named executive officer - of the total direct compensation delivered to our named executive officers is variable (not including one executive who was on an extended personal leave in fiscal year 2018), which directly ties their pay to their individual performance and to the performance of our company.



### Our Compensation Principles

Our compensation programs for named executive officers are guided by three basic principles:

#### Link compensation to performance.

We believe that compensation levels should reflect performance—both the performance of Legg Mason and the performance of the recipient.

#### Align management's interests with those of stockholders.

We seek to implement programs that will encourage named executive officers to remain with us and to increase long-term stockholder value by providing competitive compensation and granting long-term equity incentive awards each year.

#### Maintain competitive compensation levels.

We strive to offer programs and levels of compensation that are competitive with those offered by comparable companies in our industry in order to attract, retain and reward our named executive officers, but always framed in the context of performance.

### Pay For Performance

Linking compensation to performance is a fundamental value underlying our named executive officer compensation practices. The annual incentives (including the value of annual equity awards) paid to each of our named executive officers vary with performance, including our annual financial results. In addition, a portion of those equity awards is paid in the form of performance share units. The performance share units vest, and the number of shares payable at vesting is determined, based on Legg Mason's relative total stockholder return and relative organic growth rate of long-term AUM over the three year period after the awards are made.

The total fiscal year 2018 compensation paid to our Chief Executive Officer reflects our financial results and the progress of the strategic repositioning of Legg Mason, as well as the comparison to the compensation amounts paid by and financial results of peer companies in the asset management industry. The fiscal year 2018 compensation paid to our CEO was up 19% as compared to fiscal year 2017 compensation, following a 20% reduction in fiscal year 2016 and no increase in fiscal year 2017. The fiscal year 2018 total compensation (salary plus incentive award) paid to our CEO ranked below the median when compared to the total compensation paid to chief executive officers at the six asset management competitors which had publicly reported compensation data by the time the Committee made executive compensation determinations at the end of our fiscal year, out of the group of eight other public company peers the Committee used for CEO compensation comparisons.

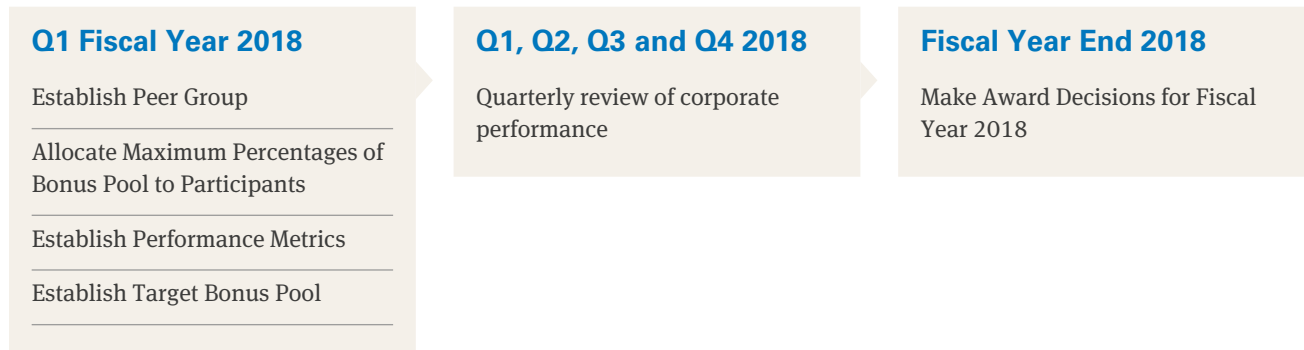
The Committee, in consultation with its independent compensation consultant, Semler Brossy Consulting Group, LLC, considers the relationship and alignment between executive compensation for our named executive officers and our corporate performance in reaching executive compensation decisions. This assessment involves consideration of the alignment of Legg Mason's proposed executive compensation with its corporate performance as compared to that of competitor asset management companies. In addition, Semler Brossy conducts pay for performance analyses, at the request of the Committee, that are used as one input for executive compensation decisions.



## Determining Executive Compensation

### The Compensation Committee's Timeline

The Compensation Committee has a well-defined annual process, which includes a review every quarter of corporate and peers' performance.



Each year under the Legg Mason, Inc. Executive Incentive Compensation Plan, the Committee establishes a fiscal year plan bonus pool for Legg Mason executive officers that equals 10% of Legg Mason's adjusted operating income for that fiscal year. "Adjusted operating income" equals Legg Mason's operating income as calculated under generally accepted accounting principles, excluding:

- expenses for bonuses paid under the plan,
- compensation expense resulting from gains or losses on seed capital or deferred compensation (which are fully offset in non-operating income),
- impairment charges on intangible assets including goodwill,
- operating income and expenses of consolidated investment vehicles (which are not actually attributable to Legg Mason and are fully offset in non-controlling interest),
- compensation expenses for issuing minority equity interests in investment affiliates to their management teams, and
- accounting adjustments and extraordinary or other one-time charges.

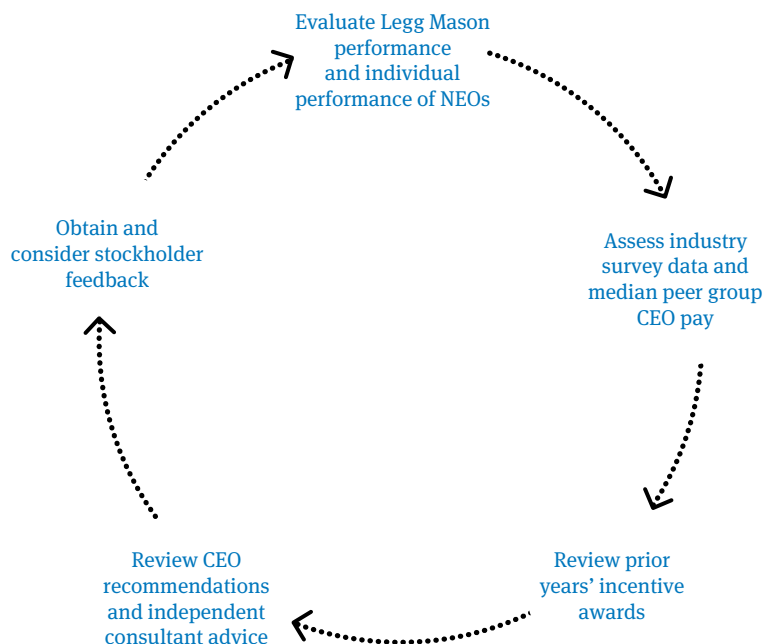
Early in the fiscal year the Committee establishes maximum percentages of the bonus pool under the plan that may be allocated to each executive. Once the plan bonus pool maximums have been established, the Committee uses a compensation program to determine actual named executive officer compensation amounts. Under that program, a target bonus pool and participants in the pool are established early in the fiscal year, along with performance metrics and the qualitative strategic factors that the Committee will use in connection with making compensation decisions at the end of the year. In establishing the target bonus pool, the Committee typically starts with peer median pay for each executive position, and then adjusts that aggregate amount based on other factors such as prior year compensation and Semler Brossy's expectations for industry compensation changes. As is customary in the asset management industry, the Committee does not assign a weighting or scoring value to any performance metric or qualitative factor, and instead exercises its judgment in considering the metrics and factors to allow flexibility to consider market factors and other specific facts and circumstances that arise during the course of the fiscal year.

In prior years, the Committee has finalized determinations of executive compensation for a fiscal year in the first quarter of the following fiscal year. In fiscal year 2018, however, the Committee acted at fiscal year end. The Tax Cuts and Jobs Act ("2017 Tax Act"), which was signed into law on December 22, 2017 and effective for taxable years beginning after December 31, 2017, among other changes eliminated the exception for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Code"), so all performance and non performance-based compensation paid to a covered employee that is greater than \$1 million per year will be non-deductible. The 2017 Tax Act became effective for Legg Mason as of April 1, 2018. As a result, the Committee acted at the end of fiscal year 2018 to determine compensation for executive officers in order to preserve maximum deductibility of executive compensation for taxable year 2018 while the exception for performance-based compensation was still effective for Legg Mason. We estimate that the Committee's action at fiscal year-end will result in a reported benefit to Legg Mason's stockholders of approximately \$2 million through preservation of approximately \$7.9 million of tax deductions. Although the Committee finalized its determinations several weeks earlier than it has in the past, the Committee followed the processes it has employed in recent years.

## Factors in The Compensation Committee's Decision Making Process

The Compensation Committee's decision making process involves a rigorous assessment of the factors described below, which are not weighted formulaically but rather are considered together to result in fully informed decisions about our executives' compensation.

### Compensation Decision Factors



In the asset management industry, executive pay typically is not determined on the basis of formulas and weighted metrics, because the business is highly dependent on the performance of markets, over which our management team has no control. The dynamics of markets and other external factors that impact our business during the course of the year make initial weightings less relevant to what management should focus on during the year to deliver maximum stockholder value. Further, our business is based on investment performance. That performance must be viewed over a long period of time. Even though we do not use formulas or assign specific weights to metrics, the Compensation Committee uses a rigorous performance assessment framework to set the overall bonus pool and determine individual bonuses. The Committee uses a performance assessment framework along with comparison to median peer group pay as the basis for pay decisions for Legg Mason executives. The Committee uses market data and performance metrics to establish pools for incentive awards, and applies its judgment to make compensation decisions for the named executive officers after conducting an in-depth review of performance, evaluating peer group pay and prior years' actual total direct compensation and assessing qualitative factors relating to strategic operating priorities, rather than relying solely on formulaic results to calculate annual incentive award payouts. The Committee evaluates the CEO's recommendations for other executive officers' pay, taking into account peer group data and the CEO's views on actual performance against the company's plan as well as his views on individual performance. The Committee believes this process is an effective way to assess the quality of the performance and leadership demonstrated by the CEO and the senior management team.

The Compensation Committee reviews a performance assessment scorecard detailing actual results versus plan for both absolute and relative metrics that are linked to our strategy. The set of metrics includes metrics that reflect the actions of our management team and employees, such as net revenues, but also metrics that are heavily influenced by factors outside the management team's control but are heavily correlated to the returns experienced by our stockholders, such as one-year total stockholder return. The Committee also defines strategic goals, linked to our operating priorities, at the beginning of the year, and thoroughly assesses accomplishments against those goals when making end of year compensation decisions. The Committee believes that evaluating performance against a combination of metrics and strategic goals most effectively drives the behavior for the long term results that we want our executive team to strive for and produce, as well as tightly links pay outcomes to performance.

## Elements of Compensation

We use a combination of components of compensation, measures and time horizons to foster and reward both short- and long-term performance.

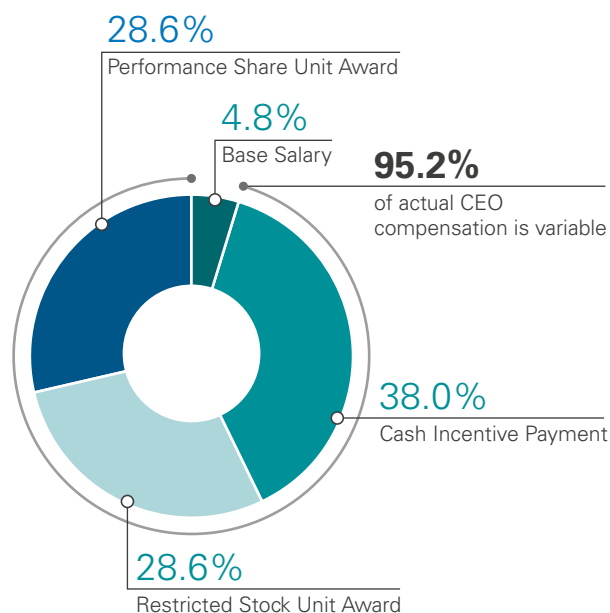
The following chart summarizes the relevant performance measures and time frames used for our variable pay elements.

	Component and Incentive Time Horizon	Role	How It's Set/Links to Performance
FIXED	<b>SHORT TERM-ANNUAL</b>		
	<b>Base Salary</b> CEO: 5% of pay	<ul style="list-style-type: none"> <li>To provide a stable, reliable monthly income</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed periodically in light of performance factors, market practices and advice of the Committee's independent consultant</li> <li>Set at levels that should comprise a low percentage of total compensation</li> </ul>
VARIABLE	<b>Annual Incentive Compensation</b> <b>Cash</b> CEO: 38% of pay	CEO's incentive award was paid 60% in equity and 40% in cash, whereas incentive awards for other named executive officers were paid 50% in equity and 50% in cash. <ul style="list-style-type: none"> <li>To reward the achievement of annual financial and qualitative performance goals and individual performance</li> <li>Links compensation to performance since award amounts are determined at fiscal year end based on projected year end results</li> </ul>	<ul style="list-style-type: none"> <li>Variable and primarily based on our corporate performance and the responsibilities, individual performance and contributions of the recipient for the fiscal year</li> <li>Key metrics for fiscal year 2018 include: global distribution unit gross sales, net long-term AUM flows, net revenues (total gross revenues less distribution expenses), earnings per share, global distribution unit earnings contribution, net new long-term advisory fee revenue, adjusted EBITDA, operating margin, as adjusted, relative organic growth rate of long-term AUM, relative net income growth, and relative one year total stockholder return*</li> <li>Links compensation to performance since award amounts are determined at fiscal year end based on projected year end results</li> </ul>
	<b>LONG-TERM WITH 4-YEAR VESTING</b> <b>Restricted Stock Units</b> CEO: 29% of pay	<ul style="list-style-type: none"> <li>To increase alignment with stockholders by providing significant stock ownership</li> <li>Retains executive officers through multi-year vesting</li> </ul>	<ul style="list-style-type: none"> <li>Variable and primarily based on our corporate performance, measured by key metrics identified above, and the responsibilities, individual performance and contributions of the recipient during the fiscal year</li> <li>Aligns executive interests with those of stockholders as potential value of awards increases or decreases with stock price</li> <li>Awards typically vest over four year period</li> </ul>
	<b>MEDIUM-TERM WITH 3-YEAR VESTING</b> <b>Performance Share Units</b> CEO: 29% of pay	<ul style="list-style-type: none"> <li>To reward achievement of longer-term financial goals</li> <li>To retain executives through three year vesting period</li> <li>To align with the stockholder experience</li> </ul>	<ul style="list-style-type: none"> <li>Payout range is 0-150% of target number of shares</li> <li>Payout based on two performance metrics (relative total stockholder return and relative organic growth rate of long-term AUM)</li> <li>Realized value attributable to three year performance achievement</li> </ul>
OTHER	<b>Other Compensation</b>	<ul style="list-style-type: none"> <li>To allow executive officers to participate in other employee benefit plans</li> <li>To provide opportunity for deferring income taxes on a portion of annual income</li> </ul>	<ul style="list-style-type: none"> <li>U.S.-based named executive officers may participate in all other Legg Mason compensation and benefit programs on the same terms as other employees, such as health and welfare benefit plans, Profit Sharing and 401(k) Plan and Employee Stock Purchase Plan</li> <li>U.S.-based named executive officers may elect to participate in non-qualified deferred compensation plans available to select employees based on responsibilities and compensation levels</li> </ul>

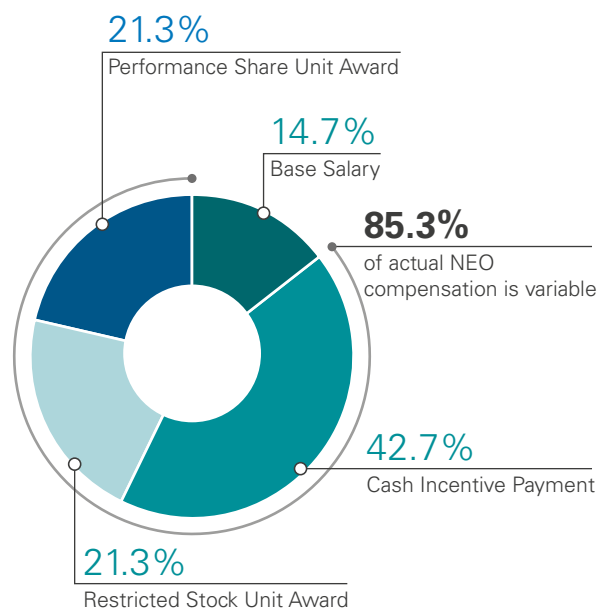
\* Adjusted EBITDA and operating margin, as adjusted, are non-GAAP financial measures. Please see Annex A for a reconciliation of each of these measures to the respective most nearly comparable GAAP measure.

The graphs below reflect the actual mix of compensation for fiscal year 2018.

