LEGG MASON, INC.
Form 424B3
June 23, 2014
Table of Contents

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying base prospectus are not an offer to sell the Notes nor do they seek an offer to buy the Notes in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 23, 2014

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus Dated January 13, 2014)

$

$	**% Senior Notes due**
$	**% Senior Notes due**
$	**5.625% Senior Notes due 2044**

We are offering $ million aggregate principal amount of our % Senior Notes due (the Notes), $ million aggregate principal amount of our % Senior Notes due (the Notes, and together with the Notes, the New Notes) and $ million aggregate principal amount of our 5.625% Senior Notes due 2044 (the 2044 Notes, and together with the New Notes, the Notes).

The 2044 Notes will be fully fungible with, rank equally with and form a single series with, and have the same CUSIP number as the $400 million aggregate principal amount of our 5.625% Senior Notes due 2044, issued on January 22, 2014 (the Existing Notes). As a result, the outstanding principal amount of our 5.625% Senior Notes due 2044, after issuance of the 2044 Notes offered hereby, will be $ million.

The Notes and the Notes will mature on , and , , respectively, in each case unless earlier redeemed. We will pay interest on the New Notes semi-annually in arrears on each and , beginning . The 2044 Notes mature on January 15, 2044, unless earlier redeemed. We will pay interest on the 2044 Notes semi-annually in arrears on each January 15 and July 15, beginning July 15, 2014. The interest payment for the 2044 Notes on July 15, 2014 will include accrued interest from and including January 22, 2014. We have the option to redeem all or a portion of the Notes at any time, or from time to time, as described in this prospectus supplement.

The Notes will be our unsecured and unsubordinated obligations and will rank equally with all of our future unsecured senior indebtedness.

We do not intend to list the Notes on any securities exchange.

Investing in the Notes involves risks. See Risk Factors beginning on page S-7 of this prospectus supplement and in our other reports filed with the Securities and Exchange Commission (the SEC) pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), and which we incorporate by reference herein.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement and the accompanying base prospectus. Any representation to the contrary is a criminal offense.

	Per Note	Total	Per Note	Total	Per 2044 Note	Total
Public offering price	%(1)	$ (1)	%(1)	$ (1)	%(2)	$ (2)
Underwriting discount	%	$	%	$	%	$
Proceeds to Legg Mason, Inc. (before expenses)	%(1)	$ (1)	%(1)	$ (1)	%(2)	$ (2)

(1) Plus accrued interest from and including , 2014, if settlement occurs after that date.
(2) Plus accrued interest from and including January 22, 2014.

Delivery of the Notes in book-entry only form will be made through the facilities of The Depository Trust Company (DTC) and its participants, including Clearstream Banking, *société anonyme* and Euroclear Bank S.A./N.V. on or about , 2014.

Joint Book-Running Managers

Citigroup **J.P. Morgan**

, 2014

Table of Contents

We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus supplement, the accompanying base prospectus or any free writing prospectus prepared by us or incorporated by reference herein or therein. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus supplement, the accompanying base prospectus and any free writing prospectus prepared by us do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus supplement, the accompanying base prospectus or any free writing prospectus prepared by us nor any sale made hereunder or thereunder shall, under any circumstances, create any implication that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

TABLE OF CONTENTS

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of the Notes and also adds to and updates the information contained in the accompanying base prospectus and the documents incorporated by reference into the accompanying base prospectus. The second part is the accompanying base prospectus, which gives more general information, some of which may not apply to the Notes. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying base prospectus or any document that has previously been filed, on the other hand, the information in this prospectus supplement shall control.

Unless provided otherwise or the context otherwise requires, references in this prospectus supplement to the Company, Legg Mason, we, us and our are to Legg Mason, Inc. and to its predecessors and subsidiaries.

Table of Contents

FORWARD-LOOKING INFORMATION

Certain statements included in this prospectus supplement, the accompanying base prospectus and any documents incorporated by reference constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Exchange Act. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by any forward-looking statements. These forward-looking statements may contain information related, but not limited to:

- anticipated growth in revenues, margins or earnings per share;
- anticipated future net client cash flows, and uses for free cash;
- anticipated future performance of our business, including expected earnings per share in future periods;
- anticipated changes in our business or in the amount of client assets under management;
- anticipated expense levels, changes in expenses and expectations regarding financial market conditions;
- anticipated investment performance of, or levels of asset flows to, asset management products we manage;
- anticipated future investment performance of our affiliates;
- anticipated future transactions such as acquisitions; and
- anticipated performance of recent, pending and future acquisitions.

