

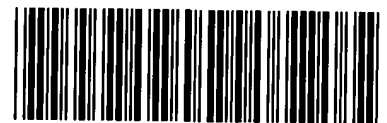
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BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

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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

Heron Tower
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

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BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2018

Introduction

The Directors present their strategic report and the audited financial statements for the year ended 31 March 2018.

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 as amended by the Financial Services Act 2012 and the Bank of England and Financial Services Act 2016.

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 AUM, which results directly in decreased fee income.

Risk Assessment Process

A number of broad categories of major sources of risks have been identified as potentially having an impact on the Company. The emphasis is on the operational and business risks that arise from the Company's activities undertaken on behalf of BGIM.

- **Governance risk**

The risk that organizational plans, policies, processes, information and communications, or management are ineffective, misaligned, or inappropriate, thus impacting the achievement of the Company's strategic objectives.

Governance risks reflect the "tone at the top" and tend to have a pervasive impact on the organization, the overall control environment, and business operations. Accordingly, governance risks tend to be inherently higher risks. Key factors which impact the overall environment include leadership, organizational structure, strategic objectives, information communications and culture.

- **Personnel risk**

The risk that the Company is unable to attract and retain qualified resources, employees are unqualified, or behave in a manner that is contrary to the achievement of organizational goals and objectives.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2018

Principal risks and uncertainties (continued)

- **Fraud risk**

The risk of loss, or misuse of, the Company assets and/or information by management, employees, suppliers, or other third parties for personal gain or exploitation.

- **Financial risk**

The risk the Company will be unable to fulfil its financial obligations, meet operating requirements, or satisfy its business objectives. The financial risk faced by the Company is reduced due to the linkage of revenue to BGIM and Legg Mason, Inc..

- **Environmental risk**

The risk that forces or factors external to the Company influence or affect the achievement of objectives or the viability of the Company's business model. Risk of this type are any impediment to the Company's ability to source managed accounts and service the ongoing client relationships, including unexpected market price changes causing fluctuations in current or future values of instruments and interest rate changes that may impact returns or profitability.

- **Technology risk**

The risk that the Company's information systems and technology infrastructure fail to meet organizational or user needs and objectives, compromise the completeness, accuracy, and integrity of programs and data, or impact related processing activities and systems availability. The Company leverages support from BGIM, Legg Mason, Inc., and Legg Mason & Co (UK) Limited to provide systems and controls to mitigate this risk.

- **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.

- **Operational and process risk**

The risk that day-to-day departmental activities (including internal processes, people, and business applications) fail or are not performed in a manner that is consistent with achievement of strategic and tactical business objectives, or in which they could result in loss of assets, disruption of business, or violation of law.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2018

Principal risks and uncertainties (continued)

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.

Key Risk Indicators ("KRI")

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.

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.

Brexit

In June 2016 the UK voted by referendum for "Brexit", whereby the UK will leave the European Union ("EU"). In March 2017, the UK invoked Article 50 of the Treaty on European Union, setting an effective date for Brexit of 29 March 2019. The UK and EU have tentatively agreed on a transition period, which if ratified would push out the Brexit effective date until end December 2020.

Legg Mason working groups, including access to external advisors, have been set up to track and assess the Brexit impact on the business to ensure plans are appropriately made as negotiations develop. Discussions with staff, clients and other stakeholders who may be impacted by Brexit have been instigated and will be ongoing as the impacts are finalised.

The political and regulatory circumstances regarding Brexit remain fluid, and it is possible that the Legg Mason Group may further amend or delay its restructuring plan, including those aspects impacting the Company.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2018**

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.

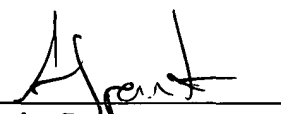
	As at March 2018 £000	As at March 2017 £000
AUM - Separately Managed Accounts	950,487	1,009,873
BGIM European AUM	5,117,162	4,874,689

During the year a transition of AUM from the segregated account managed by the Company to Legg Mason Global Funds plc of £172.8 million occurred.