### Actual CEO Compensation Mix



### Actual NEO Compensation Mix



### Assessing Competitive Practice

Semler Brossy assists the Committee by reviewing comparative market data on compensation practices and programs based on an analysis of competitors. Because our March 31 fiscal year-end date is later than that of many competitors, we typically are able to review up-to-date information about market practices and compensation awards for the previously completed calendar year. (For fiscal year 2018, the Committee had publicly reported data available for six of the eight public company peers, due to the Committee making executive compensation determinations at fiscal year end in order to preserve maximum deductibility of performance-based compensation for taxable year 2018. The Committee also noted compensation data available for the heads of four other asset management firms.) The Committee and Semler Brossy use a group of eight relevant competitors to compare our compensation programs and practices with those of our competitors and the compensation levels of our named executive officers to the compensation levels of comparable officers of companies in the group. For our CEO and CFO, the Committee and Semler Brossy use a group of eight public company peers as the primary comparisons. The companies in the group are:

Affiliated Managers Group*	BlackRock*	Federated Investors	Invesco
AllianceBernstein	Eaton Vance	Franklin Templeton Investments	T. Rowe Price Associates

\* Compensation data not reported at date of Compensation Committee determination of executive compensation.

Management also retains McLagan Partners, a compensation specialist affiliate of Aon Hewitt that focuses on the financial services industry, to provide compensation information about other asset management competitors including competitors that are not publicly traded, or are subsidiaries of larger institutions, that generally do not make compensation information about their executive officers publicly available. The Committee uses the analysis from McLagan as an added check on the reasonableness of the proposed compensation for the CEO and to compare proposed executive compensation levels for the named executive officers other than the CEO and CFO with the compensation paid by a group of competitors. Peer compensation levels and performance are also reviewed when both establishing the target incentive pool and allocating

incentive awards to individuals. The Committee reviews a group of competitors which includes companies that are not publicly traded because insufficient data is available from public company peers for our named executive officer positions other than the CEO and CFO. The additional competitor firms in the McLagan analysis are:

Allianz Global Investors	Goldman Sachs Asset Management	MFS Investment Management	Natixis Global Asset Management
Deutsche Asset Management	JPMorgan Asset Management	Morgan Stanley Inv. Management	Old Mutual Asset Management
Fidelity Investments			PIMCO

All companies listed above are privately held except for Old Mutual Asset Management.

## Fiscal Year 2018 Compensation Decisions

### Determination of Fiscal Year 2018 Base Salaries

At the beginning of fiscal year 2018 when the Committee determined salaries, the Committee did not change the base salaries of any of the named executive officers.

### Determination of Fiscal Year 2018 Bonus Pool

For fiscal year 2018, the Committee designated Legg Mason's nine executive officers as participants in the bonus pool. Beginning in the last quarter of fiscal year 2017, the Committee considered the performance metrics and strategic qualitative factors to be used in connection with making compensation decisions for fiscal year 2018. The Committee considered whether the existing metrics adequately linked to corporate strategy and drove appropriate incentives and whether any other metrics would be appropriate to add. The Committee determined that measures should be added only if they provide new information and can be influenced by Legg Mason's executive officers. They also considered the perspective of stockholders in assessing company performance. For fiscal year 2018 the Committee retained the metrics it had established for fiscal 2017, confirming its belief that, for an asset management company like Legg Mason, the metrics below are the most meaningful drivers of behavior that creates stockholder value. The Committee substituted "Adjusted EBITDA" for "Bank EBITDA" in fiscal year 2018, in accordance with the liquidity measure we currently publicly disclose. We previously disclosed Bank EBITDA that conformed to calculations required by our debt covenants and adjusted for certain items that required cash settlement that are not part of the current definition of Adjusted EBITDA.

In fiscal year 2018, the Committee also evaluated the components of executive equity incentive awards and the performance metrics for the performance share units that we award to executives. Over the course of several meetings, the Committee considered input from management and the Committee's independent consultant, evaluated several metrics, discussed the selection of two relative metrics for performance share units and considered whether an absolute metric was appropriate. The Committee reviewed the companies included in the peer group used for performance measurement and considered whether that group should be changed. The Committee selected relative total stockholder return and added relative organic growth rate of long-term AUM as the metrics for vesting of performance share units. In adding relative organic growth rate of long-term AUM, the Committee noted that Legg Mason's senior management views that measure as an important driver for the company's long-term strategy and success. The Committee believes that the two measures balance financial performance with stockholder returns. The Committee also determined not to award stock options for fiscal year 2018, and to increase the percentage of restricted stock units and performance share units awarded to executive officers to 25% for each type of award to balance retention and performance incentives.

### Stockholder Advisory Vote and Engagement Feedback Support Compensation Decisions

The Committee made its fiscal year 2018 compensation decisions mindful of the results of the advisory vote of Legg Mason stockholders at the 2017 Annual Meeting of Stockholders, indicating over 93% approval of named executive officer compensation, and of the support generally expressed by our stockholders for our compensation practices in stockholder outreach conversations over the last several fiscal years.

### Linking Metrics to Strategy and Operating Priorities

The Compensation Committee's performance metrics for fiscal year 2018 align with strategic goals and drive management focus in the following areas:

- Financial results targeted in our multi-year plan
- Strategic initiatives to diversify our business and expand investor choice
- Legg Mason performance relative to peers

- net long-term AUM flows
- net revenues (total gross revenues less distribution expenses)
- global distribution unit gross sales
- earnings per share
- net new long-term advisory fee revenue<sup>(1)</sup>
- Adjusted EBITDA<sup>(2)</sup>
- operating margin, as adjusted<sup>(3)</sup>
- global distribution unit earnings contribution<sup>(4)</sup>
- relative organic growth rate of long-term AUM<sup>(5)</sup>
- relative net income growth
- relative one year total stockholder return<sup>(6)</sup>

<sup>(1)</sup> We define "net new long-term advisory fee revenue" as annual advisory revenue earned on net flows (calculated by multiplying the amount of inflows and outflows by the applicable fee rate), and does not include the impact of markets.

<sup>(2)</sup> We define "Adjusted EBITDA" as cash provided by (used in) operating activities plus (minus) interest expense, net of accretion and amortization of debt discounts and premiums, current income tax expense (benefit), the net change in assets and liabilities, net (income) loss attributable to noncontrolling interests, net gains (losses) on consolidated investment vehicles, net gains and earnings on investments, and other, which is principally comprised of acquisition and transition-related costs. The net change in assets and liabilities adjustment aligns with the GAAP basis Consolidated Statements of Cash Flows. Adjusted EBITDA is not reduced by equity-based compensation expense. Adjusted EBITDA is a non-GAAP liquidity measure. Please refer to Annex A for a reconciliation of Adjusted EBITDA to cash provided by operating activities.

<sup>(3)</sup> Operating margin, as adjusted refers to dividing (i) operating income, adjusted to exclude the impact on compensation expense of gains or losses on investments made to fund deferred compensation plans, the impact on compensation expense of gains or losses on seed capital investments by our affiliates under revenue sharing arrangements, amortization related to intangible assets, income (loss) of CIVs, the impact of fair value adjustments of contingent consideration liabilities, if any, unusual and other non-core charges and impairment charges by (ii) our operating revenues, adjusted to add back net investment advisory fees eliminated upon consolidation of investment vehicles, less distribution and servicing expenses which we use as an approximate measure of revenues that are passed through to third parties, and less performance fees that are passed through as compensation expense or net income (loss) attributable to noncontrolling interest. Operating margin, as adjusted is a non-GAAP liquidity measure. Please refer to Annex A for a reconciliation of operating margin, as adjusted to operating revenues.

<sup>(4)</sup> Global distribution unit earnings contribution refers to the profits attributed to Legg Mason's centralized global distribution operations, which is calculated by adding net distribution revenues received and retained by the global distribution operations to the profits received by Legg Mason from the advisory fees received by its investment management affiliates for managing assets sourced by the global distribution operations and subtracting the costs of the global distribution operations other than closed-end fund launch costs.

<sup>(5)</sup> Relative organic growth rate of long-term AUM is defined as trailing twelve month long-term asset net flows divided by beginning long-term assets under management.

<sup>(6)</sup> For relative total stockholder return, the stock price changes plus dividends paid on Legg Mason common stock over the fiscal year are compared to data for a group that includes eight other asset management companies consisting of Franklin Resources, Inc., Eaton Vance Corp, T. Rowe Price Group, Inc., AllianceBernstein Holding LP, BlackRock, Inc., Affiliated Managers Group, Inc., Invesco Ltd. and Federated Investors Inc.



The Committee identified the qualitative factors related to Legg Mason's strategic operating priorities for fiscal year 2018. These qualitative factors further support Legg Mason's strategy of providing global investors with a diversified set of choices of investment strategies, products, vehicles and distribution channels while operating with a high level of effectiveness and efficiency:

### Legg Mason's Strategic Operating Priorities & FY2018 Specific Goals

Category	Strategic Operating Priorities	FY2018 Qualitative Factors
<b>Products</b>	Create an innovative portfolio of investment products and promote revenue growth by developing new products and leveraging the capabilities of our affiliates  Identify and execute strategic acquisitions to strengthen our affiliates and increase product offering	Continue expansion of Legg Mason's ETF suite and expansion of the range of vehicles and strategies available to Legg Mason's client base, focusing on alternatives, separately managed accounts and multi-asset solutions
<b>Performance</b>	Deliver compelling and consistent performance against both relevant benchmarks and the products and services of our competitors	Enhance investment affiliate oversight model, with a focus on collaboration between affiliates and opportunities to increase efficiency and drive growth
<b>Distribution</b>	Continue to maintain and enhance our top tier distribution function with the capability to offer solutions to relevant investment challenges and grow market share worldwide  Develop alternative and innovative distribution approaches for expanded client access	Continue to enhance client engagement (solutions-based selling) across global distribution unit (LMGD), collaborate with investment affiliates to enhance distribution into current and new channels and continue to seek next generation distribution opportunities
<b>Productivity</b>	Operate with a high level of effectiveness and improve ongoing efficiency  Align economic relationships with affiliate management teams, including retained affiliate management equity and the implementation of affiliate management equity plan agreements	Continue to implement long-term technology strategy, including implementation of a program to increase business value through strategic leverage of data, evaluate organizational design to respond to industry disruption and digital transformation and build out a diversity framework for employee recruitment, retention and development

At the end of fiscal year 2018, the Committee established the final bonus pool for the fiscal year. In establishing the final bonus pool, the Committee considered each of the following performance metrics. While the incentive awards are not determined on the basis of formulas and weighted metrics, the Committee takes a thorough approach to evaluating performance against these metrics, which are determined based on a rigorous plan process. The Committee has selected a group of metrics, both absolute and relative, that together are linked to our strategy and most effectively measure the performance of the management team and company. In addition, the set of metrics includes measures that reflect the actions of our management team and employees, but also metrics that are influenced by factors outside the management team's control but are heavily correlated to the returns experienced by our stockholders.

Metric*	FY2018 Target	FY2018 Projected**	FY2017 Actual	Change from FY2017 Actual to FY2018 Target
Net long-term AUM flows	\$ 21.2 billion	\$ 0.7 billion	\$ (1.6) billion	\$22.8 billion
Net revenues	2,468 million	2,536 million	2,328 million	140 million
Global distribution unit gross sales	78.1 billion	81.5 billion	81.9 billion	(3.8) billion
Global distribution unit earnings contribution	290 million	333 million	249 million	41 million
Earnings per share	3.00	3.81	2.18	0.82
Net new long-term advisory fee revenue	69 million	(4) million	(39) million	108 million
Adjusted EBITDA	704 million	701 million	560 million	144 million
Operating margin, as adjusted	25.6%	24.4%	19.7%	5.9%

\* Adjusted EBITDA and operating margin, as adjusted are non-GAAP financial measures. Please see Annex A for a reconciliation of each of these measures to the respective most nearly comparable GAAP measure.

\*\* Includes actual results through February 28, 2018 and projected results for March 1-March 31, 2018. As discussed above under the caption "The Compensation Committee's Timeline," the Committee acted at the end of fiscal year 2018 to determine compensation for executive officers, before final results were available for the month of March, in order to preserve maximum deductibility of executive compensation for taxable year 2018.



The Committee considered the following relative performance metrics, among Legg Mason and six companies that had publicly reported compensation data in the group of eight other publicly traded asset management companies that the Committee uses to assess compensation programs and amounts:

- Legg Mason's organic growth rate for the trailing twelve months ended December 2017 (the most current year for which peer data was available at the time the Committee met at the end of fiscal year 2018) was 0.9%, compared to the peer median of 2.2% for that period. Legg Mason's projected organic growth rate for fiscal year 2018 was 0.8%, however.
- Legg Mason's net income growth of 21.2% (excluding certain nonrecurring items that would have resulted in a first place ranking) ranked third for the trailing twelve months ended December 2017.
- Legg Mason's total stockholder return for the fiscal year of 12.9% ranked seventh for the fiscal year to date through February 28, 2018.

The Committee also evaluated the following strategic qualitative factors:

<b>Products</b>	Increased line up of ETF products to 11; Hired for key leadership positions in Alternative Product and Alternative Distribution Strategies; Maintained strong position in the separately managed account market and launched new strategies with additional investment affiliates; Completed a bolt-on acquisition for Clarion Partners and pursued other potential bolt-ons during the year.
<b>Performance</b>	Expanded collaboration among investment affiliates to acquire client accounts; Engaged affiliates in initiatives including Brexit and MiFID II.
<b>Distribution</b>	Launched initiative to deepen partnerships with top 15 global clients and targets that account for significant percentage of LMGD sales; Developed data driven approaches to engagement with advisors; Launched feeder funds in Brazil, ETFs in Australia, and our first fund structure in New Zealand; Obtained a license in China enabling us to establish a local presence representing all investment affiliates.
<b>Productivity</b>	Hired Legg Mason's first Chief Diversity Officer; Hired a Chief Data Officer focused on data management, governance and business analytics development.

The Committee considered the information which, at the time of the Committee's deliberations at fiscal year end, showed Legg Mason's fiscal year 2018 overall improved financial performance on an absolute basis. (Subsequently, in May 2018, Legg Mason reported a charge to earnings for fiscal year 2018 of \$67 million, relating to a regulatory matter.) The Committee also considered the significant accomplishments that management achieved during the fiscal year in executing on Legg Mason's strategic priorities. The Committee viewed fiscal year 2018 as a year of strategic progress, evidenced by management's accomplishments under the strategic qualitative factors, juxtaposed against year over year improvement in financial results on an absolute basis, yet in some respects lagging relative to peers, evidenced by outcomes under the performance metrics. The Committee compared Legg Mason executive compensation for fiscal years 2015, 2016 and 2017 to available median compensation data. The Committee then reviewed how a potential increase in compensation would compare to peer median compensation, including noting certain executive positions where it was difficult to find executives with comparable responsibilities, and the fact that compensation was flat in fiscal year 2017 for most named executive officers including our CEO (whose compensation had been reduced by 20% for fiscal year 2016). The Committee was pleased with our CEO's leadership and team-building capabilities and management's work and achievements on strategic priorities, and noted Legg Mason's improved financial performance in fiscal year 2018. This assessment, together with comparisons to peer group median compensation and the levels of compensation for fiscal year 2017 and 2016, drove the Committee's conclusion to increase executive compensation for our CEO and all but one of the other named executive officers. Consistent with the explanation of the Committee's process as depicted in this Compensation Discussion and Analysis, the Committee used its business judgment, based on these facts and conclusions, to establish executive compensation awards. The Committee concluded that the award decisions were supported by Legg Mason's financial performance and resulted in appropriate compensation of Legg Mason's executive officers relative to compensation paid by peers. The final bonus pool established under the executive compensation program was approximately 63% lower than the formulaic plan bonus pool established under the Executive Incentive Compensation Plan and was reduced approximately 26% from the target bonus pool amount. The percentage reduction was impacted by the fact that one named executive officer who was on an extended personal leave in fiscal year 2018 did not receive a bonus.

## Determination of Fiscal Year 2018 Total Direct Compensation

The following table shows the named executive officer base salary and incentive compensation for fiscal year 2018 that was awarded or approved by the Committee. The Committee establishes and awards incentive compensation for a fiscal year at or after the end of the fiscal year in order to reflect the full year's performance in the award decisions. **Thus, this table differs from the Summary Compensation Table primarily because it reflects for fiscal year 2018 the value of equity awards that were awarded in May 2018 and are part of fiscal year 2018 incentive compensation, while the Summary Compensation Table includes in fiscal year 2018 the value of equity awards made in May 2017 that are part of fiscal year 2017 incentive compensation.**

Name	Base Salary	Cash Incentive Payment	Restricted Stock Unit Award	Performance Share Unit Award <sup>(1)</sup>	Total Incentive Award <sup>(2)</sup>	Total Compensation
Joseph A. Sullivan	\$500,000	\$4,000,000	\$3,000,000	\$3,000,000	\$10,000,000	\$10,500,000
Peter H. Nachtwey	350,000	1,625,000	812,500	812,500	3,250,000	3,600,000
Thomas K. Hoops	350,000	1,325,000	662,500	662,500	2,650,000	3,000,000
Terence Johnson <sup>(3)</sup>	273,694	0	0	0	0	273,694
Thomas C. Merchant	350,000	917,500	458,750	458,750	1,835,000	2,185,000

- <sup>(1)</sup> The number of shares to be distributed to Messrs. Sullivan, Nachtwey, Hoops and Merchant are 19,152, 5,187, 4,230 and 2,929, respectively, at threshold, 76,609, 20,748, 16,918 and 11,715, respectively, at target and 114,914, 31,122, 25,377 and 17,573, respectively, if the maximum amount is earned. No assurance can be given of the number of shares, if any, that will be earned and distributed at the end of the performance period for the performance share units. See "Compensation Discussion & Analysis—Performance Share Unit Awards."
- <sup>(2)</sup> Total incentive award is the sum of cash incentive payment, restricted stock unit award and performance share unit award.
- <sup>(3)</sup> Mr. Johnson's salary of U.S. \$350,000, as determined based on the GBP exchange rate in effect on the day he became an executive officer in 2013, is paid in GBP. Mr. Johnson was on an extended personal leave in fiscal year 2018 and, as a result, his salary was reduced from the amount determined by the Compensation Committee at the beginning of the fiscal year and he did not receive an incentive award for fiscal year 2018. Using an average conversion rate of 1.327 for fiscal year 2018, Mr. Johnson received U.S. \$273,694 in base salary.