In some cases, you can identify forward-looking statements by terminology such as may, will, could, would, shou expect, plan, anticipate, intend, believe, estimate, predict, potential or continue or the negative of tho comparable terminology. These statements are only predictions. Actual events or results may differ materially due to a number of factors including, but not limited to:

- the volatility and general level of securities prices and interest rates;
- the competitive nature of the asset management industry;

changes in investor sentiment and confidence;

changes in domestic and foreign economic and market conditions;

changes in our total assets under management or their composition due to investment performance, client withdrawals or inflows, market conditions, competitive pressures or other reasons;

the mix of our assets under management among our affiliates and the revenue yield of our assets under management;

the relative investment performance of company-sponsored investment funds and other asset management products both in absolute terms and relative to competing offerings and market indices;

our ability to maintain investment management and administrative fees at current levels;

our ability to attract and retain key personnel;

the loss of key employees or principals of our current or future operating subsidiaries;

fluctuations in operating expenses due to variations in levels of compensation expense incurred as a result of changes in the number of total employees, competitive factors, changes in the percentages of revenues paid as compensation or other reasons;

the effect of current and future federal, state and foreign regulation of the asset management industry, including potential liability under applicable securities laws;

market, credit and liquidity risks associated with our investment management activities;

variations in the level of compensation expense incurred as a result of changes in the number of total employees, competitive factors, the percentages of revenues paid as compensation or other factors;

Table of Contents

variations in expenses and capital costs, including depreciation, amortization and other non-cash charges incurred by us to maintain our administrative infrastructure;

the impairment of acquired intangible assets and goodwill;

costs associated with any credit support activities we engage in with regard to funds managed by our subsidiaries;

potential restrictions on the business of, and withdrawal of capital from, certain of our subsidiaries due to net capital requirements;

unanticipated costs that may be incurred by Legg Mason from time to time to protect client goodwill, to otherwise support investment products or in connection with litigation or regulatory proceedings; and

the effect of any acquisitions and dispositions, including prior acquisitions.

We have no duty to update any of the forward-looking statements after the date of this prospectus supplement, the accompanying base prospectus or any documents incorporated by reference. In assessing these forward-looking statements you should carefully consider the factors discussed under the captions Risk Factors in this prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements and Risk Factors in our Quarterly Reports on Form 10-Q and our most recent Annual Report on Form 10-K.

We caution the reader that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risks emerge from time to time. Management cannot predict such new risks or the impact of such new risks on our businesses. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results.

Table of Contents

SUMMARY

This summary highlights selected information contained or incorporated by reference in the prospectus supplement and the accompanying base prospectus. You should read this entire prospectus supplement, the accompanying base prospectus and the documents incorporated by reference carefully before investing. You should also review Risk Factors to determine whether an investment in the Notes is appropriate for you.

Legg Mason, Inc.

Legg Mason is a global asset management company. Acting through our subsidiaries, we provide investment management and related services to institutional and individual clients, company sponsored mutual funds and other pooled investment vehicles. We offer these products and services directly and through various financial intermediaries. We have operations principally in the United States of America and the United Kingdom and also have offices in Australia, Bahamas, Brazil, Canada, Chile, China, Dubai, France, Germany, Italy, Japan, Poland, Singapore, Spain, Switzerland and Taiwan.

Legg Mason, Inc. was incorporated in Maryland in 1981 to serve as a holding company for its various subsidiaries. The predecessor companies to Legg Mason trace back to Legg & Co., a Maryland-based broker-dealer formed in 1899. Our subsequent growth has occurred primarily through internal expansion and the acquisition of asset management and broker-dealer firms. In December 2005, Legg Mason completed a transaction in which it sold its primary broker-dealer businesses to concentrate on the asset management industry.

Table of Contents

The Notes Offering

The summary below sets forth some of the principal terms of the Notes. Please read the Description of Notes section in this prospectus supplement and the Description of Debt Securities section in the accompanying prospectus for a more detailed description of the terms and conditions of the Notes.

