Registered number: 6324517

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

COMPANY INFORMATION

Directors	T W Fetter M P Glassman J P LaRocque U Schliessler A B Spector
Registered number	6324517
Registered office	Level 17 110 Bishopsgate London EC2N 4AY
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2017

Introduction

The Directors present their strategic report and the audited financial statements for the year ended 31 March 2017.

Business review

Brandywine Global Investment Management (Europe) Limited ("the Company") provides investment and distribution support on behalf of an affiliated entity, Brandywine Global Investment Management, LLC ("'BGIM"), an investment management firm headquartered in the United States of America. The Company is authorised to conduct investment business by the Financial Conduct Authority ("FCA"), in accordance with the Financial Services and Markets Act 2000.

Additionally, the Company provides investment management services to external clients in respect of a number of separately managed accounts ("SMAs").

Principal risks and uncertainties

The Company operates in a highly competitive industry subject to global economic conditions as well as equity and fixed income market performance. The Company's core business risk is a reduction in assets under management ("AUM"), which results directly in decreased fee income. During the year the Company's exposure to risk was hedged by the fact that the Company had a contractual undertaking with BGIM for a service fee to cover the Company's costs.

Risk Assessment Process

The functional business areas generate updates to the departmental risk register. All risks are categorised using the risk categories per the Company's key risk area on a top down basis and are discussed with functional area heads of department. This risk taxonomy is used as the basis for identifying the operational risk scenarios as part of the Pillar 2 process for the ICAAP. Data from the Risk Register which would indicate the impact of potential scenarios occurring in the future is used to assess capital requirements.

The Company is committed to managing its affairs in a manner consistent with the FCA's risk management standards. Accordingly the Company has adopted a risk policy (the "Risk Policy") to document its risk control framework that it used to identify, assess, measure, manage, monitor, mitigate and report on its risks. The key risks are presented to the Board, including the likelihood of the identified risk. The key areas of risk for the Company are as follows:

- **Operational Risk**

  As a client servicing and asset management business, the Company's main potential risk is the exposure to operational risk. The Company and BGIM (by whom client service support is provided and to whom asset management responsibility has been outsourced) have substantial systems and controls in place to mitigate operational risk. The Company has no tolerance for operational risks that have not been properly assessed and controlled.

Principal risks and uncertainties (continued)

- **Business and Strategic Risk**

  The Company operates in a highly competitive industry subject to global economic conditions as well as equity and fixed income market performance. The Company's core business risk is a reduction in assets under management, which results directly in decreased fee income.

- **Reputational Risk**

  The Company's reputation depends upon the way it conducts its business. Legg Mason group companies operate under a "no chalk" code of conduct, - " i.e. that all employees must stay well inside the boundary lines for ethical behaviour" by carrying out its business in a responsible and ethical manner.

  The Company's reputation is paramount and safeguarding it is the responsibility of all members of staff, supported by the risk control framework, relevant policies, guidance and training.

- **Market Risk**

  Market risk is defined as the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates.

  The Company does not deal on its own account. The Company's exposure to market risk is largely limited to its foreign exchange exposure related to accounts receivable and payable. The exposure is minimal and mitigated by monthly balance sheet revaluations and projections as well as by currency hedging.

  Market risks that result in a decline in market valuation will also result in decreased fee income.

- **Regulatory risk**

  Regulatory Risk is the risk to the reputation and financial health of the Company of a failure to comply with regulatory requirements and expectations. The current environment and the outlook, near term at least, is one of increased regulatory activity with many new and changed regulations being issued in many jurisdictions. The Board, in line with Legg Mason, Inc. ("the Parent") expectations, only seeks to undertake business in accordance with the regulatory requirements. As the regulatory environment evolves the Board continues to seek input from internal and external experts and review the necessary resources, processes and systems required to achieve regulatory compliance.

  Whilst there are several new regulatory and legislative requirements being implemented, MiFID II will have a significant impact on all stakeholders in the Company. Project teams have been established and are working on the impact of these requirements and tracking the changes required for compliance.

- **Counterpart Credit Risk**

  The Company organises its investment management activities such that it is not directly exposed to counterparty credit risk as the Company does not arrange custody of clients' money or assets.

