

LEGG MASON, INC.  
Form DEF 14A  
June 20, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

CHECK THE APPROPRIATE BOX:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

**Legg Mason**

(Name of Registrant as Specified In Its Charter)  
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- 1) Title of each class of securities to which transaction applies:
- 2) Aggregate number of securities to which transaction applies:
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- 4) Proposed maximum aggregate value of transaction:
- 5) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

- 1) Amount previously paid:
  - 2) Form, Schedule or Registration Statement No.:
  - 3) Filing Party:
  - 4) Date Filed:
-

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2018  
NOTICE OF ANNUAL MEETING  
AND PROXY STATEMENT

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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

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**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 \[www.leggmason.com\]\(http://www.leggmason.com\) 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:

- |   | <b>Board<br/>Recommendation</b>        |
|---|--|
| <b>1</b> The election of 10 directors named in the Proxy Statement for a one year term.   | <b>FOR</b><br>each director<br>nominee |
| <b>2</b> An advisory vote to approve the compensation of Legg Mason’s named executive officers.   | <b>FOR</b>                             |
| <b>3</b> Ratification of the appointment of PricewaterhouseCoopers LLP as Legg Mason’s independent registered public accounting firm for the fiscal year ending March 31, 2019.<br>Stockholders will also consider any other matter that may properly come before the meeting or any adjournment thereof. | <b>FOR</b>                             |

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

**In person**

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

## Edgar Filing: LEGG MASON, INC. - Form DEF 14A

Time, on July 30, 2018.

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.

	Years of Tenure	Committees				
		AC	CC	FC	N&CGC	RC
<b>Director</b>						
<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**  
**CC**  
**FC**  
**N&CGC**  
**RC**

Audit Committee  
Compensation Committee  
Finance Committee  
Nominating & Corporate Governance Committee  
Risk Committee



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Executive Summary

**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:

Senior Management <b>10</b>	Risk Management <b>5</b>	Technology <b>2</b>
Investing <b>7</b>	Public Company Governance <b>5</b>	Human Resources <b>3</b>
Financial Services <b>8</b>	Audit/Tax Accounting <b>5</b>	Global <b>4</b>

**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

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Executive Summary

## **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

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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

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Executive Summary

**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.

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**INFORMATION ABOUT THE  
2018 ANNUAL MEETING**

**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. |

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Information About the 2018 Annual Meeting

### **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:

- By Internet** Go to [www.voteproxy.com](http://www.voteproxy.com) and vote again. Only your last proxy submitted prior to the meeting will be counted.
- By telephone** 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.
- By mail** Sign and return a new proxy card dated as of a later date.
- In person** 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.

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Information About the 2018 Annual Meeting

### **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.

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**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.



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Proposal 1 Election of Directors

**Director Nominees**

**Robert E. Angelica Independent**

Director	
Since	Age
2007	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.

Director	
Since	Age
2014	62

**Carol Anthony ( John ) Davidson Independent**

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.

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Proposal 1 Election of Directors

**Michelle J. Goldberg Independent**

Director	
Since	Age
2017	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 Independent**

Director	
Since	Age
2009	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

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Proposal 1 Election of Directors

**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**

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Proposal 1 Election of Directors

**W. Allen Reed Independent**Director Age  
Since 2006 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 Independent**Director Age  
Since 2003 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

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Proposal 1 Election of Directors

**Kurt L. Schmoke Independent**

Director Age  
Since 2002 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 Age  
Since 2013 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**

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Proposal 1 Election of Directors

**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.

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Proposal 1 Election of Directors

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

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Proposal 1 Election of Directors

### **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**

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.

Our stockholders advocate for gender diversity on boards.

Our stockholders suggested that the company consider permitting stockholders to amend the company's 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.

#### **What We Did**

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.

During fiscal year 2018, two women joined our Board, increasing the percentage of female board members to 30%.

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.

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".



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Proposal 1 Election of Directors

## **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.

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Proposal 1 Election of Directors

**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.

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.

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Proposal 1 Election of Directors

**Audit Committee**

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

**Barry W. Huff (Chair)**

- Robert E. Angelica** selecting and compensating the independent registered public accounting firm (“Independent Auditors”);
- Carol Anthony (“John” Davidson)** providing oversight of the work of the Independent Auditors and reviewing the scope and results of the audits conducted by them;
- Michelle J. Goldberg** ensuring the regular rotation of the lead audit partner and selecting, reviewing and evaluating the lead audit partner;
- Margaret Milner** reviewing the activities and performance of our internal auditors;
- Richardson** 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.

**Meetings in FY 2018**  
**7**

**Report Page**  
**77**

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**

**Report Page**  
**56**

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.

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Proposal 1 Election of Directors

### **Finance Committee**

Members

**W. Allen**

**Reed (Chair)**

Robert E.

Angelica

Carol Anthony

("John")

Davidson

Barry W. Huff

John V.

Murphy

Joseph A.

Sullivan

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.

Meetings in FY  
2018

**5**

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

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.

Meetings in FY  
2018

**6**

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

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.

Meetings in FY  
2018

**4**

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



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Proposal 1 Election of Directors

**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.

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Proposal 1 Election of Directors

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.

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Proposal 1 Election of Directors

**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 Risk Committee**

oversees Legg Mason’s enterprise risk management activities.

**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 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.

**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



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### Proposal 1 Election of Directors

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.

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Proposal 1 Election of Directors

**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:

<b>Compensation Element</b>	<b>Amount of Compensation</b>
<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

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.

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Proposal 1 Election of Directors

**Director Compensation Table**

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

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)<sup>(1)</sup></b>	<b>Stock Awards (\$)</b>	<b>All Other Compensation (\$)<sup>(2)</sup></b>	<b>Total (\$)</b>
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

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

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

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

(4) 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.

(5) 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.

(6) 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.

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

(8) 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.

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

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

(11) 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:

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

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**Table of Contents****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>

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Security Ownership of Management and Principal Stockholders

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.

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.

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.

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

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.

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

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**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

**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

**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

**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.

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Executive Compensation

### **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.

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Executive Compensation

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



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Executive Compensation

**Fiscal Year 2018 Performance Results**

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

**Assets Under Management**

**Operating Revenues**

(1)Excludes \$10.5 B of assets reclassified as AUM effective April 1, 2017  
(2)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**

<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.

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Executive Compensation

### **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 sea