Issuer	Legg Mason, Inc.
Notes	$ aggregate principal amount of % Senior Notes due (the Notes).
	$ aggregate principal amount of % Senior Notes due (the Notes, and together with the Notes, the New Notes).
	$ aggregate principal amount of 5.625% Senior Notes due 2044 (the 2044 Notes, and together with the New Notes, the Notes), which will be fully fungible with, rank equally with, form a single series with and have the same CUSIP number as the $400 million aggregate principal amount of our 5.625% Senior Notes due 2044, issued on January 22, 2014 (the Existing Notes).
Maturity of Notes	The Notes mature on , , the Notes mature on , and the 2044 Notes mature on January 15, 2044, unless, in each case, redeemed as described below under Description of Notes Optional Redemption.
Interest Rate	For the Notes: % per annum.
	For the Notes: % per annum.
	For the 2044 Notes: 5.625% per annum.
Interest Payment Dates	We will pay interest on the New Notes on each and , beginning on , 2014. We will pay interest on the 2044 Notes on each January 15 and July 15, beginning on July 15, 2014. The interest payment made with respect to the 2044 Notes on July 15, 2014 will include accrued interest from and including January 22, 2014.

Change of Control Repurchase Event	If a Change of Control Repurchase Event occurs with respect to a series of Notes, we must offer to repurchase all the Notes of such series at a price equal to 101% of the principal amount plus accrued and unpaid interest to the repurchase date. See Description of Notes Covenants Offer to Repurchase Upon a Change of Control Repurchase Event.
Limitations on Sales of Designated Subsidiaries	If, at the time when any of the 5.50% senior notes due 2019 (the 5.50% Notes) are outstanding, we or a subsidiary reduces our ownership of a class or series of capital stock in a Designated Subsidiary to below 80%, in certain circumstances, we will be required to redeem or repay debt secured by such capital stock, repay term loans under any Credit Agreement otherwise maturing within one year, invest in Additional Assets or offer to repay the Notes as described under Description of Notes Covenants Limitation on Dispositions of Capital Stock of Designated Subsidiaries. See Use of Proceeds.

Table of Contents

Limitations on Liens	We and our subsidiaries will not create, assume, incur or guarantee any indebtedness that is secured by a Lien on any Voting Stock or profit participating equity interests of any Significant Subsidiary, without providing that the Notes will be equally and ratably secured. See Description of Notes Covenants Limitations on Liens.
Ranking	The Notes will be our unsecured and unsubordinated obligations and will rank equally in right of payment with all of our other unsecured and unsubordinated senior indebtedness from time to time outstanding.
Optional Redemption	We have the option to redeem all or a portion of the Notes at any time, or from time to time, on no less than 30 nor more than 60 days notice mailed to holders thereof at the applicable make-whole price set forth in this prospectus supplement. See Description of Notes Optional Redemption.
Sinking Fund	None.
Use of Proceeds	We estimate that the net proceeds from this offering will be approximately $, after deducting the underwriting discount and offering expenses. We expect to use the net proceeds of this offering to repay, repurchase or redeem our 5.50% Notes. See Use of Proceeds.
No Listing	We do not intend to list the Notes on any securities exchange.
Trustee and Paying Agent	The Bank of New York Mellon.
Governing Law	New York law.
Certain Risk Factors	An investment in the Notes involves risks. Please refer to the risk factors beginning on page S-7 of this prospectus supplement and the risk factors included in the reports we file with the SEC pursuant to the Exchange Act which we incorporate by reference herein.

Table of Contents

Summary Consolidated Financial Data

The following table sets forth summary consolidated financial data. We derived the summary operating results for the fiscal years ended March 31, 2014, 2013 and 2012, and the summary balance sheet data as of March 31, 2014 and 2013 from our audited consolidated financial statements incorporated by reference in this prospectus supplement and the accompanying base prospectus. The summary operating results for the fiscal years ended March 31, 2011 and 2010, and the balance sheet data as of March 31, 2012, 2011 and 2010 are derived from our audited consolidated financial statements not included or incorporated by reference in this prospectus supplement or the accompanying base prospectus. This summary financial data is qualified by reference to, and should be read in conjunction with, our historical financial statements, including the notes thereto.