Principal risks and uncertainties (continued)

- **Credit Risk**

  The Company's exposure to credit risk is limited to its cash at bank and receivables. The majority of third-party receivables come from BGIM, with payments being made monthly. Cash is held on deposit at institutions with investment grade credit ratings and in accordance with the Legg Mason Treasury policy may also include Money Market Funds, with equivalent credit ratings; and subject to agreed counterparty and concentration limits. In addition intercompany revolving credit agreements may also be used, whereby cash is loaned amongst Legg Mason, Inc., group companies.

- **Liquidity Risk**

  Exposure to liquidity risk rests with the management of cash balances and operating cash requirement. The Company has consistently maintained sufficient liquid resources to meet is obligations and is also supported by BGIM in doing so. Cash flow and capital forecasting is performed on a regular basis. Corporate cash is maintained at highly-rated banks and my also be invested in highly-rated money market funds. Cash will not be invested in less liquid instruments such as debt securities. Liquidity policies and procedures provide for regular monitoring of liquidity and escalation to senior management and the Board in the event liquidity tolerances are breached.

- **Concentration Risk**

  Concentration risk exposure relates to the Company's client base. In the short term, exposure to concentration risk is hedged by the fact that the Company has a contractual undertaking from BGIM. The Company's objective is a client base diversified across client name, type and location.

- **Brexit**

  On 29 March 2017, Article 50 was invoked and negotiations are due to formally begin in June 2017. The terms of the withdrawal and any impact are largely unknown. The Directors do not expect our current business activity to be affected in a substantive way by the result of the referendum, although there may be changes in where and how business activities are carried out on the medium to long term.

  An internal working group, including access to external advisors, has been set up to track and assess the Brexit impact on the Company to ensure plans are appropriately made as negotiations develop.

Capital scenarios

Capital scenarios are quantified by using all aspects of the risk framework. The analysis of the scenarios also then feeds back into the framework to determine control, business and process improvements.

KRIs

The Head of Risk also manages the KRI process, collating the metrics from the business lines and functional areas on a monthly basis and reporting trends and issues to the Board.

Principal risks and uncertainties (continued)

Control Improvements

One of the key outputs from the risk process relates to action plans required to reduce the risk exposure by making improvements in the control environment.

Through the identification of areas of deficiency or indeed, enhancements, the business continues to develop better processes and improved risk mitigation techniques.

Financial key performance indicators

All material revenue for the Company is derived from its asset management services. This revenue is directly correlated to the number of investment management agreements to manage Separately Managed Accounts in the Company and the amount of contracted AUM in BGIM European resident clients (including UCITS fund investors within certain share class arrangements). The below indicators provide insight into the Company's performance for the year.

	As at March 2017	*As at March 2016*
	£000	*£000*
AUM - Separately Managed Accounts	**1,009,873**	*700,616*
BGIM AUM	**4,874,689**	*3,964,726*

The Directors are satisfied with the Company's progress and expect that the Company will continue with its principal activity for the foreseeable future.

This report was approved by the board and signed on its behalf.

U Schliessler
Director

Date: 26 June 2017

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2017

The Directors present their report and the financial statements for the year ended 31 March 2017.

The Company is a private company limited by shares and is incorporated and domiciled in England the address of its registered office is 110 Bishopsgate, London, EC2N 4AY.

Results and dividends

The profit for the year, after taxation, amounted to £6,138,000 *(2016: £549,000).*

The Directors do not recommend payment of a dividend on ordinary shares (2016: nil).

Directors

The Directors who served during the year and up to the date of signing this report are:

T W Fetter
M P Glassman
J P LaRocque
U Schliessler
A B Spector

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of the respective Directors which were in place throughout the year and which remain in place at the date of this report.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2017

Post balance sheet events

The Company has been notified by a significant segregated mandate client of a transfer of assets from the Company to an investment in the Legg Mason Global Funds plc. This means a transition of AUM from the segregated account managed by the Company to Legg Mason Global Funds plc of US$215 million and an according reduction in management fees to the Company based on the assets transferring. Under the Company's memorandum setting out services which are due to be provided, BGIM revenue will continue to be earnt by the Company recognising the support in services in respect of their net AUM. The transition is likely to occur in the year ended 31 March 2018.

Disclosure of information to auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board of Directors and signed on its behalf.