## Determination of Fiscal Year 2018 Incentive Awards for Executives

At the end of fiscal year 2018, the Committee allocated a portion of the final bonus pool under the executive compensation program to each of the named executive officers as incentive compensation. For fiscal year 2018, all equity awards are split equally among restricted stock units and performance share units. In approving these incentive awards (and determining the split between cash and equity) the Committee led the full Board in its review of Mr. Sullivan in his performance as CEO, giving consideration to his responsibilities, contributions and achievements during the fiscal year as well as market practices. In addition, with Mr. Sullivan present, the Committee considered the following with respect to the other named executive officers:

- Their individual responsibilities and achievements during the fiscal year,
- Market practices,
- Mr. Sullivan's views as to the individual performance and contributions by the named executive officer during the fiscal year, and
- Mr. Sullivan's views of the initiative, business judgment and management skills of the named executive officer.

The Committee approved incentive awards are summarized in the table below:

Name <sup>(1)</sup>	Total Incentive Award	% Paid in Cash	% Paid in Restricted Stock Units	% Paid in Performance Share Units
Joseph A. Sullivan	\$10,000,000	40%	30%	30%
Peter H. Nachtwey	3,250,000	50%	25%	25%
Thomas K. Hoops	2,650,000	50%	25%	25%
Thomas C. Merchant	1,835,000	50%	25%	25%

- <sup>(1)</sup> As described above, one of our named executive officers, Terence Johnson, was on an extended personal leave in fiscal year 2018 and did not receive an incentive award for the fiscal year.

## Approach to Long-Term Incentive Awards

The portion of the incentive award allocated to long-term equity awards is delivered via a mix of restricted stock units and performance share units. This mix of awards provides recipients with a combination of incentive opportunities, all of which align our executives with stockholders, and each vehicle has its own risk-reward profile and provides a unique benefit. The Committee believes that this mix will serve our stockholders going forward. As described above, the Committee evaluated the mix of equity awards and the performance metrics for performance share units awarded for fiscal year 2018. When delivering equity in each of its forms, the Committee considers the following characteristics of each vehicle:

- **Restricted Stock Units** - value increases/decreases with ordinary share price performance, and provides a strong retention incentive
- **Performance Share Units** - provide value based on Legg Mason's relative TSR performance and relative organic growth of long-term AUM over a three year period, balancing financial performance and share price, and strongly linking the ultimate number of shares that vest with long-term value creation.

## Performance Share Unit Awards

The Committee believes that it is important to structure a portion of executive compensation based on performance over periods that are longer than one year. In accordance with this view, in May 2018, the Committee awarded performance share units to each named executive officer as part of the fiscal year 2018 incentive award. The performance share units vest, and the number of shares payable at vesting is determined, based on Legg Mason's relative total stockholder return and relative organic growth rate of long-term AUM over the three year period beginning on the first day of the fiscal year in which the awards are made. Thus, the target amount of the performance share unit awards was determined based on annual performance over fiscal year 2018, but the ultimate vesting and payout amounts of the units will be determined based on relative total stockholder return and relative organic growth rate of long-term AUM over a subsequent three year period. The terms of the performance share unit awards are summarized below.

The performance share unit award for each named executive officer was converted into a target number of shares by dividing the dollar value of the award by the per share value of each performance share unit, determined based on the award cost reported for accounting purposes (Monte Carlo valuation), on May 15, 2018. Performance share units awarded for fiscal year 2018 will be earned and vested at the end of a three year period based on Legg Mason's relative total stockholder return and relative organic growth rate of long-term AUM ranked against a group of 15 other firms.

The peer group for the performance share unit program is different from the peer group reviewed by the Committee to compare Legg Mason's compensation programs and practices with those of our competitors and the compensation levels of our named executive officers to the compensation levels of comparable officers of companies in the group. The Committee established a peer group for this program comprised only of publicly traded asset management companies in order to have relevant performance comparisons, and included a large enough number of firms to avoid having exaggerated payout outcomes that might result from movement within the ranking of too small of a group. The performance share unit program peer group includes Affiliated Managers Group, Inc., Alliance Bernstein Holding LP, Ameriprise Financial Inc., Bank of New York Mellon Corp, BlackRock Inc., Eaton Vance Corp, Federated Investors Inc., Franklin Resources, Inc., GAMCO Investors Inc., Invesco Ltd., Janus Henderson Group, Inc., Northern Trust Corp, State Street Corp, T. Rowe Price Group, Inc. and Waddell & Reed Financial Inc.

A matrix of the potential payouts, ranging from 0 – 150%, appears below. Payouts above 100% are earned if Legg Mason performs in the third quintile in at least one of the metrics and above the third quintile in the other metric. No payout is earned below a 20<sup>th</sup> percentile ranking for both metrics, and the maximum payout requires top quintile performance in both metrics.

		Percentage Payout				
Relative TSR	80-100P	75%	100%	125%	138%	150%
	60-80P	63%	88%	113%	125%	138%
	40-60P	50%	75%	100%	113%	125%
	20-40P	25%	50%	75%	88%	100%
	0-20P	0%	25%	50%	63%	75%
		0-20P	20-40P	40-60P	60-80P	80-100P
Relative Organic Growth Rate of Long-Term AUM P = Percentile						

## Determination of Individual Named Executive Officers' Total Direct Compensation for Fiscal Year 2018

### Joseph A. Sullivan Chief Executive Officer

Mr. Sullivan's total direct compensation for fiscal year 2018 included (i) a \$10,000,000 incentive award (\$3,000,000 of which was paid in the form of performance share units, described above, that vest based on three year relative total stockholder return and relative organic growth rate of long-term AUM) and (ii) a \$500,000 salary. Mr. Sullivan's fiscal year 2018 incentive award constitutes 16% of the total pool under the Executive Incentive Compensation Plan, which is below the 33% maximum allocated to him. Sixty percent of Mr. Sullivan's incentive compensation is in the form of equity, compared to 50% for our other named executive officers, emphasizing the Chief Executive Officer's greater accountability for longer term results. Mr. Sullivan's fiscal year 2018 compensation (salary plus incentive award) is up 19% from his fiscal year 2017 compensation. The Committee determined that this result was appropriate in light of Legg Mason's financial performance as discussed above and a comparison of Mr. Sullivan's compensation to that of Chief Executive Officers of other competitor firms, as well his pay history in recent fiscal years, Mr. Sullivan's excellent personal performance and leadership in significant strategic accomplishments during the fiscal year.

In addition to the actions highlighted below, Mr. Sullivan's accomplishments during the year included:

- leading the company's growth and innovation initiatives,
- focusing on the company's response to disruption in the asset management industry, and
- championing a diverse, agile workforce empowered to harness opportunities.

### Strategically Repositioned for Further Growth

In fiscal year 2018, our management team, with Mr. Sullivan's leadership, **accomplished the strategic goals established by the Board**, focusing Legg Mason on **further growth**. Those accomplishments included:

<b>Increased Product Offerings</b>	Commercialized, launched and repositioned multiple investment products, especially non-mutual fund products, across investment affiliates, investment strategies and markets	Enhanced product line up consistent with our strategy to expand global investors' choices
<b>Diversified Investment Vehicles</b>	Enhanced offerings of ETFs, collective investment trusts and separately managed accounts	Diversified vehicles consistent with our strategy to expand global investors' choices
<b>Enhanced Distribution Capability</b>	Invested in Alternative Distribution Strategies division and technology	New platforms and channels consistent with our strategy to expand global investors' choices
<b>Expanded Markets</b>	Obtained a license in China and invested in product launches in new geographic markets	New markets consistent with our strategy to expand global investors' choices

## **Peter H. Nachtwey** Chief Financial Officer

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Mr. Nachtwey's total direct compensation for fiscal year 2018 included (i) a \$3,250,000 incentive award (\$813,000 of which was paid in the form of performance share units, described above, that vest based on three year relative total stockholder return and relative organic growth rate of long-term AUM) and (ii) a \$350,000 salary. Mr. Nachtwey's incentive award constitutes 5% of the total pool under the Executive Incentive Compensation Plan, below the 10% maximum percentage allocated early in the fiscal year. Mr. Nachtwey's fiscal year 2018 compensation (salary plus incentive award) is up 12% from his fiscal year 2017 compensation. The Committee determined that this result was appropriate in light of Legg Mason's financial performance and a comparison of Mr. Nachtwey's compensation to that of comparable executives at publicly traded competitor companies, as well as Mr. Nachtwey's excellent personal performance during the fiscal year. Mr. Nachtwey's personal performance in the fiscal year included the following achievements: structured and negotiated total return swap arrangements with nine banks to fund ETF product development; successfully managed investor relations and relationships with rating agencies; led an updated capital review process for the Board and its Finance Committee.

## **Thomas K. Hoops** Head of Business Development

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Mr. Hoops' total direct compensation for fiscal year 2018 included (i) a \$2,650,000 incentive award (\$663,000 of which was paid in the form of performance share units, as described above, that vest based on three year relative total stockholder return and relative organic growth rate of long-term AUM) and (ii) a \$350,000 salary. Mr. Hoops' incentive award constitutes 4% of the total pool under the Executive Incentive Compensation Plan, below the 15% maximum percentage allocated early in the fiscal year. Mr. Hoops' fiscal year 2018 compensation (salary plus incentive award) is up 12% from his fiscal year 2017 compensation. The Committee determined that this result was appropriate in light of Legg Mason's financial performance as well as Mr. Hoops' excellent personal performance during the fiscal year. The Committee noted that Mr. Hoops' role has no directly comparable position at peer companies. Mr. Hoops' personal performance in fiscal year 2018 included the following achievements: managed multiple product initiatives across investment affiliates and restructured product team to align with Legg Mason strategic priorities; completed a bolt on acquisition for Clarion partners and a strategic fintech investment for our Alternative Distribution Strategies unit.

## **Terence Johnson** Head of Global Distribution

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Mr. Johnson's total direct compensation for fiscal year 2018 consisted of a \$273,694 salary. Mr. Johnson was on an extended personal leave in fiscal year 2018. As a result, his salary was reduced from the amount determined by the Compensation Committee at the beginning of the fiscal year, and he was not eligible for an incentive award for the fiscal year.

Mr. Johnson's salary is paid in GBP. Using an average conversion rate of 1.327 for fiscal year 2018, Mr. Johnson received U.S. \$273,694 in base salary. Mr. Johnson's base salary was set at \$350,000 and converted to GBP on the date he became an executive officer in 2013. The converted amount of £225,000 is paid to Mr. Johnson in GBP. The amounts we report in our proxy statements in USD may fluctuate from time to time as a result of fluctuations in currency conversion rates, but the amount paid to Mr. Johnson in GBP does not change unless a new salary amount is approved by the Committee for Mr. Johnson.

## Thomas C. Merchant    General Counsel

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Mr. Merchant's total direct compensation for fiscal year 2018 included (i) a \$1,835,000 incentive award (\$458,750 of which was paid in the form of performance share units, as described above, that vest based on three year relative total stockholder return and relative organic growth rate of long-term AUM) and (ii) a \$350,000 salary. Mr. Merchant's incentive award constitutes 3% of the total pool under the Executive Incentive Compensation Plan, below the 5% maximum percentage allocated early in the fiscal year. Mr. Merchant's fiscal year 2018 compensation (salary plus incentive award) represents an 18% increase from his fiscal year 2017 compensation, which had been below median. The Committee determined that this increase was appropriate in light of Legg Mason's financial performance and a comparison of Mr. Merchant's compensation to that of comparable executives at competitor companies, as well as Mr. Merchant's excellent personal performance during the fiscal year. Mr. Merchant's personal performance in fiscal year 2018 included the following achievements: led the successful planning for and implementation of significant regulatory changes including MiFID II and global data privacy regulations; oversaw successful legal and compliance support to all businesses, including the launch of new products and vehicles; led adoption of technology and operational improvements in Legal and Compliance.

## Compensation Governance, Process and Incentive Decisions

### Role of Compensation Committee and Non-Employee Directors

The Committee is responsible for overseeing and implementing our named executive officer compensation programs. The Committee's role includes:

- Determining the corporate goals and objectives relevant to the compensation of our CEO, including incentive compensation, and evaluating the CEO's performance relative to those goals,
- Determining the compensation of our CEO, including incentive compensation,
- Establishing and approving compensation plans for named executive officers based on the recommendations of the CEO and the Committee's compensation consultant,
- Annually reviewing and, where appropriate, adjusting the base salaries of our named executive officers,
- Approving the incentive compensation of named executive officers and awards under our incentive plans and programs, and
- Overseeing the risks arising from our executive officer compensation policies and practices.

Our independent directors must approve the Committee's determinations in order to set CEO compensation.

In implementing its role in the compensation program, the Committee uses information from a number of sources. The information utilized by the Committee includes advice from its compensation consultant, data regarding the compensation practices of asset management competitors that is discussed in more detail above and tally sheets showing prior compensation awards to, and outstanding equity holdings of, named executive officers.

### Role of Management

Our management, under the leadership of our CEO, plays an important role in establishing and maintaining our named executive officer compensation programs. Management's role includes recommending plans and programs to the Committee, implementing the Committee's decisions regarding the plans and programs and assisting and administering plans in support of the Committee. Our CEO also provides information on the individual performance of the other named executive officers and makes annual recommendations to the Committee on compensation levels for all other named executive officers. Our CEO also has delegated authority from the Committee to issue certain equity awards under the Legg Mason, Inc. 2017 Equity Incentive Plan, as amended, subject to terms and limitations established by the Committee, as permitted under that plan.



## **Role of Committee's Compensation Consultant**

The Committee's charter gives it the authority to retain and approve fees and other terms of engagement for compensation consultants and other advisors to assist it in performing its duties. For fiscal year 2018, the Committee retained Semler Brossy as its independent compensation consultant. Semler Brossy reports directly to the Committee, and the Committee annually reviews the performance of Semler Brossy.

The Committee considered the independence of Semler Brossy in light of SEC rules and NYSE Listing Standards and determined that Semler Brossy is independent under those rules and standards. The Committee also assessed any potential conflicts of interest arising out of the consultant's work on behalf of the Committee. The Committee discussed all relevant factors, including those cited in SEC rules, and concluded that the work of the consultant did not raise any conflict of interest.

The Committee has instructed Semler Brossy to provide advice and guidance on compensation proposals, including proposed compensation amounts, the design of incentive plans, the setting of performance goals and the design of other forms of compensation and benefits programs, as well as relevant information about market practices and trends. Typically, Semler Brossy attends Committee meetings, reviews existing compensation programs to ensure consistency with our compensation philosophy and current market practices and reviews the comparative information derived from the peer group and published survey data that the Committee uses when setting compensation.

## **Other Compensation Policies and Practices**

### **Tax Deductibility of Annual Compensation**

Section 162(m) of the Internal Revenue Code limits tax deductions for certain annual compensation in excess of \$1,000,000 paid to certain individuals named in the summary compensation tables of public company proxy statements. Our Executive Incentive Compensation Plan is designed to qualify for a performance-based exception to this rule that is in effect through the end of fiscal 2018 for Legg Mason, and to permit the full deductibility of compensation awarded under the plan, including equity awards.

It has been the Committee's practice to pursue compensation programs that are designed to be fully deductible, while retaining the discretion to grant incentive awards to named executive officers that are not fully deductible under Section 162(m) in order to balance the effectiveness of executive compensation plans with the materiality of reduced tax deductions. In making these decisions, the Committee is aware of the effect of accumulated tax losses and the amortization of goodwill for tax purposes on Legg Mason's U.S. federal tax payment obligations. As described above under the caption "The Compensation Committee's Timeline," the Committee acted to determine executive compensation at the end of fiscal year 2018 in order to preserve deductibility of performance based compensation for fiscal year 2018.

With the changes implemented under the 2017 Tax Act, effective for Legg Mason as of April 1, 2018, any compensation (including performance-based compensation) in excess of \$1 million that is paid for fiscal year 2019 to a covered employee will be non-deductible. However, compensation provided pursuant to a written binding contract in effect as of November 2, 2017, which is not thereafter modified in any material respect, can be grandfathered under the 2017 Tax Act and continue to be deductible (assuming compliance with other relevant requirements of Code Section 162(m) as in effect prior to the effective date of the 2017 Tax Act). The Committee will consider guidance as and when it becomes available regarding the continued deductibility of compensation awarded under arrangements prior to November 2, 2017 but paid after April 1, 2018. None of the determinations that the Compensation Committee made in fiscal year 2018 upon considering the 2017 Tax Act and the Executive Incentive Compensation Plan were intended to modify or otherwise affect in any material respect any remuneration provided pursuant to a written binding contract in effect as of November 2, 2017. In light of the modifications to Section 162(m) under the 2017 Tax Act, while we may not formally terminate the Executive Incentive Compensation Plan, we do not expect that any of our executive officers will participate in that plan in fiscal 2019 or thereafter.