	Years Ended March 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(Dollars in thousands, unless otherwise noted)				
OPERATING RESULTS					
Operating revenues	$ 2,741,757	$ 2,612,650	$ 2,662,574	$ 2,784,317	$ 2,634,879
Operating expenses, excluding impairment	2,310,864	2,313,149	2,323,821	2,397,509	2,313,696
Impairment of intangible assets and goodwill		734,000			
Operating income (loss)	430,893	(434,499)	338,753	386,808	321,183
Other non-operating expense, net	(13,726)	(73,287)	(54,006)	(23,315)	(32,027)
Other non-operating income (loss) of consolidated investment vehicles, net	2,474	(2,821)	18,336	1,704	17,329
Fund support					23,171
Income (loss) before income tax provision (benefit)	419,641	(510,607)	303,083	365,197	329,656
Income tax provision (benefit)	137,805	(150,859)	72,052	119,434	118,676
Net income (loss)	281,836	(359,748)	231,031	245,763	210,980
Less: net income (loss) attributable to noncontrolling interests	(2,948)	(6,421)	10,214	(8,160)	6,623
Net income (loss) attributable to Legg Mason, Inc.	$ 284,784	$ (353,327)	$ 220,817	$ 253,923	$ 204,357
BALANCE SHEET					
Total assets	$ 7,111,349	$ 7,269,660	$ 8,555,747	$ 8,707,756	$ 8,622,632
Long-term debt[1]	1,039,264	1,144,954	1,136,892	1,201,868	1,170,334
Total stockholders equity	4,724,724	4,818,351	5,677,291	5,770,384	5,841,724
FINANCIAL RATIOS AND OTHER DATA					

Total debt to total capital[2]	18.0%	19.2%	19.6%	20.1%	19.6%
Assets under management (*in millions*) at period end	$ 701,774	$ 664,609	$ 643,318	$ 677,646	$ 684,549

(1) Includes current portion of long-term debt.
(2) Calculated based on total debt as a percentage of total capital (total stockholders equity plus total debt).

Table of Contents

RISK FACTORS

An investment in the Notes involves various material risks. Before making your investment decision, you should carefully review the following risk factors and the risks discussed under the caption Risk Factors in our Annual Report on Form 10-K filed with the SEC on May 23, 2014, which is incorporated by reference in this prospectus supplement and the accompanying base prospectus, or any similar caption in the documents that we subsequently file with the SEC that are deemed to be incorporated by reference in this prospectus supplement, and the accompanying base prospectus, and in any pricing term sheet that we provide you in connection with the offering of Notes pursuant to this prospectus supplement. You should also carefully review the other risks and uncertainties discussed in this prospectus supplement and the accompanying base prospectus, the documents incorporated and deemed to be incorporated by reference and in any such pricing term sheet.

Risks Relating to Our Business

Our Leverage May Affect Our Business and May Restrict Our Operating Results

At March 31, 2014, on a consolidated basis, we had approximately $1.0 billion in total indebtedness, excluding debt of consolidated investment vehicles for which we are not responsible, and total stockholders equity of $4.7 billion, and our goodwill and other intangible assets were $1.2 billion and $3.2 billion, respectively. As of March 31, 2014, we had $750 million of additional borrowing capacity available under our various credit agreements, subject to certain conditions and compliance with the covenants in our outstanding indebtedness. As a result of this substantial indebtedness, we are required to use a significant portion of our cash flow to service principal and interest on our debt, which will limit the cash flow available for other business opportunities. In addition, these servicing obligations would increase in the future if we incur additional indebtedness.

Our ability to make scheduled payments of principal, to pay interest, or to refinance our indebtedness and to satisfy our other debt obligations will depend upon our future operating performance, which may be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control and by a variety of factors specific to our business.

The level of our indebtedness could:

- limit our ability to obtain additional debt financing in the future or to borrow under our existing credit facilities (our principal bank debt facility requires that (i) our ratio of net debt (total debt less unrestricted cash in excess of working capital) to Consolidated EBITDA (as defined therein) not exceed 2.5 to 1, and (ii) our ratio of Consolidated EBITDA to total cash interest payments on certain Indebtedness (as defined therein) exceeds 4 to 1);

- limit cash flow available for general corporate purposes due to the ongoing cash flow requirements for debt service;

- limit our flexibility, including our ability to react to competitive and other changes in the industry and economic conditions; and place us at a competitive disadvantage compared to our competitors that have less debt.