U Schliessler
Director

Date: 26 June 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Brandywine Global Investment Management (Europe) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements, comprise:

- the Statement of Financial Position as at 31 March 2017;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Colleen Local (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

26 June 2017

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 £000	*2016 £000*
Turnover	2	**10,354**	*4,320*
Administrative expenses		**(4,232)**	*(3,783)*
Operating profit	3	**6,122**	*537*
Interest receivable and similar income	7	**16**	*12*
Profit before tax		**6,138**	*549*
Tax on profit	8	**-**	*-*
Profit for the financial year		**6,138**	*549*
Other comprehensive income for the year		**-**	*-*
Total comprehensive income for the year		**6,138**	*549*

The notes on pages 13 to 22 form part of these financial statements.

All amounts relate to continuing operations.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Note		2017 £000		*2016 £000*
Current assets					
Debtors	9	**7,796**		*1,342*	
Cash at bank and in hand		**765**		*1,225*	
		8,561		*2,567*	
Creditors: amounts falling due within one year	10	**(486)**		*(630)*	
Net current assets			**8,075**		*1,937*
Total assets less current liabilities			**8,075**		*1,937*
Net assets			**8,075**		*1,937*
Capital and reserves					
Called up share capital	11		**350**		*350*
Profit and loss account			**7,725**		*1,587*
Total equity			**8,075**		*1,937*

The financial statements on pages 10 to 22 were approved and authorised for issue by the board and were signed on its behalf by:

U Schliessler
Director

Date: 26 June 2017

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

	Called up share capital	Profit and loss account	Total shareholders funds
	£000	£000	£000
At 1 April 2015	**350**	**1,038**	**1,388**
Profit for the year	-	549	549
At 1 April 2016	**350**	**1,587**	**1,937**
Profit for the year	-	6,138	6,138
At 31 March 2017	**350**	**7,725**	**8,075**

The notes on pages 13 to 22 form part of these financial statements.

1. Accounting policies

The principal accounting policies which have been applied consistently throughout the year are set out below.

1.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention in compliance with United Kingdom Accounting Standards, comprising FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

1.2 Exemptions for qualifying entities under FRS 102

The Company has taken advantage of the following exemptions:

- from preparing a statement of cash flows on the basis that it is a qualifying entity and the consolidated statement of cash flows are included in the Company's ultimate parent company, Legg Mason, Inc., consolidated financial statements.
- from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statement disclosures; and
- from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.

1.3 Significant judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key areas include:

(a) Critical judgements in applying the entity's accounting policies. In the case of the Company, no such significant judgments or estimates have been made in the preparation of the financial statements.

(b) Share-based payments

The Company's employees have been granted share options by the ultimate parent company, Legg Mason, Inc., The Company has accounted for such share-based payments in accordance with Section 26 of FRS 102 as equity-settled transactions. The fair value of awards at grant date is recognised as an inter-company payable position and an employee expense on a straight line basis.

The Company also considered an allocation based on the relative remuneration cost of the relevant employees and considered that this gave rise to no significant differences in the allocated costs.

Legg Mason uses an equally weighted combination of both implied and historical volatility to measure expected volatility for calculating Black-Scholes option values.

1. *Accounting policies (continued)*

1.4 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

1.5 Turnover

Turnover comprises revenue recognised by the Company in respect of services supplied during the year, exclusive of Value Added Tax and trade discounts.

Turnover is accounted for on an accruals basis.

1.6 Interest receivable and similar income

Interest income is recognised in the Statement of Comprehensive Income on an accruals basis.

1. Accounting policies (continued)

1.7 Current and deferred taxation

Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

1.8 Debtors

Short term debtors are measured at transaction price, less any impairment.

1.9 Cash at bank and in hand

Cash and cash equivalents includes cash in hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.10 Creditors

Short term creditors are measured at the transaction price.

1.11 Operating leases

110 Bishopsgate lease costs are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

1. Accounting policies (continued)

1.12 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

1.13 Share based payments

Legg Mason, Inc., the Company's ultimate parent awards eligible employees restricted shares and options to acquire shares of the parent. The Company has accounted for such share-based payments in accordance with Section 26 of FRS 102 as equity-settled transactions. The fair value of awards at grant date is recognised as an inter-company payable position and an employee expense on a straight line basis. The fair value measured at grant date is amortised over the period during which the employees become unconditionally entitled to the shares with no adjustments for changes in market value of the shares. The fair value of an option to acquire Non qualified stock options is determined using a Black-Scholes pricing model.

