LEGG MASON GLOBAL INVESTMENT SURVEY

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INVESTOR EXPECTATIONS FOR INCOME MAY PROVE UNREALISTIC

- *Demise of Traditional 'Safe' Options May Force Investors to Consider Other Markets and Sectors*

New York, June 19, 2017 – Investors are expecting aggressive, unrealistic returns and higher income than may be available from the retail products they are currently invested in. That is a key conclusion from the annual Global Investment Survey (GIS) conducted by Legg Mason.

According to the survey, income investors seek an overall average rate of return of 8.64 percent. Respondents that are employed seek an even greater 9.27 percent – compared to only 6.22% among the "fully-retired". Yet their portfolios are not delivering at these levels: U.S. respondents claim to achieve a 7.44 percent average rate of return on their income producing investments, with the overall global reported claim being 5.67 percent.

"The gap between the comfortably high retirement income investors want – and many have come to expect – and what markets may deliver has widened, and may grow," said Thomas Hoops, Executive Vice President and Head of Product & Business Development for Legg Mason.

"Historically 'safe,' low-risk income-generating bonds and higher yielding dividend stocks will likely not deliver the same total return as investors have enjoyed over the past few decades," Mr. Hoops said. "To get closer to investors' stated income objectives, and needs, investors must be willing to look beyond traditional bond portfolios created solely within their home market. That requires greater diversification and may mean targeting emerging markets, Europe and Asia, as well as accepting some decreased liquidity and more volatility."

The lack of solid income-generating investment choices in today's marketplace is far from a minor issue. With the demise of defined benefit pension plans, coupled with underfunded defined contribution plans, many retirees may have little to live on beyond Social Security benefits, and the fruits of their investments. This is money retirees will very much need to live on – just as the huge demographic bubble that is the "Baby Boom" generation moves from work into retirement.

GIS respondents reported achieving strong recent returns from their income investments, setting the bar high with outsized performance. However, a large portion of the historical returns in income portfolios have been driven by the 30 year decline in overall interest rates. With rates more likely to rise rather than fall going forward, investors will lose that total return "juice" that accompanies falling rates.

Current yields on select asset classes may be the best gauge of what to expect going forward. In the absence of interest rates falling, which could result in capital gains from bond appreciation, or the use of leverage, an 8.64 percent rate of return for diversified bond assets is highly unlikely.

The U.S. bond market (as gauged by the Bloomberg Barclays US Aggregate Bond Index) has recently yielded 2.5 percent. Global bonds yielded an even lower 1.6 percent, according to the Bloomberg Barclays Global Aggregate Bond Index.

Diversified equity assets are also unlikely to deliver the necessary income yield: U.S. stocks yield just 1.9 percent (i.e. recent dividend yield of the S&P 500 Index); and non-U.S. stocks yield 2.9 percent (MSCI ACWI ex USA Index).

Building an effective income-generating portfolio requires diversification among assets that are higher-earning, often less traditional, and may experience frequent changes in asset values.

Options for increasing the likelihood of achieving 5 percent or more in income/yield include:

- High yield bonds: 5.6 percent average yield (Bloomberg Barclays US Corporate HY Index)
- Emerging market bonds: 5.3 percent average yield (J.P. Morgan EMBI Global Core Index)
- Non-U.S. high dividend stocks: 4.6 percent average dividend yield (MSCI ACWI ex USA High Dividend Yield Index)
- Real estate: 4 percent average dividend yield (MSCI US REIT Index)

"Building a diversified, global, multi-asset class income portfolio has never been more important if investors are to achieve their income goals. Investors should make careful, informed choices in consultation with experienced financial advisors and asset managers.

"To meet investors' income goals, and achieve diversification, allocating to actively-managed products with a multi-manager approach that relies on specialists in each category can be the best approach," Mr. Hoops said. "We believe that strong, effective active management can make a meaningful difference for many retail investors, helping them enjoy their golden years."

About the Legg Mason Global Investment Survey

Cicero Research conducted the fifth annual Legg Mason Global Investment Survey among 900 U.S. participants, including 305 Millennials and 458 investors with investable assets not including their home. Fielding was conducted through an online survey between January and February 2017. To learn more about the survey findings, click here: https://ww2.leggmason.com/gis/.

About Legg Mason

Legg Mason is a global asset management firm with $726 billion in assets under management as of May 31, 2017. The Company provides active asset management in many major investment centers throughout the world. Legg Mason is headquartered in Baltimore, Maryland, and its common stock is listed on the New York Stock Exchange (symbol: LM).

Diversification does not assure a profit or protect against a loss.

All investments involve risk, including loss of principal.