As of March 31, 2014, under the terms of our bank credit agreement our ratio of net debt to Consolidated EBITDA was 1.2 to 1 and our ratio of Consolidated EBITDA to interest expense was 12.5 to 1, and, therefore, Legg Mason was in compliance with its bank financial covenants. If our net income significantly declines for any reason, it may be difficult to remain in compliance with these covenants. Similarly, to the extent that we spend our available cash for purposes other than repaying debt or acquiring businesses that increase our EBITDA, we will increase our net debt to Consolidated EBITDA ratio. Although there are actions that we may take if our financial covenant compliance becomes an issue, there can be no assurance that Legg Mason will remain in compliance with its bank debt covenants.

In addition, the terms of the $650 million senior notes that we issued in May 2012 and the $400 million Existing Notes that we issued in January 2014 provide limitations on our ability to sell, and the use of proceeds from any sale of, certain significant subsidiaries.

Table of Contents

Our access to credit on reasonable terms is also partially dependent on our credit ratings. If our credit ratings are downgraded, it will likely become more difficult and costly for us to access the credit markets or otherwise incur new debt.

Upon the occurrence of various events, such as a change of control, some or all of our outstanding debt obligations may come due prior to their maturity dates and may require payments in excess of their outstanding amounts, which in certain circumstances may be significant.

We May Support Money Market Funds to Maintain Their Stable Net Asset Values, or Other Products We Manage, Which Could Affect our Revenues or Operating Results

Approximately 21% of our assets under management as of March 31, 2014, consisted of assets in money market funds. Money market funds seek to preserve a stable net asset value. The money market funds our asset managers manage have always maintained this stable net asset value. However, there is no guarantee that this stable net asset value will be achieved in the future. Market conditions could lead to severe liquidity or security pricing issues, which could impact their net asset values. If the net asset value of a money market fund managed by our asset managers were to fall below its stable net asset value, we would likely experience significant redemptions in assets under management and reputational harm, which could have a material adverse effect on our revenues or net income.

If a money market fund s stable net asset value comes under pressure, we may elect, as we have done in the past, to provide credit, liquidity, or other support to the fund. We may also elect to provide similar or other support, including by providing liquidity to a fund, to other products we manage for any number of reasons. We are not legally required to support any money market fund or other product and there can be no assurance that any support would be sufficient to avoid an adverse impact on any product or investors in any product. A decision to provide support may arise from factors specific to our products or from industry-wide factors. If we elect to provide support, we could incur losses from the support we provide and incur additional costs, including financing costs, in connection with the support. These losses and additional costs could be material, and could adversely affect our earnings. If we were to take such actions we may also restrict our corporate assets, limiting our flexibility to use these assets for other purposes, and may be required to raise additional capital.

Poor Investment Performance Could Lead to a Loss of Assets Under Management and a Decline in Revenues

We believe that investment performance is one of the most important factors for the maintenance and growth of our assets under management. Poor investment performance, either on an absolute or relative basis, could impair our revenues and growth because:

- existing clients might withdraw funds in favor of better performing products, which would result in lower investment advisory and other fees;

- our ability to attract funds from existing and new clients might diminish; and

- negative absolute investment performance will directly reduce our managed assets.

In addition, in the ordinary course of our business we may reduce or waive investment management fees, or limit total expenses, on certain products or services for particular time periods to manage fund expenses, or for other reasons, and to help retain or increase managed assets. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced. From time to time over the last seven fiscal years, several of our key equity and fixed income asset managers generated poor investment performance, on a relative basis or an absolute basis, in certain products or accounts that they managed. These investment performance issues contributed to a significant reduction in their assets under management and revenues and a reduction in performance fees. Although our overall investment performance has improved over the last four fiscal years, we still face periodic performance issues with certain of our products, and there is typically a lag before improvements in investment performance produce a positive effect on asset flows. There can be no assurances as to when, or if, investment performance issues will cease to influence our assets under management and revenues.