2. Turnover

	2017	*2016*
	£000	*£000*
Management fee income	**2,294**	*1,448*
Performance fee income	**753**	-
Investment and distribution support for BGIM	**7,307**	*2,872*
	10,354	*4,320*

Turnover includes investment and distribution fees received from an affiliate, Brandywine Global Investment Management, LLC ("BGIM"), for the extension and development of the BGIM client base in Europe.

In addition, the Company received management fees of £2,294,311 (2016: £1,447,493) from five (2016: four) investment management agreements relating to SMAs.

3. Operating profit

The operating profit is stated after charging/(crediting):

	2017 £000	*2016* *£000*
Sub-advisory fee	**1,609**	*1,163*
Exchange differences	**136**	*(12)*
Operating lease rentals	**198**	*185*
Defined contribution pension cost	**89**	*58*

The Directors of Brandywine Global Investment Management (Europe) Limited earn no fees for their services to this Company but hold service agreements with a number of fellow subsidiaries within the Legg Mason, Inc. Group.

4. Auditors' remuneration

	2017 £000	*2016* *£000*
The audit of the financial statements of the Company pursuant to legislation	**15**	*13*
Other services supplied pursuant to FCA legislation	**6**	*6*
	6	*6*

5. Staff costs

Staff costs were as follows:

	2017 £000	2016 £000
Wages and salaries	1,585	1,730
Social security costs	236	242
Cost of defined contribution scheme	89	58
	1,910	2,030

The average monthly number of employees, excluding the Directors, during the year was as follows:

	2017 No.	2016 No.
Sales, Marketing & Client Services	3	1
Portfolio Management	1	1
Administration	3	3
	7	5

6. Share based payments

Incentive compensation for eligible employees is split between cash and stock-based compensation depending on each employee's total compensation level. Stock-based compensation is typically paid in the form of non-Qualified Stock Options over shares in Legg Mason Inc., the company's ultimate parent.

Non Qualified Stock Options ("NQSO")

NQSOs have been granted to employees at prices not less than 100% of the fair market value. Options generally vest in equal increments over 4 years subject to continued employment, expiring within 8 years from the date of grant. Legg Mason determines the fair value of NQSOs in U.S. dollars using the Black-Scholes option pricing model.

The total stock option expense for the year ended 31 March 2017 was £9,511 (2016: £248).

Legg Mason uses an equally weighted combination of both implied and historical volatility to measure expected volatility for calculating Black-Scholes option values.

7. Interest receivable and similar income

	2017 £000	*2016* *£000*
Bank interest receivable	**16**	*12*
	16	*12*

8. Taxation

Factors affecting tax charge for the year

The tax assessed for the year is lower than *(2016 - lower than)* the standard rate of corporation tax in the UK of 20% *(2016 - 20%)*. The differences are explained below:

	2017 £000	*2016* *£000*
Profit on ordinary activities before tax	**6,138**	*549*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 - 20%)	**1,228**	*110*
Effects of:		
Group relief received without charge	**(1,228)**	*(110)*
Total tax charge for the year	**-**	*-*

Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. A further reduction to 17% with effect from 1 April 2020 is enacted in the Finance (No.2) Act 2015.

9. Debtors

	2017 £000	*2016* *£000*
Trade debtors	1,094	*361*
Amounts owed by group undertakings	6,639	*920*
Prepayments and accrued income	54	*36*
Tax recoverable	9	*25*
	7,796	*1,342*

In line with the 'Multilateral Netting Agreement' dated 1 April 2007, all inter-company debtor and creditor balances of entities covered by the agreement have been netted off against one another.

Amounts owed by Group undertakings are related to the net of service fees and management charges accrued but outstanding at the Balance Sheet date, which are non-interest bearing and payable on demand.

10. Creditors: Amounts falling due within one year

	2017 £000	*2016* *£000*
Other taxation and social security	226	*351*
Accruals and deferred income	260	*279*
	486	*630*

In line with the 'Multilateral Netting Agreement' dated 1 April 2007, all inter-company debtor and creditor balances of entities covered by the agreement have been netted off against one another.

11. Share capital

	2017 £000	*2016* *£000*
Allotted, called up and fully paid		
350,004 (2016: 350,004) 'A' Ordinary shares of £1 each	350	*350*

12. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £88,874 (2016: £57,654). Contributions totalling £nil (2016: £11,090) were payable to the fund at the Statement of Financial Position date and are included in creditors.

