

June 4, 2018

To Our Valued Stakeholders,

Legg Mason has reached a settlement with the U.S. Department of Justice resolving a legacy matter, involving the activities of two mid-to-lower level employees that occurred more than a decade ago at our former Permal business. We soon expect to reach a settlement in principle with the U.S. Securities and Exchange Commission staff regarding the same matter which will be subject to the review and approval of the SEC Commissioners. Having spent close to seven years cooperating fully with the government's inquiries, we are pleased to put the U.S. Department of Justice portion of this matter behind us and move forward.

However, let me be very clear: the misconduct by former employees of the legacy Permal business that the government found was totally unacceptable. It violated our high standards, our long-held core values and our "no-chalk" culture.

As you should expect, Legg Mason has, over the past decade, substantially enhanced its anti-corruption oversight, compliance policies, procedures and other related mechanisms, and has put in place a robust set of related training programs.

Legg Mason is especially proud to be the first organization globally to have been certified by PECB North America for compliance with the ISO 37001 anti-corruption controls standards.

On the following page, you will find additional information about today's settlement, including an overview of the activities that occurred a decade ago; the resolutions we have reached with the Department of Justice and the associated financial penalties; and, the compliance policies, procedures and other related mechanisms that are in place at Legg Mason today.

Legg Mason and each of our nine diverse, independent affiliate companies expect to conduct business and serve our investor clients each and every day with complete integrity. While certainly disappointed about this matter, we remain proud of and resolute in our commitment to our culture of "no chalk" and our mission of "Investing to Improve Lives."

Sincerely,



Joseph A. Sullivan
Chairman and Chief Executive Officer

BACKGROUND INFORMATION

The 2008 Activities

The resolution with the Department of Justice involved its findings concerning the actions of two foreign based mid-to-lower level employees of our legacy Permal affiliate who left the firm four or more years ago. The resolution described an illegal scheme to bribe Libyan government officials or their family members in return for Libyan government funds investing in an unaffiliated third party financial institution's structured investment products in which the former Permal business provided investment advisory services to the underlying funds within the structure. No bribes to such Libyan officials were ever paid by the former affiliate itself. Rather, they were paid by an intermediary – someone who passed along money that was received from the unaffiliated financial institution – in order to obtain the business for the third party financial institution and the former Permal affiliate.

At that time, the former Permal affiliate was a sub-adviser of several of the structured products marketed by the unaffiliated financial institution. The investments in question were made in calendar years 2005 to 2007 and were closed no later than 2012. In fact, only 3% of the former affiliate's total business during the period came from Libya. No payments were ever made by the former affiliate to the intermediary who was the one who paid the bribes, and no payments from the former Permal business were otherwise used as bribes.

EnTrustPermal is a new entity, formed years after the activities in question, and is not at all involved in this matter.

Legg Mason's Settlement with the Government and the Financial Penalties

Legg Mason has agreed to the terms of a non-prosecution agreement with the Department of Justice. The Department of Justice acknowledged Legg Mason's full cooperation in this matter, the steps we have taken to enhance our compliance program, and our willingness to disgorge the \$31 million in net revenues from this business in reaching its decision to not criminally prosecute Legg Mason. The Department of Justice also acknowledged that the misconduct was not pervasive throughout the company, the company did not maintain the relationship with the intermediary who paid the bribes, and the company was not responsible for leading the scheme.

Legg Mason expects to resolve its case with the U.S. Securities and Exchange Commission for this same matter shortly.

Legg Mason will pay all the financial penalties with respect to these resolutions. The aggregate amount of the financial penalties and other amounts resulting from the settlements with the Department of Justice and the Securities and Exchange Commission is expected to be approximately \$71 million. As described in Legg Mason's Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission, we previously reported a charge for these settlements of \$67 million.

Our Enhanced Compliance Policies, Procedures and Other Related Mechanisms

Other than this one unfortunate matter, neither Legg Mason nor the former Permal business have ever engaged in any misconduct similar to that involved in this case. Over the past decade, Legg Mason has significantly enhanced its oversight compliance policies and procedures and put in place a robust set of policies, training programs, and employee notifications and reminders that reinforce the principles underlying our anti-corruption program. An Anti-Corruption Officer has been named and is responsible for implementing our anti-corruption program throughout the organization. Recently, Legg Mason's anti-corruption program was certified by the Professional Evaluation and Certification Board as being in compliance with the standards released in October 2016 by the International Organization for Standardization with respect to anti-bribery management systems.

We note with pride that Legg Mason was the first company globally to be certified as meeting these standards.