Table of Contents

Assets Under Management May Be Withdrawn, Which May Reduce Our Revenues and Net Income

Our investment advisory and administrative contracts are generally terminable at will or upon relatively short notice, and investors in the mutual funds that we manage may redeem their investments in the funds at any time without prior notice. Institutional and individual clients can terminate their relationships with us, reduce the aggregate amount of assets under management, or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, changes in investment preferences of clients, changes in our reputation in the marketplace, changes in management or control of clients or third-party distributors with whom we have relationships, loss of key investment management or other personnel and financial market performance. This risk is underscored by the fact that we have two international clients that represent approximately 12.2% (primarily liquidity assets) and 1.8%, respectively, of our total assets under management that generate approximately 3.1% and less than 0.1%, respectively, of our operating revenues. In the first quarter of fiscal 2015, we will begin reporting assets under advisement (AUA), and the assets of the second of these clients will be reclassified to AUA. In addition, in a declining securities market, the pace of mutual fund redemptions and withdrawal of assets from other accounts could accelerate. Poor investment performance generally or relative to other investment management firms tends to result in decreased purchases of fund shares, increased redemptions of fund shares, and the loss of institutional or individual accounts. Due in part to investment performance issues, we have experienced net outflows of equity assets under management for the last eight fiscal years. Though we experienced net inflows in our overall AUM in fiscal year 2014, there can be no assurance that inflows will continue in the future. During fiscal years 2014 and 2013 we had $8.3 billion in net client inflows, due to inflows in liquidity assets offset by outflows in equity and fixed income assets, and $11.7 billion in net client outflows, respectively. The fiscal year 2014 inflows included $12.1 billion in liquidity inflows and $1.2 billion in fixed income inflows, which were partially offset by $5.0 billion in equity outflows.

If We Are Unable to Maintain Our Fee Levels or If Our Asset Mix Changes, Our Revenues and Margins Could Be Reduced

Our profit margins and net income are dependent in significant part on our ability to maintain current fee levels for the products and services that our asset managers offer. There has been a trend toward lower fees in some segments of the asset management industry, and no assurances can be given that we will be able to maintain our current fee structure. Competition could lead to our asset managers reducing the fees that they charge their clients for products and services. See Competition in the Asset Management Industry Could Reduce our Revenues and Net Income. In addition, our asset managers may be required to reduce their fee levels, or restructure the fees they charge, because of, among other things, regulatory initiatives or proceedings that are either industry-wide or specifically targeted, or court decisions. A reduction in the fees that our asset managers charge for their products and services will reduce our revenues and could reduce our net income. These factors also could inhibit our ability to increase fees for certain products.

Our assets under management can generate very different revenues per dollar of managed assets based on factors such as the type of asset managed (equity assets generally produce greater revenues than fixed income assets), the type of client (institutional clients generally pay lower fees than other clients), the type of asset management product or service provided and the fee schedule of the asset manager providing the service. A shift in the mix of our assets under management from higher revenue-generating assets to lower revenue-generating assets may result in a decrease in our revenues even if our aggregate level of assets under management remains unchanged or increases. A decrease in our revenues, without a commensurate reduction in expenses, will reduce our net income. Although we experienced a shift in the mix of our assets under management during fiscal year 2014, during which our equity assets under management increased from $161.8 billion (24% of our total assets under management) on March 31, 2013 to $186.4 billion (27% of our total assets under management) on March 31, 2014, there can be no assurances that this shift will continue.

S-9

Table of Contents

Our Mutual Fund Management Contracts May Not Be Renewed, Which May Reduce Our Revenues and Net Income

A substantial portion of our revenue comes from managing U.S. mutual funds. We generally manage these funds pursuant to management contracts with the funds that must be renewed and approved by the funds boards of directors annually. A majority of the directors of each mutual fund are independent from us. Although the funds boards of directors have historically approved each of our management contracts, there can be no assurance that the board of directors of each fund that we manage will continue to approve the funds management contracts each year, or will not condition its approval on the terms of the management contract being revised in a way that is adverse to us. If a mutual fund management contract is not renewed, or is revised in a way that is adverse to us, it could result in a reduction in our revenues and, if our revenues decline without a commensurate reduction in our expenses, our net income will be reduced.