13. Commitments under operating leases

At 31 March 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017	*2016*
	£000	*£000*
Land and buildings		
Not later than 1 year	**198**	*198*
Later than 1 year and not later than 5 years	**198**	-
	396	*198*

During the year the operating lease was extended to March 2019.

14. Post balance sheet events

The Company has been notified by a significant segregated mandate client of a transfer of assets from the Company to an investment in the Legg Mason Global Funds plc. This means a transition of AUM from the segregated account managed by the Company to Legg Mason Global Funds plc of US$215 million and an according reduction in management fees to the Company based on the assets transferring. Under the Company's memorandum setting out revenue allocations, BGIM revenue will continue to be earnt by the Company recognising the support in services in respect of their net AUM. The transition is likely to occur in the year ended 31 March 2018.

15. Related party transactions

The Company has taken advantage of the exemption available under Financial Reporting Standard 102 not to disclose transactions entered into between two or more members of a group provided that any subsidiary which is party to the transaction is wholly owned by such a member and the consolidated financial statements in which the Company is included are publicly available. In the opinion of the Directors, all material related party transactions have been fully disclosed in the financial statements.

16. Controlling party

The immediate parent undertaking is LM International Holding L.P., a company incorporated and registered in the Cayman Islands, whose financial statements are not consolidated.

The ultimate parent undertaking and controlling party is Legg Mason, Inc., a company incorporated in the United States of America and listed on the New York Stock Exchange.

Legg Mason, Inc., is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2017. Copies of the consolidated financial statements of Legg Mason Inc., are available from 100 International Drive, Baltimore, MD 21202, USA.

Additional information – Pillar 3 disclosure (unaudited)

Introduction

Brandywine Global Investment Management (Europe) Limited ("the Company") is an indirect subsidiary of Legg Mason, Inc., a US financial services holding company. The Company is authorised and regulated by the Financial Conduct Authority ("FCA"). The Company is the European based operating entity for Brandywine Global Investment Management, LLC ("BGIM"). The Company is supported by Legg Mason & Co (UK) Limited personnel, particularly in relation to risk and finance activities.

BGIM and Legg Mason & Co (UK) Limited are also indirect subsidiaries of Legg Mason, Inc.

Regulatory background

Under the 2006 Capital Requirements Directive (CRD) as amended, a revised regulatory framework was created across the European Union. This has been implemented in the United Kingdom by the FCA through the Prudential Sourcebook for Investment Firms ("IFPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

As such, the Company is currently considered by the FCA as an IFPRU €50k Limited Licence Firm and is subject to the FCA's IFPRU and relevant BIPRU rules regarding its capital framework and disclosures. The framework consists of three pillars:

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risk;
- Pillar 2 requires firms and the FCA to consider whether a firm should hold additional capital for risks not covered by Pillar 1;
- Pillar 3 requires firms to publish certain details regarding their risk management processes, underlying risks and capital position.

The rules provide that the Company may omit one or more of the required disclosures if it believes the information is not material. Materiality is based on the criterion that the omission or mis-statement of any information would be likely to change or influence the decision of a reader relying on that information.

In addition, the Company may also omit certain required disclosures if it believes the information is proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the Company's competitive position. Information is considered to be confidential where there are obligations binding the Company to confidentiality with its customers, suppliers and counterparties.

The information contained in this document has been prepared for the purpose of fulfilling the Company's Pillar 3 disclosure requirement. The disclosures have not been audited nor do they constitute any form of audited financial statement.

Risk management

The Company is committed to managing its affairs in accordance with and in a manner consistent with the FCA's risk management standards. Accordingly, the Company has adopted a risk policy (the "Risk Policy") to document its risk control framework that is uses to identify, assess, measure, manage, monitor, mitigate and report on its risks. From this, the Company has also developed its risk appetite ("Risk Appetite").

The Company has been authorised and regulated by the FCA since February 2008. As at 31 March 2017 the Company has contracted with five third-party clients directly. The Company will continue to develop and enhance its risk management approach, consistent with the actual and planned development of the business.

The Company's board of directors (the "Board") is responsible for setting the Risk Appetite". The Board's ongoing responsibilities include but are not limited to at least annually:

- high level monitoring of adherence to the Risk Policy and the Risk Appetite;
- approval of the Risk Policy and the Risk Appetite;
- approval of the Internal capital adequacy assessment process ("ICAAP") and resulting capital needs; and
- obtaining independent assurance over the effectiveness of the risk control framework.