## Equity Grant Practices

We do not have any program, plan or practice to time equity awards to our employees in coordination with the release of material non-public information. We do not grant equity awards based on our stock price. If we are in possession of material non-public information, either favorable or unfavorable, when equity awards are made, the Committee will not take the information into consideration in determining award amounts. The Committee customarily authorizes annual equity awards to named executive officers at its regularly-scheduled meeting in April (although, as described above, awards were authorized at the end of fiscal year 2018 in order to maximize deductibility of executive compensation before changes in tax laws become effective for Legg Mason as of April 1, 2018). Our practice is to determine the exercise price or fair market value for annual named executive officer equity awards on the day that incentive awards are paid in May.

## Compensation Clawback Policy

If the Committee determines that it is appropriate, Legg Mason may recover from a named executive officer the amount of previously paid incentive compensation (including both cash bonuses and equity awards) that the Board of Directors determines to be appropriate in two circumstances:

- If a participant's acts or omissions are a significant contributing factor to a requirement that Legg Mason restate its reported financial results due to a material error, or
- If the participant's employment is terminated for "cause" such as instances of gross negligence, willful misconduct or willful malfeasance that materially adversely impact the company's reputation or business; willful violations of law that materially adversely affect the company's reputation or business or the ability of the officer to be associated with an investment adviser; or theft, embezzlement or fraud.

This clawback provision is intended to mitigate risk and provide enhanced safeguards against certain types of employee misconduct, and allows for recovery of significant compensation paid to an employee who engages in such misconduct.

## Stock Ownership Guidelines

Our Board of Directors has adopted stock ownership guidelines for directors and executive officers as shown in the table below. Directors and executive officers are permitted a five year grace period to reach the applicable ownership level established under the guidelines. Our equity award retention policy requires that executives retain 50% of the net after-tax shares received from all equity awards until they have reached the ownership level in the ownership guidelines. From time to time, our executive officers may implement a 10b5-1 plan for individual financial planning purposes.

Executive officers are expected to own shares of common stock, including restricted stock, restricted stock units and shares of phantom stock as shown below. As of June 1, 2018, all executive officers were in compliance with the guidelines.

Title	Guideline Shares
Directors	Required to own shares with value at least equal to 5x annual cash retainer
Chief Executive Officer	Required to own shares with value at least equal to 8x base salary
Senior Executive Vice Presidents	Required to own shares with value at least equal to 5x base salary
Other Executive Officers	Required to own shares with value at least equal to 2x base salary

## Hedging and Pledging Policies

Our Board of Directors has adopted a policy regarding acquisitions and dispositions of Legg Mason securities that, among other things and subject to certain exceptions, prohibits directors or executive officers from trading in listed and over the counter options and derivatives that relate specifically to securities issued by Legg Mason. Over time, our Board has strengthened our policies relating to hedging and pledging involving Legg Mason securities, to prohibit executive officers and directors, and their related accounts, from pledging Legg Mason securities or engaging in any transactions that effectively hedge the value of Legg Mason securities.

## Compensation Committee Report

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on that review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in our Annual Report on Form 10-K for the year ended March 31, 2018.

### COMPENSATION COMMITTEE

John V. Murphy, Chair  
Alison A. Quirk\*  
W. Allen Reed\*  
Margaret Milner Richardson\*  
Kurt L. Schmoke

- \* Mr. Reed and Ms. Richardson joined the Compensation Committee on July 25, 2017. Ms. Quirk joined the Compensation Committee on January 30, 2018.

## Summary Compensation Table

The following table summarizes the total compensation during the fiscal year ended March 31, 2018 of our Chief Executive Officer, our Chief Financial Officer and each of our three other most highly compensated executive officers during the fiscal year. The information in this table differs from the information in the table above under “Compensation Discussion and Analysis—Determination of Fiscal Year 2018 Total Direct Compensation” primarily in that this table, as required by SEC rules, includes in fiscal year 2018 the value of equity awards made in May 2017 (during fiscal year 2018) that are actually part of fiscal year 2017 incentive compensation, rather than the value of equity awards made in May 2018 (during fiscal year 2019) that are actually part of fiscal year 2018 incentive compensation.

Name and Principal Position	Fiscal Year	Salary (\$)	Cash Bonus (\$) <sup>(1)(2)</sup>	Stock Awards (\$) <sup>(3)</sup>	Option Awards (\$) <sup>(4)</sup>	All Other Compensation (\$) <sup>(5)</sup>	Total (\$)
<b>Joseph A. Sullivan</b> <sup>(6)</sup> Chief Executive Officer	2018	\$500,000	\$4,000,000	\$3,320,000	\$1,660,000	\$194,250	\$ 9,674,250
	2017	500,000	3,320,000	3,320,000	1,660,000	131,417	8,931,417
	2016	500,000	3,320,000	4,200,000	2,100,000	95,455	10,215,455
<b>Peter H. Nachtwey</b> Chief Financial Officer	2018	350,000	1,625,000	953,000	476,000	61,186	3,465,186
	2017	350,000	1,429,000	953,000	476,000	49,749	3,257,749
	2016	350,000	1,429,000	1,058,000	529,000	45,743	3,411,743
<b>Thomas K. Hoops</b> <sup>(6)</sup> Executive Vice President	2018	350,000	1,325,000	780,000	390,000	44,618	2,889,618
	2017	350,000	1,170,000	780,000	390,000	52,134	2,742,134
	2016	350,000	1,170,000	867,000	433,000	60,738	2,880,738
<b>Terence Johnson</b> <sup>(7)</sup> Executive Vice President	2018	273,694	—	1,111,120	555,560	91,036	2,031,410
	2017	294,075	1,667,972	1,235,820	617,910	90,461	3,906,238
	2016	339,300	1,855,167	1,507,612	753,806	96,957	4,552,842
<b>Thomas C. Merchant</b> <sup>(6)</sup> General Counsel	2018	350,000	917,500	500,000	250,000	36,527	2,054,027
	2017	350,000	750,000	447,000	223,000	29,890	1,799,890
	2016	350,000	671,000	483,500	241,500	28,528	1,774,528

- (1) Represents awards under the Executive Incentive Compensation Plan in fiscal years 2016, 2017 and 2018. See “Compensation Discussion and Analysis—Determination of Fiscal Year 2018 Total Direct Compensation” for discussion regarding the fiscal year 2018 incentive awards.
- (2) Does not include \$6,000,000, \$1,625,000, \$1,325,000, and \$917,500 awarded as incentive compensation for fiscal year 2018 and paid in the form of equity awards (restricted stock units and performance share units) to Messrs. Sullivan, Nachtwey, Hoops and Merchant, respectively, on May 15, 2018.
- (3) Represents the aggregate fair value of restricted stock unit awards and performance share unit awards made during each fiscal year, as calculated in accordance with accounting guidance applicable for the type of award. For restricted stock unit awards, Legg Mason’s stock price is calculated as the average of the high and low trading prices of our common stock on the NYSE on the grant date. Performance share unit awards are valued for purposes of this table using a Monte-Carlo simulation pricing model. The amount reported for performance share units in the table represents the grant date fair value as calculated in accordance with accounting guidance. The potential value of the May 15, 2017 performance share unit awards to be distributed to Messrs. Sullivan, Nachtwey, Hoops, Johnson and Merchant is \$2,490,000, \$714,000, \$585,000, \$833,340, and \$375,000, respectively, if the maximum amount is earned. The potential value of the May 13, 2016 performance share unit awards to be distributed to Messrs. Sullivan, Nachtwey, Hoops, Johnson and Merchant is \$2,490,000, \$714,000, \$585,000, \$926,865 and \$334,500, respectively, if the maximum amount is earned. The May 15, 2015 performance share unit awards did not vest at March 31, 2018, and had no value. No assurance can be given of the number of shares, if any, that will be earned and distributed at the end of a performance period for any performance share units. See “Compensation Discussion and Analysis—Performance Share Unit Awards.” See the “Stock-Based Compensation” footnote to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year in which the award was made for a discussion of the assumptions used in estimating the value of each award. Amounts reported may not represent the amounts that the named executive officers will actually realize from the awards. Whether, and to what extent, a named executive officer realizes value will depend on Legg Mason’s actual operating performance, stock price fluctuations and the named executive officer’s continued employment.

- (4) Represents the aggregate grant date fair value, as calculated in accordance with accounting guidance, of stock options granted during each fiscal year. Stock option awards are valued for purposes of this table using the Black-Scholes option pricing model. See the “Stock-Based Compensation” footnote to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year in which the award was made for a discussion of the assumptions used in estimating the value of each award. Amounts reported may not represent the amounts that the named executive officers will actually realize from the awards. Whether, and to what extent, a named executive officer realizes value will depend on Legg Mason’s actual operating performance, stock price fluctuations and the named executive officer’s continued employment.
- (5) Includes for all named executive officers, Basic Life and Accidental Death and Dismemberment insurance premiums paid by Legg Mason. Includes for all named executive officers, dividends paid on unvested restricted stock units and, for executives who elected to defer receipt of shares after vesting, dividends paid on vested deferred restricted stock units, with \$174,347, \$45,392, \$28,824, \$43,140 and \$20,590 paid for Messrs. Sullivan, Nachtwey, Hoops, Johnson and Merchant, respectively. Includes contributions made by Legg Mason pursuant to our Profit Sharing and 401(k) Plan and Trust, with \$16,000, \$15,344, \$15,344, \$15,409 contributed for Messrs. Sullivan, Nachtwey, Hoops and Merchant, respectively. Includes discount amounts credited under our Deferred Compensation/Phantom Stock Plan for Messrs. Sullivan and Merchant, and matching contributions under the Employee Stock Purchase Plan for Mr. Sullivan.
- Includes for Mr. Johnson, contributions made by Legg Mason in the amount of \$27,349 to a pension scheme registered in the UK and premiums paid by Legg Mason in the amount of \$19,935 for a health insurance program that constitutes a perquisite. Amounts are paid in GBP and converted into U.S. dollars using the average conversion rate of 1.327 for fiscal year 2018.
- (6) Includes cash compensation voluntarily deferred under the Deferred Compensation Fund Plan as follows: Messrs. Sullivan and Hoops deferred \$400,000 and \$292,500, respectively, from their May 15, 2017 bonus and Mr. Merchant deferred a total of \$110,000 from his salary and May 15, 2017 bonus.
- (7) Mr. Johnson’s salary of U.S. \$350,000, as determined based on the GBP exchange rate in effect on the day he became an executive officer in 2013, is paid in GBP. Mr. Johnson was on an extended personal leave in fiscal year 2018. As a result, his salary was reduced from the amount determined by the Compensation Committee at the beginning of the fiscal year and he did not receive an incentive award for fiscal year 2018. Using an average conversion rate of 1.327 for fiscal year 2018, Mr. Johnson received U.S. \$273,694 in base salary. Includes \$13,685 in cash compensation with respect to which Mr. Johnson elected to defer receipt under a pension scheme registered in the UK.

## Grants of Plan-Based Awards

The following table provides information concerning each plan-based award granted during the fiscal year ended March 31, 2018 to our named executive officers.

Name	Grant Date <sup>(1)</sup>	Committee Action Date	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#) <sup>(2)</sup>	Estimated Future Payouts Under Equity Incentive Plan Awards Target (#) <sup>(2)</sup>	Estimated Future Payouts Under Equity Incentive Plan Awards Maximum (#) <sup>(2)</sup>	All Other Stock Awards: Number of Shares of Stock or Units (#) <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options (#) <sup>(4)</sup>	Exercise or Base Price of Option Awards (\$/Sh) <sup>(5)</sup>	Grant Date Close Price	Grant Date Fair Value of Stock and Option Awards <sup>(6)</sup>
Joseph A. Sullivan	05/15/2017	04/24/2017					199,280	37.64	37.79	1,660,000 <sup>(7)</sup>
	05/15/2017	04/24/2017				44,102		–	37.79	1,660,000 <sup>(8)</sup>
	05/15/2017	04/24/2017	13,208	52,833	79,249			–	37.79	1,660,000 <sup>(9)</sup>
Peter H. Nachtwey	05/15/2017	04/24/2017					57,143	37.64	37.79	476,000 <sup>(7)</sup>
	05/15/2017	04/24/2017				12,673		–	37.79	477,000 <sup>(8)</sup>
	05/15/2017	04/24/2017	3,787	15,150	22,724			–	37.79	476,000 <sup>(9)</sup>
Thomas K. Hoops	05/15/2017	04/24/2017					46,819	37.64	37.79	390,000 <sup>(7)</sup>
	05/15/2017	04/24/2017				10,361		–	37.79	390,000 <sup>(8)</sup>
	05/15/2017	04/24/2017	3,103	12,412	18,619			–	37.79	390,000 <sup>(9)</sup>
Terence Johnson	05/15/2017	04/24/2017					66,678	37.64	37.79	555,560 <sup>(7)</sup>
	05/15/2017	04/24/2017				14,756		–	37.79	555,560 <sup>(8)</sup>
	05/15/2017	04/24/2017	4,420	17,678	26,517			–	37.79	555,560 <sup>(9)</sup>
Thomas C. Merchant	05/15/2017	04/24/2017					30,012	37.64	37.79	250,000 <sup>(7)</sup>
	05/15/2017	04/24/2017				6,642		–	37.79	250,000 <sup>(8)</sup>
	05/15/2017	04/24/2017	1,989	7,957	11,935			–	37.79	250,000 <sup>(9)</sup>

- <sup>(1)</sup> Awards granted on May 15, 2017 reflect performance for fiscal year 2017. For a discussion of awards for performance in fiscal year 2018, see “Compensation Discussion and Analysis” above.
- <sup>(2)</sup> Performance share units were awarded on May 15, 2017 pursuant to our 1996 Equity Incentive Plan. Performance share units may be earned and vested at the end of a three year performance period based on Legg Mason’s relative total stockholder return ranked against a peer group which, as of March 31, 2018, includes 14 other firms. The potential payout ranges from 0 - 150%. The three year period began on April 1, 2017 and will end on March 31, 2020.
- <sup>(3)</sup> Restricted stock units were awarded on May 15, 2017 pursuant to our 1996 Equity Incentive Plan. The restricted stock units vest in 25% increments over four years on April 30, 2018, April 30, 2019, April 30, 2020 and April 30, 2021. Dividends are paid on shares of restricted stock units at the same time, and in the same amounts, as dividends are paid on other outstanding shares of our common stock. Executive officers were permitted to elect to defer receipt of shares after vesting. Mr. Sullivan made a deferral election with respect to the May 2017 award. Any deferral had to have been made in five year increments from the applicable vesting date (and only one designated deferral date could be elected for any award of restricted stock units). A designated deferral date will cease to be effective and any deferred restricted stock units will be distributed as permitted under applicable tax law upon (i) a separation from service, including a separation from service due to death or disability, or (ii) a change of control as defined in the award agreement for the restricted stock units. See “Potential Payments on Termination or a Change of Control,” below.
- <sup>(4)</sup> Stock options were awarded on May 15, 2017 pursuant to our 1996 Equity Incentive Plan. The options vest and become exercisable in 25% increments over four years on May 31, 2018, May 31, 2019, May 31, 2020 and May 31, 2021, and expire on May 15, 2025.
- <sup>(5)</sup> The exercise price equals the average of the high and low trading prices of our common stock on the NYSE on the grant date.
- <sup>(6)</sup> The grant date fair value is the total amount that we will recognize as an expense over the award’s vesting period under applicable accounting requirements.
- <sup>(7)</sup> The stock option grant date fair value was calculated using the Black-Scholes option pricing model value on the grant date. The following assumptions were made for purposes of the May 15, 2017 calculation:

Expected Term	5.09 years
Dividend Yield	1.70%
Stock Price Volatility	26.79%
Risk Free Interest Rate	1.89%

The actual value realized, if any, on stock option exercises will be dependent on overall market conditions, our future performance and the future prices of our common stock. There can be no assurances that the actual value realized will approximate the amount calculated under the valuation model.

- (8) The restricted stock units grant date fair value was calculated by multiplying the number of restricted stock units granted by the average of the high and low trading prices of our common stock on the NYSE on the grant date.
- (9) The performance share units grant date fair value was calculated using a Monte-Carlo simulation option pricing model value on the grant date. The following assumptions were made for purposes of the May 15, 2017 calculation:

Dividend Yield	2.96%
Stock Price Volatility	27.73%
Risk Free Interest Rate	1.47%

The actual value realized, if any, will be dependent on overall market conditions, our future performance and the future prices of our common stock. There can be no assurances that the actual value realized will approximate the amount calculated under the valuation model.