BGIM European AUM's grew by 5%, this is predominantly due to growth in the Europe based funds.

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.


A B Spector
Director

Date: 10 July 2018

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2018**

The Directors present their report and the financial statements for the year ended 31 March 2018.

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 £6,555,000 (2017: £6,138,000).

The Directors do not recommend payment of a dividend on ordinary shares (2017: 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.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2018

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and 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.

In the case of each Director in office at the date the Directors' Report is approved:

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

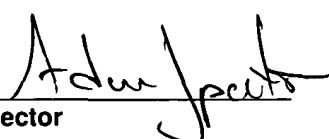
BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2018**

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.


A B Spector
Director

Date: 10 July 2018

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

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

Report on the audit of financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 March 2018; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 6, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

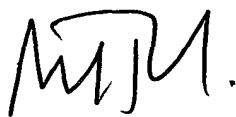
Other required reporting

Companies Act 2006 exception reporting

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Mark Pugh (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

10 July 2018

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018**

	Note	2018 £000	2017 £000
Turnover	2	10,378	10,354
Administrative expenses		(3,872)	(4,232)
Operating profit	3	6,506	6,122
Interest receivable and similar income	7	49	16
Profit before taxation		6,555	6,138
Tax on profit	8	-	-
Profit for the financial year		6,555	6,138
Other comprehensive income for the year		-	-
Total comprehensive income for the year		6,555	6,138

The notes on pages 14 to 22 form part of these financial statements.

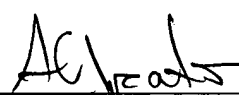
All amounts relate to continuing operations.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED
REGISTERED NUMBER:6324517

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

	Note	2018 £000	2017 £000
Current assets			
Debtors	9	6,744	7,796
Cash at bank and in hand		8,069	765
		<u>14,813</u>	<u>8,561</u>
Creditors: amounts falling due within one year	10	(183)	(486)
Net current assets		<u>14,630</u>	<u>8,075</u>
Total assets less current liabilities		<u>14,630</u>	<u>8,075</u>
Net assets		<u><u>14,630</u></u>	<u><u>8,075</u></u>
Capital and reserves			
Called up share capital	11	350	350
Profit and loss account		14,280	7,725
Total equity		<u><u>14,630</u></u>	<u><u>8,075</u></u>

The financial statements on pages 11 to 22 were approved and authorised for issue by the board and were signed on its behalf by:


A B Spector
 Director

Date: 10 July 2018

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018**

	Called up share capital	Profit and loss account	Total shareholder s funds
	£000	£000	£000
At 1 April 2016	350	1,587	1,937
Profit for the year	-	6,138	6,138
At 1 April 2017	350	7,725	8,075
Profit for the year	-	6,555	6,555
At 31 March 2018	350	14,280	14,630

The notes on pages 14 to 22 form part of these financial statements.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

1. Accounting policies

The principal accounting policies which have been applied consistently for all the years presented 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.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

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 'administrative expenses'.

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.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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 initially measured at transaction price less any impairment and subsequently at amortised cost less impairment.

1.9 Cash at bank and in hand

Cash at bank and in hand 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 initially 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.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

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.

2. Turnover

	2018	2017
	£000	£000
Management fee income	2,613	2,294
Performance fee income	165	753
Investment and distribution support for BGIM	7,600	7,307
	10,378	10,354

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 £2,612,871 (2017: £2,294,311) from four (2017: five) investment management agreements relating to SMAs.