In setting the Risk Policy and Risk Appetite, the Board is adopting the risk management framework implemented by BGIM, which is managed by BGIM's Risk Management Department.

The framework codifies existing practices and defines the path for identifying, assessing and monitoring current and anticipated risks associated with the Company's people, processes and technology that have the potential to impact the achievement of the Company's strategic objectives.

The risk management framework is an iterative, dynamic process intended to improve decision-making and planning in the management of the Company's business. It takes a pro-active rather than re-active approach toward risk. In essence, the risk program captures the components of the risk management framework and is the fundamental risk assessment tool for all Brandywine Global departments and locations.

There is a process in place to ensure that there are procedures and controls to address the risks identified with respect to the business.

The Compliance and Risk functions provide for oversight and independent review of risks and controls as well as independent reporting of management information to the committees for review and as appropriate to the Board.

The Company's ultimate parent company, Legg Mason, Inc., ("Legg Mason") has two units that provide independent reviews of group companies and review the Company's risks and controls including its risk control framework:

- The Global Compliance Examination Unit conducts reviews to determine if group companies have staffing, policies and global controls in place to enable applicable regulatory and Legg Mason requirements to be met. This will include review of the roles of Compliance and Risk functions.
- The Internal Audit Unit carries out reviews on the operational effectiveness of internal controls including those for financial reporting and information technology.

Risk types

The Company expresses its Risk Appetite in its strategy, business plans and risk management philosophy. The principal activity of the Company is the provision of asset management services including but not limited to distribution. Due to the limited scope of the Company's business the Company has a low exposure to most types of risk. The main exposures are to business, operational and reputational risks.

Risk management activities focus on understanding, monitoring and mitigating business, operational and reputational risks to the extent feasible in order to maintain a low risk profile in these areas. The Company places strong reliance on the operational procedures and controls that is has in place in order to mitigate these risks The Company seeks to ensure that all personnel are aware of their responsibilities in this respect. Regular reporting to senior management and the Board provides information regarding the risk exposure to the Company and the Company's operational risk experience.

- **Operational Risk**

  As a client servicing and asset management business, the Company's main potential risk is the exposure to operational risk. The Company and BGIM (by whom client service support is provided and to whom asset management responsibility has been outsourced) have substantial systems and controls in place to mitigate operational risk. The Company has no tolerance for operational risks that have not been properly assessed and controlled.

  Examples of significant operational incidents which could arise are: financial crime and fraud, technology failures, financial and tax reporting, operational processing errors, failure to comply with regulations, business interruptions, outsourcing provider failure, product and performance.

  The Company's exposure to operational risk has been assessed using a number of approaches including the consideration of both internal incident history and publically available data on operational risk at other similar firms.

Insurance cover is also in place in relation to reduce exposure to certain risks, should it be required.

The Company has assessed whether additional capital is required against operational risk. The Company has considered its various responses to different scenarios and is comfortable that those responses would ensure that regulatory capital requirements would be met at all times.

- **Business and Strategic Risk**

  The Company operates in a highly competitive industry subject to global economic conditions as well as equity and fixed income market performance. The Company's core business risk is a reduction in assets under management, which results directly in decreased fee income.

  Business risk factors are considered in the Company's business planning and decision making, including the modelling of market downturn and employee turnover scenarios.

- **Reputational Risk**

  The Company's reputation depends upon the way it conducts its business. Legg Mason group companies operate under a "no chalk" code of conduct, - " i.e. that all employees must stay well inside the boundary lines for ethical behaviour" by carrying out its business in a responsible and ethical manner.

  The Company's reputation is paramount and safeguarding it is the responsibility of all members of staff, supported by the risk control framework, relevant policies, guidance and training.

- **Market Risk**

Market risk is defined as the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates.

The Company does not deal on its own account. The Company's exposure to market risk is largely limited to its foreign exchange exposure related to accounts receivable and payable. The exposure is minimal and mitigated by monthly balance sheet revaluations and projections as well as by currency hedging.

Market risks that result in a decline in market valuation will also result in decreased fee income.