## Employment-Related Agreements

### Terence Johnson

Legg Mason & Co (UK) Limited entered into a Director's Service Agreement dated April 1, 2013 with Mr. Johnson, providing for the terms of his employment as Head of Global Distribution. Mr. Johnson is entitled to an annual salary of £225,000 under the agreement, subject to increase in the discretion of the Compensation Committee. Mr. Johnson also may receive (but is not entitled to) a bonus in the discretion of the Committee. Mr. Johnson is entitled to insurance coverage to indemnify him for his duties, and also is eligible to participate in the pension arrangements established by Legg Mason & Co (UK) Limited. Mr. Johnson will receive life and health insurance coverage, at the discretion of his employer. His employment may be terminated any time for any reason after notice required by UK law. In addition, his employment may be terminated immediately for cause as described in the agreement. Mr. Johnson is subject to certain confidentiality covenants as well as restrictions on activities and investments related to other businesses. He is subject to post-termination restrictions on employment and solicitation of employees, clients and certain business partners as well.

## Outstanding Equity Awards at March 31, 2018

The following table provides information as of March 31, 2018 about the outstanding equity awards held by our named executive officers.

Name	Grant Date	Option Awards <sup>(1)(2)</sup>				Stock Awards			
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(3)</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(3)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(4)</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(4)</sup>
Joseph A. Sullivan	05/17/2010	34,626	–	33.25	05/18/2018				
	05/16/2011	27,418	–	33.99	05/17/2019				
	05/16/2012	34,847	–	23.72	05/17/2020				
	05/02/2013 <sup>(5)</sup>	500,000	–	31.46	05/02/2023				
	05/16/2013	44,518	–	35.16	05/16/2021				
	05/16/2014	112,219	37,407	47.64	05/16/2022				
	05/15/2015	93,499	93,500	54.51	05/15/2023				
	05/13/2016	52,933	158,802	31.24	05/13/2024				
	05/15/2017	–	199,280	37.64	05/15/2025				
	05/13/2016							128,616	5,228,240
	05/15/2017							13,208	536,905
	05/16/2014					9,446	383,980		
	05/15/2015					19,263	783,041		
	05/13/2016					39,853	1,620,024		
	05/15/2017					44,102	1,792,746		
Peter H. Nachtwey	02/01/2011	18,968	–	33.64	02/01/2019				
	05/16/2011	9,520	–	33.99	05/17/2019				
	05/16/2012	24,287	–	23.72	05/17/2020				
	05/16/2013	23,743	–	35.16	05/16/2021				
	05/16/2014	30,029	10,010	47.64	05/16/2022				
	05/15/2015	23,553	23,553	54.51	05/15/2023				
	05/13/2016	15,178	45,536	31.24	05/13/2024				
	05/15/2017	–	57,143	37.64	05/15/2025				
	05/13/2016							36,881	1,499,213
	05/15/2017							3,787	153,942
	05/16/2014					2,528	102,763		
	05/15/2015					4,853	197,274		
	05/13/2016					11,452	465,524		
	05/15/2017					12,673	515,157		
Thomas K. Hoops	05/16/2014	4,156	1,386	47.64	05/16/2022				
	05/15/2015	19,278	19,279	54.51	05/15/2023				
	05/13/2016	12,436	37,309	31.24	05/13/2024				
	05/15/2017	–	46,819	37.64	05/15/2025				
	05/13/2016							30,218	1,228,362
	05/15/2017							3,103	126,137
	05/16/2014					350	14,228		
	05/15/2015					3,981	161,828		
	05/13/2016					9,363	380,606		
	05/15/2017					10,361	421,175		



Name	Grant Date	Option Awards <sup>(1)(2)</sup>				Stock Awards			
		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(3)</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(3)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(4)</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(4)</sup>
Terence Johnson	05/17/2010	5,781	—	33.25	05/18/2018				
	05/16/2011	19,040	—	33.99	05/17/2019				
	05/16/2012	27,455	—	23.72	05/17/2020				
	05/16/2013	31,419	—	35.16	05/16/2021				
	05/16/2014	42,310	14,104	47.64	05/16/2022				
	05/15/2015	33,572	33,572	54.51	05/15/2023				
	05/13/2016	19,704	59,113	31.24	05/13/2024				
	05/15/2017	—	66,678	37.64	05/15/2025				
	05/13/2016							47,877	1,946,200
	05/15/2017							4,420	179,673
	05/16/2014					3,562	144,795		
	05/15/2015					6,917	281,176		
	05/13/2016					14,835	603,043		
	05/15/2017					14,756	599,831		
Thomas C. Merchant	05/17/2010	2,801	—	33.25	05/18/2018				
	05/16/2011	5,712	—	33.99	05/17/2019				
	05/16/2012	7,392	—	23.72	05/17/2020				
	05/16/2013	5,771	—	35.16	05/16/2021				
	05/16/2014	12,988	4,330	47.64	05/16/2022				
	05/15/2015	10,752	10,753	54.51	05/15/2023				
	05/13/2016	7,111	21,333	31.24	05/13/2024				
	05/15/2017	—	30,012	37.64	05/15/2025				
	05/13/2016							17,279	702,391
	05/15/2017							1,989	80,853
	05/16/2014					1,094	44,471		
	05/15/2015					2,220	90,243		
	05/13/2016					5,378	218,616		
	05/15/2017					6,642	269,997		

(1) Option awards are made pursuant to our 1996 Equity Incentive Plan. The exercise price of each option is equal to the average of the high and low trading prices of our common stock on the NYSE on the grant date. Option holders may use previously owned shares to pay all or part of the exercise price.

(2) Options awarded prior to 2014 are fully vested. In all cases, the Committee may accelerate the vesting of options. As of March 31, 2018, the vesting schedules for the other option awards were as follows:

Grant Date	Vesting Schedule	Remaining Vesting Dates
05/16/14	25% vests each year for four years from date of grant	05/31/18
05/15/15	25% vests each year for four years from date of grant	05/31/18, 05/31/19
05/13/16	25% vests each year for four years from date of grant	05/31/18, 05/31/19, 05/31/20
05/15/17	25% vests each year for four years from date of grant	05/31/18, 05/31/19, 05/31/20, 05/31/21

(3) Excludes number of shares and market value representing restricted stock units that would have settled if they had not been deferred. As of March 31, 2018, the vesting schedules for the restricted stock unit awards were as follows:

Grant Date	Vesting Schedule	Remaining Vesting Dates
05/16/14	25% vests each year for four years from date of grant	04/30/18
05/15/15	25% vests each year for four years from date of grant	04/30/18, 04/30/19
05/13/16	25% vests each year for four years from date of grant	04/30/18, 04/30/19, 04/30/20
05/15/17	25% vests each year for four years from date of grant	04/30/18, 04/30/19, 04/30/20, 04/30/21

- (4) Performance share units may be earned and vested at the end of the three year performance period based on Legg Mason's relative total stockholder return ranked against a peer group which, as of March 31, 2018, included 14 other firms. The potential payout ranges from 0 - 150%. For the May 15, 2015 award, the three year period began April 1, 2015 and ended on March 31, 2018. The payout for this award was zero as a result of the TSR ranking at March 31, 2018. For the May 15, 2016 award, the three year period began on April 1, 2016 and will end on March 31, 2019. The amount reflected in the table for the May 15, 2016 award is based on maximum level of performance as a result of the TSR ranking at March 31, 2018 which yielded a valuation of 44%. For the May 15, 2017 award, the three year period began April 1, 2017 and will end on March 31, 2020. The amount reported in the table for the May 15, 2017 award is based on threshold level of performance, as a result of the TSR ranking at March 31, 2018, which yielded a valuation of 0%.
- (5) Options awarded on May 2, 2013 represent an award of performance stock options to Mr. Sullivan upon his promotion as Chief Executive Officer, exercisable only if certain time based and stock price conditions were met. As of March 31, 2018, all conditions had been satisfied: 25% of the award vested on May 2, 2015, and an additional 25% of the award vested on each of May 2, 2015, January 15, 2014 and June 5, 2014, upon achievement of specified stock price targets of \$36.46, \$41.46 and \$46.46, respectively, for twenty consecutive days as of those dates.

## Option Exercises and Stock Vested Table

The following table provides information about exercises of stock options and vesting of restricted stock units during fiscal year 2018 for our named executive officers.

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) <sup>(1)</sup>
Joseph A. Sullivan	41,320 <sup>(2)</sup>	\$1,569,334
Peter H. Nachtwey	13,550 <sup>(2)</sup>	514,629
Thomas K. Hoops	25,480	967,730
Terence Johnson	17,782	675,360
Thomas C. Merchant	5,222 <sup>(2)</sup>	198,332

- (1) The value realized upon vesting of restricted stock units is calculated by multiplying the fair market value of a share of common stock on the vesting date (the average of the high and low trading prices of Legg Mason common stock on the vesting date) by the number of shares vested. Mr. Johnson sold 8,777 shares for related tax withholding and retained the balance of shares acquired on vesting. Messrs. Sullivan, Nachtwey and Merchant had 4,413, 3,327 and 941 shares, respectively, withheld to cover related tax withholding on vested and deferred shares. Mr. Hoops had 8,585 shares withheld to cover related tax withholding on vested shares. U.S. based executive officers who elected to defer receipt of shares upon vesting of restricted stock units paid only Medicare and Social Security taxes on the deferred shares upon vesting.
- (2) Effective for the April 30, 2017 vest date, Messrs. Sullivan, Nachtwey and Merchant have elected to defer the distribution of shares in the respective amounts set forth below (before giving effect to shares withheld for payment of taxes). In accordance with their respective deferral elections, the shares will be distributed five years after the vest date (subject to any further deferral elections that an executive officer may make).

Name	Grant Date	Vested Deferred Shares
Joseph A. Sullivan	05/16/2014	9,446
	05/15/2015	9,631
	05/13/2016	13,284
Peter H. Nachtwey	05/16/2014	2,528
	05/15/2015	2,426
Thomas C. Merchant	05/15/2015	1,110
	05/13/2016	1,792

## Non-Qualified Deferred Compensation

The Legg Mason & Co., LLC Deferred Compensation/Phantom Stock Plan is a non-qualified deferred compensation plan that was available only to a select group of employees, including U.S.-based named executive officers, based on responsibilities and compensation levels. As of December 31, 2014, deferrals were no longer accepted in the Phantom Stock Plan, but dividends continue to be credited as described below. Under the terms of the plan, participants were able to defer up to \$60,000 in annual compensation on a pre-tax basis. Amounts deferred under the plan are deemed invested in “phantom” shares of our common stock at a price equal to 90% of the market price on the deemed investment date. Dividends paid on our common stock are credited to phantom stock at a price equal to 95% of the market price on the dividend payment date. Earnings are accrued as they would be if investing in actual shares of Legg Mason common stock and include market appreciation and dividends. Amounts deferred under our Phantom Stock Plan, including contributions by Legg Mason, are fully vested at all times and are not subject to forfeiture. Amounts deferred under this plan are distributed to the participant, or his or her beneficiary, in shares of our common stock after the participant’s employment has terminated for any reason, either in lump sum distribution or three annual installments, at the participant’s election. In addition, Legg Mason may elect to distribute account balances to named executive officers in connection with a change of control if the plan and all substantially similar agreements are terminated with respect to the participants affected by the change of control. For purposes of our Phantom Stock Plan, a “change of control” will occur upon a change in (1) ownership of Legg Mason or Legg Mason & Co., LLC (“LM&Co.”), our administrative subsidiary, (2) effective control of Legg Mason or LM&Co., or (3) ownership of a substantial portion of the assets of Legg Mason or LM&Co.

The Legg Mason, Inc. Deferred Compensation Fund Plan is a non-qualified deferred compensation plan that is available only to a select group of employees, including U.S.-based named executive officers, based on responsibilities and compensation levels. Under the terms of the plan, participants may elect to defer up to \$400,000 in annual salary and certain bonuses and commissions on a pre-tax basis. Amounts deferred under the plan are deemed invested in “phantom” shares of Legg Mason sponsored mutual funds (“Legg Mason Funds”). Earnings are accrued as they would be if investing directly in the Legg Mason Funds and include market appreciation and dividends. Amounts deferred under our Deferred Compensation Fund Plan, including any earnings on those contributions, are fully vested at all times and are not subject to forfeiture. Participants must elect, at the time they decide to defer compensation, whether: (1) to take an in service distribution or distribution upon termination; (2) to receive their future distributions from the plan in (a) a single lump sum or (b) three equal annual installments (available only if the total account balance is greater than \$17,500); and (3) to have the distributions begin immediately after termination or one year from the date of termination. Participants will receive distributions in cash, except for in-service elections, which distributions may be made, in Legg Mason’s sole discretion, in shares of Legg Mason Funds or cash. In addition, Legg Mason will distribute account balances to participants in connection with a change of control if the plan and all substantially similar agreements are terminated with respect to the participants affected by the change of control. For purposes of our Deferred Compensation Fund Plan, a “change in control event” will occur upon a change in (1) ownership within the meaning of §1.409A-3(i)(5)(v) of regulations promulgated by the U.S. Department of the Treasury, (2) effective control within the meaning of §1.409A-3(i)(5)(vi) of the regulations, or (3) ownership of assets within the meaning of §1.409A-3(i)(5)(vii) of the regulations.

Executive officers also may elect to defer the receipt of shares upon vesting of restricted stock unit awards granted under Legg Mason’s 1996 Equity Incentive Plan and 2017 Equity Incentive Plan. To be effective, executive officers must make a deferral election by September 30 of each calendar year, with respect to restricted stock units that qualify as performance-based compensation under Section 409A of the Code, for Legg Mason’s fiscal year ending on the following March 31. A deferral election is irrevocable once made, except as may be described in an award agreement. In the event an executive officer makes a deferral election with respect to any portion of an award, the shares of common stock underlying the deferred restricted stock units will not be distributed to the recipient until the designated deferral date; provided, however, that, unless the award agreement provides otherwise, all deferrals will terminate and any shares underlying any vested, deferred restricted stock units will be distributed upon a separation from service or change in control of Legg Mason (as defined in the award agreement). Executive officers may also be able to make a subsequent election to further defer distribution of shares and that such an election will not take effect for 12 months and must be made at least one year before the originally selected deferral date selected by the executive officer. Additional deferral periods must be a multiple of five years. Dividends are paid in cash at the same rate paid to all shareholders.

The following table provides information about non-qualified deferred compensation plan transactions and balances during fiscal year 2018 by our named executive officers.

Name	Plan	Executive Contributions in Last FY <sup>(1)</sup>	Company Contributions in Last FY <sup>(2)</sup>	Aggregate Earnings in Last FY <sup>(3)</sup>	Aggregate Balance at Last FYE <sup>(4)</sup>
Joseph A. Sullivan	Phantom Stock Plan	\$ —	\$198	\$ 19,817	\$ 146,936
	Deferred Compensation Fund Plan	400,000	—	130,344	1,441,115
	Deferred Restricted Stock Units	1,185,508	—	274,834	2,393,066
Peter H. Nachtwey	Deferred Restricted Stock Units	182,228	—	59,683	493,085
Thomas K. Hoops	Deferred Compensation Fund Plan	292,500	—	77,374	1,034,224
Terence Johnson		—	—	—	—
Thomas C. Merchant	Phantom Stock Plan	—	78	7,825	58,021
	Deferred Compensation Fund Plan	110,000	—	36,706	423,490
	Deferred Restricted Stock Units	106,534	—	22,868	201,909

- (1) Executive officer contributions include amounts deferred under the Deferred Compensation Fund Plan and the value of shares deferred upon vesting of restricted stock units during fiscal year 2018. The Deferred Compensation Fund Plan amounts are included in the Summary Compensation Table as salary and/or bonus. The deferred restricted stock units are included in the Summary Compensation Table as stock awards in the year that they were granted. The shares deferred upon vesting of restricted stock units are valued upon vesting by multiplying the fair market value of a share of common stock on the vesting date (the average of the high and low trading prices of Legg Mason common stock on the vesting date) by the number of shares deferred. The number of shares deferred in fiscal year 2018 for Messrs. Sullivan, Nachtwey, and Merchant are 32,361, 4,954 and 2,902, respectively. These deferred shares are a portion of the vested shares reflected in the Option Exercises and Stock Vested Table. U.S. based executive officers who elected to defer receipt of shares had shares withheld to pay for Medicare and Social Security taxes due upon vesting. The number of shares withheld for these tax payments during fiscal year 2018 for Messrs. Sullivan, Nachtwey, and Merchant are 1,147, 156, and 97, respectively. The amounts shown in the table for deferred restricted stock units reflect the number of deferred shares minus the number of shares withheld for tax payment.
- (2) Legg Mason contributions are included in the All Other Compensation column of the Summary Compensation Table and consist of the contribution of the 5% discount to the market price of a share of common stock upon the crediting of dividends to phantom stock during the fiscal year.
- (3) Aggregate earnings are calculated by subtracting the value of the named executive officer's account balances at March 31, 2017 and the executive and Legg Mason contributions made during fiscal year 2018 from the value of the officer's account balances at March 31, 2018. Aggregate earnings for deferred restricted stock units include amounts paid in cash for dividends. Dividend amounts are reflected in the All Other Compensation column of the Summary Compensation Table.
- (4) The aggregate balance under the Phantom Stock Plan and the deferred restricted stock units is calculated by multiplying the phantom stock or deferred restricted stock unit account share balance by the closing price of Legg Mason's common stock on March 31, 2018. Phantom stock and deferred restricted stock unit distributions are made in shares of common stock on a one-for-one basis. The aggregate balance under the Deferred Compensation Fund Plan is calculated by multiplying the deferred fund share account balance by the closing net asset value of the applicable Legg Mason Funds on March 31, 2018. Distributions from the Deferred Compensation Fund Plan are made in either cash or shares of Legg Mason Funds.