3. Operating profit

The operating profit is stated after charging:

	2018	2017
	£000	£000
Sub-advisory fee	1,580	1,609
Exchange differences	244	136
Operating lease rentals	198	198
Defined contribution pension cost	75	89

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.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

4. Auditors' remuneration

	2018 £000	2017 £000
The audit of the financial statements of the Company pursuant to legislation	15	15
Other services supplied pursuant to FCA regulation	6	6
	21	21

5. Staff costs

Staff costs were as follows:

	2018 £000	2017 £000
Wages and salaries	1,141	1,585
Social security costs	139	236
Cost of defined contribution scheme	75	89
	1,355	1,910

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

	2018 No.	2017 No.
Sales, Marketing & Client Services	3	3
Portfolio Management	-	1
Administration	1	3
	4	7

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

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 2018 was £15,637 (2017: £9,511).

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

	2018	<i>2017</i>
	£000	<i>£000</i>
Bank interest receivable	49	<i>16</i>
	49	<i>16</i>

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

8. Tax on profit

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017 - *lower than*) the standard rate of corporation tax in the UK of 19% (2017 - 20%). The differences are explained below:

	2018 £000	2017 £000
Profit before taxation	6,555	6,138
Profit multiplied by standard rate of corporation tax in the UK of 19% (2017 - 20%)	1,245	1,228
Effects of:		
Group relief received without charge	(1,245)	(1,228)
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 was enacted in the Finance (No.2) Act 2015.

9. Debtors

	2018 £000	2017 £000
Trade debtors	1,018	1,094
Amounts owed by group companies	5,664	6,639
Prepayments and accrued income	51	54
Tax recoverable	11	9
	6,744	7,796

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.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

10. Creditors: Amounts falling due within one year

	2018	2017
	£000	£000
Other taxation and social security	142	226
Other creditors	1	-
Accruals and deferred income	40	260
	183	486

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. Called up share capital

	2018	2017
	£000	£000
Allotted, called up and fully paid		
350,004 (2017: 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 £75,303 (2017: £88,874). Contributions totalling £6,636 (2017: £nil) 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 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018	2017
	£000	£000
Not later than 1 year	198	198
Later than 1 year and not later than 5 years	-	198
	198	396

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

14. 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.

15. 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 2018. Copies of the consolidated financial statements of Legg Mason Inc., are available from 100 International Drive, Baltimore, MD 21202, USA.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

ADDITIONAL INFORMATION - PILLAR 3 DISCLOSURE (unaudited) FOR THE YEAR ENDED 31 MARCH 2018

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 ("LM&Co") personnel, particularly in relation to risk and finance activities.

BGIM and LM&Co 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 it 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 2018 the Company has contracted with four 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.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

ADDITIONAL INFORMATION - PILLAR 3 DISCLOSURE (unaudited) FOR THE YEAR ENDED 31 MARCH 2018

Risk management (continued)

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.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

ADDITIONAL INFORMATION - PILLAR 3 DISCLOSURE (unaudited) FOR THE YEAR ENDED 31 MARCH 2018

Risk Assessment Process

A number of broad categories of major sources of risks have been identified as potentially having an impact on the Company. The emphasis is on the operational and business risks that arise from the Company's activities undertaken on behalf of BGIM.

- **Governance risk**

The risk that organizational plans, policies, processes, information and communications, or management are ineffective, misaligned, or inappropriate, thus impacting the achievement of the Company's strategic objectives.

Governance risks reflect the "tone at the top" and tend to have a pervasive impact on the organization, the overall control environment, and business operations. Accordingly, governance risks tend to be inherently higher risks. Key factors which impact the overall environment include leadership, organizational structure, strategic objectives, information communications and culture.

- **Personnel risk**

The risk that the Company is unable to attract and retain qualified resources, employees are unqualified, or behave in a manner that is contrary to the achievement of organizational goals and objectives.

- **Fraud risk**

The risk of loss, or misuse of, the Company assets and/or information by management, employees, suppliers, or other third parties for personal gain or exploitation.

- **Financial risk**

The risk the Company will be unable to fulfil its financial obligations, meet operating requirements, or satisfy its business objectives. The financial risk faced by the Company is reduced due to the linkage of revenue to BGIM and Legg Mason, Inc..