Unavailability of Appropriate Investment Opportunities Could Hamper Our Investment Performance or Growth

An important component of investment performance is the availability of appropriate investment opportunities for new client funds. If any of our asset managers is not able to find sufficient investments for new client assets in a timely manner, the asset manager s investment performance could be adversely affected. Alternatively, if one of our asset managers does not have sufficient investment opportunities for new funds, it may elect to limit its growth by reducing the rate at which it receives new funds. Depending on, among other factors, prevailing market conditions, the asset manager s investment style, regulatory and other limits and the market sectors and types of opportunities in which the asset manager typically invests (such as less capitalized companies and other more thinly traded securities in which relatively smaller investments are typically made), the risks of not having sufficient investment opportunities may increase when an asset manager increases its assets under management, particularly when the increase occurs very quickly. If our asset managers are not able to identify sufficient investment opportunities for new client funds, their investment performance or ability to grow may be reduced.

Changes in Securities Markets and Prices May Affect Our Revenues and Net Income

A large portion of our revenue is derived from investment advisory contracts with clients. Under these contracts, the investment advisory fees we receive are typically based on the market value of assets under management. Accordingly, a decline in the prices of securities generally may cause our revenues and income to decline by:

- causing the value of our assets under management to decrease, which would result in lower investment advisory and other fees;

- causing our clients to withdraw funds in favor of investments they perceive offer greater opportunity or lower risk, which would also result in lower investment advisory and other fees; or

- decreasing the performance fees earned by our asset managers.

There are often substantial fluctuations in price levels in the securities markets. These fluctuations can occur on a daily basis and over longer periods as a result of a variety of factors, including national and international economic and political events, broad trends in business and finance, and interest rate movements. Reduced securities market prices generally may result in reduced revenues from lower levels of assets under management and loss or reduction in advisory, incentive and performance fees. Periods of reduced market prices may adversely affect our profitability because fixed costs remain relatively unchanged. Because we operate in one industry, the business cycles of our asset managers may occur contemporaneously. Consequently, the effect of an economic downturn may have a magnified negative effect on our business.

In addition, as of March 31, 2014, a substantial portion of our invested assets consisted of securities and other seed capital investments. A decline in the value of equity, fixed income or other alternative securities could lower the value of these investments and result in declines in our non-operating income and net income. Increases or decreases in the value of these investments could increase the volatility of our earnings.

Table of Contents

Changes in Interest Rates Could Have Adverse Effects on Our Assets Under Management

Increases in interest rates from their historically low present levels may adversely affect the net asset values of our assets under management. In addition, in a rising interest rate environment institutional investors may shift liquidity assets that we manage in pooled investment vehicles to direct investments in the types of assets in which the pooled vehicles invest in order to realize higher yields. Furthermore, increases in interest rates may result in reduced prices in equity markets. Conversely, decreases in interest rates could lead to outflows in fixed income or liquidity assets that we manage as investors seek higher yields. Any of these effects could lower our assets under management and revenues and, if our revenues decline without a commensurate reduction in our expenses, our net income will be reduced.

The current historically low interest rate environment affects the yields of money market funds, which are based on the income from the underlying securities less the operating costs of the funds. With short-term interest rates at or near zero, the operating expenses of money market funds may become greater than the income from the underlying securities. We are monitoring the industry wide low yields of money market funds, which may result in negative yields, particularly in Europe, which could have a significant adverse effect on the industry in general and our liquidity business in particular. During the past three fiscal years, we voluntarily waived certain fees or assumed expenses of money market funds for competitive reasons, such as to maintain competitive yields. These fee waivers resulted in approximately $110.0 million in reduced investment advisory revenues in fiscal year 2014, and have continued into the present fiscal year.

Competition in the Asset Management Industry Could Reduce Our Revenues and Net Income

The asset management industry in which we are engaged is extremely competitive and we face substantial competition in all aspects of our business. We compete with numerous international and domestic asset management firms and broker-dealers, mutual fund complexes, hedge funds, commercial banks, insurance companies, other investment companies and other financial institutions. Many of these organizations offer products and services that are similar to, or compete with, those offered by our asset managers and have substantially more personnel and greater financial resources than we do. Some of these competitors have proprietary products and distribution channels that make it more difficult for us to compete with them. In addition, many of our competitors have long-standing and established relationships with distributors and clients. From tim