

TAX STRATEGY

FEBRUARY 2019

Legg Mason is one of the world's largest asset managers. Headquartered in Baltimore, USA, we provide investment management and related services to institutional and individual clients, company-sponsored mutual funds and other investment vehicles.

Legg Mason provides its asset management services predominantly through its nine subsidiary asset managers (referred to as "Affiliates"), each of which generally markets its products and services under its own brand name and, in many cases, distributes retail products and services through a centralised global distribution platform.

Legg Mason has a 'no chalk' approach to managing its tax affairs. 'No chalk' is the shorthand phrase we have used for many years as a metaphor for ethical behavior across the business - like an athlete competing on a playing field, we want to stay well inside the boundary lines and have 'no chalk on our shoes'.

This tax strategy applies to all Legg Mason Inc. group companies, managed funds and Affiliates ("the Group"). This strategy forms part of the Group's ethical framework for employees, who are expected to uphold our 'no chalk' standard.

OUR TAX GOVERNANCE

- Ultimate responsibility for the Group's tax governance sits with the Chief Financial Officer ("CFO") and is overseen by the Audit Committee of the Legg Mason Inc. Board ("the Board"). The CFO considers tax planning to be a key strategic priority and the Group's tax planning policy, tax strategy and tax risk management procedures are discussed and agreed with the CFO.
- The CFO maintains a high level of engagement when it comes to tax matters, meeting with the Global Head of Tax on a monthly basis and with the wider tax department on a quarterly basis.

- The Global Head of Tax presents to the Audit Committee of the Board on at least an annual basis.
- Each Affiliate regularly updates the Global Head of Tax on tax matters specific to its operations.

OUR TAX RISK MANAGEMENT

- We proactively manage any tax risks that the Group is exposed to and seek to ensure that adequate controls are in place to mitigate the possibility of reputational or financial damage.
- The key tax risks that impact our business can be classified as:

Reputational — The risk that our brand will be negatively affected because of the way in which the Group manages its tax affairs.

Compliance — The risk that the Group will not meet its tax compliance, reporting or other legal obligations.

Legislative — The risk associated with the interpretation and application of ever changing tax law and regulation.

Transactional — The risk that business decisions are made without adequate consideration of the tax implications of those decisions.

- We manage tax risk by using our existing internal control frameworks. Broadly, these frameworks are geared toward the identification, management and mitigation of tax risk.
- The Global Head of Tax has the primary responsibility for identifying tax risks and putting controls in place to manage and mitigate those risks. He is supported by the Head of International Tax and the Head of VAT, who work with other Heads of Business to identify tax risks across the Group's Affiliates and operating functions.

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- The Legg Mason Group Enterprise Risk Management Team, including Internal Audit, provide independent oversight and assessment of the Group's risk management processes on a periodic basis.
- The Group has a low appetite for tax risk. This means that we will only tolerate risk where our systems and controls adequately mitigate the chance of possible adverse impacts on the Group. Any tax risks that exceed the Group's risk tolerance are escalated to the Audit Committee of the Board.
- The Global Head of Tax maintains a continuous dialogue on tax matters with the Group's external auditors. Any potential audit issues are identified and resolved in 'real time'.
- The tax department provides tax compliance and advisory support for the Group's global operations, including to the Affiliates. As part of this support, the tax department regularly assesses the possible impact of new tax legislation on the Group's operations.
- The tax department maintains a culture of 'open communication' with other business functions and Heads of Business are encouraged to seek the advice of the tax department when making operational decisions.
- One key element in our tax risk management strategy is that the Group only employs tax personnel with the appropriate knowledge and experience. Employees are encouraged to complete at least 40 hours of professional development each year to ensure they remain up to date with the latest legislative changes and industry trends.

OUR ATTITUDE TO TAX PLANNING

- We have a responsibility to our shareholders and clients to structure our affairs in a tax efficient manner. Accordingly, we will take advantage of opportunities to maximize our tax efficiency where these are fully justifiable under the law, do not go against our 'no chalk' principle or contravene the Group's Code of Conduct.
- The Group takes its responsibility to be a 'good corporate citizen' seriously when it comes to managing its tax affairs. We allocate profits in a manner that is compliant with transfer pricing rules and fairly represents the economic contribution within each jurisdiction to the Group's overall operations.
- In order to ensure that the Group's tax planning and tax risk management adheres to our 'no chalk' principle, specialist external advice will be sought where the law is uncertain, complex or where the Group undertakes any large or complicated transactions.
- We withhold tax and social security contributions from our employees' remuneration as required by law in each jurisdiction. We do not structure remuneration arrangements in a manner that is intended to artificially lower the tax liabilities of our employees.
- We do not enter into tax planning arrangements that are not supported by robust technical analysis or lack a commercial rationale.

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What we do:

- Identify tax implications/exposures and manage them proactively.
- Analyze tax technical implications of business transactions carefully.
- Structure business transactions on a tax-efficient basis.
- Ensure that the tax treatment adopted is sound and supported by external professional opinion if necessary.

What we don't do:

- Deal with tax on a reactive basis.
- Determine tax outcomes without technical rigor.
- Undertake planning that has no commercial foundation.
- Adopt tax arrangements that might give rise to reputational risk.

OUR RELATIONSHIP WITH TAX AUTHORITIES

- We aim to build constructive relationships with tax authorities in the jurisdictions in which we operate. We achieve this by:
 - Being open, transparent and cooperative in our dealings with tax authorities. For example, we may disclose upcoming changes in our business or errors to authorities in the interests of creating an open dialogue.
 - Complying with our legal obligations, including our compliance, reporting and payment responsibilities in each jurisdiction. We abide by any guidelines or recommendations issued by tax authorities, which are intended to supplement legislation.
 - We respond to queries from tax authorities in a timely manner and are forthcoming with information when requested.
- We adhere to our responsibilities under the United Kingdom's Senior Accounting Officer regime and the Corporate Criminal Offence legislation.
- Occasionally, our interpretation of the law may vary from that of tax authorities. Where this situation arises, we are committed to working with the tax authority to resolve the issue in a timely and constructive manner.
- We support initiatives to reduce complexity and improve tax transparency, including measures introduced by the OECD to combat base erosion and profit shifting.

The Group regards the publication of this tax strategy as complying with our duty under paragraph 16(2), Part 2 of Schedule 19 of the Finance Act 2016.