## Potential Payments on Termination or a Change of Control or Retirement

We have not provided our named executive officers with employment agreements providing for severance payments, medical or insurance benefits or any other perquisites after their employment has ended or following a change of control of Legg Mason. Severance decisions are made on a case-by-case basis at the time a named executive officer's employment ends.

As described in the "Compensation Discussion and Analysis" in this Proxy Statement, our named executive officers typically receive long-term equity incentive awards in the form of stock options, restricted stock units and performance share units. In addition, our named executive officers may elect to participate in our Deferred Compensation Fund Plan and, until December 31, 2014, could elect to participate in our Phantom Stock Plan. Except as discussed below, our named executive officers will forfeit their unvested stock options, restricted stock units and performance share units if their employment with us ends.

## Stock Options

Unvested stock options and performance stock options held by our named executive officers automatically vest and become exercisable upon the termination of the named executive officer's employment as a result of his or her death or disability. Unvested options automatically vest and become exercisable if the named executive officer's employment terminates within one year of a change of control without cause or due to good reason. Options (except for our performance stock option award issued in May 2013) automatically vest if the named executive officer's employment is terminated without cause due to a reduction in workforce.

If a named executive officer's employment ends for any reason other than those described above before all of his or her stock options have vested, the unvested stock options are automatically forfeited except that upon termination of employment without cause and due to retirement, stock options issued on or after May 15, 2015 continue to vest based on the original vesting schedule. The Committee has the authority to accelerate the vesting of any stock options in its discretion at any time. A named executive officer, or his or her beneficiaries, must exercise all vested options (1) within one year of the date on which his or her employment terminates as a result of death or disability or (2) within three months of the date on which his or her employment terminates for any other reason, except that upon termination of employment without cause and due to retirement, stock options issued on or after May 15, 2015 will expire three months after the last vest date of the award. In the event of death during the period when a retired executive officer's stock options continue to vest, the unvested options become vested and exercisable on the date Legg Mason becomes aware of the death. In order to retire for purposes of our stock options, a named executive officer must be at least 62 years old and may not represent, in any capacity other than as an independent director, any financial services company that the Committee deems a competitor of Legg Mason.

For purposes of our stock options, a "change of control" of Legg Mason will occur upon (1) any person acquiring, directly or indirectly, beneficial ownership of securities representing 50.1% or more of the combined voting power of our outstanding stock; (2) the closing of any merger, consolidation or other reorganization involving Legg Mason whereby the stockholders of Legg Mason immediately prior to such reorganization do not hold, directly or indirectly, more than 50% of the combined voting power of the outstanding stock of the successor entity immediately following such transaction; (3) the closing of any transaction involving a sale of assets of Legg Mason that have a total gross fair market value equal to or more than 40% (90% for awards issued after May 2010) of the total gross fair market value of all of Legg Mason's assets; (4) the adoption of any plan or proposal for the liquidation or dissolution of Legg Mason; or (5) within any 12-month period, individuals who, as of May 15 of the year in which the award is made, constitute the Board of Directors of Legg Mason or who are thereafter nominated as directors by a majority of the Board of Directors cease for any reason to constitute at least a majority of the Board.

For purposes of our stock options, "cause" means any of the following behavior by an option recipient (1) any conduct that competes with Legg Mason, breaches any obligation or duty of loyalty to Legg Mason or materially injures Legg Mason; (2) a material violation of any law, regulation or Legg Mason policy; (3) a court or regulatory order that prevents an option recipient from performing his or her duties or being associated with an investment advisor; (4) material malfeasance, disloyalty or dishonesty; (5) conviction of a felony; (6) any failure to devote sufficient professional time to his or her duties; (7) failure to satisfactorily perform duties, or gross misconduct or gross negligence in the performance of duties; or (8) failure to maintain any required licenses.

For purposes of our stock options, "good reason" means (1) a material adverse change in the responsibilities of the option recipient from those in effect prior to the change of control; (2) the recipient's principal place of employment is moved more than 50 miles from the location immediately prior to the change of control; (3) the recipient's base salary is significantly reduced; or (4) the recipient's incentive compensation for a fiscal year is materially reduced from his or her incentive compensation for the prior fiscal year, and such reduction is not related to a reduction in responsibilities or either individual or corporate performance.

## Restricted Stock Units

Unvested restricted stock units issued to a named executive officer will automatically vest and all vested but undistributed shares will be distributed upon (1) the named executive officer's death; (2) separation from service of the named executive officer due to disability; or (3) separation from service following a change of control of Legg Mason as discussed below. If a named executive officer's employment terminates due to the elimination of his or her employment in connection with a reduction in workforce and such termination of employment is without "cause", then, as of the date of such termination, his or her unvested award will be 100% vested and all vested but undistributed shares will be distributed; provided, however, that in the event that the named executive officer fails to sign a general release of claims provided by Legg Mason, or signs and revokes such release within the time permitted by law to revoke such release, then any shares of our common stock received in connection with the restricted stock units that became vested on such termination will be cancelled and must be returned to Legg Mason. Upon vesting, restricted stock units cease to be subject to forfeiture. Subject to the exceptions discussed herein, in the event a named executive officer has a separation from service for any reason before all of his or her restricted stock units have vested, the unvested restricted stock units will automatically be forfeited, however, vested but undistributed shares will be distributed. If a named executive officer retires from Legg Mason, his or her restricted stock units will continue to vest in accordance with the original vesting schedule as long as he or she continues to meet the definition of retirement. If a retired executive officer dies during the period that awards continue to vest, his or her awards become vested and exercisable on the date Legg Mason becomes aware of the death. In order to retire for purposes of our restricted stock unit grants, a named executive officer must be at least 62 years old and may not represent, in any capacity other than as an independent director, any financial services company that the Committee deems a competitor of Legg Mason.

Restricted stock units vest upon a "change of control" only if, within 12 months of the change of control, the named executive officer is terminated without cause or terminates his or her employment for good reason. See "Stock Options" above for the definitions of "cause" and "good reason" used for these awards. A "change of control" of Legg Mason will occur upon (1) any person acquiring, directly or indirectly, beneficial ownership of securities representing 50.1% or more of the combined voting power of our outstanding stock; (2) the closing of any merger, consolidation or other reorganization involving Legg Mason whereby the stockholders of Legg Mason immediately prior to such reorganization do not hold, directly or indirectly, more than 50% of the combined voting power of the outstanding stock of the successor entity immediately following such transaction; (3) the closing of any transaction involving a sale of assets of Legg Mason that have a total gross fair market value equal to or more than 90% of the total gross fair market value of all of Legg Mason's assets; (4) the adoption of any plan or proposal for the liquidation or dissolution of Legg Mason; or (5) within any 12-month period, individuals who, as of May 15 of the grant year, constitute the Board of Directors of Legg Mason or who are thereafter nominated as directors by a majority of the Board of Directors cease for any reason to constitute at least a majority of the Board. Notwithstanding anything to the contrary, to the extent that Section 409A of the Code, applies to an award of restricted stock units, the definition of "change in control" in the award agreement shall control for purposes of vesting an award, but shall not trigger a distribution unless the event also constitutes a change in control within the meaning of Section 409A(a)(2)(A)(v) of the Code.

## Performance Share Units

Performance share units are designed to vest at the end of a three year performance period, if at all, subject to the satisfaction of defined relative performance criteria. The Compensation Committee has the discretion to reduce a payout. A pro rata portion of performance share units issued to a named executive officer will automatically vest upon (1) the named executive officer's death; (2) termination of the named executive officer's employment due to disability; or (3) termination following a change of control of Legg Mason. See the definition of "change of control" above under the caption "Restricted Stock Units." A pro rata portion of performance share units issued to a named executive officer will vest upon a termination that is not for cause in connection with a reduction in workforce. In such case, the payout will be made at the end of the performance period, at the lesser of target or the amount determined based upon the satisfaction of the relative performance criteria at the end of the performance period. See the definition of "cause" above under the caption "Stock Options." Subject to the exceptions discussed herein, in the event a named executive officer's employment ends for any reason before the end of the performance period, the unvested performance share units will automatically be forfeited. If the named executive officer's employment ends before the end of the performance period by reason of retirement, then a pro rata portion of the performance share units issued prior to May 13, 2016 will vest and be earned as of the end of the performance period, as long as the named executive officer continues to meet the definition of retirement. For performance share units issued on or after May 13, 2016, the entire value of an earned award will vest and be paid at the end of the performance period, if a named executive officer's employment ends before the end of the performance period by reason of retirement and the named



executive officer continues to meet the definition of retirement. In order to retire for purposes of our performance share unit grants, a named executive officer must be at least 62 years old and may not represent, in any capacity other than as an independent director, any financial services company that the Committee deems a competitor of Legg Mason. If the named executive officer does not engage in competitive activity, the number of shares issuable in respect of the vested pro rata portion of the actual award (as determined based on satisfaction of the relative performance criteria) will be paid at the end of the performance period and any remaining performance share units will be forfeited.

## Estimated Post-Termination Payments Table

The following table sets forth information regarding potential payments to each of our named executive officers in the event of a termination of employment, upon death, disability or retirement or following a change of control of Legg Mason. For the purposes of this table, amounts are calculated as if the employment termination, death, disability or retirement or change of control occurred on March 31, 2018. Only one of our named executive officers was eligible to retire under the terms of any award as of March 31, 2018.

Name	Stock Options <sup>(1)</sup>	Restricted Stock Units <sup>(2)</sup>	Performance Share Units
<b>Joseph A. Sullivan<sup>(3)</sup></b>			
Upon Termination	\$2,094,160 <sup>(4)</sup>	\$4,579,791 <sup>(5)</sup>	\$1,022,411 <sup>(6)</sup>
Upon Death or Disability	2,094,160	4,579,791	3,039,549 <sup>(7)</sup>
Upon a Change of Control <sup>(8)</sup>	2,094,160	4,579,791	3,039,549 <sup>(7)</sup>
<b>Peter H. Nachtwey</b>			
Upon Retirement <sup>(9)</sup>	600,494 <sup>(4)</sup>	1,280,719 <sup>(5)</sup>	439,763 <sup>(10)</sup>
Upon Termination	600,494 <sup>(4)</sup>	1,280,719 <sup>(5)</sup>	293,175 <sup>(6)</sup>
Upon Death or Disability	600,494	1,280,719	871,591 <sup>(7)</sup>
Upon a Change of Control <sup>(8)</sup>	600,494	1,280,719	871,591 <sup>(7)</sup>
<b>Thomas K. Hoops<sup>(3)</sup></b>			
Upon Termination	492,003 <sup>(4)</sup>	977,837 <sup>(5)</sup>	240,209 <sup>(6)</sup>
Upon Death or Disability	492,003	977,837	714,113 <sup>(7)</sup>
Upon a Change of Control <sup>(8)</sup>	492,003	977,837	714,113 <sup>(7)</sup>
<b>Terence Johnson</b>			
Upon Termination	756,954 <sup>(4)</sup>	1,628,845 <sup>(5)</sup>	380,590 <sup>(6)</sup>
Upon Death or Disability	756,954	1,628,845	1,104,515 <sup>(7)</sup>
Upon a Change of Control <sup>(8)</sup>	756,954	1,628,845	1,104,515 <sup>(7)</sup>
<b>Thomas C. Merchant<sup>(3)</sup></b>			
Upon Termination	291,080 <sup>(4)</sup>	623,327 <sup>(5)</sup>	137,353 <sup>(6)</sup>
Upon Death or Disability	291,080	623,327	419,982 <sup>(7)</sup>
Upon a Change of Control <sup>(8)</sup>	291,080	623,327	419,982 <sup>(7)</sup>

- <sup>(1)</sup> The amounts include unvested, in-the-money stock options that would immediately vest upon the listed event. Amounts are calculated by adding for each grant of unvested, in-the-money options, the product of the number of shares underlying the options multiplied by the difference between \$40.65, the closing price of our common stock on March 31, 2018, and the exercise price. In addition, as of March 31, 2018, Messrs. Sullivan, Nachtwey, Hoops, Johnson and Merchant held \$6,366,300, \$880,722, \$117,023, \$992,303 and \$282,514, respectively, of in-the-money, unexercised, vested stock options (using the same method of calculation) which can be exercised at any time, including following termination (other than a termination for cause), death or disability, a change of control or, for Mr. Nachtwey, retirement. The following table summarizes how the expiration dates of stock options may change upon a termination of employment, death, disability, retirement or change of control.

Expiration Dates for Stock Options Outstanding at March 31, 2018	Expiration Upon Death or Disability	Expiration Upon Retirement	Expiration Upon Termination Not for Cause, Death, Disability or Retirement
Ranging from May 18, 2018 - May 15, 2025	Vested options expire on first anniversary of termination as a result of death or disability	Vested options expire three months after the last vesting date that occurs during retirement, subject to executive's compliance with non-competition obligations	Vested options expire three months after termination of employment for any reason other than cause, death, disability or retirement; extension until first anniversary of death if death occurs during post-employment exercise period



- (2) The amounts are calculated by multiplying the applicable number of unvested restricted stock units held by the named executive officer at the close of business on March 31, 2018 by \$40.65, the closing price of our common stock on that day.
- (3) Messrs. Sullivan, Hoops and Merchant would also receive distributions of their phantom stock accounts and/or deferred compensation fund accounts, which are not subject to vesting. See the discussion under “Non-Qualified Deferred Compensation” above.
- (4) Represents stock options that immediately vest upon a termination that is not for cause in a reduction in force or, for Mr. Nachtwey, stock options issued in 2015, 2016 and 2017 that would continue to vest under their vesting schedules upon retirement, provided that the termination of employment at retirement is without cause, and that the executive signs and delivers a non-compete agreement with Legg Mason and does not engage in competitive activity as provided in that agreement. During retirement, if the executive engages in competitive activity, the portion of stock options that are unvested at the time of such activity will be immediately forfeited. In the event of death during the period in which unvested stock options continue to vest after retirement, the unvested stock options will become 100% vested.
- (5) Represents restricted stock units that immediately vest upon a termination that is not for cause in a reduction in force or, for Mr. Nachtwey, would continue to vest under their vesting schedules upon retirement, provided that the termination of employment at retirement is without cause, and that the executive signs and delivers a non-compete agreement with Legg Mason and does not engage in competitive activity as provided in that agreement. During retirement, if the executive engages in competitive activity, the portion of restricted stock units that are unvested at the time of such activity will be immediately forfeited. In the event of death during the period in which unvested restricted stock units continue to vest after retirement, the unvested restricted stock units will become 100% vested as of the date Legg Mason becomes aware of the death.
- (6) Termination amounts represent the pro-rata portion of the performance share units that would vest upon a termination that is not for cause in a reduction in force for the May 2016 awards, which were valued at 44%, and for the May 2017 awards, which were valued at 0%. The May 2016 awards and the May 2017 awards were each valued based on the TSR rankings at March 31, 2018. The payout for the May 2015 awards would have been 0 based on the TSR rankings at March 31, 2018.
- (7) Death or disability amounts and change of control amounts represent the product of the pro-rata portion of performance share units at target that would immediately vest multiplied by \$40.65, the closing price of our common stock on March 31, 2018.
- (8) The definition of “change of control” of Legg Mason differs for the acceleration of stock options, restricted stock units and performance share units. See the discussion preceding this table under “Potential Payments on Termination or a Change of Control or Retirement.” For stock options, restricted stock units and performance share units, assumes termination of employment on the change of control date without cause or for good reason for awards for which such a termination is a condition to accelerated vesting following a change of control.
- (9) The definition of “retirement” is the same for all types of awards, and is derived from the definition in the Legg Mason, Inc. Profit Sharing and 401(k) Plan and Trust, or a successor provision. An executive becomes eligible for retirement upon his or her 62<sup>nd</sup> birthday. See the discussion preceding this table under “Potential Payments on Termination or a Change of Control or Retirement.”
- (10) Retirement amount represents the total number of performance share units at target for the May 2016 awards, which were valued at 44%, and the total number of performance share units at target for the May 2017 awards which were valued at 0%. Upon retirement, the entire value of the May 2016 and May 2017 awards at the end of the respective performance periods would vest and be earned, and paid out subject to the determination and certification of payout by the Compensation Committee. The May 2016 awards and the May 2017 awards were each valued based on the TSR rankings at March 31, 2018. The payout for the May 2015 awards would have been 0 based on the TSR rankings at March 31, 2018.

## CEO Pay Ratio

Our CEO pay ratio is calculated in accordance with Item 402(u) of Regulation S-K and provides a reasonable estimate of the ratio of our CEO's annual total compensation to the median of the annual total compensation of all employees of Legg Mason, other than the CEO.