- **Regulatory risk**

Regulatory Risk is the risk to the reputation and financial health of the Company of a failure to comply with regulatory requirements and expectations. The current environment and the outlook, near term at least, is one of increased regulatory activity with many new and changed regulations being issued in many jurisdictions. The Board, in line with Legg Mason, Inc. ("the Parent") expectations, only seeks to undertake business in accordance with the regulatory requirements. As the regulatory environment evolves the Board continues to seek input from internal and external experts and review the necessary resources, processes and systems required to achieve regulatory compliance.

Whilst there are several new regulatory and legislative requirements being implemented, MiFID II will have significant impact on all stakeholders in the Company. Project teams have been established and are working on the impact of these requirements and tracking the changes required for compliance.

- **Counterpart Credit Risk**

The Company organises its investment management activities such that it is not directly exposed to counterparty credit risk as the Company does not arrange custody of clients' money or assets.

- **Credit Risk**

The Company's exposure to credit risk is limited to its cash at bank and receivables. The majority of third-party receivables come from BGIM, with payments being made monthly. Cash is held on deposit at institutions with investment grade credit ratings and in accordance with the Legg Mason Treasury policy may also include Money Market Funds, with equivalent credit ratings; and subject to agreed counterparty and concentration limits. In addition intercompany revolving credit agreements may also be used, whereby cash is loaned amongst Legg Mason, Inc., group companies.

- **Liquidity Risk**

Exposure to liquidity risk rests with the management of cash balances and operating cash requirement. The Company has consistently maintained sufficient liquid resources to meet is obligations and is also supported by BGIM in doing so. Cash flow and capital forecasting is performed on a regular basis. Corporate cash is maintained at highly-rated banks and my also be invested in highly-rated money market funds. Cash will not be invested in less liquid instruments such as debt securities. Liquidity policies and procedures provide for regular monitoring of liquidity and escalation to senior management and the Board in the event liquidity tolerances are breached.

- **Concentration Risk**

  Concentration risk exposure relates to the Company's client base. In the short term, exposure to concentration risk is hedged by the fact that the Company has a contractual undertaking from BGIM. The Company's objective is a client base diversified across client name, type and location.

- **Non-Applicable Risk Categories**

  The following risks are not currently deemed applicable or significant to the Company's activities albeit such risks will continue to be assessed for relevance:

  - Interest rate risk
  - Pension Obligation risk
  - Securitisation risk
  - Residual risk

Capital resources and requirements

Breakdown of total Eligible Capital and the Capital Requirement as at 31 March 2017.

Tier 1 capital is the highest ranking form of capital and includes permanent share capital and reserves.

Current Distribution of Capital

	Element	£'000
Tier 1:	Permanent share capital	350
	Profit and loss account and other reserves	7,725
	Tier 1 deductions:	-
	Total Tier 1 Capital	8,075
Tier 2:	Provisions	-
	Total Tier 2 Capital	-
	Total Tier 2 deductions	8,075
Tier 3:	Deductions from total capital	-
	Illiquid assets	-
	Total capital after deductions	8,075
Less:	Capital resources requirement	490
	Capital surplus	**7,585**

Capital Adequacy

The Company seeks to ensure that adequate capital is held to ensure a margin in excess of the minimum capital requirements of the FCA.

The Company maintains a surplus of capital to the higher of Pillar 1 and Pillar 2 capital requirements. The adequacy of the capital is assessed at least annually, as part of the ICAAP and is subject to formal approval and sign-off by the Board of Directors.

Compliance with Pillar 1

The Company's capital requirements are based on its regulatory permissions as an IFPRU firm and in accordance with the BIPRU capital requirements. For Pillar 1 capital purposes, the Company uses the higher of the fixed overhead requirement or the sum of credit and market risks to calculate its minimum capital level. Currently the Company's fixed overhead requirement is higher than it's market or credit risk. The Company seeks to ensure that adequate capital is held to ensure a margin in excess of the minimum capital requirements of the FCA.

	Calculation of Capital Resources Requirement	Capital £'000
Credit risk	The firm uses the standardised approach, under which the capital requirement is calculated at 8% of the risk weighted exposure amounts as set out by the FCA.	254
Market risk	The firm calculates its market risk capital requirement using the foreign currency PPR method set out in the FCA's rules.	90
Fixed Overhead Requirement	The FOR is calculated as 13 weeks' fixed expenditure based on the audited financial statements for the year ended 31 March 2017.	490
Pillar 1 Capital	Higher of the sum of the credit and market risk charges; and the FOR.	490

Credit Risk additional information

	Exposure £'000	Average risk weight	Risk weighted exposure £'000	Capital Requirement £'000
Financial institutions	765	50%	383	31
Corporate	2,722	100%	2,722	218
Other items	64	100%	64	5
Total	**3,552**		**3,169**	**254**

BIPRU 11.5.5 to 11.5.17 is not relevant to the Company.