- **Environmental risk**

The risk that forces or factors external to the Company influence or affect the achievement of objectives or the viability of the Company's business model. Risk of this type are any impediment to the Company's ability to source managed accounts and service the ongoing client relationships, including unexpected market price changes causing fluctuations in current or future values of instruments and interest rate changes that may impact returns or profitability.

- **Technology risk**

The risk that the Company's information systems and technology infrastructure fail to meet organizational or user needs and objectives, compromise the completeness, accuracy, and integrity of programs and data, or impact related processing activities and systems availability. The Company leverages support from BGIM, Legg Mason, Inc., and Legg Mason & Co (UK) Limited to provide systems and controls to mitigate this risk.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

ADDITIONAL INFORMATION - PILLAR 3 DISCLOSURE (unaudited) FOR THE YEAR ENDED 31 MARCH 2018

- **Compliance risk**

The risk that applicable laws, regulations, policies, and procedures are not followed, resulting in potential fines, penalties, or viability issues.

Changing regulations may threaten the Company's competitive position or create a less favourable environment to conduct business or comply with requirements. the Company's main operation is based in London, although it may have clients from multiple jurisdictions, leading to exposure to many regulatory regimes.

- **Operational and process risk**

The risk that day-to-day departmental activities (including internal processes, people, and business applications) fail or are not performed in a manner that is consistent with achievement of strategic and tactical business objectives, or in which they could result in loss of assets, disruption of business, or violation of law.

- **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:

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

Capital resources and requirements

Breakdown of total Eligible Capital and the Capital Requirement as at 31 March 2018.

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	14,280
	Tier 1 deductions:	-
	Total Tier 1 Capital	14,630
Tier 2:	Provisions	-
	Total Tier 2 Capital	-
	Total Tier 2 deductions	14,630
Tier 3:	Deductions from total capital	-
	Illiquid assets	-
	Total capital after deductions	14,630
Less:	Capital resources requirement	756
	Capital surplus	13,874

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

**ADDITIONAL INFORMATION - PILLAR 3 DISCLOSURE (unaudited)
FOR THE YEAR ENDED 31 MARCH 2018**

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 its 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.	669
Market risk	The firm calculates its market risk capital requirement using the foreign currency PPR method set out in the FCA's rules.	87
Fixed Overhead Requirement	The FOR is calculated as 13 weeks' fixed expenditure based on the audited financial statements for the year ended 31 March 2018.	447
Pillar 1 Capital	Higher of the sum of the credit and market risk charges; and the FOR.	756

Credit Risk additional information

	Exposure £'000	Average risk weight	Risk weighted exposure £'000	Capital Requirement £'000
Financial institutions	8,069	20%	1,614	129
Corporate	6,683	100%	6,683	535
Other items	61	100%	61	5
Total	14,813		8,358	669

BIPRU 11.5.5 to 11.5.17 is not relevant to the Company.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

ADDITIONAL INFORMATION - PILLAR 3 DISCLOSURE (unaudited) FOR THE YEAR ENDED 31 MARCH 2018

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 2018.

- **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 LM&Co, 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	10	862	293	569

¹There are no Staff who have a material impact on the risk profile of the firm who are not Code Staff.

²Remuneration paid to Code Staff.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT (EUROPE) LIMITED

ADDITIONAL INFORMATION - PILLAR 3 DISCLOSURE (unaudited) FOR THE YEAR ENDED 31 MARCH 2018

- **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:

- o Aligning compensation to profitability, risk, and capital
- o Recognition of individual performance in line with the BGIM's corporate goals
- o Rewarding and retaining the best talent, who deliver services which meet external and internal client objectives
- o Differentiating between individuals according to competencies and levels of responsibility
- o Straightforward and transparent compensation design, mindful of equality legislation and non-discrimination
- o 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.