Mr. Sullivan had annual total compensation of \$9,674,250 as reflected in the Summary Compensation Table on page 57. Our median employee's annual total compensation was \$170,879. The resulting ratio of our CEO's annual total compensation to the annual total compensation of our median employee for fiscal year 2018 is 57 to 1.

To establish the median of the annual total compensation of all of our employees, and to determine the annual total compensation of Legg Mason's "median employee," we used the methodology, assumptions and estimates described below:

We identified the median employee by reviewing the fiscal 2018 salary (or wages plus overtime, as applicable) and annual cash bonus paid to all employees of Legg Mason and its subsidiaries worldwide, excluding our CEO, who were employed on March 31, 2018, which is the last day of Legg Mason's last completed fiscal year. We included employees working on a full-time, part-time, or interim basis, as well as contractual employees (as determined by the legal framework in a particular jurisdiction for contractual status). We annualized the base salary, but not the cash incentive paid for the fiscal year, for any full-time employees who were hired in fiscal year 2018 but did not work for us for the entire fiscal year. However, due to the timing of the payment of cash incentives by one of our subsidiaries, we made a reasonable estimate of the cash incentives paid for the fiscal year to employees of that subsidiary. Cost of living adjustments are not significant and were not applied. In order to facilitate an assessment of all employee compensation in U.S. dollars, we applied to the compensation paid to our non-U.S. employees a local currency-to-U.S. dollar exchange rate equal to the sum of the average monthly exchange rates for the twelve-month period ended March 31, 2018, divided by twelve. Once we identified the median employee, we calculated annual total compensation for that employee using the same methodology we use for our NEOs as shown in the Summary Compensation Table.

Our CEO pay ratio is disclosed to comply with rules adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act and is not intended as a measure of comparison with any other company.

# CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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Under our written policies and procedures regarding related party transactions, the Nominating & Corporate Governance Committee must approve all related party transactions between Legg Mason or one of its subsidiaries and a director, executive officer or immediate family member of a director or executive officer that would be required to be disclosed in our proxy statements. The policy also authorizes the Chairman of the Nominating & Corporate Governance Committee to approve, or reject, proposed related party transactions subject to ratification by the full committee at its next regularly scheduled meeting. The Nominating & Corporate Governance Committee uses its business judgment in deciding whether to approve related party transactions.

Shanda Asset Management Holdings Limited (“Shanda”), an entity wholly owned by Mr. TianQiao Chen and affiliated with Shanda Group, invests in certain funds and investment vehicles managed by Legg Mason subsidiaries. Shanda Group held 5% or more of our outstanding common stock from April 2016 until December 2017. Mr. Chen, the Chairman and CEO of Shanda Group, and Mr. Robert Chiu, Group President of Shanda Group, served on our Board of Directors from February 2017 until October 2017.

Shanda invested approximately \$124,000,000 in December 2016 and approximately \$226,000,000 in June 2017 in funds managed by our subsidiaries. As of March 31, 2018, the aggregate amount of Shanda’s investments in funds managed by our subsidiaries is approximately \$280,000,000. During the fiscal year ended March 31, 2018, an aggregate of approximately \$442,000 management and incentive fees were paid or allocated by Shanda in connection with its investment in the funds.

In December 2017, we repurchased 5,567,653 shares of our common stock beneficially owned by Shanda for \$40.50 per share in a private transaction for an aggregate purchase price of approximately \$225.5 million.

In the ordinary course of their asset management businesses, subsidiaries of Legg Mason may from time to time invest client assets in companies in which Shanda Group or its affiliates may be significant stockholders. As of March 31, 2018, Legg Mason’s subsidiaries had investments on behalf of clients in Lending Club Corporation and Community Health System, Inc. with a market value of approximately \$6.26 million. Mr. Chen, together with his affiliates, reported ownership in excess of 10% of the outstanding common stock of this company as of March 31, 2018.

From time to time, our directors, executive officers and employees, members of their immediate families and companies, affiliates of companies or investment vehicles managed by companies that employ or are associated with our directors may have investments in various investment vehicles or accounts sponsored or managed by our subsidiaries or utilize our products or services in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable products or services provided to unaffiliated third parties.

# PROPOSAL 2

## ADVISORY VOTE TO APPROVE THE COMPENSATION OF LEGG MASON'S NAMED EXECUTIVE OFFICERS

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In accordance with the requirements of Section 14A of the Securities Exchange Act of 1934 and related SEC rules, we provide stockholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our named executive officers as disclosed in this Proxy Statement. At our 2011 Annual Meeting of Stockholders, we submitted a non-binding advisory vote to our stockholders to determine the frequency of our future say on pay votes. In that vote, we recommended, and a majority of our stockholders approved, an annual say on pay vote. The Board of Directors decided to submit a say on pay vote to our stockholders annually. As is required by SEC rules, we hold an advisory vote on frequency of say on pay votes every six years. At our 2017 Annual Meeting of Stockholders, we again recommended, and a majority of our stockholders approved, an annual say on pay vote. The next such vote will be held at our Annual Meeting of Stockholders in 2023.

The compensation of our named executive officers is performance-oriented and consistent with the interests of our stockholders. Our compensation programs for named executive officers are intended to link compensation to performance; to provide competitive compensation levels to attract, incent, retain and reward executives; and to align management's interests with those of our stockholders.

Our named executive officer compensation is primarily based on incentive compensation, typically paid in a combination of cash bonuses and long-term equity awards which include performance based awards as well as awards that vest over a specified period of time. Base salaries constitute a relatively small portion of the compensation of our named executive officers. Incentive compensation awards are made at or after a fiscal year end and are primarily based upon our corporate performance and the performance of our named executive officers. As part of fiscal year 2018 incentive compensation, we awarded performance share units that will result in payout only based on performance relative to a defined group of peers over a three year period that began on April 1, 2018. Our equity incentive awards are designed to tie a significant portion of incentive compensation directly to the long-term performance of Legg Mason, as measured by our stock price. We also have adopted a policy for recoupment of incentive compensation from named executive officers in the event a named executive officer's acts or omissions contribute to a need for a restatement of our financial results or if a named executive officer is terminated with cause.

We encourage stockholders to read the "Compensation Discussion and Analysis" section of this Proxy Statement, the Summary Compensation Table and the other related tables and disclosures for a detailed description of the fiscal year 2018 compensation of our named executive officers. As is discussed in more detail above, we believe that our named executive officer compensation for fiscal year 2018 appropriately reflects our financial performance and strategic accomplishments during the fiscal year and is supported by comparisons of our compensation levels to that of our competitors.

Management's successes during the year included the following, supported by Legg Mason's strategic repositioning for further growth:

- Expanded investment offerings in response to investor demand for choice with new next generation products and new vehicles, including ETFs, and commercialized alternative products for our most recently acquired investment affiliates
- Onboarded hires for strategic new roles including a Chief Data Officer, a Chief Diversity Officer and senior roles for Alternative Distribution Strategies and Alternative Product
- Focused on technology investments to enhance capabilities of our global workforce and choice for global investors; made progress on opening an office in China

The Compensation Committee made executive incentive award decisions based on performance during the year, including the performance metrics and strategic qualitative factors discussed below. The following table summarizes the performance metrics the Committee reviewed in making compensation decisions:

Metric*	FY2018 Target	FY2018 Projected**	FY2017 Actual	Change from FY2017 Actual to FY2018 Target
Net long-term AUM flows	\$ 21.2 billion	\$ 0.7 billion	\$ (1.6) billion	\$22.8 billion
Net revenues	2,468 million	2,536 million	2,328 million	140 million
Global distribution unit gross sales	78.1 billion	81.5 billion	81.9 billion	(3.8) billion
Global distribution unit earnings contribution	290 million	333 million	249 million	41 million
Earnings per share	3.00	3.81	2.18	0.82
Net new long-term advisory fee revenue	69 million	(4) million	(39) million	108 million
Adjusted EBITDA	704 million	701 million	560 million	144 million
Operating margin, as adjusted	25.6%	24.4%	19.7%	5.9%

\* Adjusted EBITDA and operating margin, as adjusted are non-GAAP financial measures. Please see Annex A for a reconciliation of each of these measures to the respective most nearly comparable GAAP measure.

\*\* Includes actual results through February 28, 2018 and projected results for March 1-March 31, 2018. As discussed in “Compensation Discussion and Analysis” under the caption “The Compensation Committee’s Timeline,” the Committee acted at the end of fiscal year 2018 to determine compensation for executive officers, before final results were available for the month of March, in order to preserve maximum deductibility of executive compensation for taxable year 2018.

The Committee considered the following relative performance metrics, among Legg Mason and six companies that had publicly reported compensation data in the group of eight other publicly traded asset management companies that the Committee uses to assess compensation programs and amounts:

- Legg Mason’s organic growth rate for the trailing twelve months ended December 2017 (the most current year for which peer data was available at the time the Committee met at the end of fiscal year 2018) was 0.9%, compared to the peer median of 2.2% for that period. Legg Mason’s projected organic growth rate for fiscal year 2018 was 0.8%, however.
- Legg Mason’s net income growth of 21.2% (excluding certain nonrecurring items that would have resulted in a first place ranking) ranked third for the trailing twelve months ended December 2017.
- Legg Mason’s total stockholder return for the fiscal year of 12.9% ranked seventh for the fiscal year to date through February 28, 2018.

The Committee also evaluated the following strategic qualitative factors:

<b>Products</b>	Increased line up of ETF products to 11; Hired for key leadership positions in Alternative Product and Alternative Distribution Strategies; Maintained strong position in the separately managed account market and launched new strategies with additional investment affiliates; Completed a bolt-on acquisition for Clarion Partners and pursued other potential bolt-ons during the year.
<b>Performance</b>	Expanded collaboration among investment affiliates to acquire client accounts; Engaged affiliates in initiatives including Brexit and MiFID II.
<b>Distribution</b>	Launched initiative to deepen partnerships with top 15 global clients and targets that account for significant percentage of LMGD sales; Developed data driven approaches to engagement with advisors; Launched feeder funds in Brazil, ETFs in Australia, and our first fund structure in New Zealand; Obtained a license in China enabling us to establish a local presence representing all investment affiliates.
<b>Productivity</b>	Hired Legg Mason’s first Chief Diversity Officer; Hired a Chief Data Officer focused on data management, governance and business analytics development.

The Committee considered the information which, at the time of the Committee's deliberations at fiscal year end, showed Legg Mason's fiscal year 2018 overall improved financial performance on an absolute basis. (Subsequently, in May 2018, Legg Mason reported a charge to earnings for fiscal year 2018 of \$67 million, relating to a regulatory matter.) The Committee considered the significant accomplishments that management achieved during the fiscal year in executing on Legg Mason's strategic priorities. The Committee viewed fiscal year 2018 as a year of strategic progress, evidenced by management's accomplishments under the strategic qualitative factors, juxtaposed against year over year improvement in financial results on an absolute basis, yet in some respects lagging relative to peers, evidenced by outcomes under the performance metrics.

We believe that a comparison of the compensation amounts (salary plus incentive award) we paid to our named executive officers for fiscal year 2018 with amounts paid by competitor asset management firms supports a conclusion that the compensation paid by Legg Mason is appropriate. The Committee compared Legg Mason executive compensation for fiscal years 2015, 2016 and 2017 to available median compensation data. The Committee then reviewed how a potential increase in compensation would compare to peer median compensation, including noting certain executive positions where it was difficult to find executives with comparable responsibilities, and the fact that compensation was flat in fiscal year 2017 for most named executive officers including our CEO (whose compensation had been reduced by 20% for fiscal year 2016). The fiscal year 2018 compensation paid to our Chief Executive Officer ranked below the median when compared to the total compensation paid to chief executive officers at the five asset management competitors which the Committee used for CEO compensation comparisons. For our other named executive officers, whose compensation is evaluated in comparison to a larger peer group of asset management firms, Legg Mason's salaries are in the third quartile for two named executive officers and bottom quartile for two named executive officers. Total compensation was in the second quartile for the three named executive officers who received incentive awards for fiscal year 2018. (One of our named executive officers was on extended personal leave in fiscal year 2018 and did not receive an incentive award.)

The vote on this resolution is not intended to address any specific element of compensation; rather, the advisory vote relates to the overall compensation of our named executive officers. This vote is advisory and therefore not binding on Legg Mason. However, we value the opinion of our stockholders and the Board of Directors and the Committee will review the voting results and will take into account the outcome of the vote when considering future compensation decisions for the named executive officers.

Accordingly, we ask our stockholders to vote on the following resolution:

"RESOLVED, that Legg Mason's stockholders approve, on a non-binding advisory basis, the compensation paid to Legg Mason's named executive officers, as disclosed in Legg Mason's Proxy Statement for the 2018 Annual Meeting of Stockholders pursuant to Item 402 of Regulation S-K, including the "Compensation Discussion and Analysis," the compensation tables and narrative discussion."



The Board of Directors recommends a vote **"FOR"** approving the named executive officer compensation as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC.

# PROPOSAL 3

## RATIFICATION OF THE APPOINTMENT OF LEGG MASON'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent registered public accounting firm retained to audit Legg Mason's financial statements. The Audit Committee has appointed PricewaterhouseCoopers LLP to be our independent registered public accounting firm for the fiscal year ending March 31, 2019. PricewaterhouseCoopers LLP and its predecessor firms have been retained as our independent registered public accounting firm continuously since at least 1983. The Audit Committee is responsible for approving audit fees associated with the retention of PricewaterhouseCoopers LLP. In order to assure continuing auditor independence, the Audit Committee periodically considers whether there should be regular rotation of the independent registered public accounting firm. Further, in conjunction with the mandated rotation of the audit firm's lead engagement partner, the Audit Committee and its Chairman are directly involved in the selection of PricewaterhouseCoopers LLP's new lead engagement partner. The members of the Audit Committee and the Board believe that the continued retention of PricewaterhouseCoopers LLP to serve as Legg Mason's independent registered public accounting firm is in the best interests of Legg Mason and its stockholders.

The appointment of PricewaterhouseCoopers LLP will be submitted for ratification by our stockholders at the 2018 Annual Meeting of Stockholders. Representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

We are voluntarily submitting the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm to our stockholders for ratification because we believe it is a matter of good corporate practice. If our stockholders do not ratify the appointment, our Audit Committee will reconsider whether to retain PricewaterhouseCoopers LLP, but still may retain them. Even if the appointment is ratified, our Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of Legg Mason and our stockholders.



The Board of Directors recommends a vote **"FOR"** the ratification of the appointment of Legg Mason's independent registered public accounting firm.



## Fees Paid to the Independent Registered Public Accounting Firm

The following table presents fees for professional services rendered by PricewaterhouseCoopers LLP for the audit of our consolidated financial statements for the fiscal years ended March 31, 2018 and March 31, 2017 and fees billed for other services rendered by PricewaterhouseCoopers LLP during those periods.

	2018	2017
Audit Fees <sup>(1)</sup>	\$ 6,669,000	\$ 7,575,000
Audit-Related Fees <sup>(2)</sup>	1,437,000	1,161,000
Tax Fees <sup>(3)</sup>	879,000	1,024,000
All Other Fees <sup>(4)</sup>	679,000	691,000
<b>Total Fees</b>	<b>9,664,000</b>	<b>10,451,000</b>

- <sup>(1)</sup> Audit fees consisted of fees for the annual audit, including an audit of internal controls over financial reporting and quarterly reviews of our financial statements, and services provided for statutory audits of certain subsidiaries.
- <sup>(2)</sup> Audit-related fees consisted of fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements, attest services related to compliance with investment performance standards, fees for reviews of controls related to certain processes at asset management subsidiaries and services provided in connection with other statutory or regulatory filings or engagements including consents related to SEC filings.
- <sup>(3)</sup> Tax fees consisted primarily of tax advice and compliance for domestic and international matters.
- <sup>(4)</sup> All other fees included custody audits at certain subsidiaries and audit and tax services of consolidated investment vehicles.

## Pre-Approval of the Independent Registered Public Accounting Firm Services

The Audit Committee approves all audit and permitted non-audit services to be performed for Legg Mason or its subsidiaries by PricewaterhouseCoopers LLP. The Chairman of the Audit Committee may pre-approve permissible proposed non-audit services that arise between committee meetings if the decision to pre-approve the service is presented for ratification at the next scheduled Audit Committee meeting.

# AUDIT COMMITTEE REPORT

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The Audit Committee's primary responsibilities are to assist the Board of Directors in its oversight of the financial accounting and reporting of Legg Mason and its subsidiaries by selecting and compensating the company's independent registered public accounting firm ("independent auditors"), providing oversight of the work of the independent auditors and reviewing the scope and results of audits conducted by them, reviewing the activities of Legg Mason's internal auditors, discussing with independent auditors, internal auditors and management the organization and scope of Legg Mason's internal system of accounting and financial controls and reviewing and discussing certain matters that may have a material impact on Legg Mason's financial statements. The Audit Committee approves all audit and non-audit services to be performed for Legg Mason or its subsidiaries by PricewaterhouseCoopers LLP, our independent auditors. The Chairman of the Audit Committee may pre-approve permissible proposed non-audit services that arise between committee meetings if the decision to pre-approve the service is presented for ratification at the next scheduled Audit Committee meeting. For more information about our Audit Committee's responsibilities, see "Board Committees – Audit Committee" and under "Proposal 1 – Election of Directors" and our Audit Committee Charter.