Compliance with Pillar 2

Under Pillar 2, the Company has undertaken an assessment of the adequacy of capital based on all risks to which it is exposed. This was assessed in the Internal Capital Adequacy Assessment Process ("ICAAP") The Board consider various ICAAP scenarios. The ICAAP considers the impact of future business plans and adverse scenarios including an orderly wind down (Going Concern) analysis (which considers the requirement to hold additional capital over the period that it would take to wind up the Company) and, the ability to obtain financial support from Legg Mason. There is no negative impact on the Company's capital base arising from scenario analysis and stress testing and no additional capital is therefore required under Pillar 2 as the Board believes that capital required under Pillar 1 is sufficient to cover requirements arising from the Company's main risk exposures.

The Company's exposure to risk categories as defined by the FCA and the Company's strategies with respect to material risk categories, in so far as the risks to its capital are shown in the section below.

Remuneration code

The Remuneration Code (the "Code") is intended to ensure that firms have risk-focussed remuneration policies, which are consistent with and promote effective risk management and do not expose them to excessive risk.

The Board is committed to managing its affairs to comply with the applicable requirements of the Code within the proportionality principles.

These disclosures refer to the year ended 31 March 2017.

- **Code Staff**

The Company has two members of staff, including one portfolio manager who is employed directly by the Company. Other personnel engaged in the activities of the business are employed by BGIM and Legg Mason & Co (UK) Ltd, Legg Mason's European shared services entity. When considering the application of the Code to the Company, the Board have considered all staff from each entity who undertake activity for the Company and will refer to these employees collectively as "Code Staff".

Code Staff mean as defined in the Code, staff who have a material impact on the Company's Risk Profile and includes staff who perform significant influence functions, senior management and risk takers.

All Code Staff are engaged in the Company's principal activity of asset management services, whether as portfolio managers, client facing personnel or in support functions such as marketing, legal, finance, compliance etc. Therefore the Company has a single business area.

		Remuneration (code staff employed by the Company) (£'000)		
Company	**No. of Code Staff[1]**	**Code[2]**	**Senior Management**	**Risk Takers**
Brandywine Global Investment Management (Europe) Limited	9	983	271	711

[1]There are no Staff who have a material impact on the risk profile of the firm who are not Code Staff .
[2]Remuneration paid to Code Staff.

- **Decision Making Processes**

The Board of BGIM regularly reviews, monitors, and updates its compensation arrangements to ensure these align with the business objectives and are mindful of the prevailing regulatory requirements. Compensation structure and practices are established at a BGIM corporate level and take into account those functions and departments which form the Company.

The compensation practices of the Company are based on the following core principles:

- Aligning compensation to profitability, risk, and capital
- Recognition of individual performance in line with the BGIM's corporate goals
- Rewarding and retaining the best talent, who deliver services which meet external an internal client

objectives

- *Differentiating between individuals according to competencies and levels of responsibility*
- Straightforward and transparent compensation design, mindful of equality legislation and non-discrimination
- Complying with regulatory requirements

BGIM and the Company uphold these principles to act in the best interests of their clients.

The Link between Pay and Performance

All staff are eligible to participate in the discretionary bonus pool, the amount of which is determined by the Executive Board of Legg Mason, Inc.. In determining the overall size of the pool, consideration is given to both financial metrics of the business and market data on compensation within the industry. While a wide range of metrics and data are considered, priority is given to the impact of the overall size of the bonus pool on the following primary metrics:

a) Business operating margin

b) Business total compensation to revenue ratio

Both of these metrics are profitability based (not revenue based).

The nature of the business means that revenues and profits are typically accounted for in the year in which they are earned, for example performance fees are only recognised when they are earned (they are not accrued prior to being triggered). This means that the Company is able to align compensation in any one year with the revenues of that year. No account is taken of future earnings streams and there is very little risk that revenues recognised in any year might subsequently be clawed-back.