The Audit Committee is composed of five non-employee directors and operates under a written charter adopted by the Board of Directors that was last amended on April 27, 2015. The Board of Directors has determined that each member of the Audit Committee is "independent" and financially literate, and that at least one member has accounting or other related financial management expertise, in each case as such qualifications are defined under the listing standards of the New York Stock Exchange. The Board of Directors has also determined that each of Messrs. Angelica, Davidson, and Huff qualifies as an "audit committee financial expert" as defined by the SEC.

The Audit Committee evaluates the performance of the independent auditors, including the lead partner, each year and determines whether to reengage the current independent auditors or consider other audit firms. In doing so, the Audit Committee considers, among other things, the quality and efficiency of the services provided by the auditors, the auditors' global capabilities, the auditors' technical expertise, tenure as the Company's independent auditors and knowledge of the Company's global operations and industry. Based on this evaluation, the Audit Committee decided to retain PricewaterhouseCoopers LLP to serve as independent auditors for the year ending March 31, 2018. Although the Audit Committee has the sole authority to appoint the independent auditors, the Audit Committee will continue its long-standing practice of recommending that the Board ask stockholders to ratify the appointment of the independent auditors at the 2018 Annual Meeting of Stockholders (see Proposal 6 – "Ratification of the Appointment of Legg Mason's Independent Registered Public Accounting Firm").

The Audit Committee held seven meetings during the fiscal year ended March 31, 2018. The meetings were intended, among other things, to facilitate communication among the Audit Committee, management, internal auditors and Legg Mason's independent auditors. Among the topics discussed during these meetings were financial results, the results of audits conducted by both the internal auditors and independent auditors, other accounting and auditing matters, internal and disclosure controls and corporate compliance with applicable laws and regulations. The Audit Committee reviewed with Legg Mason's internal auditors and its independent auditors the overall scope and plans for their respective audits and discussed with both the internal auditors and the independent auditors the results of their examinations and their evaluations of Legg Mason's internal controls. The Audit Committee's discussions with management and the independent auditors included a review of significant accounting policies applied by Legg Mason in its financial statements.

The Audit Committee also reviewed and discussed Legg Mason's compliance with Section 404 of the Sarbanes-Oxley Act of 2002. In this regard, the Audit Committee reviewed and discussed with Legg Mason's management and its independent auditors, management's annual report on the effectiveness of Legg Mason's internal control over financial reporting as of March 31, 2018 and the independent auditors' related attestation report.

It is not the Audit Committee's responsibility to prepare our financial statements, to plan or conduct audits or to determine that our financial statements are complete and accurate and are in accordance with generally accepted accounting principles.

Legg Mason's management is responsible for the financial reporting process, for the preparation, presentation and integrity of consolidated financial statements in accordance with generally accepted accounting principles and for the establishment and effectiveness of Legg Mason's internal controls and procedures designed to assure compliance with accounting standards and laws and regulations. Legg Mason's independent auditors are responsible for auditing those financial statements in accordance with generally accepted auditing standards, attesting to the effectiveness of Legg Mason's internal control over financial reporting and expressing an opinion as to whether those audited financial statements fairly present, in all material respects, the financial position, results of operation and cash flows of Legg Mason in conformity with generally accepted accounting principles in the United States. The Audit Committee monitors and reviews these processes. The members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent auditors.

The Audit Committee has discussed and reviewed with the independent auditors, and received from the independent auditors, all communications required by the Public Company Accounting Oversight Board, has reviewed and discussed the audited consolidated financial statements of Legg Mason with management and the independent auditors and has discussed with the independent auditors their independence from Legg Mason and its management. When considering the independent auditors' independence, the Audit Committee considered whether their provision of services to Legg Mason beyond those rendered in connection with their audit and review of Legg Mason's consolidated financial statements was compatible with maintaining their independence. The Audit Committee also reviewed, among other things, the amount of fees paid to the independent auditors for audit and non-audit services. The Committee also discussed with PricewaterhouseCoopers LLP the matters required to be discussed by the standards of the Public Company Accounting Oversight Board (the "PCAOB"). The Committee has received from PricewaterhouseCoopers LLP the written disclosures and the letter required by applicable requirements of the PCAOB regarding the independent auditor's communications with the Audit Committee concerning independence, and discussed with them their independence from the Company and its management. In addition, the Committee has received written materials addressing PricewaterhouseCoopers LLP internal quality control procedures.

Based on the reviews, reports and discussions described in this Report, and subject to the limitations on the Audit Committee's role and responsibilities referred to above, the Audit Committee has recommended to the Board of Directors that Legg Mason's audited consolidated financial statements as of and for the fiscal year ended March 31, 2018 be included in Legg Mason's Annual Report on Form 10-K.

#### **AUDIT COMMITTEE**

Barry W. Huff, Chairman  
Robert E. Angelica  
Carol Anthony ("John") Davidson  
Michelle J. Goldberg\*  
Margaret Milner Richardson

\* Ms. Goldberg joined the Audit Committee on January 30, 2018.

# STOCKHOLDER PROPOSALS FOR 2019 ANNUAL MEETING

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We must receive in writing, at our principal executive offices located at 100 International Drive, Baltimore, Maryland 21202, Attn: Corporate Secretary, any stockholder proposal intended for inclusion in the proxy material for the 2019 Annual Meeting of Stockholders on or before February 12, 2019. The inclusion of any proposal will be subject to applicable rules of the SEC. Under our Bylaws, stockholders who would like to submit proposals for the 2019 Annual Meeting of Stockholders must deliver written notice of the proposal to our Corporate Secretary, at the above address, between January 14, 2019 and February 13, 2019. In the event our 2019 Annual Meeting of Stockholders is held more than 30 days before or after July 31, 2019, notice must be delivered between the 150th day prior to the date of the meeting and 5:00 p.m., Eastern Time, on the later of the 120th day before the meeting or the tenth day following the day on which we publicly announce the date of the meeting.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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Pursuant to Section 16(a) of the Securities Exchange Act of 1934 and the rules thereunder, our executive officers and directors are required to file with the SEC and the NYSE reports of their ownership of our common stock. Based solely on a review of copies of such reports furnished to us, or written representations that no reports were required, we believe that during the fiscal year ended March 31, 2018 our executive officers and directors complied with the Section 16(a) requirements.

# OTHER MATTERS

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To the extent that this Proxy Statement is incorporated by reference into any of our other filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, the sections of this Proxy Statement titled “Compensation Committee Report,” and “Audit Committee Report” (to the extent permitted by the rules of the SEC) will not be deemed incorporated, unless specifically provided otherwise in such filing.

All descriptions of benefits plans and agreements contained in this Proxy Statement are summaries and are qualified in their entirety by reference to the actual plans or agreements, copies of which are filed as exhibits to our Annual Report on Form 10-K for the year ended March 31, 2018.

For those stockholders who receive the Notice of Internet Availability of Proxy Materials, this Proxy Statement and the 2018 Annual Report are also available at Legg Mason’s website at [www.leggmason.com](http://www.leggmason.com) under the “About-Investor Relations” section. In addition, a copy of the 2018 Annual Report will be provided without charge upon the written request of any stockholder to Investor Relations, Legg Mason, 100 International Drive, Baltimore, Maryland 21202. For directions to the Annual Meeting of Stockholders, please visit our website at: <https://www.leggmason.com/en-us/site/contact/driving-directions.html>.

Our Board of Directors is not aware of any other matters to come before the Annual Meeting. If any other matters should come before the Meeting, the persons named in the enclosed proxy will act thereon according to their best judgment.

By order of the Board of Directors,



**Thomas C. Merchant**

Secretary

# ANNEX A

## SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION

As supplemental information, we are providing a liquidity measure for “Adjusted EBITDA” and a performance measure for “Operating Margin, as Adjusted,” each of which are based on methodologies other than generally accepted accounting principles (“non-GAAP”). Our management uses these measures as benchmarks in evaluating and comparing our period-to-period liquidity and operating performance.

### Adjusted EBITDA

We define Adjusted EBITDA as cash provided by (used in) operating activities plus (minus) interest expense, net of accretion and amortization of debt discounts and premiums, current income tax expense (benefit), the net change in assets and liabilities, net (income) loss attributable to noncontrolling interests, net gains (losses) and earnings on investments, net gains (losses) on consolidated investment vehicles, and other. The net change in assets and liabilities adjustment aligns with the Consolidated Statements of Cash Flows. Adjusted EBITDA is not reduced by equity-based compensation expense, including management equity plan non-cash issuance-related charges. Most management equity plan units may be put to or called by us for cash payment, although their terms do not require this to occur.

We believe that this measure is useful to investors and us as it provides additional information with regard to our ability to meet working capital requirements, service our debt, and return capital to our shareholders. This measure is provided in addition to Cash provided by operating activities and may not be comparable to non-GAAP performance measures or liquidity measures of other companies, including their measures of EBITDA or Adjusted EBITDA. Further, this measure is not to be confused with Net Income (Loss), Cash provided by operating activities, or other measures of earnings or cash flows under GAAP, and are provided as a supplement to, and not in replacement of, GAAP measures.

In the section of this Proxy Statement captioned “Compensation Discussion and Analysis,” we disclosed projected Adjusted EBITDA of \$701 million for fiscal year 2018, which included actual results through February 28, 2018 and projected results for March 1 – March 31, 2018. Actual Adjusted EBITDA for fiscal year 2018 was \$637.2 million.

The calculation of Adjusted EBITDA is as follows (dollars in thousands):

	For the Years Ended March 31,		
	2018	2017	2016
<b>Cash provided by operating activities, GAAP basis</b>	<b>\$492,936</b>	\$539,772	\$454,451
Plus (less):			
Interest expense, net of accretion and amortization of debt discounts and premiums	<b>115,056</b>	107,483	45,323
Current tax expense	<b>38,983</b>	26,371	15,419
Net change in assets and liabilities	<b>(36,842)</b>	(33,900)	26,565
Net change in assets and liabilities of consolidated investment vehicles	<b>69,941</b>	(41,365)	3,519
Net (income) loss attributable to noncontrolling interests	<b>(51,275)</b>	(59,447)	7,878
Net gains and earnings on investments	<b>(305)</b>	9,717	13,404
Net gains (losses) on consolidated investment vehicles	<b>9,781</b>	13,329	(7,243)
Other	<b>(1,047)</b>	(1,720)	2,116
<b>Adjusted EBITDA</b>	<b>637,228</b>	560,240	561,432

Adjusted EBITDA for the years ended March 31, 2018, 2017, and 2016, was \$637.2 million, \$560.2 million, and \$561.4 million, respectively. The increase in Adjusted EBITDA for the year ended March 31, 2018, as compared to the year ended March 31, 2017, was primarily due to an increase in net income, adjusted for non-cash items, largely the result of a reduction in acquisition and transition-related costs incurred in connection with the acquisitions of Clarion Partners and EnTrust, and the net impact of increased operating revenues, offset in part by the impact of a charge related to a regulatory matter. Adjusted EBITDA for the year ended March 31, 2017, as compared to the year ended March 31, 2016, remained essentially flat, as the net impact of a reduction in operating revenues at certain legacy investment affiliates was substantially offset by incremental earnings from Clarion Partners and EnTrust, and the inclusion of a full year of results of RARE Infrastructure.

## Operating Margin, as Adjusted

We calculate "Operating Margin, as Adjusted," by dividing (i) Operating Income, adjusted to exclude the impact on compensation expense of gains or losses on investments made to fund deferred compensation plans, the impact on compensation expense of gains or losses on seed capital investments by our affiliates under revenue sharing arrangements, amortization related to intangible assets, income (loss) of CIVs, the impact of fair value adjustments of contingent consideration liabilities, if any, unusual and other non-core charges and impairment charges by (ii) our operating revenues, adjusted to add back net investment advisory fees eliminated upon consolidation of investment vehicles, less distribution and servicing expenses which we use as an approximate measure of revenues that are passed through to third parties, and less performance fees that are passed through as compensation expense or net income (loss) attributable to noncontrolling interests, which we refer to as "Operating Revenues, as Adjusted." The deferred compensation items are removed from Operating Income in the calculation because they are offset by an equal amount in Non-operating income (expense), net, and thus have no impact on Net Income (Loss) Attributable to Legg Mason, Inc. We adjust for the impact of the amortization of management contract assets and the impact of fair value adjustments of contingent consideration liabilities, if any, which arise from acquisitions to reflect the fact that these items distort comparison of our operating results with the results of other asset management firms that have not engaged in significant acquisitions. Impairment charges, unusual and other non-core charges and income (loss) of CIVs are removed from Operating Income in the calculation because these items are not reflective of our core asset management operations. We use Operating Revenues, as Adjusted, in the calculation to show the operating margin without distribution and servicing expenses, which we use to approximate our distribution revenues that are passed through to third parties as a direct cost of selling our products, although distribution and servicing expenses may include commissions paid in connection with the launching of closed-end funds for which there is no corresponding revenue in the period. We also use Operating Revenues, as Adjusted, in the calculation to show the operating margin without performances fees which are passed through as compensation expense or net income (loss) attributable to noncontrolling interests per the terms of certain more recent acquisitions. Operating Revenues, as Adjusted, also include our advisory revenues we receive from consolidated investment vehicles that are eliminated in consolidation under GAAP.

We believe that Operating Margin, as Adjusted, is a useful measure of our performance because it provides a measure of our core business activities. It excludes items that have no impact on Net Income (Loss) Attributable to Legg Mason, Inc. and indicates what our operating margin would have been without distribution revenues that are passed through to third parties as a direct cost of selling our products, performance fees that are passed through as compensation expense or net income (loss) attributable to noncontrolling interests per the terms of certain more recent acquisitions, amortization related to intangible assets, changes in the fair value of contingent consideration liabilities, if any, impairment charges, unusual and other non-core charges and the impact of the consolidation of certain investment vehicles described above. The consolidation of these investment vehicles does not have an impact on Net Income (Loss) Attributable to Legg Mason, Inc. This measure is provided in addition to our operating margin calculated under GAAP, but is not a substitute for calculations of margins under GAAP and may not be comparable to non-GAAP performance measures, including measures of adjusted margins of other companies.

In the section of this Proxy Statement captioned "Compensation Discussion and Analysis," we disclosed projected Operating Margin, as Adjusted of 24.4% for fiscal year 2018, which included actual results through February 28, 2018 and projected results for March 1 – March 31, 2018. Actual Operating Margin, as Adjusted for fiscal year 2018 was 24.6%.



The calculation of Operating Margin and Operating Margin, as Adjusted, is as follows (dollars in thousands):

	For the Years Ended March 31,		
	2018	2017	2016
<b>Operating Revenues, GAAP basis</b>	\$3,140,322	\$2,886,902	\$2,660,844
Plus (less):			
Pass-through performance fees	(108,757)	(60,756)	–
Operating revenues eliminated upon consolidation of investment vehicles	578	529	318
Distribution and servicing expense, excluding consolidated investment vehicles	(489,310)	(499,126)	(545,668)
<b>Operating Revenues, as Adjusted</b>	<b>2,542,833</b>	<b>2,327,549</b>	<b>2,115,494</b>
<b>Operating Income, GAAP basis</b>	<b>324,001</b>	<b>422,243</b>	<b>50,831</b>
Plus (less):			
Gains (losses) on deferred compensation and seed investments, net	12,345	14,427	(1,205)
Impairment of intangible assets	229,000	35,000	371,000
Contingent consideration fair value adjustments	(31,329)	(39,500)	(33,375)
Amortization of intangible assets	24,604	26,190	4,979
Charge related to regulatory matter	67,000		
Operating loss of consolidated investment vehicles, net	877	819	461
<b>Operating Income, as Adjusted</b>	<b>626,498</b>	<b>459,179</b>	<b>392,691</b>
<b>Operating Margin, GAAP basis</b>	<b>10.3%</b>	<b>14.6%</b>	<b>1.9%</b>
<b>Operating Margin, as Adjusted</b>	<b>24.6</b>	<b>19.7</b>	<b>18.6</b>

Operating Margin, as Adjusted, for the years ended March 31, 2018, 2017, and 2016, was 24.6%, 19.7%, and 18.6%, respectively. Operating Margin, as Adjusted, for the year ended March 31, 2018, was reduced by 0.3 percentage points due to transition-related costs incurred in connection with the combination of Permal and EnTrust.

Operating Margin, as Adjusted, for the year ended March 31, 2017, was reduced by 1.8 percentage points due to transition-related costs incurred in connection with the combination of Permal and EnTrust, 0.8 percentage points due to acquisition-related costs incurred in connection with the Clarion Partners and EnTrust acquisitions, and 0.7 percentage points due to the charge associated with the implementation of the Clarion Partners management equity plan.

Operating Margin, as Adjusted, for the year ended March 31, 2016, was reduced by 2.0 percentage points due to costs associated with the restructuring of Permal for the combination with EnTrust, by 1.0 percentage point due to the compensation charge associated with the initial Royce management equity plan grant, and by 0.4 percentage points for real estate related charges recognized in fiscal 2016 associated with reduced space requirements.